CRIPPLED BY PROCESS

In his new book, former GM Vice Chairman Bob Lutz takes a hard look at the auto giant and shares some thoughts on the leadership of its former CEO Rick Wagoner and what might have caused the once mighty industry leader to fall.

BY JARRETT RUSH

General Motors. There may not be another company in the last 20 years that was in more desperate need of a transformation than the auto giant. Having once sold enough cars to make up more than 50 percent of the U.S auto market, the company became the picture of "too big to fail" and lost nearly $40 billion in 2007.

Bob Lutz had a unique vantage point. As a member of the GM executive team, he was inside the C-suite and saw how CEO Rick Wagoner tried to turn things around. In Lutz's new book — *Icons and Idiots: Straight Talk on Leadership* — he looks back at his almost 50 years in the car business and the good, bad, and ugly of the leaders he worked for.

This excerpt is from Lutz's chapter on Wagoner, a good leader that Lutz says was crippled by bad timing, bad luck, and a company that was still weighed down by unnecessary costs.

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It's tough to write about Rick Wagoner, mostly because I like him so much. In contrast to other executives I've known in my career, Rick Wagoner showed little in the way of "peculiarities." As a leader, he was always polite, kind, and ready to hear opposing views without anger or even visible irritation. His executive suite was modest, as was his style: he eschewed executive trappings and even excessive compensation, believing, correctly, that he was not an imperial ruler but a servant of the shareholders and thus simply a hired hand.

All of this genuine humility, devotion to the company, and self-effacement was improbably packaged into a physical presence that suggested the opposite: Rick stood a square-shouldered six foot five, with no visible fat. A lifelong athlete, he had played freshman basketball at Duke University and earned a degree in economics in 1975. He attended Harvard Business School and received his MBA in 1977.

Rick then joined GM as an analyst in the New York Treasury Office, or NYTO. This operation, far removed from the automobile business as most of us know it, has long been the breeding ground for future GM CEOs. In fact, in the pantheon of former GM CEOs in my memory, only one non-Treasury Office executive was ever able to wrest the brass ring from the eternal clutches of the bean counters, and that was Bob Stempel, an engineer. His tenure ended badly and abruptly, so the selection criteria went right back to "T.O. alumni only ... others need not apply."

Wagoner's rise was rapid; he headed GM's important Brazilian operation in the mid-1980s. He became GM's youngest chief financial officer in 1992 and president of North American Operations in 1994. In 1998, he assumed chief operating officer responsibility, serving under CEO Jack Smith.

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It was during his years teamed with Jack that Rick did some of his finest, yet little-heralded, work. GM at the time was known on Wall Street as a "great destroyer of capital," and it was true. Huge, unwieldy, duplicative in all it did, GM had, over the years, developed a self-perpetuating, self-reinforcing, and self-nourishing bureaucracy that cost more and more and produced less and less.

Jack and Rick realized that the situation was unsustainable. They set about with enormous determination and energy whittling the gluttonous organization down to size.

This is not the glamorous part of the car business, the part where one creates new styles, sees them through to production, attends introduction meetings, and speaks before enthusiastic dealers or an interested press. No, the restructuring effort is a dirty, nasty business: eliminating divisions, groups, functions, titles, most held by longtime colleagues and friends. Countless weeks were spent listening to counterproposals, or to why the "other guys" should be shut down, not one's own operation. There were no thanks, no cheering, and little attention from the media. It was just

endless drudgery, like hacking through a piece of property covered in underbrush with surgical instruments, trimming away the unwanted weeds while carefully maintaining operational capability. It was like, as one wag once commented, "rewiring a Boeing 747 in flight."

The effort, arduous and long as it was, proved successful. Several engineering groups became one. Fourteen different purchasing organizations were unified, bringing procurement discipline to GM for the first time ever. Organizationally, GM was the equivalent of a 350-pound man who had painfully shed 150 pounds.

Rick's ability to argue, persuade, and persist was instrumental in the relative success of the "back to basics" initiative. It was, perhaps, inevitable, given the extreme focus of the two top executives on the restructuring effort, that the actual "automobile business" part of the corporation was delegated to lower operating levels and did not receive the extent of senior management attention that I have always maintained is necessary for success. GM had, in fact, a recent history of introducing cars that were mediocre, mostly competitive but without a clear-cut purpose or "reason to buy." To me, it was a fairly clear case of an essentially unsupervised organization with no cogent direction that found consensus among the various internal stakeholders and produced vehicles that met the all-important internal targets but failed to resonate with customers.

The lack of true product focus and the damage it can cause had not always been evident to Rick Wagoner. In one interview during the 1990s, when asked why GM had so many finance people in top positions and, apparently, no "product guy," Rick carefully explained that this "product guy thing" was vastly overrated: if you had good designers, good engineers, and good manufacturing people, they would ensure product success. I remember reading that interview and thinking "… and symphony orchestras don't need conductors, and professional sports teams can do without coaches." It just doesn't work.

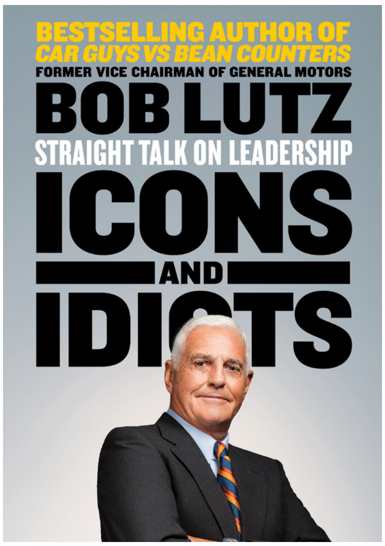
Many product disappointments and outright flops later, Rick, not a "car guy" himself but enormously intelligent, realized that a key element was missing and, to everyone's amazement, hired me as vice chairman for Product Development.

My appointment put lie to the oft-cited "incrementalism" and "caution" attributed to Rick. Those two traits were indeed significant, but Rick was also comfortable with the occasional bold, strategic move, even if it entailed risk. Bringing someone like me on board who was critical, vocal, opinionated, direct, a willing object of media attention, and capable at times of eclipsing less visible bosses was contentious in the GM system, and many of the "lifers" predicted chaos and disaster resulting from my tenure.

Rick Wagoner's support of my efforts to revitalize product development was exemplary, a clear demonstration of one of his most endearing characteristics: steadfast loyalty to his handpicked subordinates, leaving them with the certainty of the boss's backing. Sadly, this otherwise laudable leadership trait can cut in both directions: Rick, in many instances, was devoid of objectivity when it came to people with whom he had served a long time, who had moved up the ranks with him, or whom he had known as early as his Treasury Office days. It was painful to see Rick protect and support many officers who, to my eyes, personified the large corporation culture of "look good, sound good, prepare well for meetings, and never disagree with the boss."

It wasn't until after Rick's departure in 2009 that the hammer fell on many of these experienced, slick, intelligent, but ultimately near-useless members of the Wagoner team. A collective sigh of relief marked their departures,

Rick was definitely a procedural executive. He was blessed with truly exceptional intelligence, mostly left-brain analytical but, unlike in Red Poling, combined with an understanding of right-brain value. Rick liked to reduce complex interlocking issues to understandable, repeatable processes. Given the impenetrable thicket and lack of executive discipline that he inherited, this unquestionably provided clarity and value. The good thing about focusing on process is that it ensures repeatability and predictability.



The bad thing about over-focusing on process is that it discourages creativity, experimentation, and new solutions. Yet, in large organizations, many derive comfort from following "the process," even if they know the result will be mediocre at best. Rick, with his well-ordered mind, liked process and was not comfortable in its absence.

On one occasion, eager to show Rick the benefit of free-flowing creativity, I asked Design to put on a presentation of any and all ideas for future vehicles the most talented of the designers could come up with for new, untried ways to put the public on four wheels. It was a great exercise, and as always in acts of spontaneous creation, no "focus groups" had been involved because they could no more have imagined these cars than focus groups of cell phone users could have come up with the iPhone.

We presented it all to Rick, who was fascinated. He just had one question: "How do we know whether these directions we're going in are correct?" I assured him that we would all recognize a potential home run if we saw one, but that these "what if"proposals had to be seen as the products of the fertile imagination of talented designers; they were not firm "product proposals" but rather "thought provokers" or "idea starters." Rick still had a problem. How did we know we were exploring in the right direction? He then outlined his idea: What if we were to create a high-level panel of leading thinkers, artists, architects, fashion designers, people who were young, sharp, cool, and trendy? Expose them to these design "stimuli" in a scientific way, tabulate the results, and we would soon see if we were headed in the right direction.

"Rick," I said, "here we are trying to demonstrate one way to generate new ideas through an unfiltered creative process. But you are so quantitatively data focused, you immediately want to measure, sift, analyze, and generally left-brain-control what is supposed to be a pure right-brain exercise." Rick laughed and said, "I guess you're right. ... I always want to see data."

And see data he did. Under Rick's leadership, many quantified "metrics" were established and pursued, the theory being that if we succeeded in achieving every operational goal, success as a car company would be ours. Thus, the company relentlessly pursued "Assembly Hours per Car" (which drove the manufacturing people to move a lot of subassemblies out of the plants to suppliers, at a higher cost) and "Time to Market," a metric that drove some half-baked "solutions" like the Pontiac Aztek, the rapidly developed answer to a question nobody had asked. A compliant team of executives will usually compromise common sense and judgment (both hard to explain) in the interest of "making the objective," for therein lies safety, approval, and possible advancement. We had metrics on "Average Cost per Stamping Die," "Bill of Material Reuse" (percentage of known, trusted parts from the previous model incorporated in the new one), and "Percentage of the Supply Base in New Sources" (a euphemism for countries like China, Taiwan, etc.).

All of these initiatives, and there were dozens, are in and of themselves useful. But too much emphasis on them in the case of personnel evaluations and/or compensation will just about guarantee that the organization will find ways to hit (or even beat) every single metric without any real operational improvement, cost reduction, or improvement in timing having taken place. Of particular concern to me was the lack of focus on product excellence. To be sure, you can create a car with a 90 percent BOM (Bill of Materials Reuse), develop it quickly using low-cost dies with components from "New Sources," and assemble it in 18 man-hours. But is this a car that will be successful, will wow the customer with styling and features? Or is it just a "numbers car" — a vehicle that met all internal criteria, but failed to resonate in the marketplace? In GM's case, it was, with depressing regularity, the latter.