General Motors’ Corporate Culture Crisis:
An Assessment of the Ignition Switch Recall

GM’s Failed Corporate Culture  
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1. **Overview**

Warnings about defective devices and automotive industry recalls appear in the news regularly. These recalls often stem from technical, production and development issues. When an automotive company learns that its products could cause its customers harm, the required action is to report it to the National Highway Traffic Safety Administration (NHTSA) and take measures to remedy the problem. Sometimes, however, employees do not understand, or even know about, the issue, or in some cases, choose to hide the truth. Whatever the reason, when a recall comes to light, the company is supposed to act.

The 2014 General Motors (GM) ignition switch recall took the company into crisis communications mode. Unveiled at the beginning of the 2014 calendar year, the recall uncovered a large, long running internal cultural problem at GM, where employees were not encouraged to speak up and were instead meant to focus on the bottom line.

On February 13, 2014, headlines across the nation announced the recall of nearly 800,000 GM vehicles, 31 vehicle accidents and 13 deaths. The giant automaker admitted that the switch, when bumped or when key chains hung too heavy, could cause a car’s engine to stall and its airbags to malfunction.

More recalls followed shortly after the February announcement, bringing the total number of recalled ignition switch vehicles to 2.6 million. To date, GM has verified more than 2,000 compensation claims for the victims of the faulty switch, of which 100 have been deemed eligible for compensation, 42 for deaths (Muller, D., 2014). The internal investigation revealed that GM was aware of the switch defect since the early 2000s, but had not taken any responsibility for it.

During the first 10 months of her tenure, Mary Barra, the company’s first female CEO, took actions to try and open up the lines of communication between employees and management, and comply with all investigations into the dormant ignition switch problem. Barra ordered an internal investigation into her company, appeared before Congress four times and confessed the mistakes of what the “old” GM had done. Additionally, she said she terminated 15 employees and began to implement new corporate culture initiatives (Stock, 2014).
2. Introduction to General Motors and Cultural Change

2.1 General Motors History

For more than 100 years, GM has played a pivotal role in the global auto industry, from the first Buick horseless carriages to technological advancements such as the Chevrolet Volt. The company manufactures vehicles in 37 countries worldwide, across 13 different brands, including Chevrolet, Buick, GMC and Cadillac (Twentyman, 2014).

William Durant founded the company in 1902. In 1908, GM acquired Oldsmobile, and in 1909, the automaker bought Cadillac, Elmore and Oakland. By 1911, GM had entered the foreign market and began exporting vehicles outside of the United States and Canada. In the early 1930s, GM bought railcar builder companies, such as Yellow Coach Company and the Electro-Motive Corporation. For the following two decades, America saw the company's engine powering locomotives travel across the country. For a significant part of its history, General Motors was the largest company in the United States and the largest single employer in the world. However, the economic slide in the early 2000s took a toll on GM, and the U.S. government stepped in to prevent the company’s total collapse (GM Lifestyle, 2014).

Today, GM manufactures and markets new cars and trucks, and offers worldwide special features including OnStar vehicle protection, special services and parts, accessories, maintenance, XM satellite radio and more (Bloomberg, 2014). As of November 2014, GM had a market capitalization of $51.62 billion, revenue for the first three quarters of 2014 of $116.3 billion and it employs 219,000 people in 35 countries (Yahoo Finance, 2014). The automaker is headquartered in Detroit, Michigan.

2.2 The Challenges of Culture Change

GM is not the first company facing the repercussions of a cultural crisis. In today's fast shifting world, some big corporations are stuck in their old mindset. For more than a decade, the ignition switch problem was known by some of GM's inside people. However, no one seemed to speak up or take appropriate action to remedy the problem until accidents happened and lives were lost (Business Insider, 2015).

Multiple Fortune 500 corporations face the problem of employees not evolving or becoming accustomed to cultural change as quickly as they would need to stay ahead of the
competition. According to Himsel (2014, para. 7), “we are programmed not to change [...] we are wired to survive, so we hang on to what has worked in the past.” Resistance to change is natural. Employees feel comfortable in their set mindsets, routines and a culture that works for them. When facing a threat, or something unfamiliar, the brain goes into a defense mode (Black & Gregersen, 2003).

Most organizational culture evolutions take longer than most CEOs expect, on average about five years. To grow for the future, management might find it difficult to open up to a new corporate culture (Himsel, 2014). The enthusiastic leader driving the current change can overestimate the power of change initiatives, meanwhile underestimating the power of their entrenched cultures. Many companies have gotten caught in the whirlpool of their cultural norms. Xerox, Kodak and IBM are some examples of large organizations that launched major change programs only to realize their old cultural beliefs fought to reassert themselves (Himsel, 2014).

3. **GM’s Culture Crisis**

3.1 **GM’s Old Corporate Culture**

When the recall of GM vehicles for faulty ignition switches came to light in February 2014, there were already more than 10 years of silence surrounding it. While speculation grew that executives had tried to cover up the ignition switch issue, some believed the problem went unanswered largely because no one truly understood the issue, a reflection of a much larger underlying problem found within the company’s very core: its culture.

Resulting from the economic recession of 2000 and intense cost-cutting measures, GM became a practitioner of cost culture (Himsel, 2014). GM was restructuring, shrinking and cutting costs out for the survival of the company. It was then followed by years of an “organizational culture that prized cost over quality, hesitating to pass along bad news and possibly condoned a cover-up,” (Himsel, 2014, para. 2). Fletcher and Mufson (2014, A01) point out that “the problem [was] a corporate culture reluctant to pass along bad news. When GM was struggling to cut costs and buff its image, a recall of its popular small cars would have been a terrible setback.”
The quiet, cost-driven culture potentially caused employees who knew about the ignition problem to fail to speak up. This pattern of silence could have contributed to the company’s eventual bankruptcy and federal bailout in 2009 (Fletcher, 2014b).

According to Stock (2014, para. 2), Barra said “the faulty parts and fatal accidents that went on for almost a decade were born of bureaucratic bumbling and ‘individuals seemingly looking for reasons not to act,’ rather than any sort of executive cover-up or risky attempt to avoid extra expenses.” Shepardson and Burden (2014, para. 3) outline that “GM has been criticized for decades as insular, slow to take responsibility for problems, hesitant to deliver bad news to superiors and reluctant to fire poorly performing executives.”

The Valukas report, an in-depth report that summarized the investigation of former United States attorney Anton Valukas into the company’s handling of the ignition switch recall, introduces the concept of a GM “nod culture.” Executives and managers in charge would all nod to changes in meetings, but never actually take the action to do it, based on “managers being afraid or unwilling to report problems to other departments or senior executives” (George, 2014, para. 5).

### 3.2 Ignition Switch Recalls - Tipping Point of a Culture Crisis

According to Fletcher (2014b), GM had problems with the ignition switch because the part never met GM specifications. The problem began in 2004 as a faulty ignition switch lacking torque. Considering lead-time, cost and effectiveness, GM decided against fixing it. Instead, GM advised its customers not to use heavy key chains that could pull the ignition switch out of its running position (Fletcher & Mufson, 2014). Initially, lead engineer Ray DeGiorgio reportedly pushed against efforts to address the switch’s torque problem, which he did not know posed a danger to drivers by disabling the airbags.

In 2006, DeGiorgio approved a new design for the part without documenting the change or alerting executives, who could have then ordered a recall (Fletcher & Mufson, 2014). By the time engineers wised up to the gravity of defect, the recession was in full swing and GM was heading toward bankruptcy.

According to Isidore & Wallace (2014), not all the blame in this case can be put on GM. An NHTSA defects assessment panel in 2007 was dismissed because overall rates of crashes and injury due to non-airbag deployment were similar to others in the industry.
4. Ignition Recall Timeline 2001 to 2014

2001 – During pre-production testing, GM engineers experience problems with ignition switches - a mechanism that is supposed to hold the ignition key in place. According to GM, an internal report indicates the problem was solved when the switch was redesigned (Valdes-Depena & Yelin, 2014).

2003 – A GM service technician reports that additional weight of keys had worn out the ignition switch on a Saturn Ion (Valdes-Depena & Yelin, 2014).

2004 – Test driving Chevy Cobalts reveals the engine shuts down when the ignition switch is jostled (Gutierrez, 2014).

2005 – Engineers suggest fixing the ignition switch, but the fix was deemed too costly at less than $1 per car. Instead of reengineering the part, a key insert was made. A bulletin was sent to dealers, but less than 500 drivers received them (Gutierrez, 2014).

2006 – The company that manufactured the switch proposes a design change. A GM engineer signs off on the alterations and the new part goes into production. However, the part number is not changed, so most of the automaker’s employees are not aware of the fix (Valdes-Depena & Yelin, 2014).
2007 – GM begins installing the new, redesigned switch on 2007 model year cars (Valdes-Depena & Yelin, 2014). An NHTSA official tries to open an investigation following airbag non-deployment accidents involving GM vehicles. However, there was not enough evidence to warrant an official investigation (Isidore & Wallace, 2014).


2010 – The NHTSA proposes another investigation, but again there is not enough evidence.

2012 – GM engineers notice that crashes involving the ignition switch were of 2007 and earlier model year vehicles (Valdes-Dapena & Yellin, 2014).

2014

January 15 – Mary Barra is announced as the company’s first female CEO (Smith, 2013).

February 13 – GM announces the recall of 778,562 small cars due to a problem with the ignition switch that, when bumped, turns the car’s engine off and disables the airbags. As many as 13 people have died (Bennett, 2014d).

March

• GM hires Anton Valukas, U.S. attorney, to lead internal investigation of the ignition switch recall (Bennett, 2014d).

• The Department of Justice and U.S. Congress committees launch investigations. GM announces new safety chief Jeff Boyer (Hirsch, 2014).

• Barra meets privately with families of ignition switch accident victims (Bennett, 2014d).

• The ignition switch recall now covers 2.6 million vehicles sold worldwide (Valdes-Dapena & Yellin, 2014).

April 1-2 – Barra appears before the House Energy and Commerce Subcommittee and announces GM has hired Kenneth Feinberg as the compensation lawyer for victims and their families, placing no cap on the compensation fund (Valdes-Dapena & Yellin, 2014).

April 10 – GM creates Speak Up For Safety program, encouraging employees to come forward with safety issues and make suggestions. The program is meant to break down the walls that stood in the way of open communications between employees and upper management in the past (General Motors, 2014c).
May 16 – GM agrees to pay a $35 million fine to Department of Transportation, the highest possible civil penalty, to settle the federal probe (Bennett, 2014d).

June 5 – Barra announces the findings of the Valukas Report to employees at a Global Town Hall Meeting. She also announces she has fired 15 employees and disciplined five more (General Motors, 2014b).

November 17 – Of 21,000 claims to date, 33 death claims and 39 injury claims have been deemed eligible for compensation, according to Kenneth Feinberg (Belvedere, 2014).

December 15, 2014 – Of 2,326 claims to date, 100 have been deemed eligible for compensation, including 42 deaths and 58 injuries (Muller, D., 2014).

5. The “New GM”

5.1 Mary Barra - Woman with a Mission: Fixing a Leaking Boat

Mary Barra, who officially became GM’s CEO January 15, 2014, says she is adamant about changing GM for the better. She restructured the company by terminating people associated with the ignition switch scandal, appointed a new Vice President of Global Vehicle Safety and hired external investigators to look into the problem. She has been cooperative with government investigations and has launched communication initiatives to promote a new corporate culture (General Motors, 2014b).

Source: Mark Lennihan, AP
5.2 Internal Investigation

GM hired Anton Valukas, former U.S. Attorney, to lead the internal probe into the ignition switch recall, to get to the bottom of why it took the company so long to recall the affected vehicles. His 315 page report, released June 5, 2014, covered interviews with 230 witnesses over seven months, revealing that the cost associated with fixing the ignition switch in 2005 would have cost GM $400,000 (Kaptik, 2014).

Valukas’ report concluded that GM’s ignition switch problem was an issue tied to a culture where employees should have been able to fix this problem, not a deliberate cover-up tied to top executives. Employees failed to take responsibility or treat instances like this one with urgency. Outside investigators misdiagnosed the severity of the issue, and information within the company had nowhere to go (Fletcher, 2014b).

5.3 Barra’s Public Remarks

Barra initially appeared before the House Energy and Commerce Subcommittee April 1-2, 2014, saying that “whatever mistakes were made in the past, we will not shirk from our responsibilities now and in the future. Today’s GM will do the right thing” (General Motors, 2014b, para. 4). She emphasized that GM customers and safety are the center focus of today’s GM. Barra summarized her approach to dealing with the ignition switch recall and addressed her vision for the future of her company and its culture.

She held an in-person Global Town Hall meeting in Michigan on June 5, 2014, which was broadcast to employees not in attendance (General Motors, 2014b). She pledged to do the right thing and take responsibility for the families of the victims and prevent anything like this from happening again. She announced Valukas’ report findings, and said that while she was saddened, “this is about our responsibility to act with integrity, honor and a commitment to excellence” (General Motors, 2014b, para. 9). She vowed to use the report as a template to strengthen the company, and that, instead of forgetting this happened, would use it as a reminder to never let it happen again.

5.4 Embracing a New Safety Centric Culture

In the face of GM’s old culture, where no one spoke up for fear of disrupting the flow of the company, Barra says she is taking matters into her own hands. She is starting over, promising to shift the focus of the company from one on cost, to one on customer safety
(Himsel, 2014). She has restructured the decision-making process for safety issues so that they can be heard by the highest levels of the company (General Motors, 2014b).

Since the 1970s, GM’s culture has been like a sponge. You press on it, and it indents. Then, once you’re finished, it simply bounces back to its previous shape (Maynard, 2014b). Barra, like her predecessors, says she is determined to keep that rebound from happening again. Barra says she has laid out the changes the company is making to overhaul its bureaucratic culture (Maynard, 2014b).

5.5 New Core Values and the Speak Up For Safety Program

According to an interview between Barra and Forbes reporter Joann Muller (2014), GM rolled out its three core values in 2013 -- the Customer is Our Compass, Relationships Matter and Individual Excellence is Crucial. Barra said “We’re now getting an opportunity to accelerate the adoption of these values because they’re seeing from [us] that we mean it” (Muller, J., 2014, para. 10). Barra said she wants her employees to hear her, so that they believe her, and will follow her example to be open and to communicate.

In April 2014, Barra started Speak Up For Safety. The new program encourages employees to share ideas on improving customer safety, and to come forward when they see something that could be fixed (General Motors, 2014c). This program is meant to further establish GM as a company that embraces a culture “where safety and quality come first” (General Motors, 2014c, para. 2).

5.6 The Challenges for the New Culture

Culture change is about behavior and consequences. While some employees understand the importance of a company’s culture, others get by with a values drift, where they either don’t know what the top position is striving for or ignore their directives (Maynard, 2014a).

This long-standing culture shaped the DNA of GM and will take time to repair (Maynard, 2014a). GM will have to prove that going forward without falling back into the habits of employees stuck in the culture for the past several decades. “‘Like its hometown, GM is burdened by legitimate suspicions it cannot change, cannot slay the demons of its past to become a functioning member of corporate America not wedded to the worst habits of a golden era now long gone,’ said Detroit News columnist Daniel Howes.
“Switchgate,’ despite all the new GM rhetoric, only reinforces suspicions compounded by the fact that most of Barra’s leadership team are products of ‘old’ GM’” (Maynard, 2014a, para. 7).

With so much riding on resolving Switchgate, Barra cannot risk that GM’s cultural sponge will simply go back to its “old” GM shape. To succeed, she will have to “put her fingers in the holes, rip it into pieces, and then knit together what she wants GM to be” (Maynard, 2014a, para. 16). Maynard (2014a, para. 18) states that former U.S. Safety Chief Joan Claybrook believes Barra has a historic chance to make that happen. “‘I think she has the richest opportunity of any CEO in America because this company needs her badly,’ said Claybrook on public radio’s The Diane Rehm Show. ‘They need her to perform. And she can then use that power and authority that she now has to reorganize General Motors.’”

6. Public Response to the Ignition Switch Recall and GM’s Culture Crisis

6.1. GM Uses Social Media to Manage Customers and Its Reputation

GM must balance its day-to-day business with its image and communication with consumers on its social media channels. This is where customers’ perceptions of a brand are shaped by what the company does and what people are saying about the company. GM’s Facebook and Twitter sites are playing a major role in helping GM to regain customers’ trust and confidence. As Barra pointed out in an October 2014 interview, “every chance to connect with customers is an opportunity to build a stronger relationship” (Twentyman, 2014, para. 4).

The automaker is primarily using traditional methods, such as letters to customers, blogs, a call center and the media to get its recall message out. A video message from Barra has received wide play on GM’s websites and elsewhere. Additionally, social media sites have become an important tool for the company to reveal its commitment to making things right, even as it tries to show off its newest car models and exert enthusiasm among customers unaffected by the recall. “‘We’re trying to help customers out, but we are also trying to stay true to what the majority of customers are looking for,’ said Phil Colley, a social media strategist at the company” (Goel, 2014, para. 12).
The opening of GM’s Social Command Center at its Detroit, Michigan headquarters in April 2013 had plenty of social muscle to flex when it come to building those connections online. According to Rebecca Harris, the company’s senior manager for global social media strategy, there are 500 employees whose job consist of engaging with customers across 400 social media channels, from Twitter and Facebook to specialist forums for motoring enthusiasts (Twentyman, 2014). In the U.S. alone, GM operates 20 different Facebook pages. Harris says, “from an engagement and sentiment perspective, we (in social media) can absolutely help with corporate reputation” (Twentyman, 2014, para. 7).

Employees in General Motors’ Social Command Center in Detroit face a wall of monitors, keeping an eye out for product problems and people in need of a part or a dealership.

Source: Automotive News

At less than two years old, the Social Command Center is already attracting a great deal of senior management attention. It has been reported that Barra herself is regularly provided with reports that keep her updated on GM’s social media responses, as well as to her public statements (Twentyman, 2014). Barra says social media will be one of the ways customers will provide driving directions so GM can navigate the road to recovery (Twentyman, 2014).
6.2. Media Response to Barra’s Appointment to CEO

After Barra testified before the House Energy and Commerce Subcommittee in April 2014, she became the subject in the opening skit on NBC’s “Saturday Night Live.” The short sketch poked fun on Barra answering questions from Congress and not having any real answers for them. Her responses repeatedly stated, “we’re looking into it” and “that is part of the investigation.”

After much speculation that Mary Barra was appointed as CEO for the automaker because of her gender, NBC’s Matt Lauer asked Barra on the “Today” show in June 2014 whether she thought she got the job because she is a woman and a mother (Breitman, 2014). Barra is the first female CEO of GM and a mother of two who has been with the carmaker since 1980. She dismissed the speculation, saying that she believes she was selected as the new CEO based on her qualifications (Breitman, 2014).

Source: NBC

7. Financial Impact

According to each company’s first three 2014 quarterly financial press releases, GM’s net revenue surpassed those of competitors Ford and Chrysler, signaling that the recall did not play a significant role on its sales. This is a shift from 2013, when GM lagged significantly behind Ford for the calendar year.

Since February 2014, GM has spent $2.7 billion to cover expenses linked to the ignition switch recall, including $1.3 billion from its first quarter of 2014 earnings, $.2
billion in restructuring costs, an uncapped compensation program for the victims of the faulty switch (General Motors, 2014d) and $1.2 billion from its second quarter of 2014 (General Motors, 2014e). All the while, GM’s vehicle sales increased its second and third quarters of 2014 compared to 2013 (General Motors, 2014d, 2014e).

GM opened 2014 with a share price of $40.95. While it fluctuated between $38 and $33, October 2014 marked a significant decrease in stock value, and at the end of the month, GM shares were worth $31.40. After news broke that the ignition switch death toll had risen to 27, GM hit an all-year low of $29.69 on October 15. Likewise, GM stock dropped to $30.73 on December 16 after the death toll was verified at 42. GM closed 2014 with a share price of $34.91 (Yahoo! Finance).

GM’s stock peaked around Barra’s public appearances in March 2014 at $37.69, and it steadily climbed after she held a Global Town Hall meeting in June 2014, hovering between $36.50 and $38. In March 2014, Barra announced that GM would set aside $300 million for costs related to the recall, and shares rose 1.6 percent that day, signifying that customers responded positively to Barra’s messages (Bennett, 2014b). This correlation between Barra’s announcement and the increase in shares is an important indicator to the overall sales and long run success of company. This recall is an early test of her leadership and her ability to make changes to a bureaucracy ruled by committees (Bennett, 2014b).
8. Summary - GM’s Challenge

GM’s major challenge has not only been dealing with the recall of 2.6 million vehicles, which does a certain amount to tarnish the reputation of any automotive company, but also the way the company owns up to the accusations that employees knew about the problem well before anything was substantially done about it. Over the course of 10 years, several members of the GM staff, across all levels, had an opportunity to speak up, and stand up, to fix a then-minor problem. No one seemed to take the time to consider all the options surrounding the ignition switch.

With the implementation of a new CEO, GM has the opportunity to make amends and turn around its practices in communications, or lack thereof. By refusing to stay quiet or to sugarcoat new information, Barra is leading by example that being honest is the direction she wants her company to head. She beefed up the safety department, hiring a new vice president as a means to ensure something like this never happens again. Barra hired an outside investigator to look into the issues of why GM took so long to come forward with this information and why GM did not take the appropriate measures in the first place. Furthermore, she hired a compensation lawyer to ensure the victims and their families got some justice. Barra discharged multiple colleagues in the best interest of moving the company forward. She created a program to encourage employees to follow her lead and to be more open. She says she is doing all she can to keep her company successful and her customers safe. Barra will have to practice what she preaches if she wants to keep this momentum going and successfully change a culture that has been unable to do so in the past.
II. Resources


Yahoo! Finance. (n.d.) Retrieved November 22, 2014 from http://finance.yahoo.com/echarts?s=GM+Interactive#{%22range%22%3A{%22start%22%3A%222014-01-01T18%3A00%3A00.000Z%22%2C%22end%22%3A%222014-11-23T18%3A00%3A00.000Z%22}%2C%22scale%22%3A%22linear%22}