

FIFTEEN

‘WHEELS OF CHANGE’

The Automobile Industry

APPLIED CASE STUDY

General Motors, the US auto giant, was a high-profile casualty of the 2008 global recession, declaring bankruptcy in 2009. This case study explores the advantages and problems which the most recent period of globalization has brought for General Motors.

General Motors was created as a holding company for the Buick Motor Company in 1908, but it only acquired something like its present shape through, over subsequent decades, acquiring other companies, including Oldsmobile, Pontiac, Chevrolet and, in Europe, Opel and Vauxhall, all of which traded under their own names as part of the group. Although it was at one point one of the most successful companies in the USA – hence the aphorism ‘what’s good for General Motors is good for the country’, a misquotation of one of its mid-century CEOs, Charles E. Wilson – it was badly hit by the various recessions of the 1970s, 1980s and 1990s, and had a number of public relations missteps during this time. Following layoffs at its Flint, Michigan, manufacturing operation in the 1990s, General Motors spent over a decade plagued by industrial action, and, while it remained the largest automobile company in the world (with operations in 35 countries), it also faced problems due to its focus on sports utility vehicles (SUVs), which sold poorly in the face of the environmental crisis, the petrol shortages and the economic downturn. In 2009, General Motors declared Chapter 11 bankruptcy.

Labour and Production

Although General Motors, in its official documents, cites the 1980s and 1990s as its period of 'globalization', it has arguably been globalizing since the 1920s and its first overseas acquisitions, and by the 1970s was the largest US-based multinational. Its globalization strategy follows its domestic expansion strategy in being largely focused on acquiring local subsidiaries, although in some cases it has set up greenfield operations (and, in some cases, employed both strategies in the same country). This has allowed the company to take advantage of local tastes, knowledge and nationalism; many Germans, for instance, even if they are aware that Opel is foreign owned, treat it very much as a local brand. This can be valuable in a sector, such as the automobile industry, which, as *Global Shift* notes, is strongly driven by cultural notions of taste and status.

However, the difficulty which it presents is that it is strongly tied to local labour systems; the company's troubles with the workers at Opel in the 2000s, and the domestic political fallout from the Flint layoffs, had to be solved by on-the-ground negotiation, and also gave the lie to General Motors' apparent support for local markets. Furthermore, General Motors faced stiff competition from Japanese companies in the 1970s and 1980s, which, as well as having the more flexible 'lean production' system, had more globalized strategies which allowed them to take advantage of economies of scale.

Knowledge and Environment

A key advantage which globalization has brought for General Motors is the ability to take advantage of the rapid flow of information about new technologies and processes, and apply them. Following the rise of Japanization in the 1970s, for instance, General Motors not only adopted lean production systems, but actively competed with its foreign rivals by introducing smaller, cheaper, more fuel-efficient models. However, in more recent years it was slow to react to the rise of the environmental lobby and the rise in oil prices, continuing to focus on the expensive, fuel-inefficient SUV lines at the expense of more fuel-efficient models, hybrids and electric cars; significantly, this is because SUVs are popular in North America, meaning that the decision to focus on a single national market in one case has had repercussions for the group. General Motors has also been hit badly by recent increases in the prices of raw materials, particularly metals. It can thus potentially respond to global trends in information and materials prices rapidly, but can also be hard hit by local issues.

Nationalism and General Motors

A key response to General Motors' financial difficulties was a series of loans made by the US government to it and other auto manufacturers of American origin, a move which remains controversial several years later. This decision is understandable in light of the fact that although, as *Global Shift* emphasizes, the automobile industry has not been national for some time, it is still tied up with nationalist discourses (hence General Motors' success with its brownfield acquisitions strategy). However, this can cause problems: when the British car industry was nationalized during the 1970s under similar circumstances, the result was stagnation, lack of competitiveness and a failure to keep up with technological and cultural trends. Although General Motors survived the Chapter 11 bankruptcy, it now operates in a reorganized form, and has jettisoned several of its former car lines. Significantly, the reorganized firm has decreased its focus on SUVs and increased its focus on hybrid and electric vehicles; a supermini for the US market is in development at the time of writing (2013). To remain globally competitive, automobile companies need to be subject to failure as much as to successes.

Conclusion

The above consideration suggests that General Motors both benefits and loses from globalization, and from its local connections. The message appears to be that success and failure are largely a matter of how a company deals with the opportunities which it is given rather than the opportunities in and of themselves. It remains to be seen whether the current situation marks the end of General Motors or a change in response to wider global and national factors.

QUESTIONS

1. Was the bankruptcy/bailout option the best one for General Motors? If so, why? If not, why not?
2. Which factor – labour, environmentalism or the 2008 recession – do you feel is most responsible for General Motors' difficulties, and why?
3. What does the General Motors case study tell us about US business systems and MNCs?
4. 'The factors which led to General Motors' success are the same ones which have contributed to its downfall.' Discuss.

FURTHER READING

- Cao, Lan (2002) Corporate and Product identity in the postnational economy: rethinking US trade laws. *California Law Review*, 90 (2): 401–484.
- Jacoby, Sanford M. (2009) The wreckage of US auto: who was behind the wheel? *New Labor Forum*, 18 (2): 27–30.
- Johnson, Charles W. (2009) Gales of creative destruction: has globalization been good for General Motors? *Review of Business Research*, 9 (4): 22–30.
- Norton, Seth W. (1997) Information and competitive advantage: the rise of General Motors. *Journal of Law and Economics*, 40 (1): 245–260.