

# ***General Motors Corporation: Communicating a New Vision for Survival (A)***

“Short-term government support to bridge the current financial crisis will enable GM to continue as an engine of prosperity.”<sup>1</sup> – CEO Rick Wagoner

On November 19, 2008, the executives of the “Big Three” auto-makers flew into Washington, D.C. to make their case for federal loan assistance. The situation for all automakers was dire due to the collapse of car sales around the world and the financial losses stemming from the banking crisis. Of all the automakers, none had fallen quite as quickly or as perplexingly as the industry giant General Motors Corporation. The company had been the industry leader in sales for the last 75 years and was now on the brink of collapse. General Motors was quickly running out of cash, with reserves of \$16.2 million at the end of the third quarter in 2008 and cash outflows of \$6.9 million during that same quarter.<sup>2</sup> The company was in the middle of a liquidity crisis, and was projecting that before the end of the year it would need to file for Chapter 11 bankruptcy protection if the government did not intervene with an estimated \$12 billion in loans.<sup>3</sup>

Each of the three executives from Ford, General Motors and Chrysler would be given a platform before members of Congress and the press to relay his sentiments regarding the financial state of the automotive industry, as well as concerns about the potential economic implications should any of the Big Three go under in an already devastating economic situation. For General Motors, this was not only the last opportunity to save the company from bankruptcy, but also a platform to assure the public that the company would persevere through the difficult economic times. The first task was to inform the American public and the U.S. Congress of the causes, both exogenous and endogenous, of GM’s delicate situation.

## **The Credit Squeeze and Other Economic Forces**

Many of the problems faced by General Motors were the result of declines in consumer confidence and lack of credit available for purchases, in addition to the volatility of oil prices. The global financial collapse of 2008 had derailed the company’s long-term restructuring plans, hailed by most experts as a successful game plan, and the resulting loss of sales had put the company in a crisis situation with regard to liquidity. As GM Chief Executive Rick Wagoner explained, “forces beyond our control have pushed us to the brink.”<sup>4</sup> The primary forces that pushed GM to “the brink” of collapse were the sub-prime lending crisis, with its effect on the global banking system; the resulting fall in consumer confidence; and the rapid rise in the price of oil during the summer of 2008, which had affected the sale of its strongest product sector, SUVs and trucks. As the economy spiraled downward and unemployment increased, it further became a matter of “. . . not just the guy who is unemployed – [but] the woman who is concerned she might be unemployed next month,”<sup>5</sup> that drove car sales on an ever-downward path.

## **Roots in the American Housing Market**

The source of the global economic downturn has been linked to the asset bubble in the American housing market. For several years leading up to the housing collapse, American consumers had enjoyed cheap and easy credit and were able to purchase houses that were beyond their means. In many cases, these purchases were fueled by unethical lending practices that further drove demand in the housing sector. Many homeowners received sub-prime home loans based on nominal down payments and were given adjusted rate mortgages that created an initially low repayment cost, enabling them to buy a house far more expensive than normally would have been possible with the more classic fixed-rate mortgage model. With sub-prime lending, as long as interest rates remained low, owners could make payments with the assumption that the mortgages could be renegotiated on the ever-increasing house value when the monthly payments increased a year or so down the line. Tax advantages relative to mortgage deductions versus standard credit lines also led to expanded home equity loans that effectively underwrote other purchases, such as cars. Finally, the seeming certainty of continued growth in real estate values led to speculation, which further drove up housing prices.

However, when interest rates rose in the third quarter of 2006, many borrowers were unable to renegotiate loan payments on favorable terms and the beginning of the foreclosure boom began. With a flood of new homes for sale on the market and no buyers to purchase them, housing prices began an accelerated decline indicated by a drop in the Case-Shiller Index for 20 consecutive months beginning in August 2006.<sup>6</sup> With what quickly became negative equity positions and higher monthly mortgage payments, the American consumer was no longer able to sustain the purchase of new cars and other luxury goods that typically were also financed over time. Similarly, GMAC, the primary lending arm of General Motors, although partially owned by Cerberus, developed liquidation difficulties and couldn't extend credit even to those able to meet more stringent requirements.

## **Banking Crisis**

The drop in home prices had a secondary effect on the automotive market through the drop value of securitized assets held by commercial and investment banks around the world. This relatively new security was formed by financing banks that packaged the individual loans with other similar debts to form Mortgage Backed Securities. These asset-based securities were sold as low-risk, high-return investments to financial institutions around the world. This, in turn, freed up money at the lending institutions to further fund the growing real estate market. As long as payments were being made and housing prices continued to climb, it was a successful formula.

When home prices began to fall in late 2006, many banks and lending institutions were stuck with billions of dollars in securities that could not be sold due to the loss in intrinsic value, as well as the mortgage defaults. The result was a massive devaluation of these securities and eventually the failure of several large banks. The surviving financial institutions became unwilling to lend capital to consumers due to their own lack of liquidity and concern over the projected length of the recession. Without access to credit, consumers were unable to purchase automobiles, among other items, and car sales plummeted around the world. The lack of credit was particularly devastating to the American market where "more than 90 percent of new cars are bought with financing."<sup>7</sup> As already mentioned, the banking crisis also prevented GMAC

from being able to extend credit, driving its lending activity from 50% of GM car financing in 2007 to under 6% by the end of 2008.

### **Surge in Fuel Prices**

Petroleum prices peaked in the summer of 2008 after speculation forced the price per barrel of crude oil well above \$100. The price of gas went above four dollars per gallon in many regions across the United States, causing consumers to cut back sharply on the use of cars and shift their demand towards more fuel-efficient automobiles. The commodity prices of materials needed to produce cars surged at the same time, making it difficult, even if industry production could have instantly switched gears, to prevent already razor-thin profit margins from going into the red. General Motors had been building fuel-efficient cars for years, but had concentrated primarily on marketing its large-margin truck and SUV brands. With the customer base driving less frequently and suddenly switching their concept of the ideal vehicle, demand for new GM cars slumped abruptly and many dealerships were forced to shut down. The high cost of oil also lifted production and transportation costs for General Motors, further affecting the margin on cars that were still being sold.

While oil prices decreased during the financial downturn that reached crisis level in the fall, the few interested – and still credit-qualified – customers had shifted their interest to fuel-efficient cars, not a product associated with General Motors in the United States. This led to a disproportionate downturn in GM car sales, although the industry itself sustained a generalized decrease in sales, brought about by the overarching financial crisis.

### **Consumer Confidence**

With the loss of asset value, available credit, and uncertainty in terms of the economy, the American consumer suffered a large decline in confidence which led to even lower levels of consumption. By the time Mr. Wagoner was set to appear before Congress, the U.S. Consumer Confidence Index had fallen to 38.8, down 60 % from October of the previous year.<sup>8</sup> This drop in confidence was brought about by the previously mentioned trends in the U.S. economy in addition to increasing unemployment and the uncertainty of the outcome of the upcoming presidential election. Thus, the fall in consumer confidence brought on by factors exogenous to the automotive industry itself added to the decline in sales.

## **Automotive Industry Trends**

### **Sales Slump**

As mentioned above, the sales slump, while felt keenly by General Motors, was not company specific, but experienced by the whole industry. Automobile sales depend heavily on the availability of credit for customers to make vehicle purchases. World car sales in November of 2008 “fell by between twenty and twenty-four percent.”<sup>9</sup> With declines across the entire industry, all companies were under growing pressure to conserve cash by cutting costs and shoring up their balance sheets. Unfortunately, General Motors, still in the middle of a restructuring process that needed a “year or two of a decent market”<sup>10</sup> to develop a healthy balance sheet, was caught short. The industry-wide slump in sales resulting from the various economic forces brought General Motors into a liquidity crisis that forced it to seek government backing or face potential bankruptcy.

## **Dealership and other Supply Chain Reductions**

The market turmoil led to a drastic drop in the number of auto dealerships. While the number of actual dealerships will not necessarily affect actual car sales, a reduction in dealerships would lead to further unemployment, one of the myriad ways in which the fall of the automotive industry stretches far beyond the manufacturers themselves.

Similarly, auto-rental companies, which typically lease cars for a specified number of years and then return them to dealerships to be auctioned for re-sale, had seen a downturn in rentals due to the overall drop in the economy. With tight credit, these companies were reluctant to enter into new contracts, and instead chose to hold on to present stock that might otherwise have been retired. This further reduced new car demand.

Additionally, part suppliers, made nervous by rumors of liquidity issues, demanded accelerated payments for purchases from the dealers and manufacturers. The automobile sales downturn would even have a strong impact on state and local budgets, as it contributes “20% of sales tax revenue for state and local governments”<sup>11</sup> and, unlike the Federal government, these municipalities are limited to balanced budget spending.

It was this overall “snowball” effect that CEO Richard Wagoner believed would strengthen his argument for a bridge loan when he came to address Congress in November.

## **Growth in Emerging Markets**

In the period leading up to the Congressional hearing, the auto industry was experiencing a shift in demand to emerging markets. The expanding economies of Brazil, Russia, India, and China had created a new source for generating sales revenues for many car companies, particularly General Motors. Sales in China grew from “2 million cars in 2001 to nearly 8.9 million in 2007,”<sup>12</sup> and the Brazilian market increased around “thirty percent in each of the last two years.”<sup>13</sup> In these growing markets it was important for companies to be first movers, especially in markets like China where the government forces foreign car companies to form joint ventures with domestic automakers. General Motors anticipated strong future revenues as a result of these ventures. Although these developing economies were not immune to the growing turmoil in the developed nation’s economies, the auto industry in these markets was less susceptible because of high savings rates and a lower reliance on debt for purchases.<sup>14</sup> Thus, there was the belief that should General Motors be able to navigate past its liquidity crisis, it would quickly regain strength on the global level.

## **Alternative-Fuel Vehicles**

The growth of hybrids is expected to continue and investment in carbon fuel engines has been a growing trend in the industry. Even with lower oil prices due to the economic downturn, gas prices are expected to continue an upward spiral in the long-run.<sup>15</sup> The trend towards more fuel-efficient vehicles has accelerated over the last decade with 2007 sales of hybrid gas-electric vehicles in the United States increasing by 35%.<sup>16</sup> Up through 2008, General Motors had captured a very small segment of this market, but predicts it will make great strides in this arena by 2010, thus further shoring up long-term market share and potential profit. As growth for fuel-

efficient vehicles is expected to continue due to anticipated increases in fuel prices and growing concern over environmental consequences of traditional internal combustion engines, this projected strong-entry into the alternative-fuel market creates another possibility for renewed growth by General Motors in the long-term.

### **History of General Motors**

General Motors has a rich tradition of market dominance beginning with the consolidation of several brands under William Durant in September of 1908 and an early entry into the international market. The company expanded rapidly under the guidance of management pioneer Alfred Sloan, who developed several revolutionary business management techniques while working at GM from 1916 to 1956. The company captured market share rapidly, and in 1955, General Motors became the first company in the world to earn an annual profit above \$1 billion. The company had established market leadership by the beginning of 1931 and maintained its position as the largest global automaker by sales volume through 2007 when, on the eve of its centennial, Toyota supplanted General Motors. Nonetheless, this long legacy of manufacturing leadership kept alive the belief that the American automobile industry, and particularly General Motors, provided the backbone of the U.S. industrial economy.

### **Union Relations**

During the company's long history there were several labor disputes that resulted in large costs for General Motors.<sup>17</sup> In 1933, after a 44-day sit-down strike, the United Auto Workers (UAW) union won the right to organize General Motors employees. While powerful in its own right, the automotive industry has always been vulnerable to strikes due to the high fixed costs that make shutdowns deadly to the balance sheet. The UAW was to use this to its advantage for the next 60 years.<sup>18</sup>

From 1933 onward, the company made several concessions to the union, including the establishment of retirement benefits in 1970 for workers with more than thirty years of service and, in 1983, the implementation of retraining programs for laid-off workers. These benefits, long considered the driving force behind the entry of blue collar workers into the middle class, and encouraged by the U.S. government's thrust of policies, unfortunately created a disadvantage to General Motors once foreign automotive competitors set up factories in the non-unionized South, as those states had a lower cost structure and were not inclined to facilitate the accession of blue collar workers into the middle class. These "legacy" costs added approximately \$1,400 to the sticker of each General Motors car, and it wasn't until 2007 that General Motors was able to restructure former agreements with the UAW that enabled the company to cut costs.<sup>19</sup> The United Auto Workers agreed to concessions that transferred "health-care liabilities to a union-run fund," and new worker benefits and pay were also lowered.<sup>20</sup> However, the years in which General Motors had run at a cost disadvantage had helped these foreign companies, such as Toyota, to gain an increasingly large percentage of the American automobile market, as well as enabling these companies to enjoy a higher margin than the American manufacturers, putting them in a better position to ride out the economic downturn.

## **The Rick Wagoner Tenure**

Rick Wagoner, a career employee, took the helm of General Motors in 1999. Under his guidance, the company moved to an increasing market share and profits of \$4 billion a year by 2003.<sup>21</sup> The company invested heavily in profit-making trucks and SUVs during this period, which diverted focus from the growing efficient passenger vehicle market in the U.S. With the high costs of restructuring and labor agreements, and health care and pension obligations adding about \$1,400 per vehicle, Wagoner was primarily focused on cost reduction.<sup>22</sup> A major restructuring of its North American facilities, which included a major reduction in both union and non-union workforce, several plant closings, as well as the incorporation of union concessions achieved between 2005 and 2007, had seemingly positioned General Motors for a successful future, barring an unforeseen catastrophe. However, the catastrophe occurred. With the ensuing global credit crunch and overall downturn in the economy, the company's share price dropped from \$75.75 when Wagoner first took over General Motors in 1999 to \$2.79 at the close of the hearing before Congress on November 17, 2008. Once hailed as the necessary force to guide a long-needed restructuring that would bring General Motors into the 21<sup>st</sup> century, many critics were now concerned that Wagoner had contributed to the problem, the external economy notwithstanding.

## **Peccadilloes of the Past**

The trajectory of General Motors towards insolvency has been traced back to decisions made as early as the 1960s. It steadily lost market share in the U.S. since that time due to a refusal to accommodate changing consumer preferences, to recognize tightening competition, and to stay on top of technological innovations.<sup>23</sup> Cars repeatedly were brought to market that appealed to few, such as the Pontiac Aztek in 1999. While General Motors succeeded in retaining market share in terms of the SUV and truck market, this reinforced the perception of the company as the producer of large, inefficient gas-guzzlers, rather than a forward looking innovator. The more cynical analysts also saw the SUV emphasis as an attempt to evade CAFÉ (Corporate Average Fuel Economy) regulations with regard to fuel efficiency, as the SUV fell into the less restrictive truck category, rather than the more regulated car category. This reinforced the impression that GM was behind the curve in terms of fuel efficiency innovation that was already legislated into future car specifications despite the fact that it actually met the fuel requirements for that particular vehicle category more successfully than most of its competitors.

Former GM President Harlow Curtice, when named *Time* magazine's 'Man of the Year' in 1955, once proclaimed that "General Motors must always lead."<sup>24</sup> And for many years it had. After all, GM was the global sales leader for 77 consecutive years, a record unlikely to ever be surpassed, given the plethora of players in the present market. But by the 1990s, even when it attempted to stay on the cutting edge of innovation, such as its early entry into electric cars with the EV1, projects were derailed or mismanaged. The EV1, while much anticipated by the U.S. market, ultimately was never released for actual sale. Instead it was merely leased on a limited basis for a few years before being shelved as a failed enterprise.

Similarly, it has been stated that General Motors is presently heavily invested in several cutting-edge, fuel-efficient technologies as it wants to explore all possible successful innovations

and not limit itself to one path.<sup>25</sup> This has led to skepticism as to whether any one technology is being developed sufficiently, given the EV1 debacle, followed by the introduction of the fuel-cell car Sequel, originally to be introduced commercially by 2010, only to be supplanted by emphasis on the Chevy Volt. Strategy has been perceived as erratic, and concern about viability has its roots from failed innovations going back as far as the 1980s.<sup>26</sup> And even in its successful SUV market, GM didn't anticipate the market turn to lighter, more fuel-efficient SUVs known as crossovers as quickly as it might have.

Once a leader, General Motors has come to be perceived over the past 30 years to be hidebound and slow. While analysts and business experts give General Motors good marks in terms of recent products, it is maintained that "they can't shake the impression that their cars are unreliable."<sup>27</sup> It is the lagging perception of the unwieldy General Motors of the past 30 years that Richard Wagoner would have to face when presenting his case to Congress and the American people.

### **Positive Recent Company Developments**

#### **Growing Share of Chinese Auto-Market**

General Motors was one of the first American car manufacturers to set up a presence in the Chinese market by entering into a joint venture with the Shanghai Automotive Industry Corporation in 1997.<sup>28</sup> The company has built a strong presence during the first decade of running Chinese operations. While sales slumped in the United States in the two previous years, sales in China increased by 17% in 2007 and by 6% in 2008.<sup>29</sup> Steve Harris, General Motors' vice president of global communications, stressed the company's success in the emerging market stating that "we were the first global non-Chinese manufacturer to sell over one million vehicles in that market."<sup>30</sup> The growing Chinese market is expected to be an area of sales growth for General Motors if it is able to survive the current financial crisis. Approximately 64% of GM's sales come from outside of the United States and the growth in emerging market car sales is an increasingly important aspect of the company's strategy for long-term viability.

#### **Successful New Product Lines and Fuel Efficiency**

General Motors has also enjoyed several successful product lines recently and received broad industry recognition around the world. The Opel Insignia won car of the year in Europe, the Chevy Malibu was car of the year in North America, and the Cadillac CTS was the Motor Trend car of the year in 2008. The new products being built by the company were reviewed to be high quality, and sales of the award winning cars were up in 2008 even in the face of the difficult market. The company was also building on its already large fleet of fuel-efficient automobiles. General Motors already had the most cars with over 30 mpg on the highway of any auto-manufacturer, and 14 of the 15 new products the company had planned to bring to the market by 2010 were either Crossover Utility Vehicles or fuel-efficient cars. Also important to General Motors' strategy to meet the projected growth in future demand of fuel efficiency are the Chevy Volt hybrid and the Chevy Cruze compact car. These cars are due to be released in 2010 and are expected to revolutionize the way people think about the hybrid automobile and fuel efficiency.

### **Cost-Cutting Strategies**

General Motors had taken several steps to reduce the operational cost structure that had been hitting the company's bottom line for years. The company had cut 52% of the workforce between 2000 and 2007, and in 2007 renegotiated the UAW labor union agreement. Under the new agreement, the wages and benefits given to new-hires would be lower, bringing GM's labor overhead more in line with foreign competition. According to GM spokeswoman Renee Rashid-Merem, the company eliminated over \$9 billion from the budget between the years 2005 and 2007, and with normal market conditions the company would have been able to reduce costs to one-quarter of revenue.<sup>31</sup> The reduction of operating and pension costs is an important factor in assessing the company's future prospects for recovery and growth, and it was widely perceived that General Motors was on the path to containing these costs and regaining economic viability and leadership when the housing bubble burst and started the economic instability which effectively dried up General Motors' liquidity and endangered its future.

### **Options for Action in the Face of the Global Downturn**

#### **Chapter 11 Bankruptcy**

With its cash flow hemorrhaging, General Motors was faced with the possibility that it would have to consider Chapter 11 bankruptcy as early as the end of 2008. However, even before appearing before Congress, Mr. Wagoner had made several statements clearly indicating that he felt that such a move would destroy the company's long-term potential for success, as well as creating a ripple effect throughout the economy by bringing down suppliers and dealerships as well. Figures ranged from 2-9 million people ultimately being laid-off as a potential result of the bankruptcy proceedings. Further, the argument was made that Chapter 11, while working well for other industries that weren't tied to long-term contracts, would effectively seal the fate of General Motors, as consumers would not want to buy a product from a company whose warranties, stretching over years, might become invalid, and for which there would be an uncertainty regarding long-term ability to get parts and services during the bankruptcy process. As early as 2005, however, the practicality of a Chapter 11 bankruptcy was already a serious consideration, with outside observers divided as to whether bankruptcy was the best route for long-term health of the company.<sup>32</sup> However, by the time the 2008 global meltdown struck, an additional complexity was added: whether, even if inevitable, the government should intervene to put off the bankruptcy until the overall economy was on more stable footing.<sup>33</sup> As analysts considered the wider ramifications of a bankruptcy in the face of the larger economic instability, many believed that "if GM were to go into a free-fall bankruptcy and didn't pay its trade debts, then the entire domestic auto industry shuts down."<sup>34</sup>

Nonetheless, the alternative, a government bail-out or bridge loan, also had the potential drawback of offsetting the possibility of wringing necessary concessions from bondholders and employees by removing the threat of bankruptcy as a bargaining tool for General Motors.<sup>35</sup> Debate regarding the efficacy of a GM "bailout" remained contentious.

#### **Federal Government Bridge Loan**

It was the concern for the widespread ramifications of Chapter 11 that made Richard Wagoner feel that it was instead appropriate to approach Congress with an alternative solution. He felt that a bridge loan to protect liquidity through the market downturn would be sufficient to return

General Motors to the path of potential global prosperity on which it had already embarked. Given that the government had already extended financial support to several banking and insurance institutions rather than allow them to go under, it can be assumed that the relatively “small” amounts desired by General Motors were considered by Mr. Wagoner to be reasonable enough to see the 100 year old icon of American industry through the difficult time of what was fast becoming worldwide illiquidity. On the day he was scheduled to appear before Congress, his intention was to ask for a bridge loan, not a bailout, which would maintain cash flow until the larger financial picture could be re-stabilized.

### **Communications Going into the Hearing**

Given the worldwide economic turmoil, General Motors was competing with a difficult environment in which to get its history, turnaround, and present predicament across effectively in order to win support for its particular financial dilemma. Daily media were filled with the ongoing financial crises and there was a large noise to signal ratio as global participants attempted to sort out the massive implications of the housing bubble having finally burst. Even the most aggressive public relations campaign could easily be disregarded during this turbulent time, if only due to the sheer volume of crisis news.

However, General Motors primarily relied on traditional channels such as newsprint and TV reports, and this proved to be ineffective in getting its message out. It did create a Q&A site connected to its website to present its position as to why Chapter 11 would further hurt the economy. It also addressed other issues it felt were important to get in front of the American public. However, the website was static, not interactive. Access levels are not publicly known, but whatever the level, the website apparently did not communicate the severity of the situation, nor the widespread implications.<sup>36</sup>

Most important, it did not immediately access third party support, the venue mostly likely to give the perception of impartiality. The company had already granted access to former *BusinessWeek* reporter William Holstein to investigate the validity of General Motors’ new model in the form of a book, but it would not be available to sway public opinion until early 2009.<sup>37</sup> And GM’s more daring moves into more innovative marketing through television, implemented in 2005, also weren’t discussed in an authoritative fashion as indications that there truly was a “new” GM on the horizon until 2009.<sup>38</sup> It is hard to pinpoint exactly what communicative mediums were neglected, or whether the push wasn’t strong enough, but the messages were getting lost. And it wasn’t just about convincing customers, but any number of potential stakeholders. Ms. Rashid-Mereem of GM summed up the difficulty by saying, “There wasn’t ever a silver bullet on which mechanism worked the best – the messages we tried to keep consistent, but the way we reached different audiences was different. One example would be for customers, the message we wanted them to go away with was: ‘we’re here to stay, . . . the proof is in the vehicle.’ For constituents in Washington, we were trying to reach them in a different way and say, ‘we do matter to the economy, we do have 100 years of history, we do touch a lot of different lives . . .’<sup>39</sup> Whether the message initially reached its targets is debatable.

## **Reactions to the GM Situation**

Despite, or perhaps because of, the overall preoccupation with other pressing economic issues, the initial response to General Motor's predicament was negative. As Steve Harris of GM's corporate communications stated bluntly, "there were a couple of days where you were afraid to turn on the TV or open up a newspaper."<sup>40</sup> Had the American public found a scapegoat for the incomprehensible financial morass it suddenly found itself in? Was this a knee jerk reaction to a frustration borne of larger financial issues that the American public felt helpless against? Or was this a measured response to the perception that an American icon had long since run amok, betraying the values for which it once stood and having seduced its consumers into inefficient models and economies? And was any credence given – or had it even been observed – to the attempt to restructure the company over the past several years?

Regardless of the validity of any given number of perceptions, overall sentiment was negative. It was only after several weeks, and with the expanded corroboration of third party advocates, that GM was able to raise its support to 50%, up from the earlier rating of under 37% support for the bridge loan.

## **The Presentation and the Verdict**

### **The Plan**

Mr. Wagoner, in his presentation to Congress, opened with a defense of his company as a market leader in green technology, a source of economic prosperity, and a company that has reconfigured its business model for long-term viability. Addressing the credibility issue, he put emphasis on the global crisis as opposed to past mistakes as being the reason for General Motors' present need for financial aid. He discussed the cascading detrimental effect on the economy should the domestic automotive industry be allowed to fail, citing a job loss of over three million within the year, as well as a projected tax revenue loss of over \$156 billion over the next three years. Finally he stated that "helping the auto industry bridge the current financial crisis will not only prevent massive economic dislocation now . . . it will also produce enormous benefits for our country later,"<sup>41</sup> implying that the historical dictum spoken by former GM President Charles Wilson in 1953, also before Congress, that "I thought what was good for our country was good for General Motors and vice versa . . . It goes with the welfare of the country,"<sup>42</sup> was still a valid observation.

Unfortunately, his broad pronouncements, substantiated by generalized statistics based on historical data rather than specific company projections and objectives, were not well received. The representatives countered with a flurry of questions on inappropriate fund use and, most specifically, the use of a private jet to fly to the hearings. Mr. Wagoner was not prepared to face the high level of scrutiny for using transportation that had been commonplace for corporate executives for decades. This was a new level of criticism and the sensitivity of the issue resulted in a media fixation on the use of private jets, rather than on the pressing issue of how to save the largest auto-manufacturer in the world. It was clear that the automakers would have a more difficult time receiving government assistance than their banking sector contemporaries.

## Rejection

The meeting adjourned with House Speaker Nancy Pelosi proclaiming that “until they show us the plan, we cannot show them the money.”<sup>43</sup> All three of the large American automakers were given three weeks to present a viable business restructuring plan to the House Financial Services Committee. If General Motors, which had recently celebrated its centennial anniversary, was going to survive, it would be necessary to convince Congress that a bridge loan is a wise decision and to persuade a shaken American consumer that the GM product is a good investment. Failing in his mission of gaining immediate financial support, Rick Wagoner now had to go back to Detroit to draft a drastic restructuring proposal for his company and create a more persuasive communication campaign. The clock was ticking, and without a winning plan, General Motors would soon be bankrupt.

## Discussion Questions

1. Should CEO Wagoner have “tested the water” before appearing before Congress and gone already armed with new restructuring concessions?
2. Should the company have used more aggressive communications tactics before arriving in Washington? What other tactics could the company have used before going to Congress?
3. Was the response to the use of the corporate jet something that could have been anticipated?
4. Should communications have stepped in earlier, given the furor that the use of the private jet raised?
5. How could the company have better parlayed that its dire financial straits were a function of the general economy, rather than mismanagement of the company?
6. What effect did the media have in terms of public support for the bailout? How could this have been managed differently?
7. How can we assess the amount of blame General Motors should shoulder for having allowed its public image to be so distorted from its new trajectory?
8. Who are the major stakeholder groups in the survival of General Motors Corporation, and how should GM communicate to these constituencies?
9. How can CEO Wagoner best communicate General Motors’ potential for long run success?

- 
- <sup>1</sup> Wagoner, Rick. "Why GM Deserves Support." The Wall Street Journal 18 Nov. 2008: A21.
- <sup>2</sup> Hitt, Greg, John Stoll, and Alex Kellogg. "Lawmakers Send Big Three Back Home Empty-Handed." The Wall Street Journal 21 Nov. 2008: A1.
- <sup>3</sup> "Back Again." Economist 6-12 Dec. 2008.
- <sup>4</sup> "GM Faces Rapid Collapse Without Aid." The Age 5 Dec. 2008. 30 Jan. 2009  
<<http://business.theage.com.au/business/world-business/gm-faces-rapid-collapse-without-aid-20081205-6rtq.html>>.
- <sup>5</sup> Green, Jeff, and Alan Ohnsman. "Ford's Worst Year May Signal Industry Need for More US Aid." Bloomberg.com. 2 Feb. 2009.  
<[www.bloomberg.com/apps/news?pid=20601087&sid=asM7rvWROaMA&refer=home](http://www.bloomberg.com/apps/news?pid=20601087&sid=asM7rvWROaMA&refer=home)>.
- <sup>6</sup> Evans, Kelly. "Home Prices, Sentiment Keep Sliding." The Wall Street Journal 28 Jan. 2009. 30 Jan. 2009  
<<http://online.wsj.com/article/SB123306441011519429.html>>.
- <sup>7</sup> "The Big Chill." Economist 15 Jan. 2009. 30 January 2009  
<[http://www.economist.com/displaystory.cfm?story\\_id=12926505](http://www.economist.com/displaystory.cfm?story_id=12926505)>.
- <sup>8</sup> "Consumer Confidence Index: Chart." Bloomberg News 2 Feb. 2009.  
<<http://www.bloomberg.com/apps/cbuilder?ticker1=CONCCONF%3AIND>>.
- <sup>9</sup> "The Big Chill." Economist.
- <sup>10</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>11</sup> Krauss, Clifford. "Car Dealers Brace for Closing, or for a Fight, as Detroit Seeks Help."
- <sup>12</sup> Levy, Efraim. "Industry Trends: Autos and Auto Parts." Standard & Poor's: Industry Surveys 25 Dec. 2008. 30 Jan. 2009.  
<[http://www.netadvantage.standardandpoors.com.proxy.library.nd.edu/NASApp/NetAdvantage/showIndustrySurvey.do?code=aup&date=/aup\\_1208/aup\\_1208.htm](http://www.netadvantage.standardandpoors.com.proxy.library.nd.edu/NASApp/NetAdvantage/showIndustrySurvey.do?code=aup&date=/aup_1208/aup_1208.htm)>.
- <sup>13</sup> "A Global Love Affair." Economist 13 Nov. 2008. 2 Feb. 2009  
<[http://www.economist.com/specialreports/displayStory.cfm?STORY\\_ID=12544933](http://www.economist.com/specialreports/displayStory.cfm?STORY_ID=12544933)>.
- <sup>14</sup> "A Global Love Affair." Economist.
- <sup>15</sup> Levy, Efraim. "Industry Trends: Autos and Auto Parts."
- <sup>16</sup> "A Closer Look at the Hybrid Car Market." Hybrid Jungle 21 Mar. 2008. 2 Feb. 2009  
<<http://www.hybridjungle.net/2008/03/21/a-closer-look-at-the-hybrid-car-market>>.
- <sup>17</sup> "General Motors Corp." Notable Corporate Chronologies Gale, 2009. Reproduced in Business and Company Resource Center. Farmington Hills, MI: Gale Group, 2009.
- <sup>18</sup> Taylor, Alex. "GM: Death of an American dream." Fortune 25 Nov. 2008.  
<[http://money.cnn.com/2008/11/21/magazines/fortune/taylor\\_generalmotors.fortune/index.htm](http://money.cnn.com/2008/11/21/magazines/fortune/taylor_generalmotors.fortune/index.htm)>.
- <sup>19</sup> Taylor, Alex. "GM: Death of an American dream."
- <sup>20</sup> "Mr. Detroit." Economist 11 Dec. 2008.  
<[http://www.economist.com/people/displaystory.cfm?story\\_id=12758963](http://www.economist.com/people/displaystory.cfm?story_id=12758963)>.
- <sup>21</sup> "Mr. Detroit." Economist.
- <sup>22</sup> "Mr. Detroit." Economist.
- <sup>23</sup> Taylor, Alex. "GM: Death of an American dream."
- <sup>24</sup> Taylor, Alex. "GM: Death of an American dream."
- <sup>25</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>26</sup> "Mr. Detroit." Economist.
- <sup>27</sup> "That makes me Stabby: The General Motors Bailout." Financial News 13 Nov. 2008.  
<<http://www.soundmoneymatters.com/category/financial-news/page/2/>>.
- <sup>28</sup> "Rising In the East." Economist 26 Apr. 2007. 2 Feb. 2009  
<[http://www.economist.com/business/displaystory.cfm?story\\_id=E1\\_JDRQGRS&source=login\\_payBarrier](http://www.economist.com/business/displaystory.cfm?story_id=E1_JDRQGRS&source=login_payBarrier)>.
- <sup>29</sup> "GM China Sales Growth slows to 6% in '08." China Daily 6 Jan. 2009. 2 Feb. 2009  
<[http://www.chinadaily.com.cn/china/2009-01/06/content\\_7371336.htm](http://www.chinadaily.com.cn/china/2009-01/06/content_7371336.htm)>.
- <sup>30</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>31</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>32</sup> "What if GM *did* Go Bankrupt . . ." BusinessWeek 12 Dec. 2005.  
<[www.businessweek.com/magazine/content/05\\_50/b3963114.htm](http://www.businessweek.com/magazine/content/05_50/b3963114.htm)>.
- <sup>33</sup> Chapman, Mary M. "GM's Troubles Stir Question of Bankruptcy vs. a Bailout." New York Times 12 Nov. 2008.  
<[www.nytimes.com/2008/11/13/business/economy/13bankruptcy.html](http://www.nytimes.com/2008/11/13/business/economy/13bankruptcy.html)>.

- 
- <sup>34</sup> Saporito, Bill. "Is General Motors Worth Saving?" Time 13 Nov. 2008.  
<[www.time.com/time/business/article/0,8599,1858702,00.html](http://www.time.com/time/business/article/0,8599,1858702,00.html)>.
- <sup>35</sup> Muller, Joann. "GM: Who's Going to Blink?" Forbes 2 Feb. 2009. <[www.forbes.com/2009/02/09/general-motors-bailout-detroit-business-autos-0209](http://www.forbes.com/2009/02/09/general-motors-bailout-detroit-business-autos-0209)>.
- <sup>36</sup> "More Facts and Fiction about GM." 2 Feb. 2009. <<http://gmfactsandfiction.com/archives/>>
- <sup>37</sup> Holstein, William J. Why GM Matters. Walker Publishing Company, 2009.
- <sup>38</sup> Tancer, Bill. Click. Hyperion Press, 2008.
- <sup>39</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>40</sup> Harris, Steve, and Renee Rashid-Merem. Telephone interview. 10 Feb. 2009.
- <sup>41</sup> Wagoner, Richard. Transcript of delivered testimony delivered to the U.S. Senate. 18 Nov. 2008.
- <sup>42</sup> Holstein, William. Why GM Matters.
- <sup>43</sup> Hitt, Greg, John Stoll, and Alex Kellogg, "Lawmakers Send Big Three Back Home Empty-Handed."