

WHAT BUSINESS LEADERS MUST LEARN FROM THE RECENT GENERAL MOTORS DEBACLE

# Crash & Burn

By C. PETER GIULIANO

ECG

IN ORDER TO SAVE THEMSELVES, THEIR COMPANIES AND THE STRUGGLING ECONOMY.

he ouster of General Motors chairman and chief executive G. Richard (Rick) Wagoner by the White House a few weeks ago<sup>1</sup> should be a clarion call to business leaders everywhere — regardless of industry — as they wrestle with the impact of a distressed economy.

“To some degree ... Wagoner's departure is symbolic,” wrote *Automotive News*. “But symbolism matters — especially in Washington. The Obama administration is sending a message that it's no longer business as usual.”<sup>2</sup>

“Basically, [President] Obama needed somebody to throw to the wolves,” said Peter Morici,<sup>3</sup> the University of Maryland economist who had testified against a government bailout of the auto industry during congressional hearings in November.

It was those same hearings, by the Senate banking and House financial services committees, which proved to be the culminating events that, right or wrong, transformed Wagoner into the poster child for all that was amiss with the US auto industry and, seemingly, much of the embattled American corporate leadership as a whole.

The congressional testimony by Wagoner, Chrysler CEO Robert Nardelli, and Ford CEO Alan Mulally was lampooned by the NBC comedy show *Saturday Night Live* and characterized as disastrous, weak,

defensive, arrogant, and disingenuous by the national press.

As auto industry neophytes, Nardelli and Mulally were spared the worst of the criticisms, while 31-year auto industry veteran Wagoner took the brunt of the blows with the *Wall Street Journal* claiming that General Motors “can't even produce a CEO who knows how to properly beg for Washington bailout money. ... If this is GM's best salesman, no wonder the company can't move cars.”<sup>4</sup>

Virtually overnight, what had been a global financial pandemic seemed to, instead, become a communications nightmare for Detroit.



#### **WAGONER'S WATERLOO**

The congressional hearings in November were the beginning of the end for the General Motors chief.

**“I don’t quite understand what the hell you just told me.”**

**— Rep. Paul Kanjorski**



#### **CHIEF CELEBRITY OFFICER**

Though reluctant at first, Lee Iacocca warmed to the role of spokesperson for Chrysler after the bailout, appearing in numerous ads and 61 television commercials extolling the virtues of the company, its employees and products. He was eventually so recognizable that he became the nation's first celebrity CEO.

**“If you can find a better car, buy it.”**

**— Lee Iacocca**

When Wagoner was pushed out the door, he stood in stark contrast to Lee Iacocca who, 30 years before, had successfully lobbied Congress for a federal bailout of Chrysler and had become a public figure and virtual folk hero in the process.

#### **THE ORIGINAL BAILOUT**

Chrysler Corporation was a client of ours in the days after the 1979 bailout was approved. As a result, we had a front row seat to events that unfolded.

Then, as now, Chrysler and the other car makers had incurred significant R&D expenses in an effort to meet tougher federal emission and fuel efficiency standards. As the smallest of the Big Three, it was tougher for Chrysler to absorb those costs while still keeping their car prices competitive.

The company had also suffered major financial losses due to a recall of two of their models — a recall which seriously damaged public perception of Chrysler quality as a whole.

To make matters worse, the US auto industry was suddenly faced with a second domestic oil crisis in six years. Demand for large cars and trucks came to a screeching halt.

As if that wasn't enough, in the perfect economic storm of that time, by November 1978 the Federal

Reserve had pushed interest rates to double-digit levels in order to combat the Great Inflation of the 1970s.<sup>5</sup> Credit became tight and expensive.

It was against this backdrop that Lee Iacocca, having not long before taken the helm at Chrysler, petitioned Congress for relief from federal auto regulations in order to keep the company out of bankruptcy. Instead, Chrysler received \$1.2 billion in government loan guarantees.

Admittedly, there are some differences between then and today. However, the underlying trigger points and circumstances facing Chrysler thirty years ago were really not so different than those threatening the auto industry — and companies in general — today.

#### **FROM HERO TO ZERO**

So, why then did Lee Iacocca become a legendary figure while Rick Wagoner was run out of town on a rail?

The simple answer is that Lee Iacocca was able to clearly communicate his vision and plan for Chrysler. It seems that Wagoner could not.

During the congressional hearings when Rick Wagoner was asked by Rep. Paul Kanjorski when GM would run out of cash, Wagoner's response was so unclear that the congressman eventually

**“We’ve frightened consumers to the point where they imagine there is a good prospect of a Great Depression.”**

**— Edward Leamer**

stopped him with “I don’t quite understand what the hell you just told me.”<sup>6</sup>

In his prepared testimony, Wagoner said, “As recent news coverage has made abundantly clear, many people have a picture of GM that has not kept pace with our progress.”<sup>7</sup> One can only imagine the assembled members of Congress asking themselves, “And whose fault is that?”

During what some characterized as a “congressional ambush,”<sup>8</sup> the trio of auto executives also received a well-publicized drubbing from Congress for flying to Washington in private jets to ask for taxpayer assistance. They were also asked, on national television, if they were willing to forego their annual salaries, before being sent packing with instructions to come back with a better plan.

“I think we get out and tell our story pretty well, and then something like this happens and you say ‘Well geeesh’ it’s like nobody knows what we did,” Wagoner said in an interview after the hearings. “Well, then, it has to start with us. We have to do a better job, a more regular job, of keeping people updated, listening to their concerns, trying to respond to them.”<sup>9</sup>

Iacocca, by comparison, readily acknowledged that public perception of his company was poor even after changes were made to correct defects in

design, manufacturing and quality. He addressed the issue head-on as the company’s spokesperson by challenging consumers with what became his signature trademark, “If you can find a better car, buy it.”

We should be clear that Iacocca didn’t just communicate, he also innovated. He reorganized the company, streamlined operations, sold off the European division, and introduced new models. These combined efforts helped turn the company around and allowed Chrysler to repay the government-guaranteed loans years ahead of schedule.

There is no reason to think that GM’s corrections, reorganizations, and plans of today are any worse or any less appropriate than Chrysler’s were in 1979. In fact, there is every reason to expect that the course charted on Wagoner’s watch will be followed by his successor.

The big difference, however, was that Lee Iacocca had the ability to effectively communicate the changes he was making at the company, along with a compelling vision for the future, in a way that instilled confidence and inspired hope.



#### **GLOOM AND DOOM**

The congressional testimony of the auto chiefs implied massive layoffs and wholesale factory shutdowns if any of the Big Three were forced into bankruptcy.

**“I think we get out and tell our story pretty well, and then something like this happens.”**

**— Rick Wagoner**

**“We have not been able to pinpoint what ultimately causes recessions probably because the causes are psychological and thus intangible.”**

**— Robert J. Shiller**

But, it wasn't just Iacocca who needed to tell the company story. It had to be a team effort. The company stakeholders, especially the all-important suppliers, needed to be reassured about doing business with the automaker. Consequently, all of Chrysler's executives needed to communicate the same message as their boss — and they did.

“We got through that period by basically talking to people,” recalls Tom Stallkamp, Chrysler's supply management chief during the turnaround period and eventual company president, “talking every day to those people who had a concern with us and personally relating to them that we were behind this, [that] we felt comfortable about the [future of the] company.”<sup>10</sup>

And that is a critical lesson for executives in all industries as they try to cope with the effects of this global economic crisis. Had Iacocca and his team not inspired trust and confidence to begin with, there would not have been an opportunity to innovate or turn the company around.

#### **THERE IS NO NEED TO PANIC!**

“A great embarrassment for modern macroeconomic theory is that it has never achieved any consensus on the basic questions of what makes the stock market rise or fall and what ultimately causes recessions,” Yale economist Robert J. Shiller wrote on the eve of the dot-com crash.



#### **HOME AND CARRIAGE**

Previous economic recoveries were driven by consumer spending on cars and houses — neither of which seem well-poised to lead a recovery this time without the return of consumer confidence.

**“We got through that period by basically talking to people.”**

**— Tom Stallkamp**

“We have not been able to pinpoint what ultimately causes recessions probably because the causes are psychological and thus intangible,” Shiller continued. “... A recession is generally related to a decline in confidence, a decline that makes consumers less willing to spend and businesses less willing to invest and to employ workers.”<sup>11</sup>

According to Edward Leamer, an economist and director of the UCLA Anderson Forecast, that is certainly the case with the current downturn. “We unleashed this tsunami of fear in September, October and November [2008], fear from the standpoint of equity investors, but more importantly, consumers,” Leamer points out.

“We've frightened consumers to the point where they imagine there is a good prospect of a Great Depression,” Leamer said. “That certainly is not in the prospect. No reputable forecaster is producing anything like a Great Depression. So it's still okay if you spend a little bit. You do not have to put all your money into a mattress.”<sup>12</sup>

While the initial causes of downturns may be psychological, the subsequent impact of declining demand and economic turmoil become all too real. It quickly becomes necessary for corporate leaders to respond to those external changes and it often becomes so overwhelming and time consuming just keeping up with the technical and

## Being an effective communicator is one of the most important skills for a business leader even in the best of times.



### TOUGH TIMES

Many corporate leaders become overwhelmed and lost in the process of trying to keep up with the technical and organizational demands during an economic downturn.

**“Fifty- to sixty-percent of the leaders who go into an economic downturn aren’t a leader at the end of it.”**

**— John Chambers**

organizational demands, that many senior executives become lost in the process.

“During economic downturns, the statistics are really tough [for corporate leaders],” said John Chambers, the chairman and CEO of Cisco Systems, in a recent interview with the BBC.

“Fifty- to sixty-percent of the leaders who go into an economic downturn aren’t a leader at the end of it,” Chambers continued. “... They hunker down. They forget about innovation and operational excellence and just try to survive. And while they try to survive, their peers move right by them.”<sup>13</sup>

Chambers has had some experience leading through economic downturns. At the height of the dot-com bubble, in March 2000, Cisco edged out Microsoft to become the most valuable company in the world, with a market value of over \$579 billion. After the bubble burst, the company was awash in red ink as their market dropped out from under them. By January 2002, Cisco had lost over \$430 billion in market value in what *BusinessWeek* called “one of the deepest losses of shareholder wealth in history.”<sup>14</sup>

“This time it’s different because it is broad-based,” Chambers says, “In 2001, it was just the tech industry.”<sup>15</sup>

What Chambers did successfully then, and what he continues to do now, is to be diligent and compulsive about communicating the vision and value of his company, providing customers, partners, investors and the media with a glimpse at his version of the future.

Innovation and excellence mean nothing if you can’t communicate the benefits and advantages to others, get them to believe in your vision, and provide them with the necessary confidence to vote with their checkbooks. And Chambers does that very effectively, acting as ambassador, head cheerleader, and pied piper for Cisco and its product lines.

But, does it work? Judging by the numbers, it does. Cisco’s revenues have doubled from a dot-com crash low of \$18.9 billion in 2002 to over \$38 billion in 2008 — that, and Cisco has almost \$30 billion in the bank.<sup>16</sup>

### THE CEO AS CCO

Being an effective communicator is one of the most important skills for a business leader even in the best of times.

Several years ago a client of ours, who was the CEO of a public company, was faced with a dilemma. His company was doing well but, one Friday, the stock suddenly dropped precipitously after a

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single stock analyst issued a negative report about a competitor. Investors quickly assumed that the entire sector was in trouble and sold shares in companies all across the sector.

Faced with a serious loss of shareholder value, our client had to immediately step up his efforts to let others know the real facts of his company and the actual value the firm represented. As luck would have it, a routine analysts' meeting had been scheduled for that following Monday. So, the previously prepared presentation was restructured over the weekend to more properly address concerns of equity investors.

During that analysts' meeting, the CEO made a compelling case for his company, outlining the facts and clearly differentiating his enterprise from the competition, especially the competitor who actually was having trouble. As a result, the company stock price rebounded within the week, while the stock prices of its competitors continued to languish at deflated levels.

The situation today is quite similar, although an order of magnitude higher. Most companies are being painted with the broad brush of a failing economy. And while there have been some enormous and public failures that have created a panic among investors and the public, the reality is that no two companies are alike.

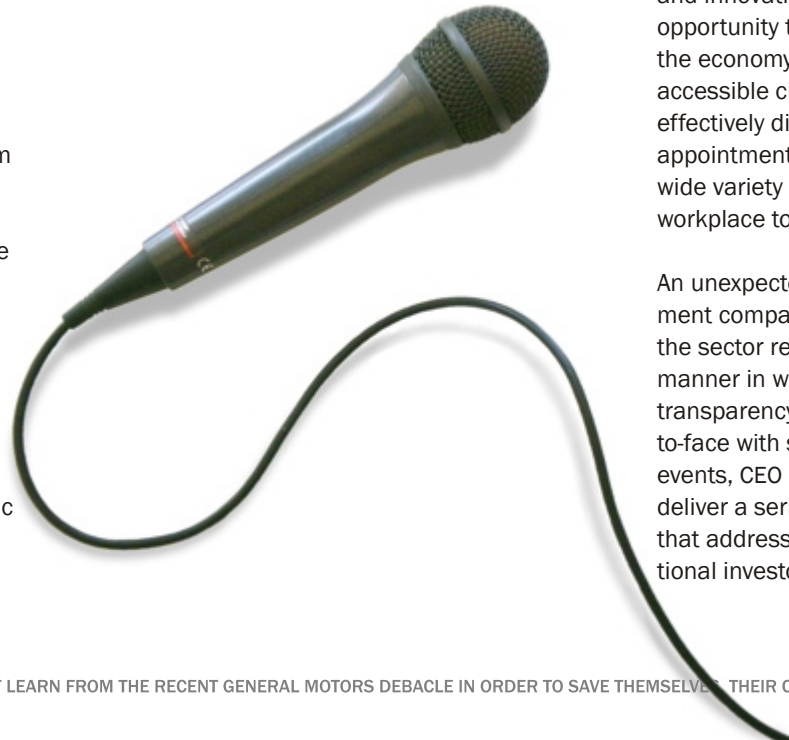
**The role of chief executive officer is rather quickly evolving into that of chief communication officer.**

Fifteen months into the current downturn, many corporations have shed large numbers of workers, cut products and operations, and hunkered down in survival mode.

Fortunately, a few business leaders are innovating, forging ahead, and showing their customers, employees and stakeholders that their companies are different and remain valuable.

At international food conglomerate PepsiCo, CEO Indra Nooyi has aggressively been launching new and innovative products as well as taking the opportunity to refresh existing brands, in spite of the economy. One of the most high-profile and accessible chief executives today, Nooyi has also effectively differentiated her company, since her appointment as CEO in 2006, by speaking out on a wide variety of issues ranging from diversity in the workplace to the world financial crisis.<sup>17</sup>

An unexpected example is investment management company Vanguard Group, both because of the sector represented and the cutting-edge manner in which they are exhibiting company transparency. In addition to actively meeting face-to-face with stakeholders at conferences and events, CEO Bill McNabb uses the Internet to deliver a series of "Plain Talk" video presentations that address the concerns of individual and institutional investors. McNabb clearly explains how



## This is not simply a spreadsheet exercise or projection. This is a strategic imperative for us all.

Vanguard is different from other investment firms, and offers an unvarnished, yet reassuring vision of the future.<sup>18</sup>

Even serial entrepreneurs like Tesla Motors CEO Elon Musk have discovered the strategic business advantage which open communication can bring. Musk regularly talks about the differences and benefits of Tesla's electric vehicle technology in the pages of *Popular Science*, *Car and Driver*, and the *Washington Post*, as well as on public radio, public television, and periodic postings on the company blog.<sup>19</sup>

What these and other executives have learned is that, in this new age of rapid and ubiquitous global communication, the role of chief executive officer is rather quickly evolving into that of a chief communication officer.

### UP PERISCOPE!

In a down economy, the role of CEO as communicator-in-chief becomes even more important as customers, suppliers, investors, and other stakeholders all need to be reassured that doing business with the company is prudent and wise.

A lot of hope is being pinned on the bailout and the economic stimulus packages being undertaken or considered by governments around the world.

But, as the experiences of Chrysler thirty years ago and GM today have shown, innovation and organizational improvements alone, even with the application of large amounts of taxpayer money, are not enough to jumpstart an ailing company and will probably not be enough to jumpstart an ailing economy.

The necessary catalysts that *can* facilitate those things to work, however, are a clear vision and leaders who can communicate that vision to others in a compelling, convincing and credible manner.

If this economy is going to be turned around any time soon, corporate and business leaders everywhere must be prepared to effectively engage their customers, suppliers, employees, partners and shareholders in an ongoing dialogue to help reestablish trust, restore confidence, and rebuild normal business relationships.

This is not simply a spreadsheet exercise or projection. This is a strategic imperative for us all. And the winners will be those who communicate best. ■



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**For over 30 years and in more than 35 countries, the ECG team has helped many of the world's major companies and their top executives become significantly more effective and successful by improving how they communicate.**

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**“If you want to see the  
sunshine, you have to  
weather the storm.”**

**— Frank Lane**

General Manager, Chicago White Sox (1948–1955)



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