

# **Retooling GM's Culture**

By

**Rob Kleinbaum**

Managing Director

RAK & Co

Tel: 734.516.0820

Email: [rkleinbaum@rakandco.com](mailto:rkleinbaum@rakandco.com)

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**Note: Comments and thoughts are welcome. Please feel free to contact the author via email or phone.**

GM is currently engaged in developing a plan, owed to Congress, which demonstrates long run viability. The company is looking at its products, brands, manufacturing footprint and capacity, health care, and “structural costs”, while negotiating with the UAW to further reduce labor costs. All this is well and good but it is almost certain that GM is not addressing an issue that, in the long run, could be more important than all these others: its culture.

Mentioning the “C” word makes eyes roll, as it is seen as too “soft” to deal with in a meaningful way and does not matter anyway, once the “real” stuff has been taken care. But to a long run observer of the company, it is apparent that unless GM’s culture is fundamentally changed, especially in North America, its true heart, GM will likely be back at the public trough again and again until the public finally grows weary and allows its demise. It is unlikely to achieve sustained profitability unless it fixes its culture and it may even be true that once the culture is fixed, the business will take care of itself.

Culture means the “values, attitudes, beliefs, and underlying assumptions.”<sup>1</sup> The importance of culture is that it forms the foundation of the business logic brought to any specific decision or problem; there is little chance something will be done that violates the culture, as it would mean contradicting fundamental beliefs. The success of many companies, including McKinsey, P&G, and Pixar is attributed to their cultures and a recent study of Toyota concluded its success is due as much to its culture as the Toyota Production System.<sup>2</sup> Sometimes societies may change their culture in response to a major disruption, as Germany and Japan did after World War II and companies have as well, such as GE, IBM and Alberto-Culver<sup>3</sup>, after their own near-death experiences. But in all these cases there was a consensus among the leadership that the culture needed to change and serious efforts were put in place to implement those changes. It is fairly apparent from their behavior and statements that GM leadership in North America do not believe there is anything fundamentally wrong with the company’s culture; indeed they seem firmly convinced that they were well on their way to recovery but were overtaken by events beyond their control; specifically the large spike in energy prices and the collapse of the credit markets that have led to the current recession.

GM’s current response seems to reflect its fundamental beliefs about the way the world works and it is almost identical to what it has been doing for the last 30 years: cut “structural costs,” wait for future products to bring salvation, and count on cash from the other regions (and, now, the government) to help prop things up in the meantime, but make no truly fundamental change in the business, its structure or people running it, as they are clearly the best and brightest, know how to manage things in a serious way and have a sound plan. The proposed changes are touted as “profound” and “fundamental” but are really the minimum change from status quo the company believes it can get away with. There is a profound reluctance to make hard decisions that would cause short term pain but would lead to fixing the problem in the long run; instead there is a continual compromise of action that leads to too little too late but defers immediate catastrophe. This is reflected in every aspect of the enterprise, from decisions on manufacturing, which never brings capacity into line with market realities, to people, where almost no one is ever fired for poor performance. This has not worked yet and it is difficult to believe it will work now.

The scholars Lawrence Harrison, Samuel Huntington and their colleagues have addressed the fundamental question of whether culture “matters” in how societies develop and make a compelling case that it matters a great deal. They have also outlined the specific traits that lead a society to progress or prevent it from doing so and their work provides a rigorous way to think about culture that is based on substantial evidence. These traits seem applicable to a private enterprise, especially one that is larger and older than many countries.

1. **Progressive cultures emphasize the future; static cultures emphasize the present or past.** GM, unfortunately, lives in its past glory, as there were always better times in days gone by. Like the UK before Thatcherism, there is a deep sense that their value is their heritage, not what they are going to do tomorrow. While there have been pockets that have looked forward, and serious investments in fuel cells, there is little belief that the future is theirs to make.
2. **Work is central to the good life in progressive cultures but a burden in static cultures.** This is a mixed story for GM as there is generally a very strong work ethic, but it is confined to the elites more than the rank and file, whether union or company. For the white and blue collar workers, there is much more emphasis on leisure and “the good life” than the value of hard work. So you will find certain groups working 70 hour weeks routinely but others who will get angry if you even suggest working over a weekend or a vacation. And somewhat perversely, the groups that do work very long hours are driven to it by a few leaders who think that is a constant requirement, with the consequence that work becomes inefficient and fills the required time, rather than being driven by sensible needs to do whatever it takes to win.
3. **Frugality and investment are valued in progressive societies but seen as a threat in static cultures.** GM seems to have redefined the notion of investment as cost cutting. For some reason, time after time, the company believes it can reduce its capital investment in products whenever times get bad without having to pay for it in consequences of compromised characteristics and lower share and price. The company also seems willing to save \$1 in capital even if it costs \$100 in incentives. For a company run by finance people, they seem to have lost all notion of what investment means, in product or people. Further, when they have made investments that were different and quite successful, such as NUMMI, Saturn, and then later OnStar and Hummer, they were made reluctantly and never really embraced by the organization, but seen as threats or outsiders. GMDAT, its Korean joint venture, has been a tremendous and unanticipated success, but is viewed with condescension and even deeply resented by many.
4. **Education is critically important to progressive cultures, but only marginally important in static ones, except to elites.** GM is squarely in the static camp. It talks about all the training it does, but in fact it is almost all peripheral; GM University, which was launched with soaring rhetoric, is of little to no importance, unlike Crotonville for GE. Sure, the managers all have MBA’s and the standard path is still an undergraduate engineering

degree from GMI and a Harvard MBA, but there is little emphasis placed on ongoing education and most of the programs that were in existence were among the first casualties of “structural cost reductions.”

5. **In progressive societies, merit is central to advancement but in static ones it is family and connections.** On this point, GM probably gets mixed to negative reviews. The sense is that one must be part of the club to advance, which usually means the right degree from the right school, the right path, and knowing the top guys, who are your mentors. Twenty years ago, GM would have been completely in the static dimension on this attribute, but there has been substantial progress in reaching out to groups that had been excluded in the past and advancing them on their merits. Unfortunately, this has been much truer for GM’s operations outside of North America and Western Europe than for these two core regions. In North America, the tradition is to pick to pick high IQ people with the right background at an early age and then to rotate them through a series of “developmental” assignments. The consequence is that the people who rise to the very top are very smart with broad experience, but they are almost never people who have truly accomplished anything; who have built something from scratch or grown a business from small to large or turned around a losing operation into a profitable one.
6. **In progressive cultures, people identify with groups well beyond the family and into society at large.** GM falls directly into the static side. Despite substantial effort to create “one company”, GM is still surprisingly full of provincialism, based on both function and geography. Very few GM employees see themselves as truly belonging to the global enterprise; almost all identify themselves with their function and then the local business unit; viewing others as ignorant meddlers and sometimes outright adversaries. While many companies have embraced the notion of the “extended enterprise” and successfully manage complex alliance relationships, GM’s investments in major alliances; Fuji, Suzuki, Isuzu, and Fiat; were all great disappointments and had little if any return.

Of all GM’s cultural problems, this might be the most crippling as it perpetuates an inward focus that is largely responsible for its hostile relations with its dealers and suppliers and, most troubling, with consumers. As a consequence of its insularity, the company has repeatedly displayed behavior that shows it to be tone deaf to society at large and much of the external world has written off the company.

7. **Ethical codes are more important in progressive cultures.** Here GM gets high marks. There have been few corruption scandals, sexual harassment is not permitted, there is strict adherence to the Foreign Corrupt Practices Act, and the company will not let itself be associated with “shady” characters or businesses. While any company of its size and scope will have incidents, the ethical codes at GM are high and enforced.
8. **Authority tends to be horizontal and decentralized in progressive cultures and centralized and vertical in static cultures.** Authority at GM is centralized and probably becoming more so as the company “globalizes” by creating strong, centrally controlled

global functions which further weakens regional autonomy. While there are regional and functional strategy boards that have the appearance of dispersing authority, in fact they are all controlled by the same few people. One of the perverse outcomes of globalizing functions is that authority is becoming “horizontal” and strongly centralized, as global functions that are all run from Detroit become the main lines of authority and undercut the business units.

9. **Progressive cultures are secular, with limited influence of religious culture and a high degree of tolerance of heterodoxy and dissent.** GM scores fairly low on this attribute. There is little tolerance of strong dissent from the prevailing opinion, although there is substantial subversion and passive-aggressive resistance. In discussions about setting direction, much more attention is given to wondering what the senior leadership will think than to figuring out the right path and trying to make it happen. The very senior people are often spoken of in tones of reverence and are seldom debated in any meaningful way.

Altogether, this is a fairly depressing picture. GM’s has been explicit about its cultural priorities; “One Company, Stretch, Sense of Urgency, and Product and Customer Focus”; but there has been little attention to making these real beyond re-iterating them at quarterly meetings.

What is fascinating about GM, and offers some hope, is that it really has two cultures. The one described above is an accurate depiction of the culture in North America and Western Europe but there is another in the rest of the world that is very different. The culture of GM’s operations in Asia, Latin America, Africa and Middle East, Russia and Eastern Europe, is much more progressive and it is in these areas that GM is doing very well. On almost all of the measures listed above, they would come out on the progressive side. Working for GM in Asia Pacific, Latin America or the Middle East, you would think you were in a completely different company. People are very forward looking, they are capable of making the tough decisions, they are business focused, debate is tolerated but discipline is enforced, relations with their labor force and dealers are usually positive, and authority is genuinely dispersed to the smaller business units within each of the regions.

Numerous people have commented on the difference in economic health and attributed it to the absence of the UAW, retiree’s health care burden and government regulations such as CAFE. While these are important, it is misleading to attribute the differences to these factors. Since many of these issues are the result of the deliberate policy choices of GM, they are more symptoms of the underlying malaise than the cause; plus the healthy regions all have tremendous challenges of their own that are not present in North America or Western Europe, where the static culture is really confined.

Many of the people running GM have had extensive international experience. There is a common practice of rotating executives on the CEO track to international postings; the classic path is for a high potential finance executive from a traditional background is to be made head of GM Brazil; a business unit whose culture is quite progressive and has been consistently profitable over many years. Rather

peculiarly, there is very little rotation of executives who have “grown up” in overseas operations into the key spots in North America. With a couple of exceptions, none of the top team has spent the majority of their careers in these regions that have been the most successful. Furthermore, Asia Pacific and Latin America/Africa/Middle East are headed up by people with quite different backgrounds; one is British, the other is a female Canadian lawyer; neither have spent the majority of their careers in Detroit. The people operating the lower level business units in these healthy regions tend to be either foreign born or Americans who are considered “different” and who have quite deliberately chosen to stay as far from Detroit as possible, often explicitly to avoid a culture they find stultifying and dismaying. Despite the progressive nature of the culture overseas and its consistent success, there seems little propensity to bring these people back into North America or Western Europe; somehow they are simply never seen as “developed” enough. When one or two promising individuals are brought back, they are often overwhelmed by the dominant culture in Detroit and either head back overseas quickly, leave the company, or fade into obscurity.

Twenty years ago, Elmer Johnson, a successful outside lawyer recruited into GM’s top ranks and a candidate for CEO, wrote a memo to the senior leadership, recently posted in Barron’s<sup>4</sup>, which was heartbreakingly prophetic. Its central theme was that GM’s culture was preventing it from executing its strategy and unless there was a concerted effort to change its culture, there would be little chance of meaningful change. He was ignored and shortly afterwards left the company. His prophecy that GM would fail in its bid to become a company that built the world’s best cars and trucks in a way that provided superior shareholder value has, regrettably, proven disastrously true. The recommendations he made; major changes in people at the top, the committee structures, the organizational structure, and decision making process, are still sound but now would not go nearly far enough.

This raises the question of what can be done. The first and most obvious is to change a significant number of people at the very top, replacing them either with outsiders or with GM executives from overseas operations who have not grown up in the traditional culture. This should go several levels down but also include substantial changes in the Board of Directors, as they are key enablers and drivers of the corporate culture. The Board has not put any pressure on management to change its culture or drive accountability; on the contrary they have consistently re-stated their support of the management team. There are few if any real change agents on GM’s Board. Changing large numbers of people at the top is a necessary but not sufficient condition, as the static culture is reinforced by so many other attributes.

Serious consideration needs to be given to a radically different organization that would give people overall business responsibility and accountability and increase their contact with markets and the external world. The current direction is to move away from integrated business responsibility by creating strong functions with weak business units, and the problem is compounded by making the transition slowly, so there is continual confusion and conflict over who is responsible for what. The company is doing this to “leverage its global strengths” but the real effect is to create an organization

where fewer and fewer people are actually running a business or have contact with the outside world and control is becoming more and more concentrated in a few people.

Education and training need to be made part of everyone's life, from the most junior to the most senior. This becomes even more important in times of stress, as it demonstrates long term commitment to people and, more importantly, to the future. A portion of this education should take place outside of GM to increase exposure to people outside the industry. In the scheme of things, the costs of education and training are truly negligible. If someone asks to calculate the ROI, it should be used as a litmus test for determining candidates for structural cost reductions.

GM's decision making processes need serious revamping. Despite improvements, most meetings are still exercises in procrastination, rubber stamping or idea killing, without anything that would pass for genuine debate and dialogue. Dealing with complex issues requires genuine discussion, feedback, and intellectual engagement. Changing the people, along with the structure, should help enable this key cultural change but there must also be a conscious choice among the leadership that they want to make this transformation.

These modifications would also disrupt patronage relationships and should permit merit to become more important, especially if there is an influx of outsiders and overseas managers. Also, in the same way that having an African American become president of the United States will change many American's notion of what it means to be an American and what can be accomplished, having someone who is genuinely "different" will help many people in the company see GM differently. If the competent people in Brazil see that there is a real chance they can reach the top, it will change their level of engagement and the company will be much better for it.

Implementing these changes piecemeal will not be enough to make meaningful changes in GM's culture, because they are all necessary to reinforce one another to grow a different and progressive culture that is self-sustaining. The more challenging question is whether they would ever be implemented in the climate of crisis by the people currently running the enterprise. They are certainly intellectually capable of doing so, but seem wedded to the momentum plan and believe that their main task is to get through the current crisis and to re-negotiate its labor contracts, trim its dealer body and brand portfolio, and lower its cost structure, not deal with cultural drivers. The mainstay belief is that all will turn out well if only they have the chance to implement their plans, starting with the much heralded Volt. Then they will consider turning their attention to considering these types of "secondary" issues.

What you believe about this position depends on your level of confidence in the company's ability to execute its plans, which have always sounded good and well reasoned. These operational issues are absolutely critical to the future of GM. The importance of dealing with the culture is that unless there is a substantial change in the company's beliefs and values, the most likely outcome is that, once again, too little will be done too late. The very real crisis the company is in would permit GM to make the cultural changes that would be very difficult in "normal" times and provide a once-in-a-generation opportunity to transform GM back into a global powerhouse. GM has so many talented people in it and

almost certainly has the potential to turn around, but not until it develops a culture that lets it be truly progressive rather than one that continually defers the hard choices, holds it back, stops talented people from making contributions consistent with their ability, and prevents its plans from becoming reality.

***Post Script - Bio and motivation.** I have been a consultant for GM for 15 years and an employee for 9 years prior to that, and have worked at one time or another in almost every region and function. This paper has not been endorsed or supported in any way by anyone at GM; I suspect it will be harshly rejected (or simply ignored) at the senior levels but will strike a deep chord a few levels down. This is written out of the deepest affection for the company and it is an attempt to deal with a fundamental issue that has kept the company from success and is now critical to its long term viability. The people who do care about GM, and there are many, and who think a future is still possible need to stand up and try to make a difference, regardless of the short run costs.*

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<sup>1</sup> Harrison, Lawrence E. and Huntington, Samuel P. eds. (2000) *Culture Matters: How Values Shape Human Progress*, Basic Books. The 9 traits used in this article are derived from 10 given in Harrison's essay in the book, "Promoting Progressive Cultural Change" and the definition of culture comes from Huntington's Foreword.

<sup>2</sup> Takeuchi, Hirotaka, Emi Osono, and Norihiko Shimizu (2008) "The Contradictions that Drive Toyota's Success" Harvard Business Review

<sup>3</sup> For the Alberto-Culver story, see Bernick, Carol Lavin (2001) "When Your Culture Needs a Makeover" Harvard Business Review

<sup>4</sup> [http://s.wsj.net/public/resources/documents/BA\\_gm\\_memo.pdf](http://s.wsj.net/public/resources/documents/BA_gm_memo.pdf) . This is definitely worth a read.