GENERAL MOTORS' 1958 REORGANIZATION: TRANSITION AWAY FROM THE MARKET

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ABSTRACT

This paper examines events surrounding the restructuring of General Motors' senior management that occurred in 1958. This change precipitated a long-term shift away from a product and market focus, leading to the marketing policies of the present day corporation.

INTRODUCTION

Several events that occurred in the 1950s have had a major impact on the operating and marketing policies of the General Motors Corporation. These events include three primary areas: 1) anti-trust actions against GM that effectively capped the market share the organization could obtain, 2) the growing power and influence of its dealer body that constrained its ability to make major marketplace changes, and 3) a major reorganization of its upper management structure that changed the focus of the firm from products and markets to a financially driven strategy. This paper examines the change in GM's managerial orientation and structure that occurred in 1958. The popular business literature of the 1950s is utilized to document the events surrounding the restructuring of GM's senior management and to gain a historical perspective on this issue.

Prior to 1958, the managing authority of GM had been divided between the chairman of the board, who was the chief financial officer of the firm, and the president, who was the chief executive officer. The president as CEO took primary responsibility for the product and engineering functions of the firm. Upon the retirement of Harlow Curtice as president, and Albert Bradley as chairman of the board in August, 1958, a committee was appointed to not only name their successors, but also to reexamine the structure of these positions. The result of this effort was to name Frederick G. Donner as chairman, and John F. Gordon as president. Of major significance, and the focus of this paper, is that the position of chief executive officer was also shifted from the president to the chairman of the board. This placed the primary source of power within GM in the hands of its financial managers, and away from its product and engineering managers that had previously held the position of CEO. The product focus of GM that had been largely responsible for its marketplace success was soon to be eclipsed by a financial orientation.

BACKGROUND

General Motors in recent years has gone from a prime example of American industrial strength and marketing savvy to an unfortunate situation of major financial and market share losses. In 1991, GM had losses in the billions of dollars and announced impending layoffs of over 70,000 employees (Levin 1991). The current situation that GM is facing may very well be the long-term result of events beginning in the 1950s. It is the author's position that events and decisions made in the 1950s were a pivotal point linking GM's historical success to their present day marketplace policies that have proven not as successful as those in the past.

In the 1950s, General Motors possessed an unsurpassed record of success in product innovation, effective market segmentation, production economies, and appealing to a mass consumer market with creative advertising and promotion. In the 1950s General Motors Corporation was largest manufacturing company in the world. In 1955, GM produced 51% of all cars and 43% of all trucks sold in the U.S. GM had built 60% of all the diesel locomotives in service as of that time and was the world's largest producer of diesel engines. GM's bus-building division had a market share of nearly 80%, and GM's Frigidaire Division was the world's largest maker of refrigerators (Time 1956a). General Motors was also the world's biggest advertiser, spending directly and through its dealers over a hundred million dollars a year. Virtually every magazine, newspaper, radio, and television station in the U.S. depended upon GM for a considerable portion of its income. General Motors Acceptance Corporation was the world's largest finance company. GM was the largest customer of the U.S. banking industry; the banking industry supported GM, even when questions concerning its monopolistic practices were raised (Quinn 1956).

The keys to General Motor's success in the 1950s were its cost control, its performance evaluation system, and its formal committee system of planning and control. GM's success was based largely on the management systems that were developed by Alfred P. Sloan and his associates in the 1920s. Sloan developed the market segmentation scheme of five car lines, from the low-priced Chevrolet to the top-of-the-line Cadillac. Once a person became a GM buyer they could stay with GM for life, moving up the product line as their means improved (Crabb 1969). GM had been previously assembled as a collection of companies that had been put together by William Crapo Durant. Durant was a visionary with the financial creativity to put together GM's various companies, but he was not adept at developing a cohesive strategy. Durant possessed the genius to create General Motors, but it required the skill of Sloan to run it (Smith 1984). Under Sloan's leadership General Motors grew from a firm that accounted for about 10 percent of new car sales in the United States in the early 1920s to the largest producer of cars and trucks in the world.

The essence of Sloan's management structure was to strive for a balance between the extremes of pure centralization and that of complete decentralization. His idea was to maintain a balance between individual and group management, preserving the advantages of each. His concept was based on centralized policy making but with decentralized operations. Sloan fostered independence and intrafirm competition, and rewarded hard work through a lucrative executive bonus plan (Time 1956b). A key element of General Motors' structure developed by Sloan was that its financial controls were very tightly controlled to manage its decentralized operations. According to Sloan, "Each unit has its own clearly defined part well coordinated with the others, so our men are willing to move in coordination with each other, without losing their individual initiative in carrying out their own functions" (Sloan 1924).

Sloan maintained the best features of decentralization that Durant had developed, but in addition he developed financial control and interdivision communication. Sloan felt that this could be achieved by appointing an operations man as president, and a financial man as chairman of GM (Wright 1979). He believed that finance and operations working together in this manner would optimize long-run decision making. Sloan's centralized policy making was implemented by decisions being thoroughly analyzed by the three top committees: operations, finance, and administration (Newsweek 1957).

Based on Sloan's leadership and management structure, GM dominated the U.S. automobile industry from the 1920s through the 1950s. Even during the Great Depression it recorded consistent earnings despite major decreases in sales (Sloan 1963). During World War II, GM contributed substantially to the war effort with the production of aircraft, tanks, and other armament. In the 1950s, GM paid one percent of all taxes in the United States. The book My Years With General Motors, written in 1963 shortly before Sloan's death, became a prevailing guide on successful management practices.

From the time Sloan relinquished the GM presidency in 1937 until 1946, he was chairman and chief executive officer, with the president serving as the chief operating officer (Business Week 1958). William S. Knudsen and later Charles E. Wilson, served as presidents under Sloan, with Sloan as both chairman and CEO. This structure was changed in 1946, when Sloan, then seventy-one, retired as chief executive officer in favor of Charles E. Wilson as President and CEO. Alfred P. Sloan remained as chairman of the board (Fortune 1958). The literature indicates that one of the reasons for the change in 1946 when the responsibility of chief executive officer was moved back to the presidency was because post-war problems were centered in the plants, i.e. policy was indistinguishable from operations at that time (Business Week 1958).

From 1946 until the 1958 reorganization, the presidents of GM, first Charles E. Wilson (1946-1953), and Harlow Curtice (1953-1958), were also the chief executive officers (Business Week 1958). The pre-1946 structure is similar to that which was put into place in 1958. It must be kept in mind, however, that despite Sloan's role as Chairman of the Board, in addition to being the CEO, he focused on the operations of the company as well as financial concerns. Sloan resigned as chairman of the board of General Motors in 1956 at the age of 80. At the time of his resignation, the increased influence of the financial area within GM began to take hold. He was replaced by Albert Bradley, who had been executive vice president and chairman of the financial policy committee of the board of directors. Bradley's previous position was filled in turn by Frederic G. Donner who was promoted from vice president in charge of the financial staff to executive vice president and chairman of the financial policy committee (Business Week 1956). Harlow Curtice remained as president and CEO during this transition, although as of 1956 he had only two years remaining before reaching mandatory retirement age. This created a great deal of speculation in the business press during this period as to what future management changes might entail (Business Week 1956).

THE 1958 REORGANIZATION

Several events occurred during the 1950s that had a major impact on the future strategic direction of GM. Anti-trust action against GM began shortly after World War II, caused by a fear of GM's market dominance and the large ownership of GM stock by du Pont (Business Week 1949). This is thought to have caused GM to become less aggressive in its efforts to increase its market share, that had been its major focus in the 1950s (Fortune 1956). During this time GM also faced increased pressure from its dealers to be less autocratic and one-sided in its channel relationships (Business Week 1955). A third event during this time, and the focus of this paper, was the change in GM's management structure that occurred in 1958. This resulted in a dramatic shift away from GM's historic product/engineering management focus to a strong financial orientation and cost control orientation.

Although the causes surrounding GM's market difficulties at the present time appear rooted in near-term product and market policies and decisions, an examination of the historical events affecting GM reveal otherwise. To a large extent GM's present operating and marketing problems can be linked to the orientation and structure of GM's senior management, which still today bears the features of the 1958 reorganization. At the present time, the major functional area source of the upper management ranks within GM comes from the finance area. GM chairmen have been selected from the finance area beginning with Frederic G. Donner in 1958, with the single exception of James Roche, who became chairman in 1968 (Keller 1989, p.23). Although financial people within GM hold the majority of upper management positions, they are not sensitive to the marketplace and do not possess experience in the design and production of automobiles (Keller 1989, p. 47).

A great deal of concern was expressed about the selection of the successor to Harlow Curtice and Albert Bradley in the business literature of the period. According to Fortune magazine, "There was a great deal at stake in the impending decision--both for GM and for the U.S. economy... The fortunes of millions of people, and the flow of billions of dollars, are highly sensitive to any variation in touch on the tiller of giant GM" (Fortune 1958). A special committee was appointed to make the decision; the chairman was GM's eighty-three year old chairman emeritus, Alfred P. Sloan, Jr., who laid out the corporation's first effective organizational structure thirty eight years before (Fortune 1958). Other members of the committee included board chairman Albert Bradley, Walter S. Carpenter, Jr. (chairman of the board of du Pont), General Lucius D. Clay, and Harlow Curtice. It is interesting to note that the committee's existence and membership were not made public until after the appointments and reorganization plan had been announced; also that the committee met in New York, the "financial" location of GM, not at GM's headquarters in Detroit (Fortune 1958).

The actions of the selection committee went beyond appointing a new chair and president; they rearranged rather radically the power lines of the world's largest industrial organization (Fortune 1958). Harlow Curtice was replaced, in effect, not by one officer, but two. Frederic G. Donner, fifty-six, former executive vice president for finance became chairman of the board. John F. Gordon, fifty-eight, former vice president in charge of the body-and-assembly group, was named president (Fortune 1958). Technically, Donner succeeded the retiring chairman, Albert Bradley. In addition, the committee made a change that placed the strategy of the firm closer to shareholders as opposed to the operations of the firm by making the chair the CEO also. With the appointment of Donner, with his strong financial background and corporate ties, this was even more true. According to Fortune (1958), commenting on these events:

> the distinctive point is that Chairman Donner was designated chief executive officer of the company and is therefore principal heir to the power that once was Curtice's. It is the first time in over a dozen years that this power has resided in the office of the chairman in New York (who traditionally has a close relationship with the shareholders) rather than in the presidency in Detroit (traditionally the voice and arm of management).

The selection of Donner as chairman continued a trend away from production/engineering senior management, that had began with Sloan's retirement as chairman in 1946. Harlow Curtice, who held the position of president and CEO just prior to the 1958 reorganization, had come from an accounting background, contrary to Sloan's notion that the president and CEO should be an "operations man." Of particular significance in the Donner appointment are two precedents. First, never before since the implementation of the management structure developed by Sloan in the 1920s had a new person been named both chairman and CEO (see Table 1). Secondly, never before had a pure "financial" person been named CEO.

Sloan's special committee believed the selection of Curtice's successor was in a sense secondary to a re-evaluation of GM's top-management concept (Fortune 1958). With the exception of fiscal affairs, which came under the financial policy committee, Curtice was responsible for all major decision making areas. In the discussions of the selection committee, it was felt that the responsibility for government relations, labor relations, public relations, and the running of the multiple manufacturing establishments of GM was too great a burden for one man. From this concern it followed that GM should have a chairman who would be responsible for broad policy and the external equilibrium of the company; there should also be a president responsible for operations and the internal equilibrium of the company (Fortune 1958). This type of structure was similar to that of other major corporations such as U.S. Steel, General Electric, Standard Oil (New Jersey), and many others. The structure of GM's senior management before and after the 1958 reorganization is seen in Table 1.

Despite the reassignment of the CEO responsibility to the chairman of the board, both Donner and Gordon were very much in Sloan's model of a finance person as chair, and an operations person as president. Frederic G. Donner was born in Three Oaks, Michigan and went to the University of Michigan. An economics major, he received straight A's except for one B in a history course, and graduated in 1923 a Phi Beta Kappa. After graduation he worked for a public accounting firm in Chicago and joined GM in 1926. John F. Gordon had held a variety of positions in his thirty-five years with GM before being named president. Most recently he had been vice-president in charge of the body and assembly group (Business Week 1958). Gordon was credited for developing in 1948 the new Cadillac V-8 high compression engine. Gordon graduated from Annapolis, but like some 150 other midshipmen in the class of 1922 when the world's navies were undergoing reduction in size he was permitted to resign on the day of his graduation (Fortune 1958). Gordon received a master's in

TABLE 1
SENIOR MANAGEMENT STRUCTURE OF GENERAL MOTORS 1937-1958*

	Pre-1937	1937-40	1940-46	1946-53	1953-56	1956-58	Post-1958
Chairman of The Board	Lammot duPont	Alfred P. Sloan*	Alfred P. Sloan*[1]	Alfred P. Sloan	Alfred P. Sloan[2]	Albert Bradley	Frederic Donner*
President	Alfred P. Sloan*	William S. Knudson	Charles E. Wilson[3]	Charles E. Wilson*	Harlow Curtice*	Harlow Curtice*	John F. Gordon

* Denotes CEO

[1] Retired in 1946 as CEO at age 71.

[2] Retired in 1956 at age 80 as chairman of the board.

[3] Created position of four executive vice presidents between the president and the 17 group vice presidents; also a chief-of-staff who coordinated and directed the work of vice presidents. Harlow Curtice, who had an accounting background, was appointed to this position.

engineering at the University of Michigan, then went to work at Cadillac's experimental laboratory. In 1943 he was named chief engineer and three years later was made general manager of Cadillac. Gordon was seen in the literature as being a loyal and conservative GM man and is quoted with saying "I do not intend to quarrel with the success of GM" (Fortune 1958).

The Coming of the Professional Manager

In addition to the new structure developed by Sloan's committee in 1958, there had already occurred a shift from older boardmembers that held large blocks of GM stock to new boardmembers that were relatively new to GM and were more of the modern version of a "professional manager" (Fortune 1958). This was also described in the business literature of the period as the "youth movement" within GM (Business Week 1957). Both Alfred P. Sloan and Harlow Curtice had for some time advocated the advancement of younger managers within GM (Business Week 1958).

Many of the older boardmembers had become a part of GM at the very early stages of GM's development. This can be seen through the respective holdings of the retiring Harlow Curtice, the new chairman Frederic G. Donner, and the new president John F. Gordon. In 1958, Harlow Curtice, after forty-four years of service with GM owned 44,113 shares. Frederic G. Donner held 26,080 shares, and John F. Gordon, 5,640 shares. When former GM president Charles E. Wilson was named Secretary of Defense in 1953, he owned 39,470 shares (Fortune 1958). The literature of the period noted this change and believed (although not with any firm support) that part of the reason behind the 1958 restructuring of GM was to "slow down" the change from "proprietary" to "professional management" (Fortune 1958).

"Eastern" vs. "Western" Management

An interesting locational perspective on the reorganization within GM was also discussed in the business literature of the period. An article in Business Week discussed the GM reorganization in the context of "Eastern" vs. "Western" managers, referring to "Eastern" managers as the financial managers operating in New York and the "Western" managers as those responsible for automotive operations in Detroit. According to Business Week (1959):

> During Sloan's tenure as chief executive, from 1923 to 1946, the men were developed who brought the corporation to greatness. They were auto men, not finance men; they were "Western," not "Eastern." The sheen of sophistication and finesse that rubbed off from the 100-year-old du Pont company onto the early GM managers gradually was dulled by the hard-driving, competitive abrasiveness of the "Detroit crowd."

Business Week (1959) noted that "once again the executive power is with the financial group in the East, and the operating responsibilities with the production men in the West." They report that the creation of "East" and "West" within GM began to take effect in 1937. The rise of the unions in the auto plants was something the Eastern-oriented executives could not adapt to. The old-line production men, principally the Fishers, insisted before the other directors that General Motors had to have on the spot in Detroit a top executive who could talk to the union in production terms (Business Week 1959).

The Impact of the Reorganization

The popular business literature of the period noted that the Donner chairmanship would in all probability have major ramifications for GM. This is quite significant in that an underlying theme of this paper is that the 1958 reorganization, along with several other events of that period, were pivotal to the future orientation and direction of GM. There were two primary perspectives on the Donner chairmanship in the popular literature. The first was the immediate question of his capability and the outlook for GM in the near future. This was the primary commentary and discussion in the literature. The second, and more profound, perspective was the perceived impact that the chairman/CEO change would have on the future of GM.

The immediate review of Donner's performance was very favorable. It was thought Donner was a very capable manager because of the record sales and profits that occurred during his tenure (Wright 1979). Donner was also seen in the mold of those that had preceded him. According to Fortune (1958):

> In the two months he has been chairman Donner preferred a quiet debut. In major issues his statement of the GM case often sounds like a synthesis of Sloan, Wilson, and Curtice, except that it is possibly a mite more precisely phrased. And in the transition stage, this is probably all to the good. But Donner is booked to be chief executive officer for nine years. In due time he'll have to decide on problems and meet change with change in a creative way.

Others also felt that Donner was typical of the GM mold; there were other comments linking his style to previous GM management, although he was clearly seen in the literature of the period as being a "Eastern" manager and one similar in bearing to the du Ponts. According to one of the du Pont GM directors, Donner "has some Pierre traits." C.S. Mott, a long time GM boardmember and major shareholder who was a strong supporter of Harlow Curtice, had the "Westerner's" natural misgivings about the selection of Donner but is highly pleased at how "good a man he is turning out to be" (Business Week 1959).

Many observers believed, however, that Donner did not understand the market and customer and he made decisions that were for the short-run only and thus detrimental to the long run (Wright 1979). The significance of Donner's financial orientation was observed at the time. As noted in Fortune (1958) "He has never built an automobile, but he is the company wide expert on cost controls and product pricing." In the same article a statement was made that considered the magnitude of future events: "....one can begin to discern the makings of a momentous change in the whole character of the corporation, perhaps involved only marginally in the choice of Donner and Gordon, but bound to come in their time" (Fortune 1958).

The 1958 reorganization of General Motors, although separated from current events by over three decades, may indeed have had a profound impact on the marketplace strategies that GM has pursued up to and including the present time. The change in focus away from Sloan's division of operations and financial concerns through a president and chairman, respectively, clearly was at odds with the way GM had been managed up until that time. Although a precedent had been set for the chairman as CEO under Alfred P. Sloan before 1946, the nature of his management priorities was indeed different. The Sloan precedent served as a rationale for the 1958 restructuring and is hinted at as such in the literature (Fortune 1958). A further consideration in the 1958 reorganization was that GM ruled the industry; hence its primary task was to maximize shareholder return. The anti-trust actions being taken against GM further created a need for senior management that could deal with probable future litigation on financial terms. This aspect was mentioned in the literature as further justification for the Donner appointment (Business Week 1959).

SUMMARY AND CONCLUSIONS

Regardless of the causes or justifications for the 1958 restructuring, the importance of developing and producing market-oriented products was in all likelihood downplayed as a result of the events of 1958. Over time, GM began to further concentrate on cost control and made efforts to limit expenditures on new innovations (Jeriski 1987). A continuing frame of reference for GM's management was that they controlled the market. Between GM, Ford, and Chrysler, the rich American market was considered their "private preserve" (Gilmour 1988). Thus, their product and marketplace actions by definition had to be accepted within the company and by the public.

The events of the 1950s were profound in the future development of General Motors. As seen in this paper, the 1958 reorganization moved the corporation away from the "Western" or product and market oriented management towards the "Eastern" or financially focused management. By utilizing a historical perspective, a great deal of insight can be gained from events of the past that can help in understanding current marketplace events. The present effort was designed to accomplish this task in the context of the 1958 restructuring of General Motors' senior management.

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