

GENERAL MOTORS: THE REAL STORY

Lesson 7

General Motors was founded in 1908 by William Durant, a typical empire builder.

General Motors always remained a loose federation of the companies which were taken over in the course of the years.

A disordered expansion brought the company to bankruptcy in 1920. DuPont and Morgan – who hold a substantial amount of shares – chose as leader Alfred Sloan, a supplier.

Sloan worked out his famous structure that rigidly separated the headquarters from the divisions; strategy from day by day activity.

One of Sloan's major helpers was Donaldson Brown, DuPont's treasurer, who elaborated a sophisticated financial and statistical system of control.

All this goes very well together with the Transaction Cost Economy (O. Williamson), which would be inclined to blame the opportunism of the heads of the divisions.

Strangely though, in the golden years of the new structure the heads of the divisions took part in the headquarters activities.

After all, Sloan thought that first comes consent.

In reality, the structure was not the result of a theoretical decision but the output of the struggle between three forces: owners; top managers; middle management.

The owners to be safe wanted the rigid application of the “theoretical” MForm. In this way they thought of protecting their interests from a behavior *à la* Durant.

Sloan was in between: in the standardization phases he inclined towards the owners' solution; during more complicated times he wanted to involve managers.

GM's long decline started in 1958 when the owners' will definitively prevailed.