FORTUNE

GM AND ME

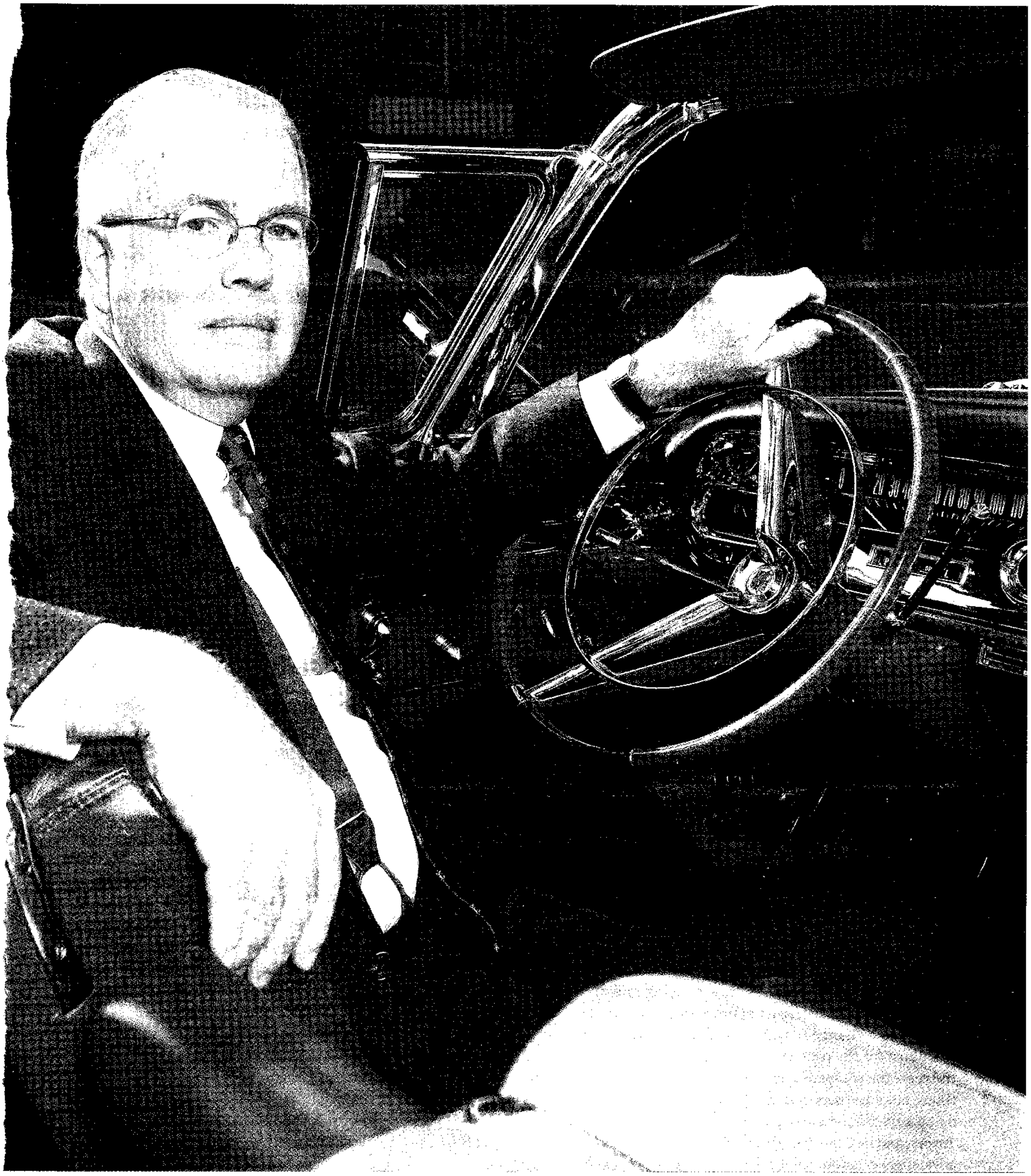
It was the Great American Company when I started covering it three decades ago. But by clinging to the attributes that made it an icon, General Motors drove itself to ruin.

BY ALEX TAYLOR III

FORTUNE'S CAR GUY ALEX TAYLOR AT THE WHEEL OF A 1956 CADILLAC, BUILT THE YEAR HE WAS IN SIXTH GRADE.

BACK IN 2004, when it was still relatively flush, General Motors invited automotive journalists to the South of France for a three-day "global product seminar." The idea was that writers like me would drive new cars, consume loads of free food and wine, pal around with executives, and develop favorable opinions about GM.

Still a little jet-lagged, I arranged to drive with chairman and CEO Rick Wagoner in a yellow Corvette. Our route would take us from the Four Seasons resort in Provence, where we were staying, through the French countryside and on to the Paul Ricard race circuit near Marseille in time for lunch. My job was to navigate while Wagoner drove, but I used the face time to pepper him with questions rather

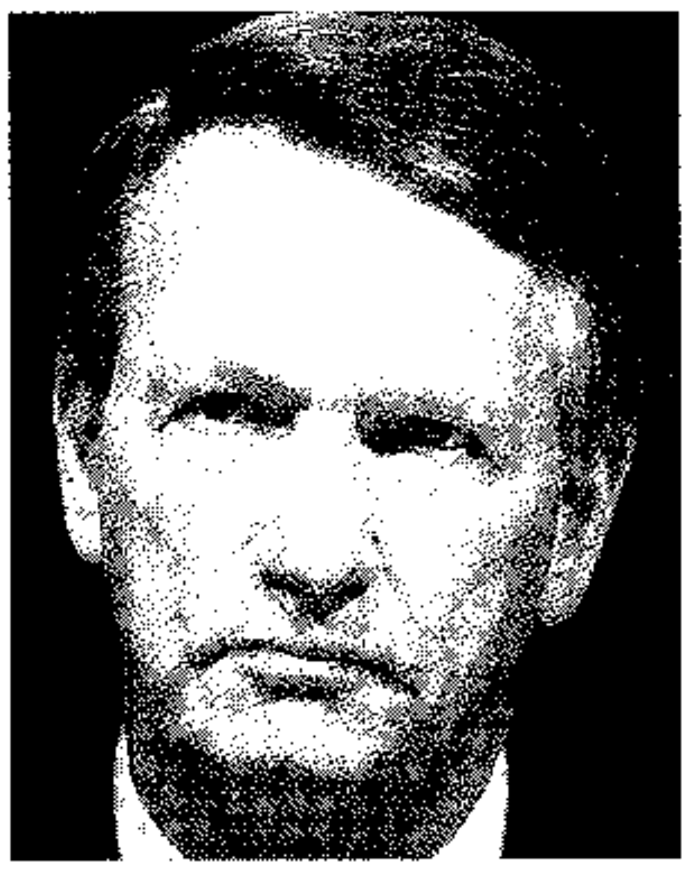


PHOTOGRAPH BY MICHAEL EDWARDS

than pay attention to the route book. Polite and good-humored as usual, Wagoner mostly ignored my directions and followed the car in front of us.

Two hours later we found ourselves back at the hotel. I had been navigating from the wrong map, and the car in front of us, driven by Chinese journalists, was just as lost as we were. Lunch would be delayed while we hurriedly made our way to the track, meaning I had effectively kidnapped the chairman of General Motors for three hours. Sure, we had been tailed the whole time by Wagoner's security detail, but it remained behind at a respectful distance and never stopped to ask us where we were going.

What I learned from the incident were several things. First, never underestimate the ability of a know-it-all journalist to get it wrong. And second, at some point good manners and civility become a liability rather than an asset. After three decades of covering the auto industry, I've learned that Ford executives tend to be scrappers skilled at bare-knuckle office politics, while the top brass at Chrysler traffic in bravado and charisma. Not at GM. Guys like Wagoner set the tone: smart, sincere, diligent—modern-day Eagle Scouts.



Ask Rick Wagoner why GM isn't more like Toyota, and he'd tell you, "We're playing our own game—taking advantage of our own unique heritage and strengths."

But in working for the largest company in the industry for so long, they became comfortable, insular, self-referential, and too wedded to the status quo—traits that persist even now, when GM is on the precipice. They prefer stability over conflict, continuity over disorder, and GM's way over anybody else's. They believe that hard work will overcome adversity, and that tomorrow will be better than today—despite four decades of evidence to the contrary. In many ways the story of General Motors since the 1960s is a tale of accelerating irrelevance. Customer preferences changed, competition tightened, technology made big leaps, and GM was always driving a lap behind. It became a red-state company, its Buicks and Pontiacs seldom seen in California or New York City. GM has been losing market share in the U.S. since the 1960s, destroying capital for years, and returning no share price appreciation to investors.

I've had a chance to watch all this up close as a business journalist for the past 32 years, including 23 at *Fortune*. Over the years the company has tried to reform itself any number of times, but it has been doomed by what once made it successful: doing it the GM way. Ask Rick Wagoner why GM isn't more like Toyota, and he'd tell you, "We're playing our own game—taking advantage of our own unique heritage and strengths." Turns out GM should have forgotten that and become more like Toyota. Toyota's market cap is now $103.6 billion; GM's is $1.8 billion.

I've visited GM operations in Japan, China, Germany, Brazil, and Chile, not to mention the U.S. I've attended auto shows, product launches, technical background sessions, and news conferences, in addition to interviewing legions of GM executives, analysts, and consultants. Looking back, three relatively recent events signaled the depth of the problems that have overwhelmed the company.

I was in the audience at GM's Tech Center in Warren, Mich., on the day in October 1999 when GM revealed the production version of the Pontiac Aztek to the press for the first time. The company was positioning it as a "lifestyle support vehicle" that was the "most versatile vehicle on the planet." With our curiosity piqued, we watched drapes pulled off—and the room went strangely silent. The Aztek bristled with gills, creases, roof racks, and plastic cladding—and that was the good news. A toxic mix of overreach by market research, compromises by manufacturing, and pound-foolish accounting by finance had resulted in a vehicle that appealed to practically no one. Within weeks the Aztek would be judged one of the ugliest cars of all time. Creating vehicles that people want to buy is the most fundamental mission of any auto company, and GM had failed with the Aztek.

Now it's September 2006, and I fly to Southern California to drive GM's new fuel-cell car, called the Sequel. New government fuel-economy standards and changing consumer preferences are creating a demand for cleaner vehicles; GM wants to leapfrog its Japanese competitors with fuel-cell cars. Since the Sequel isn't licensed for on-the-road use, GM has rented the U.S. Marine Corps' Camp Pendleton as a proving ground. Aside from some stalling problems caused by software glitches, the vehicle runs as promised, generating electricity from the fuel cell and producing only water droplets as exhaust. A GM executive calls it a "game changer." We are told GM will have a production-ready fuel-cell vehicle by 2010. Is GM ready to become a technology leader again?

Just four months later GM announces it is heading down a different research road. In Detroit another group of executives unveils plans for a plug-in electric car called the Chevy Volt, and it also will be ready for market in 2010. A GM executive calls it a "game changer," and nobody mentions fuel cells. Has the future suddenly dimmed for fuel cells? Or have they

REPORTER ASSOCIATE *Christopher Tkaczyk*

BILL PUGLIANO—GETTY

fallen victim to some corporate infighting? GM isn't saying. Here is the nation's biggest carmaker, struggling mightily to meet tough new fuel-economy standards, suddenly changing strategy without warning. What's remarkable about it is that it isn't surprising.

MY FATHER wasn't much of a car guy, but he considered himself a shrewd shopper and always looked for the best deal. In the summer of 1952, I was sitting on the front step of our home in Byram, Conn., when a new Chevrolet Deluxe two-door was delivered. Price: $1,696. The Taylor family turned out not to be loyal GM customers. My father moved on to Fords, a Plymouth, and then, as my siblings and I reached driving age, a hodgepodge of used European imports that wouldn't be hurt by dings and dents. But the idea of a big, powerful General Motors resonated in my unformed mind. A couple of years later *Time* named GM's president, Harlow Curtice, man of the year. *Time* described Curtice as "first among equals," a businessman "whose skill, daring, and foresight are forever opening new frontiers for the expanding American economy." Curtice told the magazine, "General Motors must always lead." I started telling people that I wanted to be the chairman of General Motors when I grew up.

After getting out of college and journalism school, however, I decided to be a network TV correspondent. So I went to work as a reporter at a Time-Life television station in Grand Rapids. Like the rest of lower Michigan, Grand Rapids was part of the GM empire, home to three big GM parts plants. One gloomy afternoon a smallish man in a gray suit named Richard Gerstenberg came to town to hold a news conference. He was next in line to run the largest corporation in the world. GM sold half the cars in the U.S., and by itself, the Chevrolet division was larger than most standalone auto companies. Everybody knew the slogan "See the U.S.A. in your Chevrolet."

GERSTENBERG WAS THE QUINTESSENTIAL GM MAN. A graduate of the University of Michigan and an accountant by training, he got his first job at GM keeping track of employee timecards and worked his way up from there. After he retired as chairman and CEO in November 1974, he remained on the board of directors until May 1980. He was part of a system that perpetuated the automotive enterprise but did not admit much in the way of fresh air. "We have the best people in this or any

EPA/CORBIS

FADED GLORY GM'S OLD HEADQUARTERS IN DETROIT, DESIGNED BY ALBERT KAHN, WAS COMPLETED IN 1923. THE COMPANY GAVE IT TO A REAL ESTATE DEVELOPER IN 1998.

industry," Gerstenberg told a group of employees in November 1972. "I always feel a special personal pride, a General Motors pride, because I am one of you—a General Motors man." Years later I saw Gerstenberg again at a GM event in New York City. By then 80 years old, he shyly introduced himself to a current GM executive in attendance. Though still a GM man, Gerstenberg seemed shrunken and insignificant without the corporate apparatus behind him. Mere men, even a former chairman and CEO, were nothing compared with the might of the company.

In 1970, I witnessed my first strike against GM by the United Auto Workers. It lasted 67 days, triggering layoffs at parts suppliers and steel companies, and dampening economic growth nationwide. The UAW deployed a massive army back then. Some 400,000 union workers walked off their jobs; one historian described it as a "titanic clash between two massive permanent entities." The union won this clash, as it won most, because GM's high fixed costs made the company especially vulnerable to a production shutdown. The new contract was a sweet one: no cap on cost-of-living adjustments to wages, full retirement after 30 years regardless of age, and increases in already lavish health-care benefits. Detroiters referred to the company as "Generous Motors." The cost of those benefits would bedevil GM for the next 35 years. But they didn't buy union peace. Rancorous relations and periodic strikes remained a fact of life at GM.

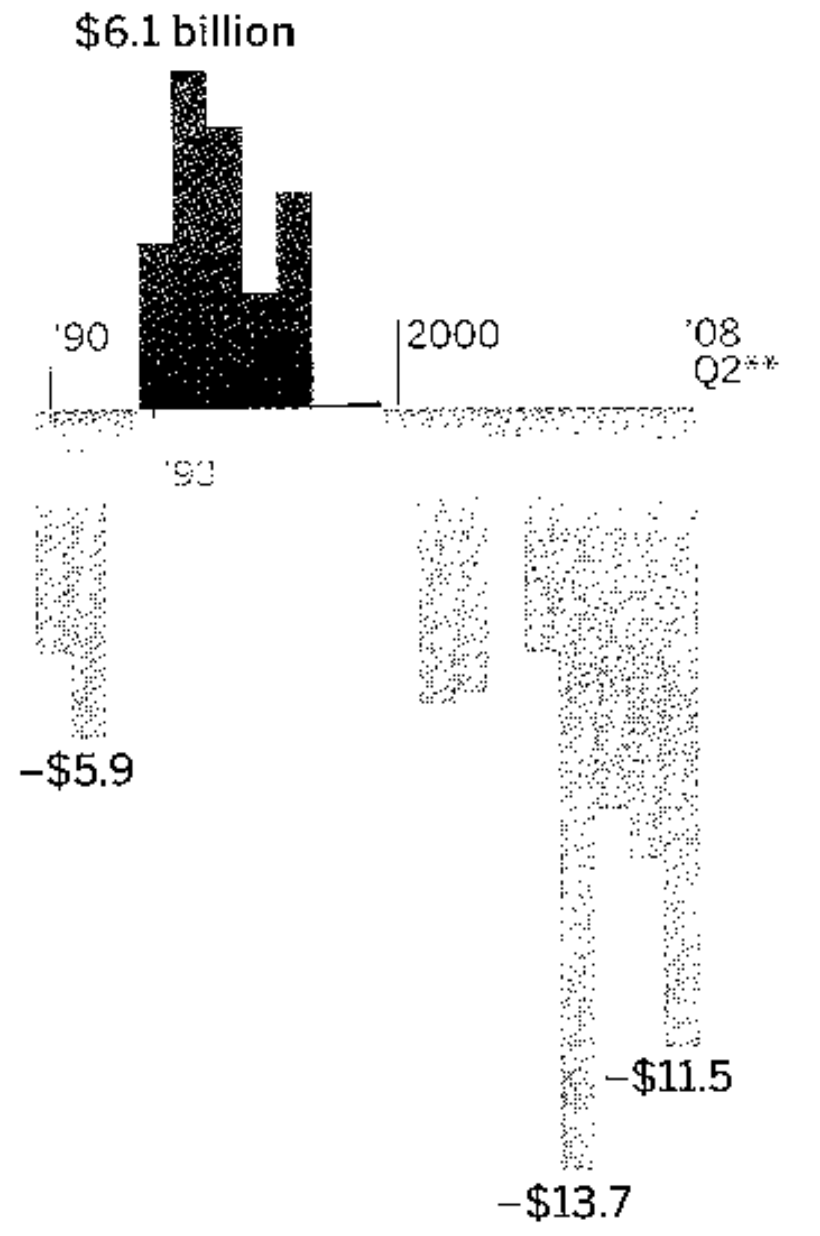
GM was still growing—the number of employees worldwide reached an astonishing 853,000 in 1980—but cracks were appearing that would widen into fissures. The company seemed to forget how to execute. It started to downsize its model line after the 1973 oil embargo and change over to front-wheel drive, but it encountered all kinds of engineering problems. The small Chevy Vega was prone to overheating that warped the cylinders in its aluminum engine block. GM introduced diesel engines that couldn't withstand the higher temperatures needed to burn diesel fuel. To save money, GM was sharing more parts among its brands, blurring their distinctiveness. A shortage of V-8 engines caused GM to install Chevrolet engines in mid-priced Pontiacs, Oldsmobiles, and Buicks. Complaints crescendoed in 1981 with the arrival of the Cadillac Cimarron, which customers quickly discovered was little more than a Chevy Citation wearing the Cadillac crest.

Since Roger Mudd was in no danger from my career in TV news, I started to freelance in print and landed a job in 1977 on the *Detroit Free Press*, a morning paper then the sixth-largest in the U.S., with a daily circulation of 620,961. Detroit had been badly scarred by race riots in 1968 and the recession of 1973, and white residents were fleeing the city, but it was still a great news town, and we fought every day against the afternoon *Detroit News*. As a business reporter, I worked alongside future stars like *Fortune*'s Allan Sloan and began to inhale the auto industry on a daily basis. Henry Ford II was king of Detroit, making news whenever he appeared in public. He fired

LOST CAUSE

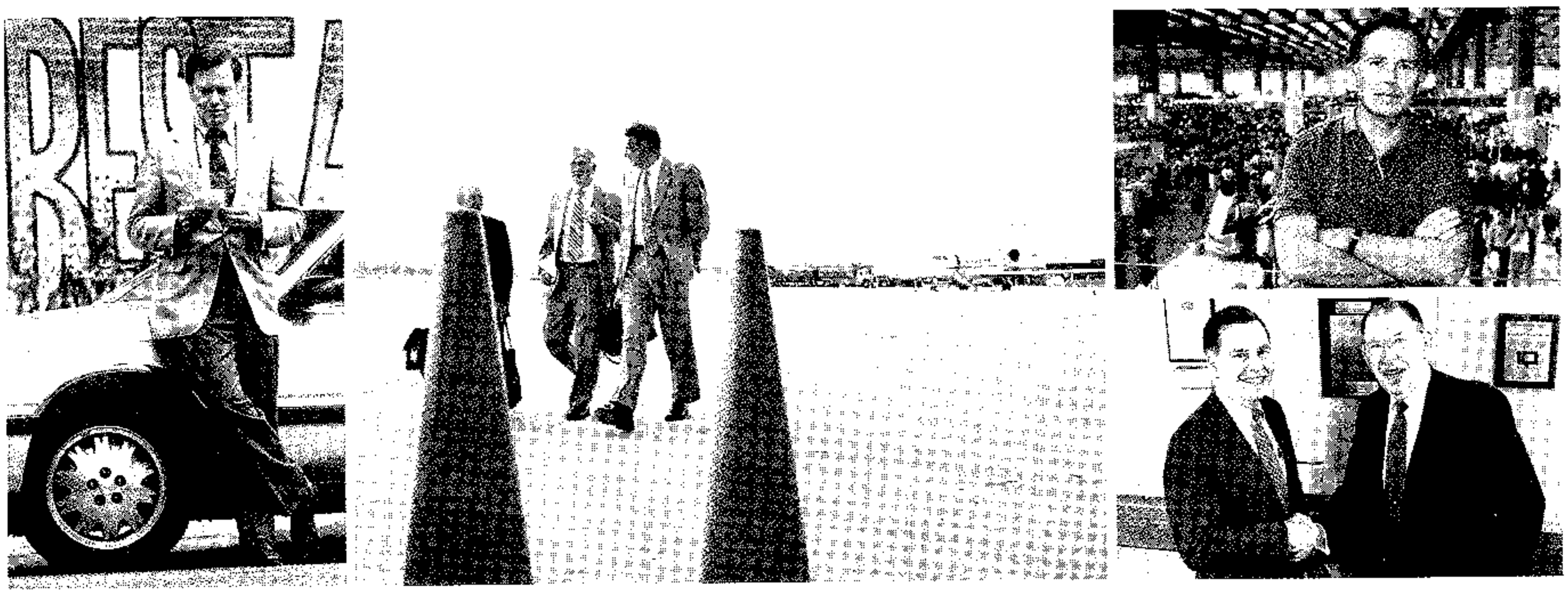
A basic measurement of a company's health is its ability to earn enough to cover the cost of its capital. GM has not managed this since 2000.

GM's economic value added*
ANNUALLY



* Net operating profit after taxes less the minimum acceptable return on all capital, including equity.
** Last four quarters ended Q2 2008.

SOURCE: EVA DIMENSIONS



MY YEARS WITH GENERAL MOTORS THE AUTHOR ON THE BEAT IN 1987; WITH WAGONER IN 2005; AT THE FRANKFURT MOTOR SHOW IN 1989; AND WITH STEMPEL IN 1992

FROM LEFT: WAYNE EASTEP; ROBERT YAGER; TOP: MICHAEL WOLF—VISUM

Ford president Lee Iacocca in 1978 with the famous line, "I just don't like you." Iacocca landed at Chrysler in a matter of weeks and went on to lead its successful campaign for a government bailout—the first for an auto company—a year later.

AT GM, CONFORMITY was everything, and rebellion was frowned on. I encountered former GM executive John Z. DeLorean in 1979 after a book appeared that he had co-authored and then disowned before publication. Flamboyant by Midwest standards with sideburns, turtlenecks, and flashy girlfriends, DeLorean gained renown developing muscle cars like the Pontiac GTO. He also took an adolescent's delight in flouting GM's rules and was pushed out of the company in 1972. Seven years later he'd lost none of his desire for attention—a poster-size picture of him shirtless with his young son hung in his New York office—but nothing else about him seemed out of the ordinary. He certainly faded after he left GM. His sports car company collapsed in a swamp of recriminations, and he was arrested in 1982 for drug trafficking (he was acquitted of those charges). The last time I saw him, he was sitting on a bench in New York's Central Park, seemingly in no hurry to be anywhere in particular. He didn't seem like much of a revolutionary to me, but at GM they've never forgotten him.

CEO Roger Smith tried to modernize the company, but his reorganization left it so traumatized that subsequent bosses were reluctant to take more bold steps.

In 1980, I left Detroit for New York City and a plum job writing for the business pages of *Time*. Under the newsmagazine system, I depended on our local correspondents to report on the industry. I would still go back to Detroit on special assignments and to visit my in-laws. (My wife, Mary, grew up in the city, and we married in 1983. Both her father and her sister worked for GM.)

By then GM had found a chief executive who actually understood the company's problems and was willing to try anything in order to fix them. As a candid internal review of the company, published by the General Motors History Project, points out, GM was still making decisions under the same basic structure that had been put in place 50 years earlier, and it was falling behind. Chairman and CEO Roger Smith, having risen through the ranks, knew that better than anyone. It was easy to caricature Smith, a finance specialist, as a company apparatchik—and an annoying one at that, with his squeaky voice and pushy manner. When I interviewed Smith, he was always approachable and agreeable, though people who worked for him considered him a petty tyrant, demanding and intolerant of dissenting ideas. A lot of them chuckled at the 1989 movie *Roger and Me*, in which Michael Moore made vicious fun of the company's travails. But Smith was a big thinker, and he understood that GM had become too complex and slow moving for its own good.

Smith kept us reporters on our toes. He was full of innovative ideas for upending the status quo at GM—but some were badly thought out, and others were badly implemented. To make GM more computer-savvy, Smith bought EDS and got its founder, Ross Perot, on his board of directors; Perot heckled Smith constantly until Smith persuaded him to leave. Smith conceived the Saturn division as a moon-shot effort to find a revolutionary way of making and selling cars, but Saturn turned out to be short of new ideas and never got airborne. Smith spent billions to automate GM's factories with robots. Usually robots permit a car company to produce several different models in a factory. But GM, wanting to keep things simple, configured its plants to produce just one or two models—and ended up with a system that was no more efficient than the old one. Smith rearranged North American operations to modernize GM's manufacturing, and paralyzed the company for 18 months because he destroyed the informal networks that actually got the work done in the highly bureaucratized company. The notorious "reorg" so traumatized future CEOs that they never again attempted anything so radical.

Smith's worst mistake was in not grooming a broad-gauged manager to succeed him when he retired in 1990. Instead the job went to Robert Stempel, a well-liked engineer who came in at a bad time. Market share had declined precipitously under Smith, falling from 43.5% to 35.5%, and the recession of 1990–91 ravaged the company, leading to massive plant closures and layoffs. The pressure on Stempel was enormous, and he didn't handle it well. Stempel's face would turn red when he got angry, and he visibly worked to control himself. I was the target of his pent-up rage on several occasions. Once I was forced to sit and listen while he read one of my articles aloud, correcting me on every point with which he disagreed.

LOOK-ALIKE CARS BY 1985, GM HAD BLURRED BRAND DISTINCTIONS.

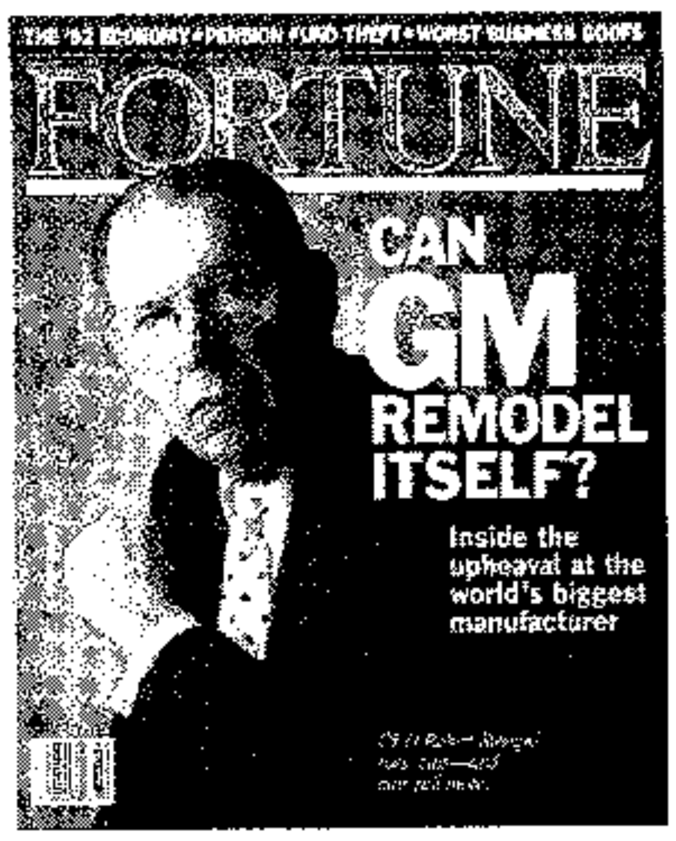
Under Smith and Stempel, and future CEOs as well, GM was in perpetual turnaround. Time after time it promised that it had finally learned how to make cars that people really wanted to buy and would have them at dealers soon. One critic called it the "*mañana* company." Trouble is, even when GM got the newest 25% of its product line to be competitive, the remaining 75% had to be disposed of at fire-sale prices. At a Chicago auto show luncheon during the Stempel era, a top executive ordered the lights dimmed so that he could dazzle the audience with images of a seemingly endless number of new Buicks, Oldsmobiles, and Chevrolets. It was a challenge just to stay awake.

CEO Jack Smith shrank the company, but not fast enough to save it. He couldn't bring himself to discontinue such underperforming brands as Buick and Pontiac.

By the end of 1992, Stempel and his cadre of executives were gone, pushed out by a board of directors' revolt led by retired Procter & Gamble CEO John Smale and board counsel Ira Milstein. Moving to head the company came an all-new team led by another finance guy named Smith, but one who understood foreign competitors like Toyota, had worked successfully abroad, and wasn't afraid of independent thinking.

Jack Smith avoided the media at first, but once he began giving interviews he became a favorite of many reporters, me included. He displayed not a scintilla of ambition or ego, and his relentless common sense, combined with wry humor, won me over. That admiration led to a *Fortune* cover story in 1994 proclaiming Smith a genius in a gray suit and GM on the road to recovery. Immediately, a nasty and expensive strike broke out in Flint, and the new GM began to look more like the old one again. It wouldn't be the last time I allowed my personal view of a chief executive to color my assessment of a company.

GM was still Balkanized when Smith took over; by his count, for instance, there were 27 separate purchasing organizations that eventually had to be consolidated into one. Smith slowly started pulling the units together so that GM could deploy its vast economies of scale. The prosperity of the '90s helped keep GM solidly profitable until the end of the decade, although it never reached Smith's target of a 5% net profit margin. He also kept shrinking the company (helped greatly by the spinoff of the Delphi parts-making unit). Total employment, which stood at 757,500 when Smith took over, had fallen to 388,000 by the time he left office. But Smith's elfin charm wasn't enough to stop warring factions among engineering, manufacturing, and design from undermining one another's work. And Smith failed to address such looming problems as why GM still had divisions like Pontiac, Buick, and Oldsmobile. With its market share down to 30% and falling, it didn't need all those brands, and ensuring that each model was distinctive remained a constant headache. The problem of "look-alike cars," brilliantly revealed in a memorable 1985 *Fortune* cover photograph, continued to bedevil GM.



HOT SEAT CEO STEMPEL, SHORTLY BEFORE HIS OUSTER IN 1992

SMITH'S MOST SURPRISING FLAW was his infatuation with Inaki Lopez, a Basque-born purchasing expert with whom he had worked in Europe. Smith moved Lopez to Detroit and made him global head of purchasing so that Lopez could install his proprietary system to slash parts costs. Lopez was unquestionably energetic and, some would say, charismatic, but his system sounded like smoke and mirrors when he explained it to me. Suppliers suspected Lopez of simply shopping their price quotes around town to find lower ones—a violation of industry ethics. When Volkswagen tried to lure Lopez away, Smith made him head of GM's North American operations and called a news conference to announce his appointment. But Lopez never showed up; he hopped a plane to VW headquarters along with, as it turned out, a lot of information about future GM vehicles. GM pursued him with a criminal complaint and eventually reached a legal settlement with him.

Smith seemed tired and ready to move on in 2000 when he handed the company over to Rick Wagoner, his longtime protégé. I had met Wagoner back in the late 1980s when he worked with Smith at GM Europe. A Southern gentleman, Wagoner was raised in Richmond and educated at Duke. I've spent more hours with him than with all his predecessors combined, and I've never failed to be impressed by his depth and scope. Early on Wagoner could be testy when confronted with bad news—he once accused me of being "thick-headed"—and I still recognize the glances he shoots when confronted with particularly thick-headed questions. Under the tutelage of public relations guru Steve Harris, however, Wagoner has learned to be patient, even playful, with the press.

At the turn of the millennium GM was a stronger company than it had been ten years earlier, but it was still clumsy. Initially slow to capitalize on the SUV boom, it was churning out Tahoes and Suburbans at enormous profit.

OP: JAE WON—REUTERS/CORBIS

But now the market was turning to lighter, more fuel-efficient SUVs called crossovers, and once again GM lagged the industry leaders. Though Wagoner quickly shut down Oldsmobile, GM still lacked the capital to keep Saturn, Pontiac, and Buick uppermost in consumers' minds. Cost cutting proceeded at a brisk pace, but not quickly enough to offset the pressure on prices brought by foreign competitors. And U.S. market share continued its relentless decline, down to 22% this year. Investors voted with their dollars. In Wagoner's first year, GM stock hit a high of $75.75 and went down from there.

Tall, broad-shouldered, and steeped in GM lore, Wagoner still seemed a dream CEO. He accelerated Smith's work by pushing GM's disparate units closer together and expanding operations overseas, at the same time persuading the United Auto Workers to lift the burden of worker and retiree health-care benefits that was crushing the company.

BLUNDER BUS THE 2001 PONTIAC AZTEK, A MISFIRE HEARD ROUND THE WORLD

WAGONER'S signature moment remains recruiting former Chrysler executive Bob Lutz in 2001 and putting him in charge of global product development. Lutz's long tenure at GM (he is now 76, well past retirement age) tells you as much about Wagoner as it does about him. Only an executive with Wagoner's self-confidence could coexist so peacefully with the attention-grabbing Lutz. Tall, silver-haired, and immaculately tailored, Lutz combines superb biomechanical abilities (he is an accomplished jet and helicopter pilot as well as a skilled driver) with movie-star presence, great storytelling skills, and well-honed leadership chops. That makes Lutz catnip for journalists. He pretends we are equal partners in his high-level world and keeps us titillated with off-the-record gossip.

But Lutz's press notices are well earned. He has served as a one-man focus group for new-car development and reinvigorated product design and engineering. The first batch of Lutz-inspired models—the Pontiac G6 and Solstice, the Buick Lucerne—failed to excite buyers. But the second wave—the Chevy Malibu, Cadillac CTS, and Buick Enclave—have been widely praised by analysts and well accepted by customers. Still, they represented only a fraction of GM's model lineup, and as trucks began to slip from favor, the company's weaknesses in passenger cars and its middle-market brands were exposed.

Wagoner's biggest flaw may be that he has been too forgiving. Here is a company that has lost more than $72 billion in the past four years, and yet you can count on one hand the number of executives who have been reassigned or lost their job. After spending $1 billion to shut down Oldsmobile, Wagoner has allowed GM's other weak divisions to live on despite their fading resonance in the marketplace. (A competitor says Wagoner is "too fundamentally decent" to cut off dealerships and put their employees on the street. GM says closing divisions isn't cost-effective.)

Nonetheless, the dedication and thoughtfulness that Wagoner communicated, along with measurable signs of progress (growth in foreign markets, successful new products, continued payroll reductions) prompted me to produce a skein of optimistic, if hedged, stories about the company. I should have taken to heart the analysis of *Fortune*'s Carol Loomis, who saw bankruptcy looming for GM some three years ago. But after my most recent piece (Jan. 8, 2008) suggesting that a real turnaround was at hand, I finally ran out of patience. The company had been caught totally off guard by the spike in oil prices and possessed no backup plan when truck sales cratered and destroyed GM's business model for North America. Despite hopeful pronouncements, Delphi, its former parts division and now an independent company, took another turn for the worse and sank deeper into bankruptcy. Meanwhile, the credit crunch was squeezing GMAC, GM's, 49%-owned finance arm, leaving it unable to deliver loans or leases to armies of potential customers. In a high-fixed-cost business like autos, with all those plants, machines, and people, the cash runs off very quickly when times are bad. The macroeconomic forces at work were no fault of GM's, but, already heavily leveraged, the company had left itself no room to maneuver.

If Washington wants to bail out GM, it's fine with me. A lot of short-term angst will be avoided, and taxpayer money has been spent for worse purposes. But you have to wonder whether the insular, self-absorbed culture that still dominates GM is up to the job of restructuring the company quickly enough to make it profitable and competitive again. GM has been on a downward path ever since I began covering it. What is going to make it different this time? As painful as bankruptcy may be, it would give GM the leverage it needs to redo its labor contracts and dealer franchise agreements, downsize the company, recruit new management, and position itself for an economic upturn in 2010 that would enable it to regain some fraction of its former glory. Once again, boys might even dream of becoming chairman of General Motors. ■

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