JANUARY 21, 1988

TO: EXECUTIVE COMMITTEE

FROM: ELMER W. JOHNSON

RE: STRENGTHENING GM'S ORGANIZATIONAL CAPABILITY

Two weeks ago, we presented an inspiring and exhilarating exhibit on Teamwork and Technology. Then, last Friday we were presented with Alan Smith's materials on the stark realities of GM's current cost problems. The combined impact of these two presentations has prompted me to write this memorandum on a subject that has been brewing in my mind over the last few months. I wrote it out of a sense of urgency and because my hopes for GM are high: we do have a great vision; we have invested heavily on the basis of that vision; and we can keep our promises that the vision is paying off, but only if we now tackle, head on, our root problem: our seeming inability to execute. We owe this to our employes, our stockholders and our dealers. Their well-being depends upon our organizational capability.

This memo describes the nature of our predicament and the measures I believe must be taken if the vision is to pay off and if we are to meet the serious challenges outlined in Alan's materials. As I note at the end, I hope that this memo provokes us into a vigorous discussion and then into the actions needed to accomplish that vision.

The Vision and its Execution

My understanding of our vision, in brief, is that if GM is to build the best cars and trucks for the broad markets it serves, and at costs that enable us to provide superior value to our customers,

we must be in the vanguard of the industrial revolution now underway. It is a revolution in terms of technology, the organization of work life and the emergence of global markets.

In light of the technology revolution we acquired EDS and Hughes, enunciating a bold strategy to coordinate and develop technology transfer. Yet we have found ourselves well behind the competition in the implementation of CAD/CAM technology. Now we are undertaking heroic efforts to catch up. And in the case of the anti-lock braking system, our vehicle groups have been considering whether to subcontract to non-allied suppliers not only the brake hardware, but also the electronics know-how for the system, -- know-how that is vital to the inevitable and essential "up-integration" of the electronic brains of the automobile. Such a move would frustrate the very purpose of the Hughes acquisition. We would deny ourselves Hughes' greatest strength -- its systems engineering capability. Again we are now beginning to realize our mistake, but only after lengthy delays and digressions.

As to the workplace revolution, the NUMMI joint venture dramatized GM's determination to open our eyes to the current state of the art in production systems. In one sense the experiment has been a great success. A historically troubled work force was turned into a role model for all of GM in terms of teamwork, product quality and productivity gains. A number of GM plants have demonstrated that we can, in individual cases, approximate this state of the art system. Yet, in the four or five years we have been at it, we have made only slight progress toward our visionary goal of a new GM production system. We simply appear unable to execute the plan.

As to the third facet, we have articulated the need for a new global strategy: in terms of the allocation of capital, the sourcing of materials and manpower, and the marketing of our products. Yet, we still conduct ourselves primarily as a North American motor vehicle company with loose appendages in various parts of the world. We are just now beginning to recover the lost wisdom of Sloan's concept of "niche" product marketing, a strategy essential to the global era in which we compete.

We have not achieved the success that we must in these areas because of severe limitations on our organization's ability to execute in a timely manner. In an attempt to overcome these limitations we employed strategies and rhetoric that were revolutionary in substance and in tone. We determined to use "a clean slate" approach: we would "leap frog" the competition and become a "21st century" corporation; EDS would computerize the engineering and manufacturing systems of GM and bring about tremendous efficiencies throughout the Company; Hughes Aircraft, with its large-scale integrated systems capabilities, would use its electronics and systems engineering know-how to transform the automobile and truck; we would create the Factory of the Future with its robots and automatic guided vehicles; the NUMMI joint venture would force GM to learn from and emulate the Toyota production system; and the Saturn project would revolutionize engineering, manufacturing and distribution processes so that GM could produce a "world-class" small car on a profitable basis in competition with the Japanese.

My fear is that we have relied almost exclusively on "clean slate" strategies that ignore the internal obstacles and end up trying to circumvent rather than transform GM's organization and culture. We

have vastly underestimated how deely ingrained are the organizational and cultural rigidities that hamper our ability to execute. In this regard, I believe we have a far worse problem than does Ford or Chrysler, -- for two reasons.

First, Ford and Chrysler have long been afflicted (favored?) by a heavy dose of turbulence in their top management ranks, whereas GM has been the Rock of Gibraltar. GM in a sense has been the victim of its own success over many years. We were strong and could remain insular. The very turbulence at Ford and Chrysler operated to make their organizations more amenable to change.

Second, Ford and Chrysler were far harder hit than was GM by the 1980-82 recession. They were forced by the recession to accomplish a lot of housecleaning and permanent work force reductions that GM could defer to another day. If GM were to measure up to the productivity levels attained by Ford in the United States in recent years, adjusting for differences in degree of vertical integration, GM would now have an hourly work force of 280,000, not 360,000. And if GM is to be competitive in world markets in the 1990's, at current volume levels, the hourly work force will have to be reduced to a level of 200,000.

Now, GM is being confronted by a series of developments that present the kind of shock to the system that the leaders of Ford and Chrysler used to such great advantage in the early 1980's. These developments include the prospect of a substantial decline in motor vehicle demand in 1988-90 from that of 1985-87; the prospect of substantial excess production capacity in the years ahead; the new considerations raised by the 1987 labor pact; and most fundamentally, the combined impact of GM's serious loss of market share and its

extraordinary cost structure. In this regard, it is very disturbing that Ford's operating income per vehicle exceeded GM's by $394 per unit in 1986 and that this gap widened to $860 in the first nine months of 1987.

Confronted with these developments, we have established a Cost Reduction Program and have undertaken special studies of the market share problem, rising engineering costs, rising health care costs, the implementation of the new labor pact, organizational competitiveness, product competitiveness, and so forth. These efforts are essential, and Alan's further suggestions should be endorsed. But they won't solve our most fundamental problem, -- the problem that I describe in some detail in the next section. Following that description, I then propose the measures required to enable us to grab hold of the reins of this organization and make the vision pay off. We are at a critical juncture. The consequences of deferring action on these measures are too grave to contemplate.

The Nature of Our Predicament

I said that our most serious problem pertains to organization and culture. It has been in the making for a long time. The culture is based on a two-fold vision of reality or set of fundamental assumptions that became dominant in GM by the late 1950's: first, that we live in a very stable, reasonably predictable world; and second that GM's overwhelming competitive advantage lies to a large degree in its ability to achieve monumental economies of scale. Both assumptions held true for the 25 years following World War II, and these operative assumptions profoundly shaped the management culture that is still with us today, a culture that is not prepared to deal with the new realities, - the vision that we have articulated.

By culture, I mean a mind-set among many of the top people in GM, (say, the top 500 or so that participate in the P.A.P special compensation program) that is reinforced by long tradition, by personnel and other management policies, by long-standing decision-making processes, and by the organizational framework. Obviously, that mind-set affects the rest of the organization over time. Thus our hope for broad change lies in radically altering the culture of the top 500 people, in part by changing the membership of this group and in part by changing the policies, processes, and frameworks that reinforce the current mind-set.

While there are many positive aspects of our culture that must be maintained and reinforced, I here list those attributes that represent barriers to progress. Here then are the negative aspects (as I see them) of the culture or mind-set, with major exceptions of course, of the executive leadership of GM, -- a mind-set that is only now beginning to crack under the pressure of recent developments:

(1) Few of the top 500 executives have been groomed for bottom line responsibility and accountability: that is, to exercise the kind of peripheral vision and integrating judgment required of a chief executive officer. Management responsibility has become terribly fragmented and diffuse. Our executives do not make, and are not expected to make the difficult trade-offs involving market, technology and cost considerations. This fragmentation of responsibility in GM has had serious consequences. First, the executives in the vehicle groups have not been encouraged to develop real cost sensitivity, nor have they been empowered to control the variables which determine bottom line results. Rather, the organizational thrust has required

them to focus almost exclusively on volume and market share and on moving the product to market. Second, the car division managers are mainly merchandisers and dealer relations experts. For the most part, they do not have, and are not expected to have, the broad skills required of a well-rounded business executive. Thus, those who are closest to market and in the best position to influence future product development (assuming they have the inherent judgment and skills to do so) and to design quality and efficiency into the product and process, and insure GM's responsiveness and timeliness in sorting out emerging technologies and appraising their customer appeal, have little or no power and responsibility to do so. Third, executives in the components operations have been insulated from the full discipline of the market. The transfer pricing system, for most of the last twenty years, assumed rather than tested their competitiveness. Consequently, the vehicle groups have tended to find a convenient scapegoat: "If only the components groups met our requirements as to cost and quality, or if only we could outsource, then GM would be competitive." Fourth, the various operating units, unable to envision the good of the whole, have resorted to compartmentalization, each with competing, redundant pet projects. Teamwork has been replaced by Balkanization. Finally, we have failed to develop a balanced car and truck mentality. Over the last seven years, as we have seen trucks grow from 21% to over 32% of the U.S. vehicle market, we have continued to allocate well over 80% of our capital resources and engineering talent into the car business.

(2) The Executive Committee and the policy groups perform as editorial boards, reviewing proposals that bubble up from the bottom.

If a particular proposal survives the multiple levels of review and finally makes it to the Executive Committee, most of us in this group are not well versed on the conceptual thinking behind the proposal and so we either make small changes, send it back for further study, or reject it, -- in any case with little or no discussion of the underlying policy issues.

(3) The meetings of our many committees and policy groups have become little more than time-consuming formalities. The outcomes are almost never in doubt. The important decisions have almost always been reached behind the scenes before the time of the meeting. Accordingly, there is a dearth of discussion, and almost never anything amounting to lively consideration. Almost by default, it is the extensive influence and networking of the finance staff that serves to coordinate decision-making and bring information to top management's attention. Almost no other staff in the Central Office can work except in parallel with members of the finance staff. In response, the vehicle groups have had to create additional staffs to advocate their own positions and overcome the obstacles posed by Central Office staffs. Thus, the real coordinating and check-and-balance systems today consist not of the committee structure but of the adversarial interplay of multiple staffs. It is a system that results in lengthy delays and faulty decisions by paralyzing the operating people and rendering them risk averse.

(4) Our culture discourages open, frank debate among GM executives in the pursuit of problem resolution. There exists a clear perception amongst the rank and file of GM personnel that management does not receive bad news well. GM executives sometimes react to the

presentation of a problem with visible anger and exasperation. As one case in point, our poor quality and reliability in prior years was surely attributable in large part to GM's historic resistance to creating an environment in which problem identification and correction is consistently applauded and encouraged by management. Another case in point: our insensitivity to adverse market developments in the making of scheduling decisions over the last 18 months.

(5) Most of the top 500 executives in GM, until late in their careers, have typically changed jobs every two years or so, without regard to long-term project responsibility. In some ways they have come to resemble elected or appointed top officials in the federal bureaucracy. They come and go and have little impact on operations. It is the civil service personnel below them who actually run the place. More seriously, rapid rotation means that no individual is ever responsible or accountable for the success or failure of a project. We employ the fiction of "institutionalizing" responsibility. But as Admiral Rickover said in reference to the loss of the U.S.S. Thresher, "the present transient management concept generally precludes assignment of individual responsibility. It is significant to me how few of the senior people in the responsible management positions at the time of Thresher's loss had anything to do with her basic design. It is rare for an officer both to start and finish a job. . . . Who is responsible? With the present Navy system, this is an almost impossible question to answer. The nearest you can come is to say that 'The Navy is responsible.'"

(6) Very few of the top 500 executives are strictly professionals, i.e. executives paid and positioned chiefly on the basis of their

judgment and expertise in such areas of technology as engines, transmissions, brakes, suspensions, process engineering, or overall product engineering. Rather young professional experts -- our best brains in the areas of expertise that are critical to GM's future -- are usually forced by their mid-30's to become managers if they wish to keep climbing the corporate ladder. Then after five years as managers, they lose their edge as professionals. GM has paid a heavy price for failing to provide a professional, technical career path into the top executive ranks. In some instances GM has actually lost its basic design capability with regard to key automotive systems and components.

(7) By reason of GM's tremendous financial muscle and market dominance over many years, many top executives have tended to develop, like the rest of the work force, notions of entitlement, cradle-to-grave security, regular raises, -- in short the club mentality: "I now belong to the club; if I don't rock the boat and if I keep my nose clean, my remaining years will be quite comfortable". Consistent with this mentality, there remains a strong bias (despite the meritocratic policy changes of the last two years) toward small distinctions in pay and incentive awards regardless of wide differences in performance. In the recent distribution of restricted stock grants, for example, while we did a much better job than ever before, yet, of the 2,362 entry level executives (Band A), the top 3% received an average award of about $28,000 and the next 16% averaged about $26,000.

(8) The factor of years of service continues to be far too important a criterion for both promotions and salary increases. To quote Dick Gerstenberg (1972 Greenbrier), "it could almost be said

that we at General Motors are reluctant to trust anyone under 30." The number of executives aged 30 or under totalled 32 in 1960, 17 in 1965 and 7 or 8 since 1972. Those aged 35 or under totalled 309 in 1956, 164 in 1972 and 135 by 1987.

(9) Most managers do not have the backbone to confront under-performers with the truth and take appropriate action, and even when they do muster the will, the system sets up near-insuperable obstacles. Over the last five years, we have averaged only about 100 involuntary terminations of salaried personnel per year based on low performance, or less than 1/10 of 1% of the salaried work force each year. By reason of this and the other aspects of our culture noted above, we find it increasingly difficult to attract, nurture and retain the very best talent coming out of the best schools.

After listing these elements of our culture, the wonder is that we have as many outstanding people as we do in GM. There is a huge residuum of loyalty and goodwill and a reservoir of top talent that can be tapped and brought to peak levels of energy. The questions are: What corrective measures must we take to change this mind-set and produce the culture we require, as quickly as possible? How do we create a top cadre of executives who both have, and are enabled and expected to exercise, their strong capacities for cost sensitivity, market agility, responsiveness, considered risk-taking, professional judgment and expertise, devotion to the recruiting, nurture and motivation of top young talent, the execution of long term project responsibilities, and so forth?

In the pages that follow I propose a tough, pragmatic set of solutions to bring about the kind of self-renewal that will enable

this enterprise to survive and prosper as one giant entity. If I am wrong, and it turns out that despite these measures the bureaucracy cannot be reformed, the Company will be positioned to look at the radical alternatives: e.g., breaking up the Company into smaller, more manageable units.

My proposals are in three parts: infusing new blood into the top 500 and beyond; working toward a new organizational framework; and strengthening the comittee structure and decision-making process. These three proposals are inter-dependent. The adoption of one without the others will not solve the problem.

New Blood in the Top 500 and Beyond

First, we (as an Executive Committee) must frankly and honestly appraise the competence, team play, judgment, productivity and leadership qualities of the top 500. Based on these appraisals we should focus on the executives who can make the transition and meet the changing job requirements of their positions in the evolving organizational framework proposed below. One executive facing similar circumstances observed that each operating head must be an executive who "can develop a vision of what he or she wants their division to do and be. Somebody who is able to articulate to the entire unit what the business is, and gain through a sharing of the discussion ... an acceptance of the vision. And someone who can then relentlessly drive implementation of that vision to a successful conclusion."

Second, we must identify those who are so set in their ways that they impede change and cannot be retrained. Of the top 500 executives, a sizeable number may be in this latter category. These executives should be dealt with fairly but promptly, and retired, demoted or

terminated. As Sloan confessed back in 1931: "I think we have lacked and perhaps still lack courage in dealing with weaknesses in personnel. We know weaknesses exists, we tolerate them, and finally after tolerating them an abnormal length of time we make the change and then regret that we have not acted before."

As you know, after failing to get approval of a new involuntary separation program for the salaried work force, I met with Bill Hoglund and secured his willingness to work with the Group Executives to gain approval of such a program limited to the 4,000 executives eligible for restricted stock grants. This will be an important building block.

Third, after we have identified the executives to be retired, demoted or terminated and determined how many of them need to be replaced, we should identify our very most talented executives for promotion into the top group, regardless of age. This entire selection process must be carried out in light of the top job requirements in the evolving organizational framework proposed in the next section. No doubt some of the replacements for top positions will have to be recruited from outside GM, but that job, as well as recruiting at all levels, will have been greatly facilitated by our pruning actions. The biggest concern of our most able young people and our best potential recruits is top management's inability or unwillingness to deal with bottlenecks and make more room at the top. We, the senior-most executives, must develop a real passion and drive for recruiting and grooming able young executives and removing the roadblocks in their way.

Finally, the personnel policies applicable to the entire executive group (about 4,000 persons) should be further altered to reflect the

high standards by which they are to be measured, to nurture the growth and rounding out of our younger executives without undermining continuity of project responsibility, and to ensure a clear professional career path into the very top ranks of the Company for those who have what it takes. It is hard to believe that the fortunes of this Company do not require that something like 10% to 20% of our executives at all levels be in the professional category if GM is to re-establish its technological and engineering leadership.

Working Toward a New Organizational Framework

Even if we did all the right things in re-invigorating the top 500, our executives would still be hamstrung by the existing organizational framework and decision-making process.

We have strayed a long way from Alfred Sloan's concept of decentralization with coordination: i.e., the reconciliation of the benefits of centralization with those of decentralization. The Sloan organizational model was that of distinct operating units, each with its own balance sheet and objectively determined return on capital using market-based pricing, subject to the coordinating mechanisms of the committee structure and the headquarters staffs.

We at GM are presently struggling to find that delicate balance between the rational efficiencies afforded by centralization and the human empowerment and adaptiveness afforded by the decentralized model. On the one hand, many of us applauded the recent actions to move Cadillac a step toward the status of an integrated car company. We know what this model represents in terms of employe values and pride of product, the grooming of future executives by holding them accountable for enhancing long-term competitive strength and return

on investment, and the greater intensity of interaction among engineers, manufacturing executives, marketing heads and finance staff, as they all have to work together to achieve common goals.

On the other hand, at our last management conference we heard about the adoption of option packages and the plans to deproliferate parts and consolidate platforms, and about the tremendous gains in efficiency to be attained through these efforts. Carried to the logical end, one study group in GM envisions that we could end up with six global platforms: two in Europe, three in the U.S., and one (perhaps a joint venture with Suzuki) in Japan. Under such a vision we might have a global powertrain unit and the other components operations would continue to be operated on a global basis. This model would contemplate separate marketing units with distinctive missions and/or assigned territories around the world. These units would be very much like the five present car divisions in the U.S., each drawing on the various common platforms and attempting to ensure product distinctiveness for its special marketing purposes.

In my judgment, this model is anathema. This ultimate move to global platforms would seriously undermine GM's competitive vigor and further erode our market share. Why? (1) Because those who would market excellent cars and trucks must also be deeply involved in those aspects of engineering that determine the character of the vehicle: e.g., the body (exterior and interior), the engine and the suspension system. (2) Because it represents the ultimate in centralization of authority and fragmentation of responsibility. (3) Because in a world of niche product marketing, dominated by the agile, integrated car companies, GM will have become totally uncompetitive: a lumbering bureaucracy with no one in complete charge of anything.

If we are to implement our vision, we must develop a new organizational framework that greatly strengthens our ability to respond quickly to changing circumstances and to tap the full potential of our leadership and the entire work force. Some steps can be taken almost immediately. Others may take a few years, but unless we have our goal clearly in mind, things won't fall into place. Here then are the principles I propose for our guidance in gradually changing the organizational framework:

(1) Wherever a vehicle operation is presently tending toward, or is already approximating the integrated model, that bias should be reinforced. Thus, we should proceed promptly to cause the Truck Group to take the final steps to full integration. The Chevrolet Truck name plate organization should be part of the Truck Group, and the top executive team of this Group should be reconstituted so that it is able to function as a fully integrated global operation, accountable for long-term return on capital. Likewise, GM-Europe should continue to operate as a distinct operating unit and should be encouraged to market its products on a global basis. Turning to North American passenger car operations, we should promptly take the further steps required to give Cadillac its own fully integrated product team (engineering, manufacturing and assembly) and effect a stronger relationship with its design studio.

(2) Obviously, we should not put our work force through the turmoil of another radical re-organization of the present C-P-C - B-O-C set-up, but we can now begin to build on the gains flowing from the 1984 reorganization: unifying the management of body and assembly operations and clearly identifying platform responsibilities. However,

the two groups (C-P-C and B-O-C) have evolved in quite different ways. B-O-C has created distinct product teams, each having integrated responsibility for all engineering, manufacturing and assembly operations pertaining to a line of products grouped together on the basis of important common elements. In short, each of these teams resembles an integrated car company except for the marketing function, and B-O-C is emerging as a very lean holding company. By contrast, C-P-C has distinct vehicle assembly platforms, but these platforms do not contain the engineering and manufacturing functions that pertain to their respective vehicles. Those functions instead are performed on a centralized basis by C-P-C headquarters. My own observations tell me that the B-O-C model (which is tending toward the integrated model) is working out better than is the C-P-C model: in terms of getting the best out of our people, and in terms of efficiency and product quality and innovativeness. We should study the empirical evidence, and if the B-O-C model is better, C-P-C should work toward the B-O-C model in a pragmatic way.

(3) Thus, over the next few years B-O-C and C-P-C would end up with several distinct, fully integrated product teams, except for marketing. The provinces of these teams should be rationalized on a basis that would facilitate the possibility of later merging each of the product teams with an appropriate name plate division to create a set of fully integrated car companies in North America.

(4) In the meantime, each of the passenger car divisions in North America should be strengthened. We have taken away too much responsibility from the car managers. The car manager must be a well-rounded, cost-sensitive business executive, not just a merchandiser

of cars, and he and his team must have enough engineering, manufacturing, marketing and financial understanding to design quality and cost-competitiveness (as well as customer appeal) into the car at the design stage. In this regard, we should consider how to strengthen the relationships between the divisions and their respective design studios without undermining the creativity and professionalism of the Design Staff.

(5) Our components operations will be faced with some of the most severe competitive challenges in all of General Motors over the next several years. The "green-yellow-red" study has received much attention, but it is apparent that we have not developed a comprehensive, strategic concept of vertical integration for the guidance of GM over the next ten years. Thus, the current rationalization efforts are being carried out almost exclusively on the basis of profitability analyses and without reference to well-conceived, overall strategies as to the areas in which we should have in-house capabilities by reason of product considerations such as the need for up-integration or, more generally, requirements for intense, creative interaction among relevant technical disciplines. The charter for the executive team of the Components Operations, which I believe should be established as a separate subsidiary, would be to develop, under the oversight of the Technology Committee described below and with the help of the Technical Staffs, a valid new concept of vertical integration for GM and to prepare a plan of rationalization consistent with that concept. Such a plan would contemplate such items as (1) a possible combining of the units into two or three strategic groups; (2) a possible spinoff of all or some of the units to GM's stockholders;

(3) joint ventures between some of the sub-units and their foreign counterparts in order to share technology and/or rationalize capacity; and (4) sales of particular sub-units as going concerns.

(6) We should re-arrange the present operating and technical staffs and also alter the reporting relationships in order to re-inforce the bottom-line responsibility of the President for results of operations of the automotive and components operations. Most of the present Marketing and Product Planning Staff should be part of the Technical Staffs, reporting to the President. These consolidated technical staffs would be responsible for developing recommendations for, and sorting out priorities among, product programs based on the combined inputs of marketing and technology. Product planning and technology planning are inseparable. The consolidated and greatly strengthened marketing and technical staffs would be the central clearing house for all the new inventions and technical ideas springing up throughout the vehicle and components operations. It would offer highly specialized expertise in solving the most complex current technical problems that defy resolution within the product teams and for considering the marketing potential of emerging technologies. It would also act as a key support staff to the Technology Committee described in the next section. As to the other staffs, it may make sense, in connection with our corporate-wide cost reduction programs, to strengthen greatly the authority of the Materials Management function and have it report directly to the President. That staff has the potential to effectuate tremendous savings in material and transportation costs if it is given real authority to act for all the operating units in leveraging GM's

bargaining power and effecting efficiencies from more uniform buying practices. Further realignments of responsibility would follow from the suggestions below.

(7) We should work toward the concept of the GM parent as a very lean holding company. The Executive Committee would function as described in the following section. The Central Office staffs would consist of no more than 1,000 employes, as compared to the approximately 3,000 employes that now comprise the non-technical staffs of the Central Office. Their limited purposes would include ensuring that relevant information is brought to the attention of the Board of Directors and top management; helping devise corporate-wide goals and strategies; maintaining mechanisms for selecting, and monitoring the performance of, the top 500 or so executives of the company; developing overall personnel policies, and exercising responsibility over the Company's external affairs. The parent's staffs would cover the legal, public affairs, financial and human resource functions. This radical downsizing of the Central Office staff, partly through terminations and mainly through transfers to the operating groups, would help ensure that the operating units are getting only the staff services they really want and are willing to pay for. It would also send out a strong message to the operating units that they should follow the lean regimen of the holding company. The Executive Committee would focus all its energies on carrying out the responsibilities of the holding company, as set forth above. It would no longer have the mammoth staffs by which to micro-manage the decisions of the operating units.

(8) Although substantial progress has been made throughout the organization, we must go further in reducing layers of management and

dissolving unnecessary functions. The resulting enlarged span of control will keep the good managers occupied with carrying out their proper supervisory function and too busy to interfere in the day-to-day work of the employes. These changes are admittedly painful, but are key to the creation of a lean, efficient organization that delivers agility and quality in the management and decision-making process. We underestimate the adverse effect these unnecessary layers and staff functions have on the morale of highly motivated employes in the operating units. For example, it is difficult to justify a quality function at the staff level except as a short-term symbolic measure to heighten the sensitivity of managers and workers. For the long term, any product team that doesn't take full responsibility for the quality and reliability of its vehicles will not survive in today's marketplace.

These then are the guiding principles for evolving a new organizational framework over the next several years. My suggestions take advantage of existing biases toward the integrated model and of the efficiencies of the product team concept that appears to have been developed most successfully at B-O-C. It is an evolutionary, not a revolutionary, framework.

A New Committee Structure and Decision-Making Process

Even with the right people in place, within the appropriate organizational framework, we will not restore our ability to execute unless we also revamp the committee structure and the decision-making process. The decentralized organizational framework proposed above requires integrating mechanisms that bring together the senior operating and staff executives so that they cooperate in light of the good of the whole enterprise.

More specifically, the committee structure should serve the following purposes:

(1) The committees constitute chief coordinating mechanisms in a decentralized organization. They enable the company to have uniform policies without sacrificing the advantages of decentralization.

(2) Strong committees, ensure that policy will not be set by fiat of the Chief Executive or other top officers, but only after lively group consideration of the alternatives, as developed by able professional staffs. As Sloan said, "much of my life in General Motors was devoted to the development, organization and periodic reorganization of these governing groups in central management. This was required because of the paramount importance, in an organization like General Motors, of providing the right framework for decisions. There is a natural tendency to erode that framework unless it is consciously maintained. Group decisions do not always come easily. There is a strong temptation for the leading officers to make decisions themselves without the sometimes onerous process of discussion, which involves selling your ideas to others."

(3) The work of the committees helps to ensure that top management receives relevant information on a timely basis. The committee process, with younger executives making reports and having to answer questions posed by top officers, helps guard against an institutional bias toward hiding problem situations.

How well are these purposes served by GM's existing committee structure? Very poorly, as noted earlier. There is a compelling reason why we should have far fewer committees and require and expect a much higher quality of staff work. Over the last 20 years we have

witnessed the increasing professionalization of the various staff disciplines: e.g. materials management, industrial relations, personnel, public relations and marketing. In this new corporate environment, policy groups are not of much help in sharpening the policy alternatives without a foundation of excellent staff work. The hard work, if done at all, must be done by particular professional staffs, on a multi-disciplinary basis when appropriate, and working cooperatively across Central Office and operating units.

Based on the foregoing discussion, in addition to the realignment of staff responsibilities, as noted in the preceding section, I recommend that the committee structure be vastly simplified:

(1) The GM Executive Committee would cease to be so transaction-oriented. Rather, its role would be to set the strategic direction and policy framework within which operating decisions are to be made, to monitor the performance of the various operating units, to review and act on budgets, financial results, significant problems, capital spending proposals, major strategies, compensation and promotion matters involving the top 500 people, management succession issues, and so forth. It would also act on recommendations submitted by the three committees described below as well as by members of the Executive Committee.

(2) To support the work of the Executive Committee, there would be three corporate-wide committees: a Technology Committee, a Human Resources Committee, and a Public Affairs Committee. The Technology Committee, made up of the top 12-15 technology leaders throughout GM, would have general oversight responsibility for the avoidance of redunancy among technical projects and for the coordination and

development of technology transfer in all phases of vehicle and components operations. This committee would be expected to make recommendations to the GM Executive Committee from time to time as to specific programs and personnel assignments to the end that this paramount strategy is being properly and expeditiously carried out.

(3) The Human Resources Committee, consisting of 15 to 20 staff and operating executives, would have general oversight responsibility over the broad aspects of GM's personnel policies. It would hold meetings as needed, and make recommendations to the GM Executive Committee from time to time to make sure that our personnel policies are serving the competitive requirements of the company and the ends of fairness and equality of opportunity among employees.

(4) The Public Affairs Committee would be made up of the members of the Executive Committee, the Group Executives, and certain key Vice-Presidents. A principal purpose of this Committee would be to sensitize the members as to major economic, legislative and other public affairs issues confronting the Company from time to time. This Committee would also make recommendations as it saw fit from time to time to the General Motors Executive Committee as to proposed policy positions, regulatory initiatives, etc.

(5) A new Management Committee of the automotive and components group, supported by that group's technical and operating staffs, should have final authority to perform the functions presently assigned to the Administrative Committee, the Scheduling Committee, the Appropriations Committee, the Price Review Committee, and the various policy groups, subject to the general oversight of the Executive Committee and the corporate-wide committees described above.

Summary -- Next Steps

Most of this paper is devoted to near and intermediate term steps that I believe must be taken to address the predicament I described. My proposals are entirely complementary to the shorter-term actions being urged by Alan Smith to enhance our competitive cost position.

As to the recommendations in this paper, perhaps a working group would be appropriate. I would hope that we could hold the group to no more than 4 or 5 key people and direct the group to come up with a recommended plan within a specified time, say 60 days from date. In any event, I would appreciate it if we as a group could discuss the concerns and recommendations set forth in this paper.