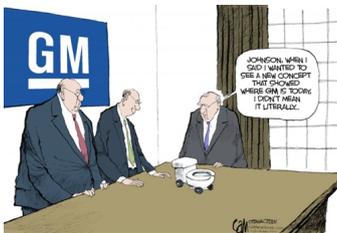


The Fall of Detroit



The Bankruptcy of General Motors represents the end of an entire era for the industrially developed world. Founded in 1908 the company in many ways represented the very culture and philosophy of the American way of life. The slogan they carried was “A car for every purse and purpose”

Indeed General Motors has had a very significant influence over the sociology and politics of the land. Big and powerful, dwarfing all other similar business entities it was often joked that while others were companies GM was instead a country by itself. The humour was not entirely misplaced as it did at its peak have revenues that rivaled the gross domestic product of many a country.



Early in its history it was a beneficiary of collapse of the Street Car lines a system of public transport which used electric trams to crisscross over several cities. The company also gained significantly in size and prestige in the Second World War as a supplier of armaments. Early in the war it supplied vehicles and aircraft to the Axis powers and later to the Allied cause. Indeed even in those days we were not short of catchwords with Detroit (the city that housed all the Auto majors) being referred to as the “Arsenal of Democracy” by President Roosevelt.



Is it a Quality failure or a Management Failure?

It is interesting to study at a cultural level how an enterprise with such credentials can fail. The first problems began with the entry of the Japanese automakers. Within a span of two decades the markets whether it was US or Europe or indeed the world started feeling a shift in shares. The Japanese followed by the Koreans simply managed to build cars that were superior in quality and lower in price. Cheaper suddenly stopped meaning lower quality and instead the subject shifted to what made certain cultures more efficient at the workplace. Concepts such as Kaizen started entering the lexicon of management literature. It was perceived that Japan unlike

the US wasn't overmuch worried about practices that did not originate in its own land and instead adopted them with great enthusiasm. For instance Edward Deming who is widely regarded as the Originator of Quality Management was received and his theories implemented more in Japan than US, the country of his domicile. Dr. W. Edwards Deming taught that by adopting appropriate principles of management, organizations can increase quality and simultaneously reduce costs (by reducing waste, rework, staff attrition and litigation while increasing customer loyalty). The key is to practice continual improvement and think of manufacturing as a system, not as bits and pieces."

In the 1970s, Dr. Deming's philosophy was summarized by some of his Japanese proponents with the following 'a'-versus-'b' comparison:

(a) When people and organizations focus primarily on quality, defined by the following ratio,

$$\text{Quality} = \frac{\text{Results of work efforts}}{\text{Total costs}}$$

quality tends to increase and costs fall over time.

(b) However, when people and organizations focus primarily on costs, costs tend to rise and quality declines over time.

The business revolution

- Employees, acting as partners and associates, make all their own decisions.
- They evaluate their managers every six months.
- They're even encouraged to start their own companies.
- Potential managers are interviewed by the people who will be working for them.
- All have access to company books.
- No first-class and second-class citizens.
- Managers set their own salaries, bonuses.
- No formality; a minimum of meetings, approvals and memos.
- Shopfloor workers set their own productivity targets and schedules.
- Managers take turns to operate as chief executive.
- "The truly modern company avoids an obsession with technology and puts quality of life first."

RICARDO SEMLER
*Maverick**

* The story of Semco, the pace-setting Brazilian company; an example of choosing a book by a practical achiever. Published by Arrow, London.

There is also an interesting anecdote of Deming when he was called in by Ford to help in its turnaround around the same time. Ford's sales were falling. Between 1979 and 1982, Ford had incurred \$3 billion in losses. Ford's newly appointed Division Quality Manager John A. Manoogian was charged with recruiting Dr. Deming to help jump-start a quality movement at Ford. Deming questioned the company's culture and the way its managers operated. To Ford's surprise, Deming talked not about quality but about management. He told Ford that management actions were responsible for 85% of all problems in developing better cars. In 1986 Ford came out with a profitable line of cars, the Taurus-Sable line. In a letter to Autoweek Magazine, Donald Petersen, then Ford Chairman, said, "We are moving toward building a quality culture at Ford and the many changes that have been taking place here have their roots directly in Dr. Deming's teachings." By 1986, Ford had become the most profitable American auto company. For the first time since the 1920s, its earnings had exceeded those of arch rival General Motors (GM). Ford had come to lead the American automobile industry in improvements. Ford's following years' earnings confirmed that its success was not a fluke, for

its earnings continued to exceed GM and Chrysler's.

Today all automakers across the world are in strife which begs the question as to whether the transport industry itself was on the wrong trail. Its in this context that story of Ricardo Semler makes very interesting reading.



Semler

The second generation entrepreneur of Brazilian company, the management culture he has adopted may be understated to be revolutionary. Quite rightly he realised that all company cultures are mimics of the system in an army. Whether they are the traditional Command and Control companies or even the more modern ones, they follow a system of regimentation.. Such organisations of people cannot be sustainable in the long run. Let us examine his opinions of the auto industry He says:

“Henry Fords first car had metal chassis, with an internal combustion gasoline powered engine, four wheels with rubber tyres, a foot operated clutch assembly and brake system, a steering wheel, and four seats and it could safely do 18 miles an hour..

A hundred years and tens of thousands of research hours later we drive cars with a metal chassis, an internal combustion, gasoline powered engine, four wheels with rubber tyres, a foot operated clutch assembly and brake system, a steering wheel, and four seats-and the average speed in London in 2001 was 17.5 miles per hour!”

From that point of view the industry hardly shows a return on investment or indeed profit which is the motive of any enterprise. Hence Semler brought about his style of management which truly attempts to bring Democracy in the workplace. For one the company has this almost unthinkable practice of Bosses being elected & reviewed by their workers. The system lies in a set of interviews that the prospective manager has to pass through by the workers before being given the nod.

Workers do not merely have access to the financial information of the enterprise but also are trained by the company to understand them. They are also the first manufacturing company to practice flexitime for workers. No Manager has a permanent office of his own, in fact Semler remarks that it wouldn't be unusual for him to land up in his office only to find that it has been broken down and reconstructed for a better purpose. Board meetings have two seats kept open for any employee (or associate) to occupy if he or she wants to attend.

The practices of the company as evident are utterly radical. But did it work? In 1990 Brazil was the victim of hyperinflation, Workers at SEMCO agreed to wage cuts, providing their share of profits was increased to 39%, management salaries were cut by 40% and employees were given the right to approve every item of expenditure. Reforms implemented during that time led to 65% reduction in inventories, a marked reduction in product delivery times and a product defects rate that fell to less than 1%. As the business climate improved, Semco's revenues and

profitability improved dramatically.

As of 2003, SEMCO had annual revenue of \$212 million, from \$4 million in 1982 and \$35 million in 1994, with an annual growth rate of up to 40 per cent a year. It employs 3,000 workers in 2003, as opposed to 90 in 1982

Conclusion

Semco represents an interesting experiment in the running of organizations and the key to its philosophy that in an organization should not merely allow its workers to pursue their talents but actively build itself around these pursuits. Many have suggested that such an organization can only function in Brazil as its culture allows such principles to function with the least amount of social resistance. However evidence over the years have proved otherwise as Semco today operates in several countries across world. Business and its principles are adjuncts of a social system but on a broader platform do get easily assimilated across geographies. Hence in our expectation that the next economic game changers will be from Brazil, Russia India & China the SEMCO way could well be the portents of how organizations will be built across the world

Images

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2. <http://www.intersectionconsulting.com/blog/wp-content/uploads/2008/12/gm-cartoon.jpg>
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