A Case Study on General Motors

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General Motors

Introduction:

General Motors was founded by William C. Durant in 1908, in Flint, Michigan. GM acquired Oldsmobile later that year. In 1909, Durant brought in Cadillac, Oakland and Elmore. In 1909, GM acquired the Reliance Motor Truck Company of Owosso and the Rapid Motor Vehicle Company of Pontiac, both of Michigan. Because of the large amount of debt taken on in its acquisitions and loss due to collapse in new vehicle sales, Durant lost control of GM in 1910 to a bankers' trust.

Durant took back control of the company after a proxy war. Durant reorganized General Motors Company into General Motors Corporation (GMC) in 1916. Durant again lost control after the new vehicle market collapsed. He was then succeeded by Alfred P. Sloan, who took charge of the corporation and led it to its post-war global dominance. In the early 1980s GMC employed 349,000 workers with operations in 150 assembly plants. In 2008, 2009, and 2010, GM was ranked as the second largest global automaker by sales and regained its position as the world's largest automaker in 2011. Along the way, a failure to obtain government loans caused GM to file for Chapter 11 bankruptcy in June 2009, after the recession of 2008.

Organizational Structure:

During the initial phases GM had a simple round circular organizational structure with a nonhierarchical structure in which information flowed continuously between the different departments of the company. In the face of market collapse, during 1920s, and to handle the problems that General Motors was experiencing, CEO Alfred Sloan, Jr., reorganized GM round separate divisions. Each division was tagged as a distinct business that would be self-contained with its own functional hierarchy. This new structure delegated day-to-day operating responsibilities to division managers. Each division independently was to make its own business-level strategic decisions that would feed into the overall corporate strategy. Figure 1 shows the restructured divisional structure.

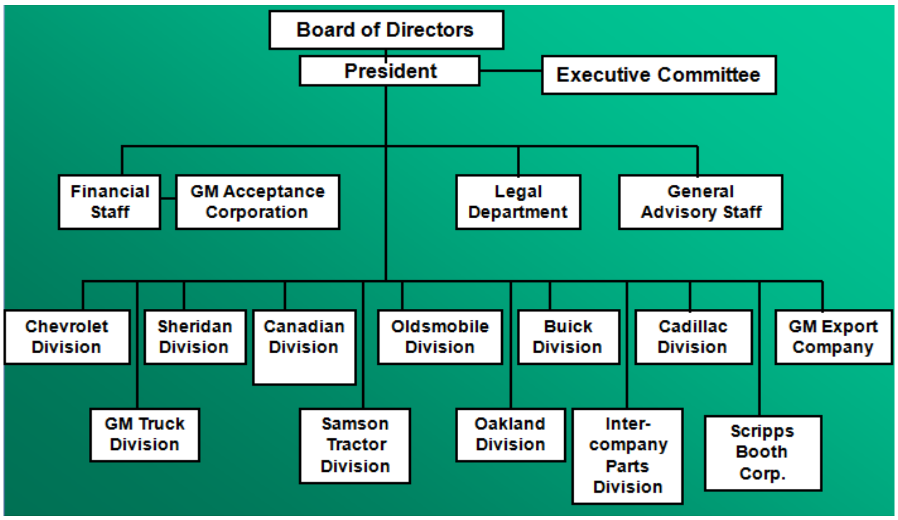

Figure 1 General Motor's Organizational Structure (1921)

GM enjoyed a brilliant sixty-year track record after 1920s and mastery of its business made it the world's largest and most profitable manufacturing organization. But this story of growth run ended in the early 1980s when its main business - passenger automobiles -started reporting massive financial losses. The degeneration phase was contributed by some of the factors like complacency, arrogance, and a static bureaucracy, which are classic symptoms of an organization that has stopped being a learning organization. The automobile market started to fragment into highly volatile segments. Under the guidance of John F. Smith, president and COO, GM responded to its business crisis by adopting a hierarchical military structure. In the new structure orders flowed downwards from the top and the rank of the managers determined their responsibility. Middle management's primary function was to "execute the plan" and compensation was based on the performance against predetermined objectives.

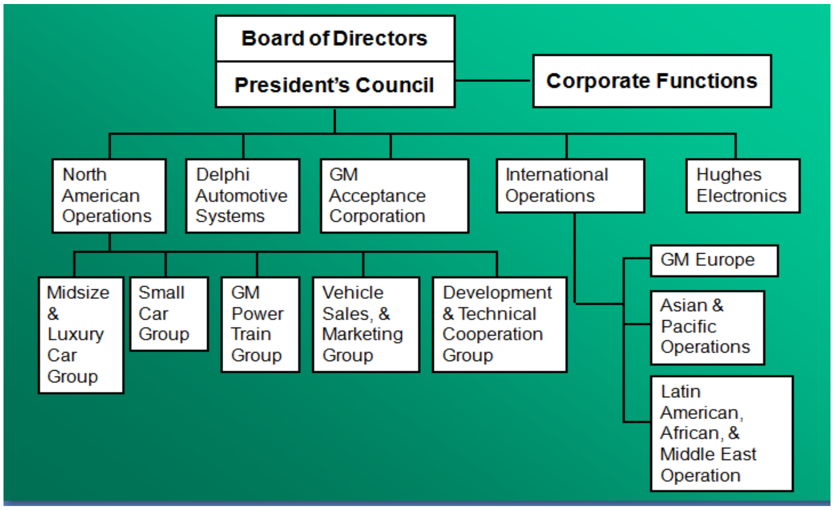

Figure 2 General Motor's Organizational Structure (1997)

After a stable growth in 1999-2000, the recession and the volatile stock market created a pension and benefit fund crisis at General Motors and many other American companies. Though GM management tried hard to come out of the crisis but they failed and due to unfavorable economic environment it started to report losses. As a result of many crises, GM had to file Chapter 11 bankruptcy in June 2009. The state of the management was adverse in this phase. In 2008, GM's divisional organizational structure had 4 geographical units and many product divisions (i.e. Buick, Pontiac, Chevrolet, Opel, Etc). The units functioned autonomously and were in charge of managing their individual product markets and were separated from the strategic control of the headquarters. This strategy was very successful for many years but lack of communication among the different divisions and units and also the bad management decisions created an expensive structure which was difficult to control and maintain.

To face the new challenges General Motors corporate management decided to restructure the 4 different geographical units and to get them to collaborate with each other on designing, manufacturing, and marketing cars. The key decisions about product development for all the divisions were centrally taken in the headquarters by a global council, who was in charge of allocating resources on new model developments. This structure would reduce overall cost structure for the organization over the next years. Due to this decision functional areas started working more closely with each other and the entire process of making cars was overseen by the central committee.

References:

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