

Chapter 9

A Broken Supply and Social Chain: Anatomy of the Downfall of an Industrial Icon

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ABSTRACT

There was a time in the history of GM when it was the largest corporation in the US. The history of GM also shows that it was the single largest employer in the world. The announcement of GM's bankruptcy on June 1, 2009 shocked the world and had a tremendous impact on the United States economy. Looking back at the history of GM, there were many indicators which suggested the fate of the company. There were several internal factors that answer the question, what went wrong with GM. These internal factors are management arrogance, not meeting customer demands, the costs and demands of unions, poor forecasting, and internal controls on accounting standards. Similarly, there were several external factors that answer the same question, which include increased competition and loss of market share, rising gas prices and environmental friendliness, and the costs and burdens of meeting government regulations and restrictions. This paper will explore and answer the following questions: What are the fundamental causes of GM's problems? What can be learned from GM's mistakes and experiences? How and why an industrial icon came to ruin?

ORGANIZATION BACKGROUND

The history of GM, the world's largest automaker, began at the dawn of the twentieth century. The company was founded by William Durant in the year 1902. The shrewd businessman that he was, Durant realized that the future lay with cars and not carriages. Initially, the company was founded as a holding company for Buick. The latter part of the year was when the company's growth began by acquiring Oldsmobile, followed by the possession of Cadillac, Oakland and Elmore in the very next year.

Many of the motor companies were in dire straits during the difficult years of the early 1900's. The stock market panic in 1907 put a lot of small companies into financial distress. Many of these companies were running on credit from various bankers. This was a golden opportunity for Durant, who proceeded to buy smaller car builders and companies that built car parts as well as car accessories. In 1908, these various companies were folded into a single unit, thus creating the new GM entity. This marked the exciting beginning of the true history of GM.

William Durant was a flamboyant businessman whose curious mix of genius and over-reaching took GM both to its heights as well as plunged it into financial distress. In 1910, bankers were forced to step in to prevent a financial collapse of GM, and Durant was removed from the company he had founded. But by 1911, the company had made enough advances into the international market that the General Motors Export Company was established to handle sales outside the U.S and Canada (Keller, 1989).

Durant managed to use another company he formed, Chevrolet, to come back to power in GM during 1915. The history of GM from 1915-1920 was full of successes as a result. During this time, the Cadillac became wildly popular. In 1918, GM bought the operating assets of Chevrolet Motors. Shortly after, America was hit by a power recession

in 1920 and Durant again found himself out of the company.

During the financial boom in the 1920's, the history of GM virtually glowed with success. Auto sales reached the 4.5 million mark, and the auto industry now had three giants - GM, Ford and Chrysler. GM now had a brilliant engineer turned industrialist at its helm. Alfred Sloan, who was later acclaimed for his marketing genius, had slowly worked his way up among the ranks of GM. It was his marketing genius that breathed a fresh lease of life into GM which was beginning to get overshadowed by Ford.

Ford's philosophy of giving the public the best value for their money offered little variety. But Sloan and GM were interested in providing the public with more than a black box. Stylish colors, features and comfort became the new motto of the company. GM also made a path-breaking offer - the public could now buy a car on credit. The five brands of GM - Pontiac, Cadillac, Buick, Oldsmobile and Chevrolet began changing every year with the focus being directed mainly at looks and style. This strategy paid rich dividends. Ford was pushed to the backseat again by GM.

The great Wall Street crash in 1929 put an abrupt stop to all expansion plans at GM for the time being. Stocks of GM fell rather badly. But, by the early 1930's GM bounced back and bought the Yellow Coach bus company and the Electro-Motive Corporation, the internal combustion engine railcar builder. The next 20 years saw GM powered diesel locomotives running on American railroads. December 31, 1955 is another landmark in the history of GM, when it became the first company to make more than a billion dollars in a single year.

SETTING THE STAGE

In the early twentieth century, GM grew at an incredible rate as well as created a powerful union and steadily had a growth of employment.

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