Bucknell University
Bucknell Digital Commons

Honors Theses Student Theses

2010

A Dynamic Approach to Stakeholder Theory: A Case Study of Labor - Management Relations at General Motors

Lee Elizabeth Markison
Bucknell University

Follow this and additional works at: https://digitalcommons.bucknell.edu/honors_theses

Recommended Citation
Markison, Lee Elizabeth, "A Dynamic Approach to Stakeholder Theory: A Case Study of Labor - Management Relations at General Motors" (2010). *Honors Theses*. 17.
https://digitalcommons.bucknell.edu/honors_theses/17

This Honors Thesis is brought to you for free and open access by the Student Theses at Bucknell Digital Commons. It has been accepted for inclusion in Honors Theses by an authorized administrator of Bucknell Digital Commons. For more information, please contact dcadmin@bucknell.edu.

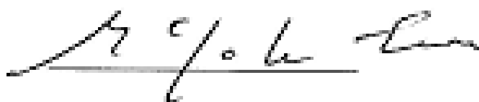
A Dynamic Approach to Stakeholder Theory:

A Case Study of Labor – Management Relations at General Motors

By Lee Markison

Advised by Professor Johnson-Cramer

Submitted for honors in Management



Professor Johnson-Cramer (advisor)

Professor Santanen (department chair)

Acknowledgements

Thank you to Professor Johnson-Cramer for his help throughout the process of writing this thesis. His knowledge of the stakeholder literature and guidance throughout the writing process was invaluable.

Table of Contents:

List of Tables pg 5

List of Figures pg 5

Abstract pg 6

Chapter 1: Introduction pg 7

Chapter 2: Theory pg 14

Chapter 3: Methodology pg 30

- Research Design pg 30
- Data Collection pg 33
- Analysis pg 34

Chapter 4: Results pg 37

Chapter 5: Discussion pg 79

Chapter 6: Conclusion pg 83

Bibliography pg 85

List of Tables:

Table 1: Stakeholder Definitions
Table 2: Private Pension Level Comparisons
Table 3: GM 1982 Pension Liabilities

List of Figures:

Figure 1: General Motors Perceived Stakeholder Network
Figure 2: General Motors Actual Stakeholder Network
Figure 3: General Motors Useful Stakeholder Network
Figure 4: Fixed income and equity percentage funding levels of public fund assets
Figure 5: GM Market Share vs. Imports from 1920-2009
Figure 6: General Motors Operating Margin, 1959-2008
Figure 7: GM Revenue and Net Income from 1985-2004
Figure 8: General Motors Historical Share Price from 1962-2010
Figure 9: GM Historical Share Price from 1962-2010 compared to DJIA
Figure 10: GM North American Plant total hours per vehicle
Figure 11: Actual and projected reduction in GM salaried workforce
Figure12: Number of jobs bank workers comparison from 2005-2006
Figure 13: Average hourly labor costs comparison
Figure 14: Average hourly labor cost comparison breakdown
Figure 15: Average hourly labor cost by year for GM from 1984-2004
Figure 16: Legacy cost burden in1962 and 2005
Figure 17: GM annual return on pension fund assets 1987-2003
Figure 18: GM annual pension funding levels from 1993-2002
Figure 19: Every car offered by GM in 2008
Figure 20: Car offerings in 2008 excluding product lines expected to be discontinued post bankruptcy

Abstract:

The purpose of this thesis is to identify areas for improvement in the current stakeholder management literature. The current stakeholder management theories were analyzed to determine their benefits and detriments. To determine how these theories work in a corporation, General Motors was selected as a single-case study to determine the patterns of stakeholder management over time. These patterns demonstrated the need for dynamic stakeholder management over time, with an emphasis on collaboration and the necessity of recognizing the greater stakeholder network surrounding the corporation. Proper stakeholder management in the early years of General Motors would have prevented its failure, while the organizational culture as a path-dependent variable made it difficult for General Motors to alter long-standing stakeholder relationships.

Chapter 1: Introduction

$0.55: Closing share price for Motors Liquidation Company (formerly GM)[1]

$31 billion: amount the pension fund is underfunded[2]

$69.8 billion: losses since 2004[3]

$172 billion: Total Liabilities. Puts GM between Mexico and India based on external debt.

The world knew General Motors failed the day it declared bankruptcy. GM had known for years.

GM wasn't always in such failing health. In the 1920's Alfred Sloan revolutionized GM by hiring Haley Earl to run the first in-house design studio for a major automobile manufacturer.[4] Alfred Sloan created a car culture, spurring demand and allowing GM to grow exponentially in size and revenues. In the 1950's, GM was twice the size of the second largest corporation at the time, Standard Oil of New Jersey. At the time, GM used its design and marketing insight to produce the most popular sports car of all time, the Chevy Corvette.[5] By 1969 GM was making a profit of "$239 per vehicle world-wide… compared to $75 per vehicle per Toyota, $59 per vehicle for VW, and $57 per vehicle for Datsun-Nissan."[6] GM continued to thrive economically for decades.

---

[1] http://finance.yahoo.com/q?s=MTLQQ.PK
Accessed 2/28/2010
[2] http://www.businessweek.com/magazine/content/05_50/b3963114.htm
Accessed 2/28/2010
[3] http://www.bloomberg.com/apps/news?pid=20601087&sid=agMEuJ_r_yxA&refer=worldwide
Accessed 2/28/2010
[4] Volti, Rudi Cars and Culture: The Life Story of a Technology. Greenwood Press, 2004, pg 52
[5] http://www.edmunds.com/chevrolet/corvette/history.html
Accessed 3/7/2010
[6] Flink, James J. The Car Culture, The MIT Press, Cambridge, Massachusetts, 1975 pg 52

General Motors topped the Fortune 500 rankings every year from 1955-2001 (except from '75-'77 and '80-'85 when Exxon was #1 due to the oil crises).[7] GM would remain in the top 10 in the Fortune 500 rankings every year from 2002 onwards. GM's 2009 bankruptcy announcement seemed to blindside the company as much as its investors.

General Motors began as a company that was strong, healthy, and determined to excel. GM was founded in 1908 and existed "primarily as a holding company composed of highly decentralized individual manufacturers."[8] The story of early General Motors is bound up in the managerial genius of Alfred Sloan. Sloan took control of the company when William C. Durant was ousted by the board for his dangerous levels of stock market speculation in 1921. Sloan saw strength with the divisional framework already in place and turned GM into a "manufacturing federation."[9] This divisional structure allowed for dedicated salespeople and support staff, allowing GM to excel in each of its brand offerings. This also allowed GM to have a car for "every purse and purpose." Sloan wanted each GM brand to have design and engineering autonomy, but needed to ensure purchasing would be unaffected by changes within divisions by establishing a General Purchasing committee. The committee consisted of corporate purchasing executives and division purchasing staff.[10] This General Purchasing Committee allowed Sloan to enjoy economies of scale in volume pricing, and ensure the divisions were not

[7] http://money.cnn.com/magazines/fortune/fortune500_archive/full/2001/

[8] Marchand, Roland, *The Corporation Nobody Knew: Bruce Barton, Alfred Sloan, and the Founding of the General Motors "Family" The Business History Review*, Vol. 65, No. 4, The Automobile Industry (Winter, 1991), pp. 825-875

[9] Volti, Rudi Cars and Culture: The Life Story of a Technology, 2004 pg 53

[10] Roland Marchand, *The Corporation Nobody Knew: Bruce Barton, Alfred Sloan, and the Founding of the General Motors "Family" The Business History Review*, Vol. 65, No. 4, The Automobile Industry (Winter, 1991), pp. 8

autonomous in all of their decisions. With a strong organizational structure in place, Sloan next focus was to figure out the best way to sell GM cars to the American public.

The automobile was one of the greatest inventions of its time, but creating demand for it would be an even bigger innovation. At the time Sloan came into power in 1921, General Motors's combined production of all brands was only 13 percent of the total production for that year, compared to rival Ford's 61 percent share.[11] The total amount of automobiles in production at the time still remained small, with only 7.5 million cars and trucks in the US by 1920.[12] Selling cars thus became more important than making them. This led to a change in leadership of automobile manufacturers "from the original mechanical wizards like Henry Ford … and the Dodge brothers, who invented and figured out how to build the automobile, to men like Alfred P. Sloan … who were concerned with defining the automobile's role in the life of the consumer."[13] Sloan was an innovator in the field of marketing along with his advertising Director Bruce Barton. Sloan did everything he could to position GM ahead of Ford. Most notably, Sloan used his connection with DuPont, the main financial backer of GM at the time to innovate in design. At the time, Ford was maintaining its competitive production advantage by producing high volumes of cars at low costs with the assembly line system. In order to make cars at such high volume, Ford could only offer cars in black, because black lacquer dried the fastest, thus requiring Ford to keep fewer unfinished cars in

---

[11] Roland Marchand, *The Corporation Nobody Knew: Bruce Barton, Alfred Sloan, and the Founding of the General Motors "Family" The Business History Review*, Vol. 65, No. 4, The Automobile Industry (Winter, 1991), pp. 7
[12] Facts and Figures of the Automobile Industry, National Automobile Chamber of Commerce http://www.railsandtrails.com/AutoFacts/ Accessed 3/7/2010
[13] http://www.gm.ca/inm/gmcanada/english/about/OverviewHist/hist_auto.html Accessed 3/6/2010

inventory before shipping them off to dealers. Sloan knew GM could gain the advantage by making cars at low costs in many colors when he used his connection with DuPont to gain exclusive access to a fast drying automotive lacquer created in 1922.[14] This pleased the customer and made Ford look hopelessly antiquated with their offer of a Model T "in any color so long as it was black."

Sloan had other ideas that made him an innovator in marketing. In 1927 he hired Haley Earl, to head the first in-house design team of any major manufacturer. Sloan also created the concept of "planned obsolescence" to sell more cars. By advertising the features of each new model (which consisted mainly of stylistic changes to the interior and body) people were compelled to continually trade up despite their already owning a perfectly functioning car. The insignificant changes in each model year significantly increased revenues. Finally, GM was innovative in attracting customers by establishing GMAC, a financing arm that allowed customers to buy a car now and pay later; a stark contrast to Ford's cash-only policy. The increase in demand Sloan created each year fueled more production, but the influx of workers led to new concerns.

GM began as a company that cared about its workers, and saw them as an integral part of the company. As a result of their determination to have a strong bond with their workers, they paid workers above market wages (as did their leading competitor, Ford), and offered health benefits and a defined benefit pension plan. This kept the workers happy and kept productivity up, and if the overwhelming legacy costs and increased unit costs per car were a ticking time-bomb, GM never noticed. GM hit its peak in the

[14] Flink, James J. The Car Culture, The MIT Press, Cambridge, Massachusetts, 1975 pg 53

1940's-50's with 40-50% of market share in the US vehicle market.[15] It appeared as if the auto giant were doing everything right.

GM's large market share during the period was unsurprising, given how much of its inventory was diverted towards producing equipment for the war effort. Wartime manufacturing was a huge boost to GM, and allowed them to hire on more labor to increase production. All of the UAW workers consented to a no-strike policy during wartime production to ensure US viability during the war. The war brought the nation, and the corporation, closer together than ever. Unfortunately, V-J Day brought victory only to the US. With the lack of contracts flowing in, GM would be forced to lay off the extra capacity of workers and ramp down operations.[16] This attempt to return to business as usual would result in something far from it. The 113-day strike of the UAW following the loss of military contracts would cripple GM. The strike would forever color GM's interaction with its labor force. 1945-46 would be to labor what July 1, 2009 was to stockholders.

GM's relationship with labor is only part of the story of its multiple tipping points in its relationships. Each labor strike did its damage, but the company addressed the aftermath of each strike as if it were a discreet event. Every defect in a car was seen only for the defect, not for example, as an opportunity to strengthen internal safety controls so that defects did not happen in the future. The 113-day strike was not treated as an

---

[15] http://www.pbs.org/now/shows/225/gm-timeline.html
Accessed 2/20/2010

[16] Lichtenstein, Nelson Labor's War at Home: The CIO in WWII Cambridge University Press, 1982 pg 223

opportunity to improve labor relations, to discuss what GM needed from workers along with what the workers needed from GM.

GM has weathered storms far worse than the 113-day strike in its corporate history, yet still remained one of the highest revenue producing firms for the past 60 years. It is an oversimplification to say that the financial crises, and the ensuing recession, were the straws that broke the great auto giant's back. GM had a series of failures with each of its constituent groups, and was unable to address these problems until it was too late. GM is a story of how success can blind an organization to its internal failures.

GM cannot take all of the blame for its failures. GM fell into the trap that many large organizations have: poor stakeholder management. It isn't even entirely GM's fault that they poorly managed their stakeholders. There is a hole in the traditional stakeholder management approach. The two prevailing models are divergent. One proclaims that the corporation should be at the center of its stakeholder web at all times, while the other asserts that all stakeholder needs should be met at all times. Both models are entirely unattainable for a real world firm in a dynamic environment. A more nuanced approach is optimal, and can lead to a successful company regardless of the current business cycle. General Motors is the ideal case model because it exemplifies poor interaction at every level with stakeholders, but that is not to say that other corporations do not suffer from the same problems that plagued what was once the highest revenue producing corporation in the world. The failures at GM should be viewed as an opportunity for careful strategic

planners at other firms to mend and forge stakeholder relationships, reorient their organizational structure to meet their corporate goals, and understand when they have reached a tipping point and how to recover.

Chapter two will answer the question of what is a stakeholder, and what questions traditional stakeholder theory can answer. Chapter three details the case selection methodology and research methods employed in writing this thesis. Chapter four is a results section covering GM’s dominant stakeholders, and when and how each relationship went out of control. Chapter five is a discussion detailing what can be learned from each stakeholder interaction, and how another firm could predict the results of their stakeholder relationships and how to optimize them. Chapter six is a conclusion discussing how future research could shed light on the firm-stakeholder management interaction.

Chapter 2: Theory

The prevailing theory of corporate resource allocation in the dawn of corporations was to maximize owner wealth. The largest companies, or combinations, were merely vehicles by which owner-entrepreneurs could maximize their own returns. The Dutch East India Company was the first company to be publicly traded, issuing stocks as early as 1602.[17] The company paid dividends as high as 18%, making shareholders of the day quite happy. Corporate decisions of publicly traded companies were made with the sole intention of how to repay their backers. As corporations desired new sources of funds beyond owners and debt, they sought out equity financing by utilizing a stock offering to the public. Companies then had available to them large amounts of capital opportunities. The birth of publicly traded corporations and the retirement of owners like Carnegie and Rockefeller gave rise to a new form of managerial capitalism. Investors who had invested in the managerial genius of someone since retired were concerned that the new management would not adequately represent their monetary interests in the firm. Berle and Means are concerned about agency theory within the corporation, wherein the goals of the directors of the firm do not align with the owners.[18] It is the desire of the owners of the firm to assert the priority of their needs over those of the directors. It is this shift that turned the "maximize shareholder wealth" mantra into the law.

---

[17] http://www.exchange-handbook.co.uk/index.cfm?section=articles&action=detail&id=60613 Accessed 4/13/2010

[18] Berle, Adolph, Means, Gardiner, The Modern Corporation and Private Property, Transaction Publishers, New Brunswick, New Jersey, 1991

A business corporation is organized and carried on primarily for the profit of the stockholders. The powers of the directors are to be employed for that end. The discretion of directors is to be exercised in the choice of means to attain that end, and does not extend to a change in the end itself, to the reduction of profits, or to the nondistribution of profits among stockholders in order to devote them to other purposes.[19]
Judge's statement in Dodge v. Ford Motor Co.

The court ruling came about in unique circumstances. Henry Ford had announced there would no longer be any special dividends, despite a cash surplus of over $50,000,000. He intended instead to reinvest the surplus in the operations of the company. This angered the shareholders who claimed "the assets of the company representing its surplus is as much the property of the stockholders as the assets representing the capital stock and the stockholders are as much entitled to a dividend that will give them returns on their surplus investment as their capital stock."[20] The maximize shareholder wealth law with the distribution of special dividends came with the interpretation of Hunter v. Roberts wherein "courts of equity will not interfere in the management of directors unless it is clearly made to appear that they are guilty of fraud or misappropriation of the corporate funds, or refuse to declare a dividend when the corporation has a surplus of net profits which it can, without detriment to its business, divide among its stockholders, and when a refusal to do so would amount to such an abuse of discretion as would constitute a fraud, or breach of that good faith which they are bound to exercise towards the stockholders."[21] Hunter v. Roberts clearly implies that Ford's withholding of surplus cash to reinvest in the business constitutes fraud, and thus the ruling in Dodge v. Ford where the maximize shareholder wealth mantra and dictate was born.

[19] Dodge v. Ford Motor Co., 170 N.W. 668, 684 (Mich. 1919)
[20] Dodge v. Ford Motor Co. 170 N.W. 668 (Mich. 1919)
[21] Hunter v. Roberts, Throp & Co., 83 Mich. 63, 71, 47 N. W. 131, 134

This maximizing shareholder wealth model was seen as the ideal for years, but it has many flaws. If the goal of an organization is primarily for the profit of the stockholders, it calls into question the notion of how long a stockholder is interested in the success of the company – or its success at all. While it may be in the best interest of a short-term stockholder for the company to pay a large dividend at the end of the year, it might be in the best interest of the company, or a long-term stockholder, to reinvest those funds into business operations. This is the dichotomy evidenced in Dodge v. Ford where ford cared about the long-term success of the business while the stockholders cared about their short term profits. This set the precedent where any investment in company operations instead of investment into the pockets of the stockholders could be interpreted as putting the goals of the corporation ahead of the goals of the stockholders. Defining which stockholders, those investing in the short run, or those who desire to hold stock in their portfolio for decades is a complex decision few corporations understood they needed to consider.

This time-horizon issue also can hamper long-term strategy. Companies may plan to make investments into plants, parts, and equipment, or research and development; each of which may have a high return on investment. Unfortunately for the stockholders, this return may not be realized for 10, 30, or even 100 years. Larger structural problems can result in problems with the stockholder approach. A recent example would be the hostile takeover of Budweiser by InBev. InBev had plans to buy Budweiser, and when Budweiser declined, InBev took their argument directly to Budweiser's stockholders, who found that their wealth was maximized by having InBev, a Belgian company, take

over what was the largest US-owned brewery. Making a decision to maximize shareholder wealth transferred Budweiser's shareholder's loyalties to InBev. At best, the shareholder approach can limit strategic options for a corporation; at its worst, maximizing shareholder wealth can lead to a hostile takeover.

One of the biggest critiques of the maximizing shareholder wealth model is that it cannot address many of the problems the firm faces. Determining a supplier is not a question shareholder wealth can answer, nor is how to manage labor relations or how to deal with new government policy. The shareholder wealth model does not answer all of the questions facing a firm. Determining which shareholder's needs are the most important is a tiny part of the decisions a corporation faces. Corporations are constantly working with, and against, many different groups, both inside and outside the corporation. On any given day a company may interact with suppliers, customers, government regulators, distributors, and countless other groups. Those entities the company interacts with are described with the blanket term "stakeholder." In its simplest application, a stakeholder is any group or entity that has a stake in the organization. It is, however, impossible for a large corporation to interact on a meaningful level with every group that claims to have a stake in the corporation. This sets the scene for the emergence of stakeholder theory.

Stakeholder Theory:

Stakeholder management theory is the study of how a firm or organization interacts with those groups who it affects. This theory tries to shed light into how a

corporation handles all groups affected, or affecting the organization. Stakeholder research refutes the notion that the goal of any corporation is to maximize shareholder wealth. In its many forms, it states that the best way for an organization to not only survive, but thrive, is to look at all parts of the organization and its surroundings. The difficulty is determining which parts of the organization are most important.

One cannot begin to manage stakeholders before it understands what a stakeholder is. Freeman has a broad definition of a stakeholder, and claims "a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organizations objectives." This all encompassing definition is both accurate and useless for large organizations with many constituent groups. Defining a stakeholder needs to be the first step for any organization.

Mitchell, Agle, Wood provide a table of definitions from different sources of who is defined as a stakeholder:

Who Is a Stakeholder? A Chronology

Source	Stake
Stanford memo, 1963	"those groups without whose support the organization would cease to exist" (cited in Freeman & Reed, 1983, and Freeman, 1984)
Rhenman, 1964	"are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (cited in Näsi, 1995)
Ahlstedt & Jahnukainen, 1971	"driven by their own interests and goals are participants in a firm, and thus depending on it and whom for its sake the firm is depending" (cited in Näsi, 1995)
Freeman & Reed, 1983: 91	Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" Narrow: "on which the organization is dependent for its continued survival"
Freeman, 1984: 46	"can affect or is affected by the achievement of the organization's objectives"
Freeman & Gilbert, 1987: 397	"can affect or is affected by a business"
Cornell & Shapiro, 1987: 5	"claimants" who have "contracts"
Evan & Freeman, 1988: 75–76	"have a stake in or claim on the firm"
Evan & Freeman, 1988: 79	"benefit from or are harmed by, and whose rights are violated or respected by, corporate actions"
Bowie, 1988: 112, n. 2	"without whose support the organization would cease to exist"
Alkhafaji, 1989: 36	"groups to whom the corporation is responsible"
Carroll, 1989: 57	"asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property"
Freeman & Evan, 1990	contract holders
Thompson et al., 1991: 209	in "relationship with an organization"
Savage et al., 1991: 61	"have an interest in the actions of an organization and . . . the ability to influence it"
Hill & Jones, 1992: 133	"constituents who have a legitimate claim on the firm . . . established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)"
Brenner, 1993: 205	"having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts, and moral responsibilities"
Carroll, 1993: 60	"asserts to have one or more of the kinds of stakes in business"—may be affected or affect . . .
Freeman, 1994: 415	participants in "the human process of joint value creation"
Wicks et al., 1994: 483	"interact with and give meaning and definition to the corporation"
Langtry, 1994: 433	the firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm
Starik, 1994: 90	"can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of, some organization"
Clarkson, 1994: 5	"bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "are placed at risk as a result of a firm's activities"
Clarkson, 1995: 106	"have, or claim, ownership, rights, or interests in a corporation and its activities"
Näsi, 1995: 19	"interact with the firm and thus make its operation possible"
Brenner, 1995: 76, n. 1	"are or which could impact or be impacted by the firm/organization"
Donaldson & Preston, 1995: 85	"persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity"

Table 1: Stakeholder Definitions
Source: Ronald K. Mitchell, Bradley R. Agle and Donna J. Wood. **Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts**, *The Academy of Management Review*, Vol. 22, No. 4 (Oct., 1997), pp. 853-886

Normative:

Donaldson and Preston believe that stakeholder theory is at its core normative. They attempt to make stakeholder theory more applicable to corporations by narrowing the definition of who constitutes a viable stakeholder. To validate their normative concept of stakeholders, two ideas must be held to be true:

> (a) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether the corporation has any corresponding functional interest in them.
>
> (b) The interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some group, such as the shareowners.[22]

This normative description of a stakeholder is open to as much interpretation as Freeman's vague definition of a stakeholder. It is a recursive cycle wherein only those stakeholders defined as having "legitimate interests" have "intrinsic value." Of course a stakeholder with a legitimate interest in the firm would be deemed of intrinsic value. It is determining those stakeholders with legitimate interest that is the difficulty of most organizations, and how much value to place on the needs, wants, and conflicting claims of each stakeholder is what leads a company to become successful. It is not the normative approach, but the instrumental approach to stakeholder management that will be of most utility to a corporation. Donaldson and Preston explain "the instrumental uses of stakeholder theory make a connection between stakeholder approaches and commonly desired objectives such as profitability."[23] Unfortunately, instrumental stakeholder theory must follow some sort of normative stakeholder identification before progress can

[22] Donaldson and Preston, The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. The Academy of Management Review, Vol. 20, No 1 (Jan., 1995) pg 67
[23] Donaldson and Preston, The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. The Academy of Management Review, Vol. 20, No 1 (Jan., 1995) pg 71

be made into stakeholder management. Understanding the stakeholders that can lead the organization to greater profitability, and predicting their effects on the corporation, is what gives utility to stakeholder theory and its use in the modern corporation. Identifying a stakeholder is the vital first step in the process of employing stakeholder theory to advance a corporation and analyze its failures.

Mitchell, Agle, and Wood analyze the stakeholder identification further with a "normative theory of stakeholder identification, to explain logically why managers should consider certain classes of entities as stakeholders."[24] They understand that identifying stakeholders is the first step, but their argument rests on the notion that corporations should always be at the center of the firm, and their negative lens on stakeholders limits their ability to analyze the positive effects can have on a corporation. Their word choice indicates a management bias in interacting with stakeholders. The three variables they describe as being important in identifying and prioritizing stakeholder classes are: "(1) The stakeholder's *power* to influence the firm, (2) the *legitimacy* of the stakeholder's relationship with the firm, and (3) the *urgency* of the stakeholders claim on the firm."[25] Despite the negative connotations of Mitchell, Agle, Woods word choice, they have developed a useful method of managing stakeholders, but it is one of many methods that a corporation should employ. Limiting a corporation to employing only one stakeholder management policy can prevent it from attaining long term profitability and can cause it to have detrimental stakeholder relationships. Missing

---

[24] Mitchell, Agle, Wood. Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. Academy of Management Review, 1997, Vol. 22, No. 4, pg 853
[25] Mitchell, Agle, Wood. Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts. Academy of Management Review, 1997, Vol. 22, No. 4, pg 854

in this theory is a dynamic approach not only over time, but of dynamic stakeholder management theories used over time to most efficiently manage relationships with stakeholders depending on the current business conditions and the expectations of future business conditions from strategic planning.

Descriptive:

The power theory is of more utility, and is the most often utilized for firms identifying stakeholders. Pfeffer's resource dependence theory best explains how stakeholders achieve their power: the stakeholders who control needed resources for the firm gain power because of the power differential with the firm.[26] An example of a stakeholder who attained power through the application of resource dependence theory would be the United Auto Worker's Union (UAW).

Legitimacy is a less useful metric in indentifying stakeholders. *Legitimacy* is also employed in the Donaldson and Preston normative identification scheme. Legitimacy is a firm determined variable that can vary. In essence, a stakeholder can have significant power, and deem their concern as urgent, but it is up to the firm to determine how legitimate they see the concern of the stakeholder. It is the discretionary aspect of the firm, in combination with the emphasis of firm centrality in stakeholder identification that lead to problems with this theory.

A more realistic stakeholder identification theory needs to be employed for a real world corporation. Missing in the stakeholder literature is a dynamic theory wherein the

[26] Pfeffer, J. 1981. Power in Organizations. Marshfield, MA: Pitman

firm can change who it deems a stakeholder over time based on changing business conditions and firm strategic goals. This dynamic model will allow a firm to change who it identifies as stakeholders over time depending on how the firm perceives the goals of the stakeholder will align with the goals of the corporation. Applying an instrumental stakeholder approach to identification (wherein stakeholders would be identified based on their effects, i.e. effects on profitability), with a dynamic approach to identification that equates stakeholder legitimacy to metrics across the life of the firm will allow a firm to better manage who it deems stakeholders.

Managing what an organization defines as its stakeholders is the next step. How to interact with which stakeholder group is what drives the majority of stakeholder theory research. Both highly positive, and highly negative, theories about stakeholder management exist and are put into practice in major organizations. It is impossible and impractical to satisfy even the needs of legitimate stakeholders identified by the corporation all at once. Differing theories exist on how to manage stakeholder relationships.

There exists an organizational approach to stakeholder management, and Rowley has continued the prevailing model that stakeholders should be feared and can only negatively influence an organization. In Rowley's Academy of Management Review piece on Stakeholder Influence, he discusses "… the structure of an organization's stakeholder relationships affect its response to stakeholder pressures" [Rowley 888]. Structure is an important aspect of the relationship, and will be discussed later in this

section under organizational management and the effects of organizational structure on stakeholder management.

Rowley also argues "the density of the stakeholder network surrounding an organization and the organization's centrality in the network influence its degree of resistance to stakeholder demands" [Rowley 888]. The word *resistance* carries a negative connotation, and assumes that any attempt by a stakeholder to voice their opinion is something to be stymied at all costs. If an organization wants to remain at the center of their network, the organization will attempt to reduce the density of their stakeholder network. The lower the density of the network, the harder it is for stakeholders to communicate with each other. This "density reduction" strategy is put into place in many companies. Companies think that the less an individual stakeholder knows about an organizational policy or future practice, the less able they will be to resist the policy. This stakeholder management policy addresses only half of the issue. Rowley's theory pushes stakeholders away from the center, but the real issue lies with how well connected each stakeholder group is to one another. Even if a company can successfully push away any stakeholders from the center of the organization, it does not address the issue of stakeholders linking together to form a stronger strategic alliance. The stakeholder interactions outside the direct firm network can have a greater effect than in-network interactions. Moreover, Rowley's negative reinforcement strategy of dealing with stakeholders can lead to greater fundamental issues with how stakeholders are defined and interact with the organization. The detriments of an organization pushing

away its stakeholders have led to more work in the field of stakeholder to management to improve relations.

Philips attempts to improve the stakeholder management model by including ethics to limit the negative impact of corporations on individual stakeholder groups. Philips sees stakeholder management theory as "the theory of organizational management and ethics."[27] He expands upon his ethical treatment of stakeholder management to include fair treatment of workers. Philips describes his definition of fairness as "Whenever persons or groups of persons voluntarily accept the benefits of a mutually beneficial scheme of cooperation requiring sacrifice or contribution on the parts of the participants and there exists the possibility of free-riding, obligations of fairness are created among the participants in the cooperative scheme in proportion to the benefits accepted."[28] Philips is moving in a new direction in approaching the topic of working together with stakeholders. It is unlikely in a bargaining arrangement with a stakeholder that attempts to be fair are even discussed. It is more typical that a firm falls prey to the prisoner's dilemma, wherein both sides chose to win at the expense of the other, each losing in the process. While fairness would be ideal in all interactions, it is unlikely to happen due to a disparity in power between the bargaining parties involved. Philips, however, is moving in a new direction towards collaborative stakeholder management.

Recently, the case for stakeholder collaboration has been furthered by Freeman in his book Managing for Stakeholders. He makes the case for collaborating with

---

[27] Phillips, Robert. Stakeholder Theory and Organizational Ethics, Berret-Koehler Publishers 2003

[28] Philips, Robert A., *Stakeholder Theory and a Principle of Fairness*. Business Ethics Quarterly, Vol. 7, No. 1 (Jan 1997) pg. 57

stakeholders and paints a far rosier stakeholder picture than most stakeholder theorists. Freeman talks about creating value for stakeholders, claiming "executives need to understand in detail each stakeholder's: (I) actual or current behavior; (2) its cooperative potential, or how it could help a firm achieve its purpose, and (3) its competitive threat, how it could prevent a firm from achieving its purpose."[29] Freeman sees proper stakeholder management as an issue of leadership, and sees leadership style and tone as the best way to interact with stakeholders.

There are flaws in Freeman's idealized logic. Stakeholder collaboration is not the same thing as stakeholder prioritization. It is not always possible to collaborate with all stakeholders, at times the needs of one group need to be prioritized over the needs of another, depending on the conditions a business is facing, and this concept is not fully addressed in Freeman's tome. Moreover, Freeman claims "a stakeholder in an organization is (by definition) any group or individual who can affect or is affected by the achievement of the organizations objectives."[30] This broad stakeholder view, combined with the desire to satisfy all of these stakeholders at the same time, is both unattainable and undesirable for a real world firm. Moreover, leadership styles do not address, and many times do not change, fundamental inadequacies in the organizational structure that may have caused poor stakeholder relationships.

---

[29] Freeman, Edward R. etc. Managing for Stakeholders: Survival, Reputation, and Success. Yale University Press 2007 pg 15

[30] Freeman, Edward R. etc. Managing for Stakeholders: Survival, Reputation, and Success. Yale University Press 2007

The desire of Rowley to push stakeholders away and the desire of Freeman to unite all stakeholders together expose the gaping hole in stakeholder management theory. The two prevailing models are divergent. One proclaims that the corporation should be at the center of its stakeholder web at all times, while the other asserts that all stakeholder needs should be met at all times. Both models are entirely unattainable for a real world firm in a dynamic environment. A more nuanced approach is optimal, and can lead to a successful company regardless of the current business cycle. Corporations need to define internal criteria to determine which stakeholders should be kept at arm's length, and which are viable partners for collaboration. Moreover, the stakeholder relationship should be constantly changing and evolving. Just as what was good for the business ten years ago may not be best for it ten years from now, its stakeholder relationships should not remain static. This is where strategic planning and organizational theory must combine with stakeholder management.

The study of what constitutes a stakeholder must also be augmented by organizational theory. Part of the goal of organizational theory research is to examine the structure of an organization to see how an organization can and should interact with stakeholders, based on the firm's interpretation who they define as a stakeholder. Stakeholder recognition and an organizational framework which allows a firm to interact with stakeholder groups according to its internal goals and objectives are vital to the success of any firm.

Organizations need to understand the strengths and weaknesses of their organizational structure in how they interact with stakeholders. Many different organizational structures exist in large corporations. A "flat" organization is one that has little, if any, hierarchical structure in place, where all workers are on roughly the same level. This structure can help to empower workers, but the lack of formal authority figures may make it difficult to effect change at different levels of the organization. The majority of organizations are not flat. They typically have a rigidly-defined hierarchy typically emblazoned on an organizational chart distributed throughout the office. This structure can include many different divisions with shared functional departments, such as shared accounting or legal resources.

There may be an ideal organizational structure for any organization at a certain point in its lifetime, but there is no organizational structure that can remain unchanged for decades and still allow a company to function at optimal efficiency. This is the trap that large firms seem unable to extricate themselves from. Chandler in his tome on the great leaders of organizations in the early part of the 1900's wrote best about the changing needs of organizations, stating "the failure to develop a new internal structure, like the failure to respond to new external opportunities and needs , was a consequence of overconcentration on operational activities by the executives responsible for the destiny of their enterprises, or from their inability, because of past training and education and present position, to develop an entrepreneurial outlook."[31] Many companies suffer this

[31] Chandler Jr., Alfred D. Strategy and Structure: Chapters in the History of the American Industrial Enterprise. The MIT Press, 1962. Page 16

problem, when they face "periods of momentum in which there was a reluctance to tamper with well tried formulas, and the effects of cognitive limitations and the nature of power and ideology constrained attempts at change."[32] Ideology is a word that should stand out. It is the ideology of a company in the form of leadership, as Freeman discusses, or in the form of a corporate mission statement which drives the internal and external impression of the firm. It is important for an organization to understand how its corporate culture can affect how it interacts with stakeholders.

A successful organization should be able to systematically identify its stakeholders and manage its relationships with them throughout time by changing its organizational structure and aligning its relationships with its strategic plan. A failing organization is mired in the past with an unchanging organizational structure, and an unwillingness to meet the needs of a changing marketplace.

The analysis of General Motors that follows is a case study of the latter.

---

[32] Faulkner, David. Strategy: Critical Perspectives on Business and Management, Volume 1, Routledge, 2002. Pg 9

Chapter 3: Methodology

The next step in the process of testing the application of stakeholder theory is case selection and determination of how to collect data to obtain relevant repeatable results.

Research Design:

The purpose of this single case study is to refine and refocus the theory to make it more relevant to large corporations. Single case theory is ideal to test stakeholder management theory. Yin describes the use of a *critical case* "To confirm, challenge, or extend the theory, there may exist a single case, meeting all of the conditions for testing the theory. The single case can then be used to determine whether a theory's propositions are correct or whether some alternative set of explanations might be more relevant."[33] Stakeholder theory is the ideal theory to be tested using a critical case methodology.

The current research on stakeholder theory is inadequate. The existing theories are either inapplicable to a real world firm, or will lead to failure if and when they are applied. A full understanding of why these theories cannot work is necessary to demonstrate that there is room in the field of stakeholder management for a practical approach. Moreover, these theories lack relevance if they cannot be applied to a firm. Their claim at being universally applicable can be easily disproved by testing them at a single firm. Moreover, in order to test these theories against each other it is necessary to analyze their use within a single firm. Comparing the stakeholder management approach of one firm to another firm managing a different type of stakeholder with a different

[33] Yin, Robert K. Case Study Research: Design and Methods. Applied Social Research Methods Series, Vol. 5, Sage Publications, 1994, pg 38.

theory will produce irrelevant results. Cross firm analysis comparing differing theories cannot prove the flaws of a single theory. Studying a large firm with a well documented history of stakeholder interaction, and comparing the treatment of one stakeholder group to another will demonstrate the flaws in the current stakeholder theories. For these reasons, the most relevant data will be obtained from a single case study.

Determining the critical case to test stakeholder theory did not prove difficult. I have selected General Motors to study this theory. There are several reasons for this choice. First, General Motors is one of the largest corporations in American history, if stakeholder theory does not apply to General Motors, than it does not work for a smaller corporation. Second, General Motors has a long and well-documented history spanning both bull and bear market times in the United States. The fact that General Motors has survived throughout many business conditions makes it particularly interesting to analyze over the course of the spectrum of business conditions. A corporation with a shorter history only having survived during part of an economic cycle may give skewed results as to the effectiveness of stakeholder theory. A study of the corporation can lend insight into other large corporations. General Motors recently made headlines by declaring Chapter 11 bankruptcy. The company was in the top 10 in the Fortune 500 rankings every year since the inception of the ranking. How a company can have higher revenues than any other company in the world for such a long time, yet buckle under the costs of continuing as a company is indicative of substantial flaws in the application and understanding of stakeholder management. Under Yin's definition of a single case study,

General Motors Corporation can be seen as the critical case in this context. Its visibility, size, and history make it ideal.

Selecting a case, just like identifying a stakeholder, is only the first step in the methodological process. This will be an embedded, single-case design, a type of single case design which involves several sub-units of analysis.[34] The embedded, single-case design makes more sense for analyzing stakeholder theory then the holistic approach. The embedded approach allows analysis on different sublevels, such as the sublevel of GM stakeholders (the government, UAW), stakeholders of those stakeholder groups (workers, taxpayers and consumers), and a broad view with General Motors itself treated as a stakeholder. This allows an in depth analysis of not only the evolution of stakeholder theory application at a single company, but stakeholder theory at the different levels of a corporation.

It is most relevant in stakeholder theory to use a longitudinal approach, wherein a single firm's interaction with a stakeholder is analyzed over time to see if there are changes in interaction patterns. This will bring to light flaws in the current stakeholder management practices, and a longitudinal approach to stakeholder management using the methodology described later is replicable to any other firm. The change over time in interaction can bring greater insight into the theory.

[34] Yin, Robert K. Case Study Research: Design and Methods. Applied Social Research Methods Series, Vol. 5, Sage Publications, 1994, pg 42.

It is impossible to fully analyze every stakeholder in an organization. The purpose of this single-case study on General Motors is to analyze the current stakeholder management theories, determine if General Motors applied the theories in any consistent matter, and see if a more appropriate theory exists. An analysis of any large corporation employing the methodology set forth would demonstrate the same holes in stakeholder theory. GM was selected not merely for its size, as any other large corporation could have been selected, but because it has a well-documented history and its recent bankruptcy and the confusion over its failure makes it a company of particular cultural relevance to study.

Data Collection:

General Motors has many tiers and types of stakeholders. To simplify the issue of stakeholder analysis and identification to a more manageable scope it is necessary to examine a subset of the stakeholders within the organization. The following methodology is applicable to any single case study of a large organization.

General Motors has consistently high revenues compared to the auto industry, yet has low or negative profitability compared to the industry as a whole. In order to analyze this main financial issue of the company, only the stakeholders contributing the most to the company's costs will be analyzed. While other stakeholders may have an effect on the organization, before the company can regain profitability, it needs to understand the origins of its high costs. This methodology could be applied to find the stakeholder

management problems with another company by selecting and analyzing the stakeholders that generate the highest costs (or most significantly reduce revenues) for that company.

Analysis:

The stakeholder which contributes most to General Motor's costs is labor. Its workforce and correspondingly the UAW are therefore analyzed as a key stakeholder in this study. Stakeholder interaction will be analyzed over the history of the UAW in its interactions with General Motors, and with other companies such as Ford and Chrysler in so much as how they affect General Motors. To analyze the change in relationship, the UAW pattern bargaining agreements and contracts will be examined to see wage changes and bargaining term evolution throughout the company's history. This interaction will be analyzed to see if the promises made on either side can be explained with an existing stakeholder theory, or if the existing theories furthered the problems between the two organizations. Stakeholder collaboration with the UAW can also be compared to pension funding levels compared with industry average over the period. This metric defines the strength of General Motors promise to the union and how seriously they consider their obligations. A qualitative measure to the interaction between the company and the UAW will be analyzed with the press releases of both GM and UAW executives to determine if language usage and patterns can explain underlying sentiments of the two organizations.

The government contributes directly and indirectly to General Motor's costs. Corporate tax is seen to be irrelevant in this work, as all corporations throughout different industries are subject to the tax and thus it does not show a trait unique to tax policy

within General Motors. The governments more indirect impact on cost comes from NHTSA requirements. This thesis will use historical legal action between GM and NHTSA to determine the effectiveness of the organization and its strength in influencing General Motors. Additionally, it will be worthwhile to see if there is a cost increase per car after major NHTSA legislation is enacted.

A timeline of important events in the auto industry in addition to company stock prices correlated to the Dow Jones Industrial Index will be compared to see if negative stakeholder interactions can be correlated to business cycle changes. This will serve as a control variable to determine the effects of the economy on stakeholder decisions.

A longitudinal approach is the best way to analyze the aforementioned stakeholder interactions. Historical interactions across the lifetime of the company will be analyzed among each stakeholder and compared on a decade by decade time frame. This way the stakeholders can be compared against each other and across time to determine if any prioritization patterns develop. A longitudinal approach is the simplest and most replicable approach for a single case study on a large firm with a long history.

Next is a qualitative approach analyzing the annual reports and press releases from PR Newswire and corporate releases to analyze the language used and the implicit thoughts about stakeholder interactions and relationships.

The analysis methods to study each stakeholder studied in this thesis will be combined to compare stakeholder interactions throughout each time period. It will be

interesting to determine if there is a stakeholder prioritization pattern, or if the interactions drove the business to increase revenues or reduce costs.

Chapter Four: Results

The purpose of this section is to analyze interactions between GM and its stakeholders to determine the inadequacies with current stakeholder theory. The stakeholder interactions will be analyzed over time to determine which stakeholder theories were enacted in differing periods, and analyze any transitions. The discussion section that follows will give further analysis of how stakeholder theory and stakeholder management needs to be expanded to suit the needs of modern corporations, and the conclusion section will discuss areas of further research that can lend further insight into the stakeholder arena.

The lack of a dynamic stakeholder management strategy in the early part of the company's history has led to a consistent reduction in profitability from which the company could not recover. The analysis of the annual reports from 1986-2009 demonstrates the effects of changing government accounting policies, leading GM to present themselves in a more favorable way to shareholders, the problems associated with the UAW's dominance over the corporation, the increasing regulatory burden from the NHTSA and the company's own desire to increase the amount of automobile offerings, and how the company could possibly not have noticed how quickly they were failing.

Founding – 1950: Paternalism

Alfred Sloan appeared to have a paternalistic approach to his workers. He, like Henry Ford, applied the high wage doctrine to his worker payment structure. Withers

first expressed the high-wage doctrine in 1914, explaining "it is to the interest of all shareholders -- or whoever it may be that takes the surplus profit of an industry -- that the workers of all other industries should be better paid, because thereby an enormous body of people with money to spend would be given more money to spend.... For the slice taken out of profits would be more than made up by the bigger turnover and bigger profits to be got owing to the wider and keener demand by a large body of better paid workers."[35] Ford initially implemented the wage increases to workers, and GM followed shortly after to remain competitive against Ford's wage structure.

It should come as no surprise that GM's payment structure was dictated by the actions of another automaker. GM and Ford influenced and were influenced by the actions of the other for as long as they have both been in existence. It is the competitor as a stakeholder that has been overlooked in much of the literature on stakeholder theory. Initially the GM – Ford stakeholder linkage was limited to market share competition. GM came to dominate Ford in the late 1920's when customers grew tired of Ford's single model offering. Ford had dedicated all of his factory resources toward producing a single car, the model T. When customers grew a taste to the wide variety of market offerings from GM, Ford had to go through an expensive retooling process to make the model A in their factories to suit customer needs. It was Sloan's organizational design to have the "GM organization designers separate[d] and differentiate[d] the company according to

[35] Taylor, Jason; Selgin, George, *By Our Bootstraps: Origins and Effects of the High-Wage Doctrine and the Minimum Wage*, Journal of Labor Research 20 no4 447-62 Fall 1999

the strategy of serving different markets."[36] Sloan's innovation with introducing GMAC to change customer perception about price and his concept of planned obsolescence to change customer perception about how to sell cars helped GM claim majority market share over Ford. Sloan strived to have GM overshadow Ford, and he successfully positioned GM as a company with a car "for every purse and purpose." This striving to overshadow the company, however, would lead to closer ties between the organizations than normal. Sloan innovated across the business to gain customers and have them grow with the company, in contrast to Ford's strategy of forcing customers to grow to like only one car, the model T. Sloan's policy to encourage customers to grow up along the GM product line offerings was threefold:

> "We said first that the corporation should produce a line of cars in each price area, from the lowest price up to one for a strictly high grade, quantity production car, but we would not get into the fierce price field with small production; second, that the price steps should not be such as to leave wide gaps in the line, and yet should be great enough to keep their number within reason, so that the greatest advantage of quantity production could be secured; and third, that there should be no duplication by the corporation in price fields or steps."[37]

It is Sloan's greatest successes in the pre-war era that would open the door for subsequent managers to fail. The decentralized organizational structure was lauded along with the "car for every purse and purchase," but the combination of the two would pose problems. The lack of direct oversight and communication with the designers was seen as an asset until each division decided to maximize its own wealth, as opposed to the wealth of the firm. The divisions began to compete for market share, and subsequent

[36] Tedlow, Richard. *The Struggle for Dominance in the Automobile Market: The Early Years of Ford and General Motors*. Business and Economic History, Second Series, Volume Seventeen, 1988

[37] Tedlow, Richard. *The Struggle for Dominance in the Automobile Market: The Early Years of Ford and General Motors*. Business and Economic History, Second Series, Volume Seventeen, 1988

managers did not adequately manage this competition, as demonstrated in the graph at the end of this section illustrating the redundancies in vehicle offerings at the same price by 2008.

While Sloan was busy trying to align the product offerings of GM with the goals of the customer, labor was beginning to feel neglected in the competition. High wages alone were not enough to keep labor happy following the depression. Labor unrest over work conditions and the desire for higher wages would lead workers to try to band together to bargain for their collective good.

The National Industry Recovery Act was the first government action to lead the way to union formation. Section 7a of the act "guaranteed the right to bargain collectively through representatives chosen by the members without employer interference."[38] This showed the stakeholder-interaction between the Government and what would become the UAW. The stakeholder interactions forming outside of the firm were as important to the corporation as any internal interaction, yet they received less attention from management than internal issues. A stronger lobbying arm may have limited the detrimental effects of union formation, but a strong management team could have mitigated the effects of union lobbying in their interaction with GM each contract year.

The National Industry Recovery Act led the way to employee organization at unprecedented levels, most notably in the auto industry. The auto workers union wanted

---

[38] Buffa, Dudley W. *Union Power and American Democracy: The UAW and the Democratic Party 1935-72*. The University of Michigan 1984, pg 3

to retain the strength against the large companies they felt oppressed them, and felt their large size and organization could be an advantage to them in political lobbying. The UAW was increasing its power and visibility with the government well before it tried to exert its strength on the Big Three.

The labor union had a high level of interconnectedness with the government early on. The UAW worked together heavily with the Roosevelt Administration, and gave the Democratic Party strong political support.[39] This conferred mutual benefit to both organizations. It allowed the democrats to have the strong political backing of the union. It gave the union the democrat's political power to fight the republicans, who mainly favored the needs of big business. This strong degree of interconnectedness between two of GM's major stakeholders went overlooked for too long. The stakeholder network discussed by Rowley was already forming outside of the corporation before it was fully integrated within the organization. His treatment of stakeholder theory does not adequately address issues with networks outside of the firm. Moreover, the government – UAW stakeholder relationship and how it affects the firm is not fully addressed by any existing stakeholder theory. The fact the GM attempted to manage their stakeholders after the legalization of the maximize shareholder wealth doctrine with the Rowley model would prove problematic. It was not only GM's direct network, but the network developing around it that was beginning to exert the greatest pressures.

[39] Lichtenstein, Nelson. Labor's War at Home: The CIO in World War II. Cambridge university Press, 1982, pg 6

The UAW meanwhile was quickly gaining legitimacy with the government and already affecting policy decisions, but it felt it needed to exert its urgency in the form of a large-scale strike for GM to recognize its legitimacy as a stakeholder of the organization. The strike began because GM had forced what would become the UAW to bargain at the individual plant level, as opposed to GM as a whole, according to the collective bargaining policy already in place at GM. The UAW disagreed with this policy, stating "the principal issues it wished to discuss with the company – recognition for collective bargaining, seniority rights, minimum wages, and the speed of the production line – were national in scope and must consequently be dealt with by union and management representatives for GM as a whole."[40] GM tried to assert dominance over the UAW strike by attempting to "block food shipments into the plant, turned off the heat, and called in the police (who used tear gas and billy clubs) and tried to use court injunctions to remove striking workers from plant premises."[41] All of this was to no avail. The sit-down strike would strike fear in the hearts of GM executives for years. The striking workers finally convinced GM to give into their demands and recognize the UAW as the only bargaining authority to bargain on the behalf of GM workers.

The 1937 wildcat sit-down strike led GM to formally recognize the UAW in 1937, but GM has never accurately recognized the power it had over the auto giant over the decades. General Motors seemed to feel prior to the strike, and to some degree following it, that if they treated the workers fairly that the UAW would not retaliate or bargain for

[40] Fine, Sidney. The General Motors Sit-DownStrike: A Re-examination. The American Historical Review, Vol. 70, No. 3 (Apr., 1965)

[41] Ephlin, Donald F. Revolution by Evolution: The Changing Relationship Between GM and the UAW. The Academy of Management Executive (1987), Vol. 2, No. 1 (Feb., 1988), pp 63-66

their direct benefit. Philips fairness model and Freeman's collaboration efforts would prove futile in the early dealings with the UAW. The fairness model for stakeholder theory did not work well in conjunction with a stakeholder group (the UAW) that used the urgency of a strike to emphasize their power and legitimacy. The union was also backed by the power of the government in recognizing the union's ability to form. At this point in history, the UAW was relatively powerful in comparison to General Motors, but it was their perceived power, in the form of supposed willingness to strike that made GM attempt to prioritize them. GM attempted fairness with their paternalistic model to the union. GM's stakeholder goals for the union were different than the goals the union had, thus GM needed to find a more effective way to interact with the union. This dynamic approach to union collaboration would occur decades later, only years prior to GM's bankruptcy. This last ditch effort to save the company is underscored by the fact GM only first discussed the importance of organizational change in their 1988 Annual Report.

Following the wildcat strikes, the UAW wanted to increase their urgency with the firm using the stakeholder network approach. "Direct shop floor activity legitimized the union's presence for thousands of previously hesitant workers who now poured into union ranks; such job actions established a pattern of union influence and authority unrecognized in the early, sketchily written contracts … they demanded constant attention for their problems and had the ability to reinforce their demands by group

action."[42] When GM buckled and allowed collective union bargaining, it strengthened the ties not only within the corporation, but also allowed the organization to gain greater strength and visibility outside of the network, most notably to other affected stakeholders of the UAW, most notably Ford and Chrysler.

General Motors appeared unable to control the greater power attained by the union after the wildcat strikes, and attempted to use the fairness model again when bargaining with the UAW during WWII. Prior to the war, GM had reached an agreement with the UAW, with the backing of the government, that there were to be no strikes during the war so that production could remain high to suit the needs of the soldiers. While they were supplying the war abroad, the battle lines were being drawn within the company.

The 113-day strike following the loss of military contracts after the war would cripple GM. The pain trickled down to every stakeholder level of General Motors. The hourly workers were first to suffer from lack of a pay check. Next to suffer were suppliers accumulating a glut of inventory with no cars to put them in. The dealers than suffered profit loss from having empty dealerships, and stockholders cringed as profits plummeted throughout the strike. The strike would forever color GM's interaction with its labor force. To this day, GM holds 113 days of inventory, well above the industry

[42] Lichtenstein, Nelson, *Auto Worker Militancy and the Structure of Factory Life* (1937-1955). *The Journal of American History*, Vol. 67, No. 2 (Sep., 1980), pp. 335-353 Published by: Organization of American Historians

average of 60 days of inventory.[43] The union finally understood the power they held over the auto giant during the 113 day strike. They took this to be indicative of their future power, and used their ability to destroy profits to their advantage.

The workers considered themselves to be at the level of stockholders: deserving of the once vast profits of General Motors. During the war effort the UAW did not strike to support the country, but following the war, the UAW would strike to support themselves. According to Elphin, the UAW leaders felt that since GM had weathered the war profitably, that GM should open the books to them and give the workers a large raise. GM did not want to open the door to the possibility of collusion with the UAW to not maximize shareholder wealth, and refused to bargain with the union until after 113 days the conditions had deteriorated so much and so many plants were idling, that GM capitulated to workers demands in part by giving them an $0.18 per hour raise.[44] This capitulation to stakeholder pressure would only further strengthen the UAW, and reaffirm to them that bargaining through urgency would allow them to reap great rewards.

The collective bargaining agreement with the UAW in 1949 followed the 113-day strike. Three provisions prevailed that would change how GM should have interacted with the union, and how union interaction would occur in the future with the Big Three. The first provision provided for an 11 cent per hour wage increase, of which 8 cents per hour was to return wages to 1940 levels of buying power, with the other three going to a

---

[43] Bensinger, Greg. "GM Loses Almost a Third of Daily Output as Plant Closings Widen" http://www.bloomberg.com/apps/news?pid=20601082&sid=arjrgMUB_c5I&refer=canada accessed 2/21/2010

44 Ephlin, Donald F. Revolution by Evolution: The Changing Relationship Between GM and the UAW. The Academy of Management Executive (1987), Vol. 2, No. 1 (Feb., 1988), pp 63-66

standard of living increase.[45] The second provision allowed for a one cent per hour increase for every 1.14 rise in the consumer price index, with a corresponding one cent per hour decrease (up to five cents) for a similar decline in the consumer price index.[46] The first two provisions were innocuous enough; it was the third that would have the greatest effect on future labor relations. The third provision stated "an additional three cents per hour will be added to all base rates on May 29, 1949."[47] This increase occurred regardless of a productivity increase, or even decrease. The prevailing system prior to this provision was to reward productive workers with the corresponding increase in profits from increased auto sales. This system rewarded worker productivity and made a raise the result of hard work. GM perceived the union as having greater power than it actually did, and thus capitulated to their precedent setting demands to avoid a strike. It was the union's perceived power by GM, and not their actual power to collectively strike that drove the majority of stakeholder management with the firm in this period. The collective bargaining agreement opened the door to further paternalism with GM, who would soon make the decision to care for its workers after their tenure with the firm, in the form of pension and healthcare benefits for retirees. This paternalism continued GM's desire to use the ineffective fairness model with their employees.

---

[45] Ross, Arthur M. *The General Motors Wage Agreement of 1948*. The Review of Economics and Statistics, Vol. 31, No. 1 (Feb., 1949), pp 2

[46] Ross, Arthur M. *The General Motors Wage Agreement of 1948*. The Review of Economics and Statistics, Vol. 31, No. 1 (Feb., 1949), pp 2

[47] Ross, Arthur M. *The General Motors Wage Agreement of 1948*. The Review of Economics and Statistics, Vol. 31, No. 1 (Feb., 1949), pp 2

In the 1940's, Alfred Sloan viewed pensions as "extravagant beyond reason."[48] Pensions became a popular tool used by employers during WWII. During the war, the government instituted wage freezes, so the only way firms could attract and retain more talented workers than their competitors was to use pension and health benefits as a way to increase compensation. This strategy works well for small firms with high value added employees that would cost the firm if they were to defect. In a large manufacturing company were the worker is as interchangeable as the work product, using pensions as a retention strategy appears to be flawed logic. Moreover, Sloan understood even in the 1940's that the overwhelming legacy costs of pension and health costs could one day cripple the company. Unfortunately, GM did not have a choice in giving out pensions. The UAW convinced Ford to give it pension benefits in 1949, GM had to follow suit by 1950 in order to avoid alienating the Union and causing a strike.[49] This is yet another example of a major policy decision dictated by the whims of Ford. GM appears to be the market follower of Ford, innovating only after Ford places a burden on the company. GM's stakeholder management strategy is seriously lacking in the cause and effect interaction between competitor decisions and decisions GM must face.

The UAW's interconnectedness with not only the government but the other members of the Big Three was a tremendous failure in stakeholder power identification. This oversight made GM think it was in control over its stakeholder network through use

[48] Lowenstein, Roger. "The End of Pensions," The New York Times October 30, 2005
[49] Lowenstein, Roger. "The End of Pensions" The New York Times October 30, 2005

of paternalistic practices, when in fact GM was starting to become part of the UAW's extended stakeholder network.

It is this point that is not addressed in current stakeholder management literature. There are multiple, and oftentimes competing, goals between stakeholders. It is necessary to expand network theory not only beyond dyadic ties in the case of Rowley, but beyond the perceived scope of the corporation.

As the corporation grew in complexity, so too did its stakeholder network. Originally, it seemed reasonable to be firm focused, but the UAW changed the rules of the game with their collective bargaining practices. The UAW would select a target for the year to use as a benchmark for future negotiations with the other major competitors in the auto industry. Thus the UAW saw the Big 3 of the auto industry as its stakeholders to be played against each other. It is this bargaining pattern that moved the UAW to the center of its own network, pushing GM to the outside. This subtle shift occurred over time, but each concession made by any of the Big 3 automakers had a direct effect on the other members of the Big 3. The charts below show the evolution of GM's stakeholder network and how they should approach it over time.

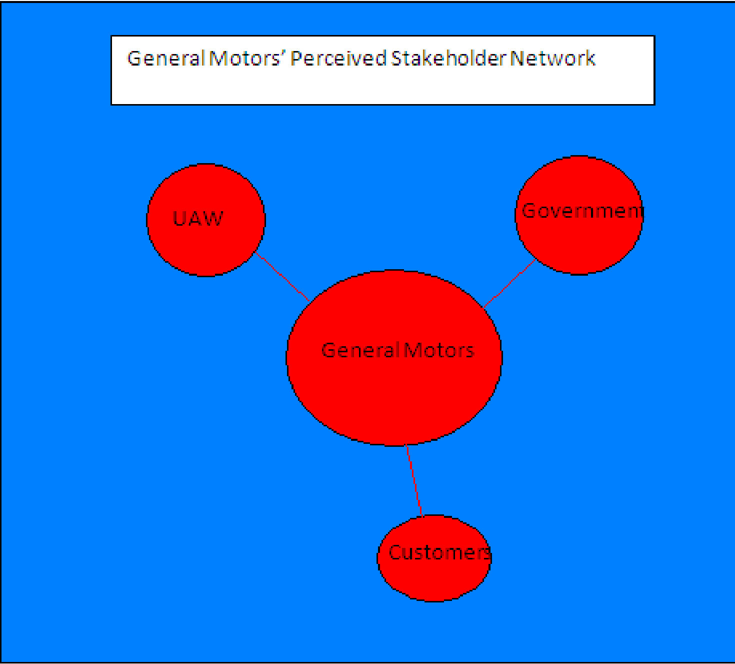


Figure 1: General Motors Perceived Stakeholder Network

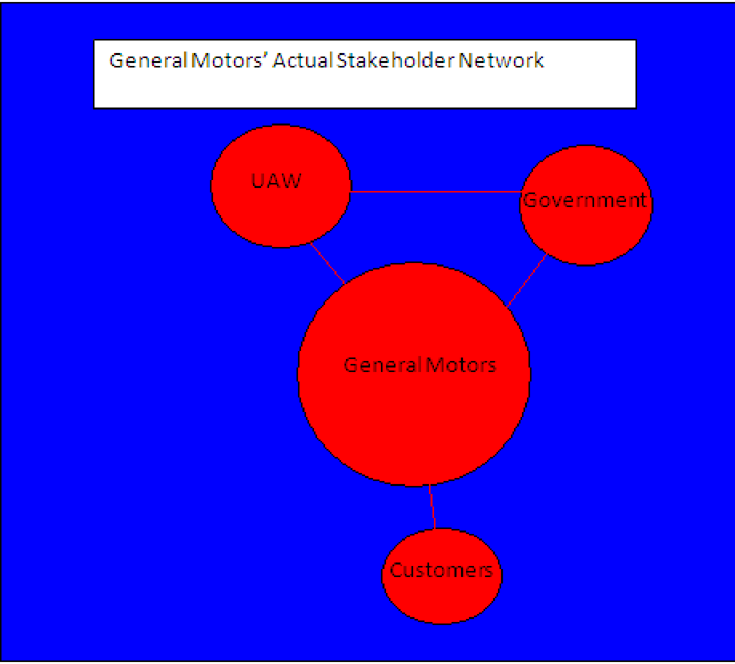


Figure 2: General Motors Actual Stakeholder Network

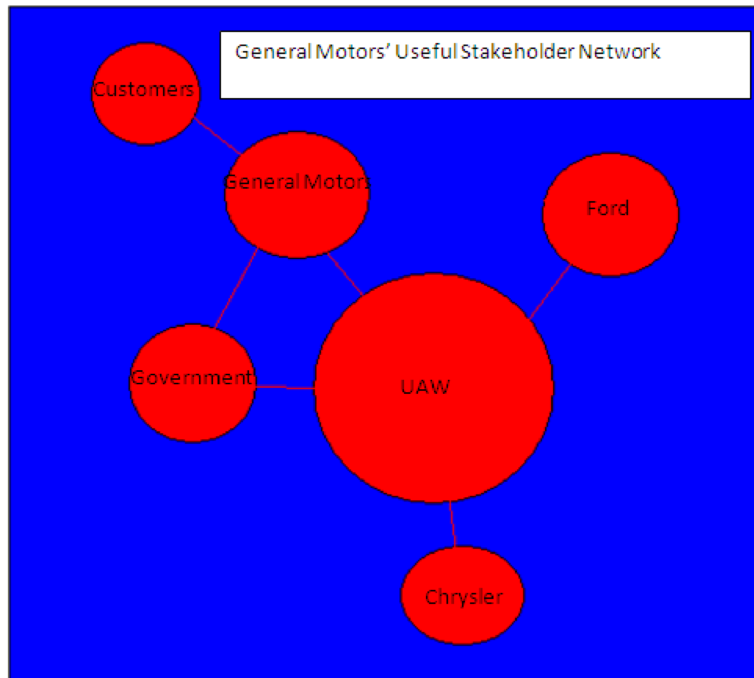


Figure 3: General Motors Useful Stakeholder Network

Had General Motors viewed itself within the third stakeholder model, then it would have been able to correct the mistakes of its past and reorient the company. Its inability to be perceived as part of a greater network led to the problems that follow.

1950 – 1990: Political "Stronger"

By 1950 the framework for stakeholder interaction had been set. GM was in the unenviable position of positioning itself at the center of its stakeholder network while not contemplating the implications of being a part of a larger stakeholder web. Moreover, every decision GM made set a precedent for further decisions, such as leniency with the UAW or negative interactions with the government. GM was foolhardy but trapped into offering the UAW pensions, but it was not alone in offering pensions to its workers in 1950. Pension became hugely popular in large corporation following WWII as a way to

attract soldiers who had already grown to expect a large corporation (specifically the military) taking care of them financially in exchange for years of their dedicated service. The graph below shows the increase in popularity of defined benefit pension funds.

Table I

U.S. Private Pension Plans, Selected Years, 1940–1980

Year	Workers Covered (million)	Contributions ($ million)	Assets ($ billion)
1940	4.1	310	2.4
1945	6.4	990	5.4
1950	9.8	2,080	12.1
1955	14.2	3,840	27.5
1960	18.7	5,490	52.0
1965	21.8	8,360	86.5
1970	26.3	14,000	137.1
1975	30.3	29,850	212.6
1980	35.8	68,970	407.9

Source: A. Munnell, *The Economics of Private Pensions*, Washington, D.C.: The Brookings Institution, 1982.

Table 2: Private Pension Level Comparisons[50]

Soon the lure of a pension was not enough for the UAW; they felt entitled to more benefits. This is reasonable from the framework of past interactions with GM; if the UAW could always use some method to get what they wanted, and the organizational structure and organizational culture of GM allowed this to continue, it only made sense for the union to continue to reap the benefits of bargaining. The UAW through all of its actions did not appear to understand or care about the tremendous burden of their costs on the company, and decided to further burden the corporation by trying to limit the effects of business cycles on employees. Since reward was already decoupled from

[50] Bicksler, James L., Cohen, Andrew H. *The Integration of Insurance and Taxes In Corporate Pension Strategy*. The Journal of Finance, Vol. 40, No. 3, Papers and Proceedings of the Forty-Third Annual Meeting American Finance Association, Dallas, Texas, December 28-30, 1984 (Jul., 1985), pp. 944

performance in the 1948 bargaining agreement, this was not a new strategy implemented by the UAW. Elphin of the UAW argues for the Supplemental Unemployment Benefits:

> "Although the auto companies were relatively strong, they were also plagued by cyclical downturns in the industry. Workers often found themselves out on the street during these downturns and during the then-annual changeover of models. In 1955 the union took a major step in guaranteeing an annual wage with the adoption of the Supplemental Employment Benefit (SUB) program, an income cushion for laid-off workers. This layoff protection plan has stood the test of time by providing hundreds of thousands of workers with an economic safety net during some lengthy interruptions of work."[51]

Not only is this a poor stakeholder management decision of prioritizing the desires of labor in rough times during a poor business cycle, but it goes directly against the maximize shareholder wealth mantra by putting the extra capital of the company into the hands of workers over shareholders. To use excess funding in unprofitable years to subsidize unneeded labor is poor management. Unfortunately, there didn't appear to be a better way for General Motors at the time. GM had cultivated a paternalistic culture of giving into the demands of the UAW, and if the wants and desires weren't met, there was an ever-present possibility of strike. This consistent acceptance of the bargaining terms of the UAW throughout time severely limited GM's ability to change bargaining strategies and by extension stakeholder management strategies over time with the UAW. Past weaknesses in bargaining would be yet another legacy cost GM was forced to carry.

Worker wages, even unemployment wages, were far from the biggest labor costs plaguing the organization. The number of workers covered by GM through defined-

---

[51] Ephlin, Donald F. Revolution by Evolution: The Changing Relationship Between GM and the UAW. The Academy of Management Executive (1987), Vol. 2, No. 1 (Feb., 1988), pp 63-66

benefit pensions was growing exponentially as the decades went on, but corporate profits were not keeping pace with the growing burden of a workforce aging out of work and into their pensions. In 1962 GM was in a relatively strong position, with 464,000 employees supporting 31,351 hourly pension plan recipients and 8,885 salaried pension plan recipients.[52] GM knew this balance would not last long. To get the increasingly higher returns on their pension assets required to keep their plans funded for the increase of pension plan recipients in the future there was a dramatic shift in pension plan asset allocation from fixed income securities to equities, as shown in the graphs below.

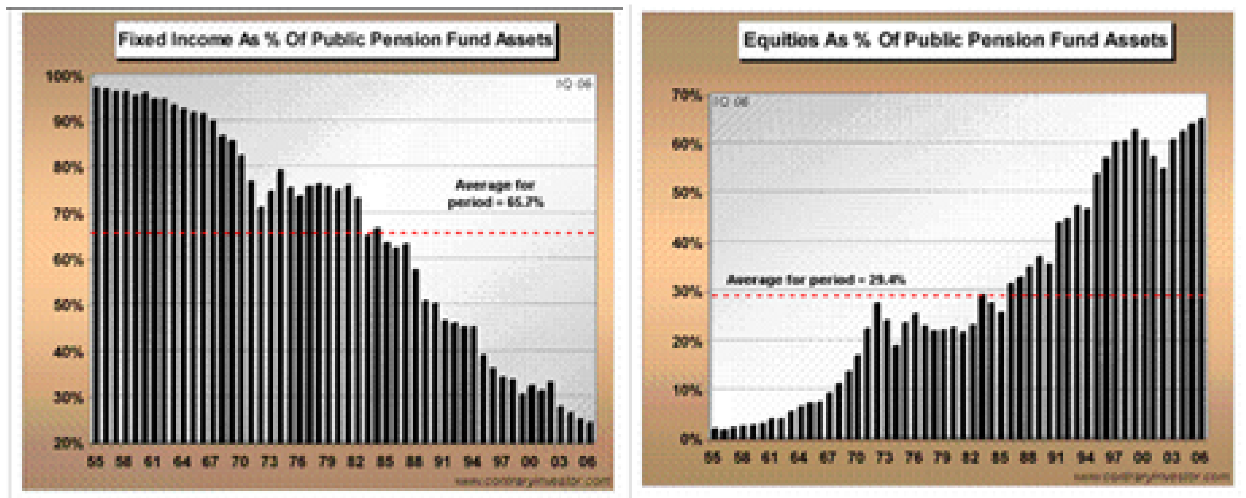


Figure 4: Fixed income and equity percentage funding levels of public fund assets
Source: www.nakedcapitalism.com/2009/03

This industry-wide shift from fixed income to equities would prove incredibly risky. While returns were high in good years, choosing an asset allocation heavy on equities for pension beneficiaries who see the money as their only source of income would magnify problems in years where the market is down. Placing fund assets in equities magnifies problems for firms that are sensitive to shifts in the economy. A firm

[52] Data from GM 2005 Annual Report

like GM, who invests their pension assets heavily in equities, experiences major problems when the economy is down, because fewer people will buy cars because of budget constraints, thus at the moments when their pension is most underfunded because of reductions in equity returns, the company is least able to contribute to the fund to bring it up to a fully funded level. Moreover, in times of economic hardship, retired pension beneficiaries are least able to find work to supplement their dwindling pension benefits. Add to this the SUB paying workers even when GM has reduced revenues in poor business cycles, and GM is facing the perfect storm, and it is how GM has managed their pension assets for decades. The UAW likely foresaw this dilemma, and used their considerable government influence to get more of a guarantee for their pension assets. In this period GM still viewed its stakeholders through the network model, seeing itself as the center of stakeholders, pushing the UAW and the government away from the center. The Mitchell, Agle, Wood model would have been more appropriate in this instance. Their model would have emphasized that GM understand the power, legitimacy, and urgency of each stakeholder group. GM understood that the UAW and the government had power and legitimacy, but GM did not understand the urgency. The union foresaw an underfunded pension plan as urgent, because pensions were implemented in 1950. By 1970 the original pension beneficiaries were 10 years away from “30 and out” with a full pension. The UAW wanted that pension money to be around 10 years in the future. The government also had urgency. GM was one of the largest employers in the US, and the largest industrial manufacturer. The government was concerned that if the pension was underfunded, that the government would have to pay for the retirements of a largely

unemployable group of auto workers nearing retirement age. Both the UAW and the Government had strong incentive to force GM to guarantee their pension fund.

The combined urgency of the UAW and the government pension needs, historically amicable stakeholders, led congress to pass ERISA in 1974.[53] Unfortunately, this guarantee is not backed by the corporations, but by the American taxpayers. The corporations pay what amounts to a negligible fee per worker per year to the Pension Benefit Guarantee Corporation, which in turn is responsible for ensuring all participating pension plans. Unfortunately, the PBGC does not have control over how long a pension can remain underfunded before it forces the company to fund the plan. Additionally, companies can use many accounting tricks to avoid fully funding their pension, tactics which will not be discussed in further detail in this paper.

GM's lack of full resistance to ERISA would be the beginning of a period of imbalanced stakeholder interactions with the government. GM, through all of its actions over the period, to soon be discussed in further detail, appeared to support the government actions that would cause the greatest increases in costs, and rebel against the government actions that would in cases have returned it to future profitability.

The Government did not act solely in the interest of the UAW during the post-war period. They also wanted to ensure that the consumer was protected from dangerous automobiles. Congress passed the National Traffic and Motor Vehicle Safety Act in 1966 to establish a government body to oversee automobile safety. This led to the

[53] Lowenstein, Roger. "The End of Pensions" The New York Times October 30, 2005

creation of the National Highway Traffic and Safety Administration. The auto industry as a whole was not thrilled with the legislation. GM was concerned that the extra cost of safety would decrease its profitability; fortunately the rest of the auto industry was trying to evade the requirements of the NHTSA as soon as they were announced. GM rallied strongly against the NHTSA, but given the state of automobile safety at the time, GM could have designed its cars to be safer and position itself in the customer's mind as a car that is wallet and person friendly. Safety as strategic positioning was, and is, lost on GM. Buick has been consistently rated one of the safest automobiles on the road, yet GM has failed to position the positive traits of safety into the consumers mind, instead leaving Buick to languish from continued years of decreased popularity.

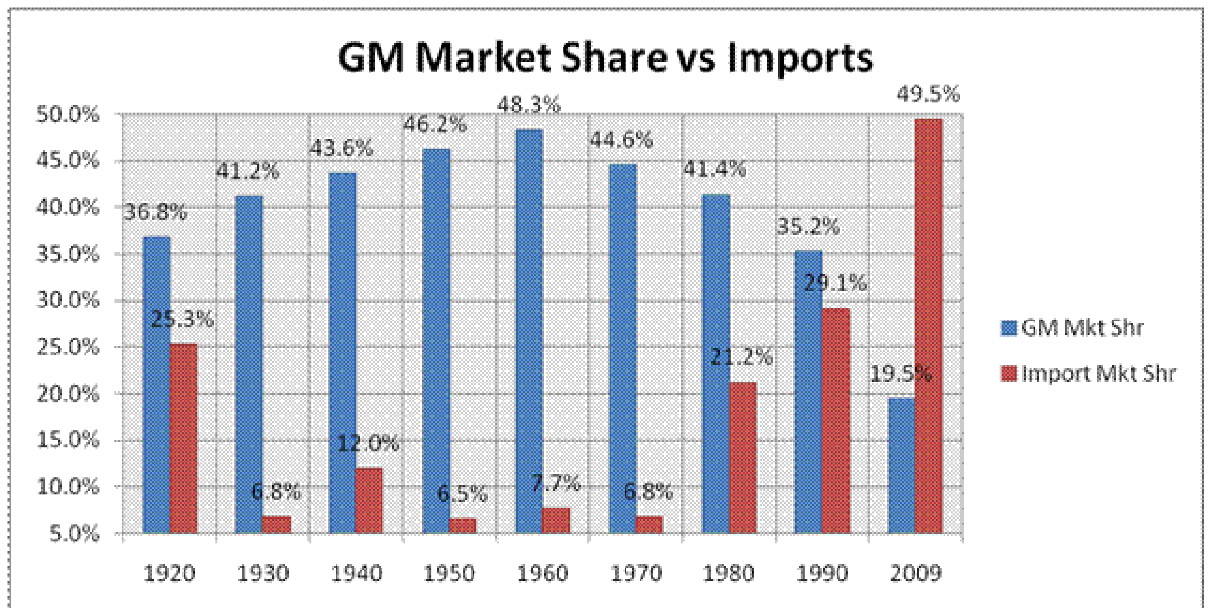
GM wasn't the only player in the auto industry to fight against the NHTSA, the first major defeat of NHTSA legislation would come from Chrysler. Chrysler did not want to pay to install passive restraints in all of their cars. Standard 208 required that automobiles be equipped with passive restraints that would protect dummies from a front-end collision at 30 miles per hour. Chrysler jumped at the opportunity to use NHTSA legislation to defeat Standard 208. They found "under the Motor Vehicle Safety Act, an objective measure for determining compliance to the standard is required. The court found that the test dummy of Standard 208 did not provide such objectivity."[54] The auto industry was already setting up defenses to push the government as a stakeholder as far outside of the network as possible. GM would follow suit and engage in many instances of legal action against the NHTSA from its founding until the modern era. Most notably, GM objected

---

[54] Warshaw, Jerry L., Harfst, David L., *The Struggle for Auto Safety*, Volume 4, Spring Issue 1991, Cambridge, Massachusetts: Harvard University Press, 1990

to recalls of its vehicles. As recently as 2005, GM received the largest fine ever levied by the NHTSA, $1,000,000 for failure to timely report a recall.[55]

All of GM's policies and stakeholder interactions would lead to large and increasing costs per vehicle over the years. It is ineffective stakeholder management that led to huge increasing cost per car over the years, which led to subsequent drops in marketshare.



Source: Automotive Data Center & R.L. Polk

Figure 5: GM Market Share vs. Imports from 1920-2009
Source: http://www.financialsense.com/editorials/quinn/2009/0226.html

The 1980's ushered in the wave of foreign competitors at a large scale. General Motors was competing in a new post-oil crisis landscape where Americans were considering the price of fuel, and the idea of making a larger initial investment in a foreign car to reap the rewards of lower maintenance and fuel costs. The foreign

[55] http://money.cnn.com/2005/01/13/pf/autos/gm_nhtsa_fine/index.htm
Accessed 4/12/2010

automakers also ushered in a new wave of concerns, previously unaddressed in the auto industry: nonunion shops in the US.

"We as a corporation cannot afford to have nonunion automobile plants in this country any more than the union can . . . We cannot compete with a nonunion company building automobiles at the prices I think they could do it at in this country."
-Alfred Warren, GM's Labor Relations VP, 1985[56]

The other large unaddressed issue of foreign movement into the US auto industry is that a new entrant into the US auto sector would not have the same crushing pension burden of the Big Three. In the 1980's GM's paternalistic pension burden was already beginning to strain the corporation. Pension fund assets were less than pension fund liabilities, and the opportunity cost of investing in pension assets was losing the technological fight with the Japanese to produce a superior automobile. By 1982 GM was already losing the battle to fund its pension as seen in the augmented balance sheet below.

The Journal of Finance

Table II

General Motors: Augmented Balance Sheet, December 31, 1982 (All figures in billions of dollars)

Assets		Liabilities and Common Equity	
Pension Fund Assets	14.4	Pension Liabilities	18.1
Plant and Equipment	21.5	Long-term Debt	4.5
Other Long-term Assets	5.9	Equity	14.5
Current Assets	14.0	Other Long-term Liabilities	6.3
		Current Liabilities	12.4
	55.8		55.8

Table 3: GM 1982 Pension Liabilities[57]

[56] Detroit News (November 5, 1985) cited from: Reynolds, Morgan O. Unions and Jobs: The US Auto Industry, Journal of Labor Research, Volume 7, Number 2, June 1986

Simply put, there were always better uses for the company's assets than pension funding. Not only did pension funding not maximize stockholder wealth, it was a severe burden on the continuing health of the company. The burden of its pension and health debts, along with falling market share started to crush it. The graph below of their operating margin (net income/net revenues) shows that this trend has been fairly steady for the past 50 years.

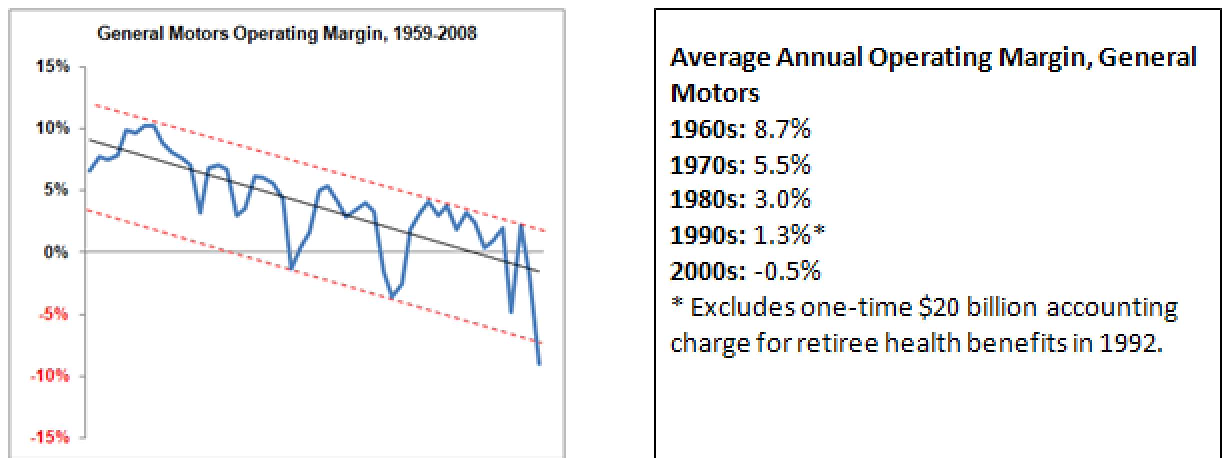


Figure 6: General Motors Operating Margin, 1959-2008
Source: http://www.fivethirtyeight.com/2009/03/gms-problems-are-50-years-in-making.html

The corporation has made it nearly impossible to disburden themselves of their legacy costs and employment glut. The labor agreements of 1984-87 made things only more difficult. These labor agreements ushered the creation of the jobs banks. The jobs bank system forced GM to continue to pay and give benefits to workers that had no current job to do. GM actually suggested the idea. The jobs bank was seen as an ideal place to keep older workers who would otherwise be permanently unemployed, as their

---

[57] Bicksler, James L., Cohen, Andrew H. *The Integration of Insurance and Taxes In Corporate Pension Strategy*. *The Journal of Finance*, Vol. 40, No. 3, Papers and Proceedings of the Forty-Third Annual Meeting American Finance Association, Dallas, Texas, December 28-30, 1984 (Jul., 1985), pp. 946

manufacturing acumen was not readily transferable. This was only the logical expansion of the SUB from the 1950's which paid unemployed workers during down business cycles. During GM's revitalization and growth in the mid-'80's, the corporation thought it made sense to not fire workers and train new ones in times when the organization needed a high mobility of trained labor at different times for different projects.

"The idea was to help train or find jobs for senior UAW employees who would "otherwise be permanently laid off" because of better technology or higher productivity.

Once the idea was on the table, GM agreed to expand it as the UAW ratcheted up pressure for a deal. A strike at a few locals was gradually spreading to engulf more than half the company. GM's first proposals, noted in documents from early September 1984, described a three-year program for employees with 10 years of experience costing no more than $500 million in total. The union sent back a demand that the program cover workers with six years on the job, run for six years and cost as much as $1 billion. GM agreed, and later said even one-year workers could join." [58]

The agreement, just as the 1948 bargaining agreement with the UAW made sense for the business conditions of the time. Unfortunately, GM in its avoidance of a strike which would temporarily lower stockholder wealth, made a terrible agreement in 1984. GM perceived the power of the UAW and their strike potential to be greater than the actual power of an organization comprised of auto workers who would have difficulty finding employment elsewhere. The jobs bank made the UAW feel more secure, and did not show up on GM's balance sheets separate from worker wages. However, the job banks soon made it essentially impossible for GM to fire a UAW worker. "The jobs bank provides that if workers were laid off due to reasons that were in control of the company

---

[58] McCraken, Jeffrey. "Detroit's Symbol of Dysfunction: Paying Employees Not to Work" Wall Street Journal March 1, 2006. Accessed 4/9/2010 http://online.wsj.com/article/SB114118143005186163.html?mg=com-wsj

(layoffs due to technological change, corporate reorganization, outsourcing, or negotiated productivity improvements) the workers receive full compensation while put in job banks."[59] GM was forced under contract with the UAW to keep people employed even if major efficiency gains allowed them to operate more efficiently. The only way workers could be fired and not maintained on payroll was if demand decreased. Unfortunately, as evidenced by the annual reports, GM consistently tried to increase demand for their automobiles to get the revenues to help pay for their legacy costs. While the power of the UAW was dynamic, increasing and decreasing over time, GM's perception of the UAW's power was that it only increased over time. It is the problem with how to define and quantify power that draws the greatest critique of Mitchell, Agle, Wood and their power legitimacy, urgency structure. A dynamic stakeholder model must be employed in a real corporation that must adjust to dynamic market conditions all the time. GM's treatment of the UAW as a highly powerful stakeholder only increased the UAW's power outside of the organization.

The UAW showed by the mid-1980's it had the ability to influence not only the other members of the Big 3, but smaller actors outside of the firm, like GM's suppliers. Delphi became frustrated over ballooning costs associated with the UAW, and found their wage structure too restrictive. Delphi was forced to pay UAW workers "$27 per hour in wages and benefits, the same as GM workers and higher than the roughly $15 per

[59] Katz, Harry C. *The Restructuring of Industrial Relations in the United States*, 1991 Cornell University ILR School

hour paid by most suppliers." [60] The UAW also forced Delphi to maintain a "jobs bank that keeps 4,000 workers on the payroll even when the company has no work for them." [61]

In the late 1980's the corporation tried ways to become more profitable by increasing revenues, knowing that it needed to try to outpace its increasing costs. "Recognizing that management, unions, and employer must cooperate in unprecedented ways to meet today 's and tomorrow's competitive challenge, the new pacts are also significant in that they improve job security. Management believes that job security programs are very important because they encourage employer to play a major role in improving operational effectiveness."[62] Roger Smith's response to the jobs bank makes the picture seem far rosier than it is. GM's unwillingness or inability to negotiate contracts that bring mutual benefit (collaboration) show the fallacy of the fairness model and demonstrate that GM may be shifting outside the center of the focus of its stakeholder network, even losing touch with the union. Smith discusses "New three-year labor agreements were negotiated with the United Auto Workers and other unions – forward - looking and far – reaching agreements reached in a new spirit of teamwork that facilitates the vital partnership between management and labor."[63] His discussion of teamwork and partnership with the UAW is undermined by his use of the passive voice when he discusses the agreements "were negotiated," It subtly hints that even by 1987

[60] http://www.aftermarketnews.com/Item/31897/uaw_says_delphi_asks_too_much.aspx Accessed 2/21/2010
[61] http://www.aftermarketnews.com/Item/31897/uaw_says_delphi_asks_too_much.aspx Accessed 2/21/2010
[62] General Motors 1987 Annual Report pg 5
[63] General Motors 1987 Annual Report pg 4

GM understands that the UAW may be a stakeholder group that GM can no longer control.

GM is trying to maximize the wealth of multiple stakeholders at the same time in 1987. They emphasize their strong allegiance to stakeholders in this annual report, stressing "in 1987 we paid common dividends for the 73rd consecutive year, the longest uninterrupted dividend payment record of any US auto manufacturer. Moreover, during the past four years, our cumulative dividends paid have been more than double the combined dividends paid by our two largest domestic competitors. This is, of course, consistent with our historic dedication to serve the best interests of our stockholders."[64] The antiquated approach of maximizing shareholder wealth does not seem strange for a paternalistic company with an organizational structure that hasn't changed in over a half-century. GM's unwillingness to change its internal structure explains, but does not excuse it from using a dynamic approach to stakeholder management. A more dynamic approach to all aspects of the company would have allowed it to survive as a more effective company.

Annual Reports throughout the years:

1987: "We can be expected to grow even **stronger** and more profitable in the years ahead."

Source: 1987 Annual Report

1988: "GM is a far **stronger** corporation today because of the massive rebuilding that has taken place during the 1980s."

Source: 1988 Annual Report

[64] General Motors 1987 Annual Report pg 6

1989: “We are exceptionally **strong** in the fastest growing segments”
Source: 1989 Annual Report

1990: “Part of our plan to position the company for **stronger** performance in the future.”
Source: 1990 Annual Report

1991: “This new General Motors will contribute to a **stronger** national and world economy”
Source: 1991 Annual Report

1992: **Net Income (loss) = ($23,465,800,000)**
Source: 1992 Annual Report

Post 1992: Competitive “Winning”

Stockholders and the world alike felt blindsided upon learning of the magnitude of the loss in net income in 1992. This was the first year where the government required GM in its accounting practices to include the burden of legacy costs such as healthcare and pension in their financial statements. The number is staggering. What is more surprising is that GM’s attempt to maximize shareholder wealth made them create deceptive (but not illegal) financial statements, and bargain with the UAW to keep balance sheet costs low. Needless to say, after 1992, GM does not emphasize their “strength” as a corporation. Instead their 1992 Annual Report message to shareholders is entitled “How We Will Win.”

This antidote about organizational culture, the “strength” and “win” aspects of the corporation, destined it to lose. Scholars have argued that organizational culture can be seen as a path dependent variable. Argyres and Liebeskind discuss the problems associated with governance inseparability. They imply that if a firm has a long-standing

organizational culture that it can limit their future ability to do business. First, a set organizational culture "may constrain a firm from switching from one governance mode to another for the same type of transaction. Second, governance inseparability may obligate a firm to use an existing governance arrangement for a new transaction, even if that particular transaction would be governed more efficiently by other means."[65] This aligns well with expectancy-value theory, wherein workers have a set of values or beliefs that make them expect certain behaviors from managers.[66] Since General Motors exercised such great paternalism early on, and had consistently buckled to the demands of the UAW, the UAW could only assume that this type of interaction would continue to be the norm. This inability to manage in a more efficient way because of the hindrance of past actions would be yet another legacy burden for General Motors.

The graph below of revenues compared to net income over the period show that the strength of the UAW in contract negotiations for wage and benefit increases must have won over the desire for profitability of the corporation. Net income is virtually stagnant over the 20 – year period despite consistent revenue growth.

---

[65] Argyres, Nicholas S., Liebeskind, Julia Porter, *Contractual Commitments, Bargaining Power, and Governance Inseparability: Incorporating History into Transaction Cost Theory*. Academy of Management Review, Vol. 24, No. 1, 49-63, 1999

[66] Wigfield, Allan. *Expectancy-Value Theory of Achievement Motivation: A Developmental Perspective*. Educational Psychology Review, Vol. 6, No. 1, 1994

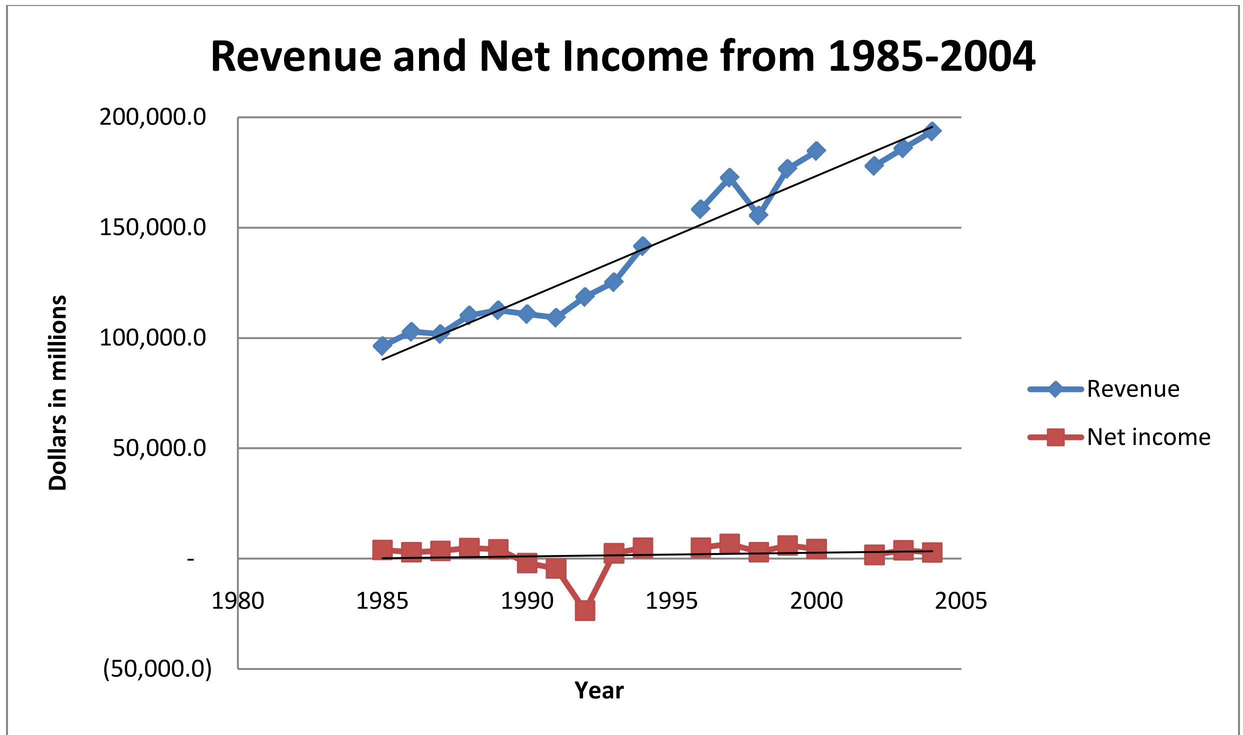


Figure 7: GM Revenue and Net Income from 1985-2004
Source: Analysis of Annual Reports and 10-K for GM from 1985-2004

The above graph should concern both executives and investors in General Motors. Only in 1992, where the record loss was noted as a change in accounting practices, does the net income truly reflect the poor financial position of the company. In fact, GM refused to use the accounting practices of 1992 in any subsequent year, stating: "The Corporation does not admit or otherwise acknowledge that such amounts [non-pension retirement benefits] or existing postretirement benefit plans of the Corporation (other than pensions) represent legally enforceable liabilities of the Corporation."[67] General Motor's comments about legal enforceability are the most interesting part of their argument in not including health benefits in their financial statements. The corporation,

[67] General Motors Corporation 1992 Annual Report

under their bargaining agreements with the UAW is legally responsible for the healthcare of their workers under the current terms of the bargaining agreement. Until the terms of the bargaining agreement change in a more favorable manner towards General Motors, the corporation needs to accept responsibility and warn potential investors about their enormous legacy costs. The statement is a thinly veiled commentary in the government requirement that GM must legally uphold its pension obligation to the UAW. Any pension promised in the past cannot be changed even if the UAW would ever concede to the change.

The rapid increase of jobs bank participants will only increase given the current economic climate. GM cannot afford the amount of employees they have, and can only choose to buy them out or hope they retire to get them to leave. Regardless of their choice, stockholder wealth has forever been affected, and equity financing will be very hard to come by in the future. GM's stockholder wealth optimization model worked until their legacy costs began to affect their balance sheet. The chart below shows GM's share price and their share price compared with the Dow Jones Industrial Index, from which it has recently been de-listed.

General Motors Historical Share Price from 1962-2010

Figure 8: General Motors Historical Share Price from 1962-2010
Source:http://finance.yahoo.com/echarts?s=gm#chart1:symbol=gm;range=my;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=off;source=undefined

Comparison of General Motors Share Price and the Dow Jones Industrial Index from 1962-2010

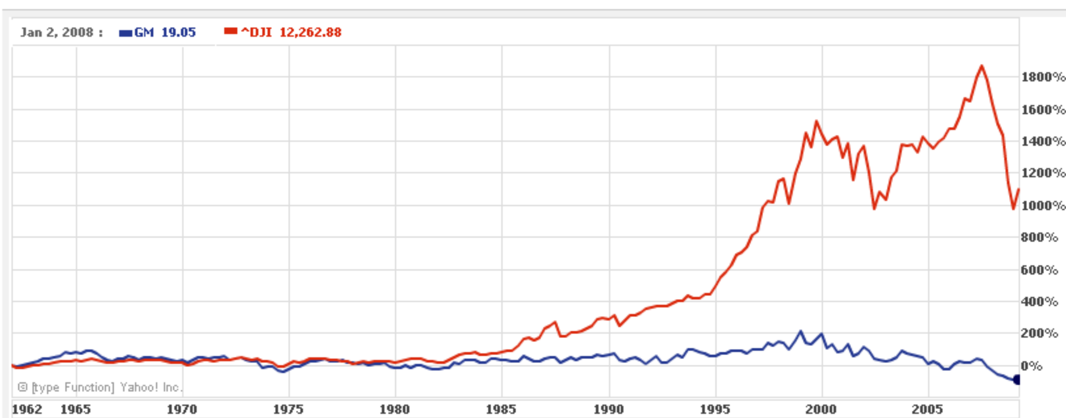


Figure 9: General Motors Historical Share Price from 1962-2010 compared to DJIA
Source:http://finance.yahoo.com/echarts?s=gm#chart4:symbol=gm;range=my;compare=^dji;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=off;source=undefined

What is interesting to note about the above two graphs is that despite tremendous losses in 1992, a consistently decreasing operating margin, GM still managed to maximize shareholder wealth until roughly 2001 when the stock market bubble first. This is the flaw with the maximize shareholder wealth mantra. GM was effective in maximizing shareholder wealth for decades, with consistently high dividends, yet it engaged in increasingly poor stakeholder management policies which ultimately led it to

fail. Maximizing shareholder wealth can still fail the company when it does not effectively manage stakeholders, while effective stakeholder management results in maximizing shareholder wealth.

After the stock market bubble burst in 2001, GM needed some way to recover the losses to their pension portfolio. The jobs bank was rapidly increasing costs, giving GM a disincentive to increase productivity when car sales were essentially stagnant. This is why GM’s drastic increase in productivity was a poor strategy to deal with the increasing costs they faced.

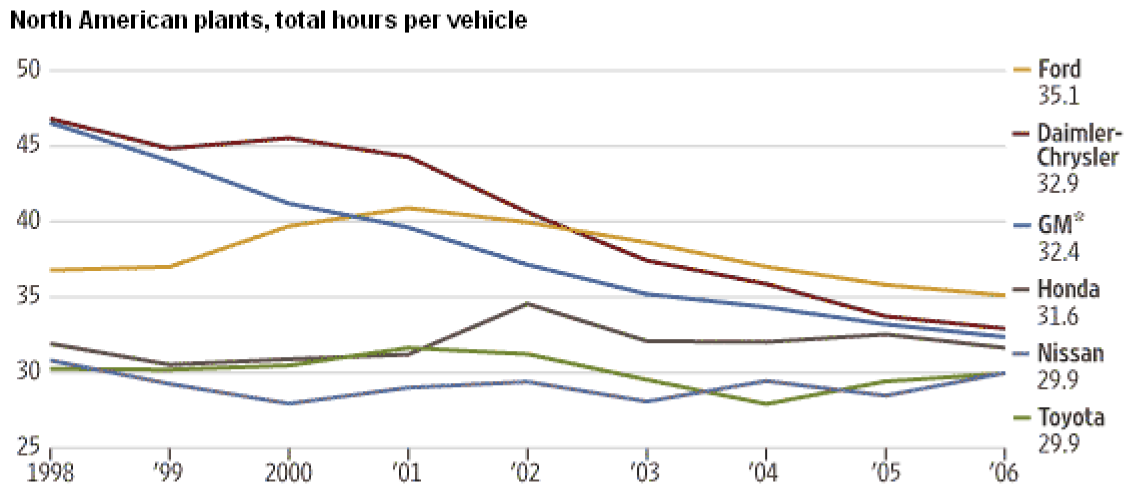


Figure 10: GM North American Plant total hours per vehicle
Source: http://online.wsj.com/article/SB119079465500439816.html

GM would only have a larger idle workforce if it decreased the time to make each car. When GM reduced the time to assemble a car by 15 hours per car, it was still forced to pay the workers for 15 hours of doing nothing. The only decision GM seemed to have to control its ballooning labor costs was to reduce the size of its salaried workforce. The figure below shows GM was having modest success in this arena. Despite their success

in reducing the salaried workforce, the salaried workforce represented less than 1/3 of their total labor pool and far less of their costs.

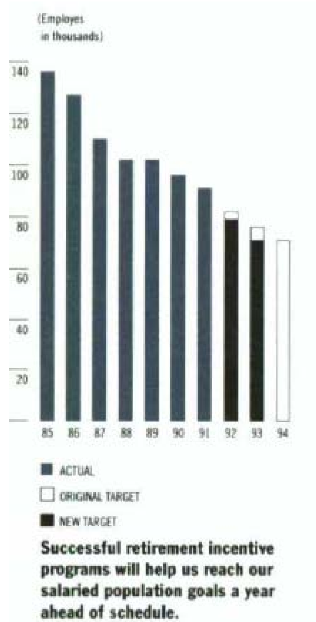


Figure 11: Actual and projected reduction in GM salaried workforce
Source: GM 1992 Annual Report

GM has far more control over their salaried workforce than their unionized workforce. So much control in fact, that hourly workers try not to hone their skills to get to the point where they could be tapped for promotion into the salaried track. The hourly track is more lucrative, and the opportunity to sit for years in a jobs bank and perform community service while still getting paid is extremely alluring. The graph below shows the increase in job bank employees, a number only certain to rise in the future.

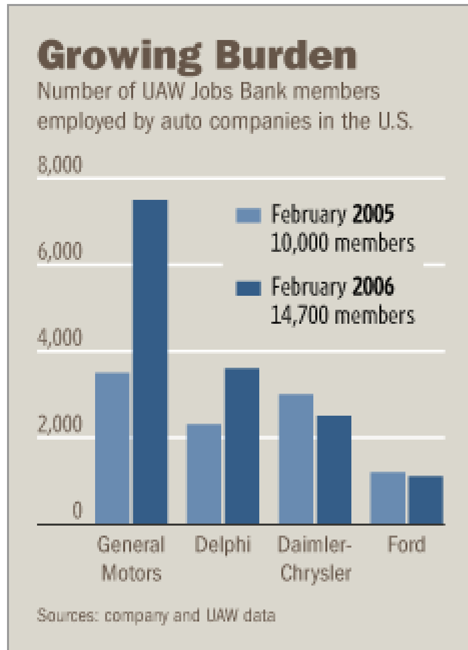


Figure12: Number of jobs bank workers comparison from 2005-2006
Source: http://online.wsj.com/article/SB114118143005186163.html?mg=com-wsj[68]

GM was cost competitive in both car and labor prices within the Big Three, but foreign competition brought new stakeholders into the mix. The market share differential was only exacerbated by the profit differential due to labor costs in making the cars. Not only was GM selling fewer cars, but their profit per car was decreasing as their mounting legacy costs were increasing. The auto giant was beginning to be crushed by its own weight. The labor cost disparity grew to overwhelming proportions by 2006, due for the most part to the fact that the Japanese typically run non-union factories in the South, a region known for being typically unwilling to unionize. The chart below shows the magnitude of the wage disparity.

[68] McCraken, Jeffrey. "Detroit's Symbol of Dysfunction: Paying Employees Not to Work" Wall Street Journal March 1, 2006. http://online.wsj.com/article/SB114118143005186163.html?mg=com-wsj Accessed 4/9/2010

Figure 13: Average hourly labor costs comparison
Source: http://seekingalpha.com/article/122787-as-gm-goes-so-goes-the-nation-part-2

		A.	B.	C.	D.	E.	F.	G.	H.
Avg. per Hour (US 2006):		GM [1]	Ford [2]	Chrysler [3]	Toyota [4]	Honda [4]	US Natl. Avg. [5]	Michigan Avg. [6] (2007)	Ohio Avg. [6]
1.	Wage	$39.68	$28.88	$29.15	$24	$24	$19.12	$20.30	$18.38
2.	Value of Benefits	$33.58	$41.63	$46.71	$24	$24	$8.19	?	?
3.	Compensation (Wages and Benefits)	$73.26	$70.51	$75.86	$48	$48	$27.31	?	?

Figure 14: Average hourly labor cost comparison breakdown
Source: http://bigthreeauto.procon.org/view.additional-resource.php?resourceID=2050

The labor disparity had been growing for decades. So too, did the perceived power of the UAW in the minds of GM. This led to consistently poor stakeholder management as the demands became overwhelming. The graph below shows the growth in employee labor costs over time.

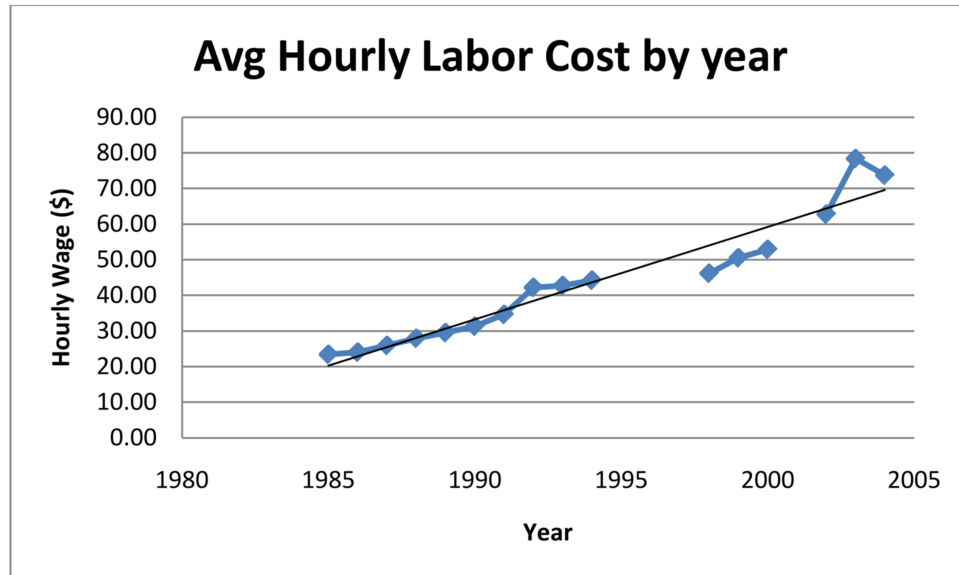


Figure 15: Average hourly labor cost by year for GM from 1984-2004
Source: Data collected from 1985-2004 Annual Report

The costs of employees was underscored by their tremendous legacy burden, and firing workers only led to greater problems within the organization, as discussed in the chart and statement to shareholders below.

	1962	2005
U.S. Employees	464,000	**141,000**
Hourly Pension Plan*	31,351	**337,588**
Salaried Pension Plan*	8,885	**115,762**
Total Health Plan Recipients**	1,360,000	**1,075,000**

Figure 16: Legacy cost burden in1962 and 2005
Source: GM 2005 Annual Report

"Stated another way, for every active GM employee in the United States last year, GM supported 3.2 retirees and surviving spouses. Back in 1962, the employee/retiree ratio was reverse: GM had 11.5 active employees for every retiree or surviving spouse in our pension plans."[69] This burden was overwhelming. The weight of poor stakeholder

[69] GM 2005 Annual Report

management had finally caught up to the corporation. The company was no longer able to give the same dividends it had in the past, angering the shareholders in the process. The failure to manage one stakeholder, the UAW, was severely affecting GM's ability to manage the stockholders needs.

The legacy cost burden made it increasingly difficult for GM to fund their pension. The pension funding burden made GM willing to put less money in their pension fund at a higher risk, hoping that the greater risk potential of equities was worth the trade off, and for a time, the risk was worth the reward, as evidenced by their consistently high returns in the graph below.

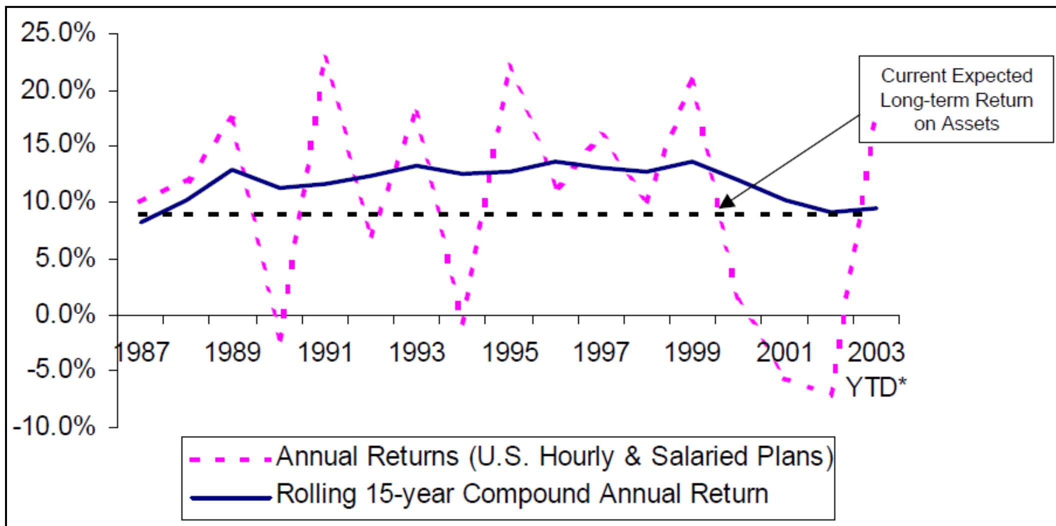
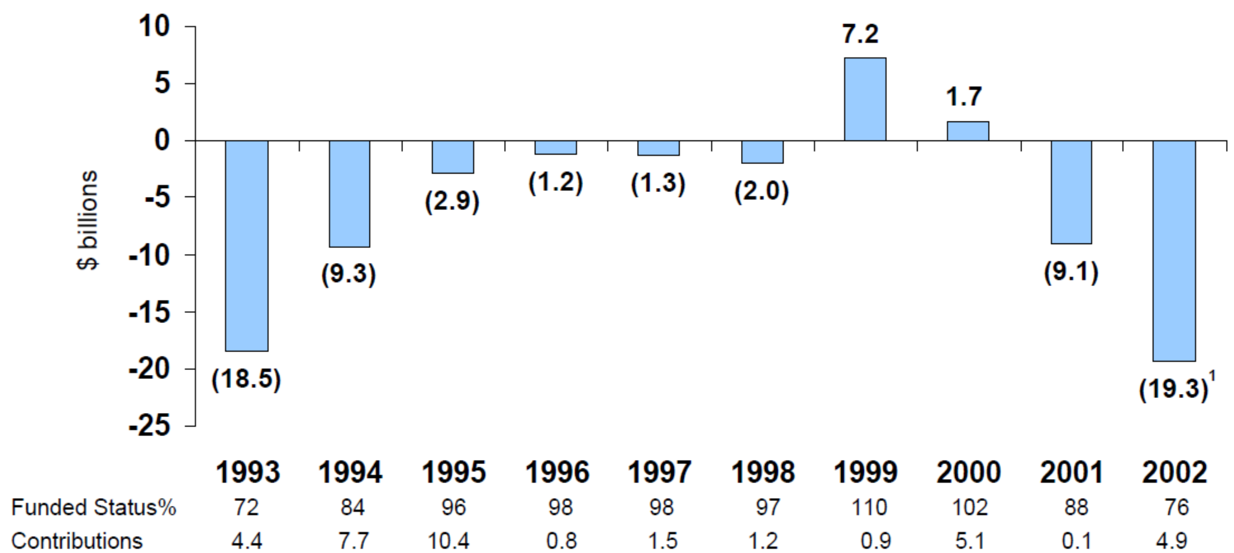


Figure 17: GM annual return on pension fund assets 1987-2003
Source: General Motors US Pension Review Dec 12, 2003

GM had two problems with this strategy. First, if the company consistently funded its pension, the assets would have more time to grow and the interest would compound. Second, as described earlier, GM exposes itself to unnecessary risk by heavily investing in stocks given that the company's performance is tied to the

performance of the economy as a whole. GM is least able to fund its pension to appropriate levels when the economy is down, which also corresponds with when the pension assets are worth the least. The chart below shows the degree to which the pension was funded over a ten year period. The 2001-2002 time period demonstrates the problems with heavy equity investment, as that time period was when the market experienced a huge crash.



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Funded Status%	72	84	96	98	98	97	110	102	88	76
Contributions	4.4	7.7	10.4	0.8	1.5	1.2	0.9	5.1	0.1	4.9

Figure 18: GM annual pension funding levels from 1993-2002
Source: General Motors US Pension Review Dec. 12, 2003

The underfunding of the pension stood in violation of ERISA and made the government concerned, as the government was concerned about having to use taxpayers to support the Pension Benefit Guarantee Corporation if GM were to default or go bankrupt.

These problems would have been minimized if GM were increasing its revenues as much as their increase in auto offerings would have suggested. Unfortunately, they over emphasized their promise of "a car for every purse and purpose." They had multiple offerings for the same price (purse) and multiple cars that served the same purpose. Sloan had explicitly said that there were to be no overlaps in vehicle offerings at any price, but the decentralization at the company made it very difficult to monitor what designers for each product line were working on. Moreover, the acquisition of different brand lines over the years increased problems because those brands had a target and price point before they were acquired. This redundant strategy magnified as brand lines started to cannibalize business from each other. The organizational structure and culture of lack of communication led to redundancies that went unaddressed for too long, as evidenced in the graphs below.

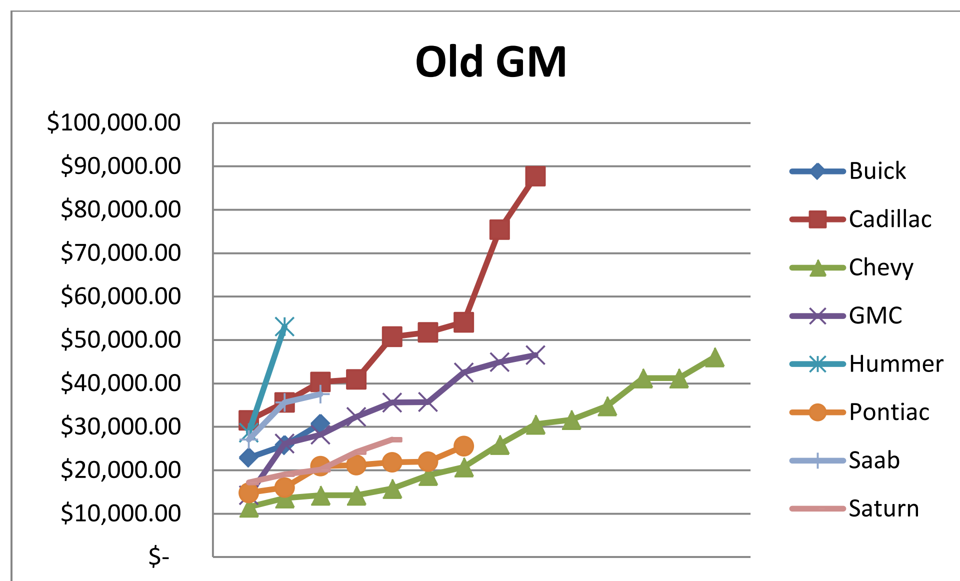


Figure 19: Every car offered by GM in 2008
Source: From data compiled for all 2008 GM car offerings from Vehix.com

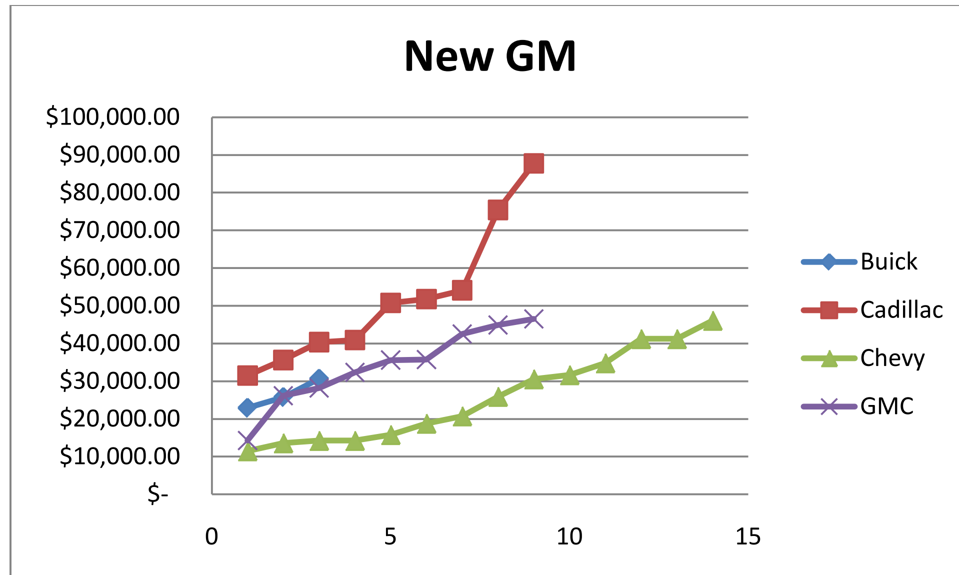


Figure 20: Car offerings in 2008 excluding product lines expected to be discontinued post bankruptcy
Source: From Data compiled for all 2008 GM car offerings from Vehix.com (not including brands GM intended to discontinue or spin off post-bankruptcy

The graph of auto offerings from "Old GM" (pre-bankruptcy GM) demonstrate that GM had multiple auto offerings at the same price points, most noticeably with Saab completely overlapping Cadillac at all price points despite similar offerings. It comes as no surprise that the Saab sold so poorly given that its biggest competitor was Cadillacs at the same price. GM in its desire to continue to meet every customer's need allowed the company to overlook their redundant models and product offerings until far too late. GM's antiquated car for "every purse and purpose" strategy is in stark contrast to foreign brands like Toyota and Honda who offer only three versions of each model, the baseline, mid-range, and luxury editions. GM offers thousands of variations for each of their cars in terms of customization options. GM's auto offerings are not only poor management of customer as stakeholder, but also a poor use of their already over-priced labor's time to increase customization.

GM ultimately failed because it did not understand where it stood within its stakeholder network, nor did it understand at any given point which stakeholders had legitimacy, urgency, or power. GM's past history gave a perception to all of its stakeholders that it would continue to interact with them the same way they had in the past. The limitations of organizational culture as a determinant for stakeholder interaction driving the firm's inability to collaborate or change any of its stakeholder interactions over time proved less than fair for all stakeholders involved with the corporation. Implementation of collaboration early on and an analysis of stakeholder interactions outside of the perceived direct network of stakeholders would have changed the course of business.

Chapter Five: Discussion

Current stakeholder theory can be a guide to the firm, but it lacks the proper framework. A firm can apply many theories to its stakeholder network and enjoy success. The flaws in stakeholder management theory arise when they are applied to a firm consistently with an individual stakeholder group over time. The firm will optimize its stakeholder management strategy by interacting with a stakeholder and analyzing the effects of that interaction on another stakeholder. For example, in General Motor's interactions with the government, it should see this interaction as not linear between the government and GM, but as a network that affects GM, the government, and the UAW. This is where Freeman's collaboration piece can be elaborated. Freeman framed collaboration as something a firm should do, while in application, a firm is forced to collaborate with many outside stakeholder groups in its interaction with a single stakeholder.

This larger network approach to stakeholder theory would have remedied the problems GM was facing. Checks and balances exist for each of the stakeholder groups in General Motors greater stakeholder network. Whether or not those checks and balances are within the organizations is less important than knowing that each stakeholder action can have a possible consequence. Most outside observers would think that the UAW exists almost unchecked, having survived even the company's bankruptcy in the worst recession since the great depression. This is not the case. It is foreign competitors and globalization that keep the UAW in line. "Unions realize that they have become global; shutting down all or most of U.S. manufacturing would not shut out US

customers. Overseas suppliers are there to supply the market."[70] Increased competition within the global market is a natural check to curb anti-competitive behavior with the UAW. GM needs to use globalization to its advantage to let the auto giant come out ahead as opposed to be mired behind the foreign automakers. Competition is the leverage that GM has over the union. Moreover, if GM stressed and understood that the UAW did not have the level of perceived power GM had originally thought then GM would have been in a stronger position to bargain and collaborate with the UAW.

The United States Steel Corporation was too big to be beaten by 300,000 working men. It had too large a cash surplus, too many allies among other businesses, too much support from government officers, local and national, too strong influence with social institutions such as the press and pulpit, it spread over too much earth – still retaining absolutely centralized control – to be defeated by widely scattered workers of many minds, many fears, varying states of pocketbook and under a comparatively improvised leadership.
Interchurch World Commission report on the 1919 steel strike[71]

Instead of using its bargaining leverage over the UAW, it instead treated its workers in much the same way as US Steel, and is suffering the same consequences. GM saw itself as the center of a weak stakeholder network, not fully understanding the connections forming around among its stakeholder groups. General Motors storied history of conflicts with its workers, the government, suppliers, and consumers demonstrate the flaws with its stakeholder management policies.

Every stakeholder in GM's network has power, but GM consistently attempted to be at the center of its stakeholder network. GM's adherence to Rowley's network theory led to organizational problems. Rowley contends that an organization wants its

---

[70] Levitt, Theodore. *The Globalization of Markets*. Harvard Business Review May-June 1983. Reprint 83308 pg 8

[71] J. Raymond Walsh, CIO: Industrial Unionism in Action (New York, 1937), 56 (from Labor's War at Home)

stakeholders to have a low density to centralize, thus necessitating the stakeholder group has a low level of communication efficiency.[72] This theory, while ideal, does not work with GM's existing network. The UAW is a highly unified stakeholder with high communication efficiency, low barriers to entry for membership, and little incentive to not use its influence over the organization. The UAW's power, aside from the influence of GM's other stakeholders, does not allow GM to be at the center of its stakeholder network. This requires a different organizational structure, and necessitates a high level of communication between organization and stakeholders.

GM relentlessly focused on their internal stakeholders, basically ignoring their external stakeholders of the government and stockholders at a certain point. Even ignoring customer tastes in the final period of the corporation prior to bankruptcy with their excessive car offerings. This relationship of focusing on internal versus external stakeholders is unique, as most stakeholder theories would expect a greater focus on external stakeholders.

GM has instead prioritized the needs of the UAW over its other stakeholders because of the perceived power of the UAW. GM currently pays $73.26[73] per hour in legacy costs and hourly wages for every hourly worker it employs. This figure does not include the overwhelming legacy costs of its retired workforce, as accounting loopholes

---

[72] Rowley, T.J., *Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences*, Academy of Management Review, 22(4), 1997, 887-910

[73] http://www.mrswing.com/articles/GM_Paid_Per_Hour_for_Labor_Costs_in.html Accessed 2/18/2010

allow GM to take those costs off of the books. This tremendous overhead cost is what allows GM to make such large revenues while remaining unprofitable.

GM also did not understand the degree of collaboration among stakeholders in what it saw as its stakeholder network. History could not separate the UAW from the government; it is therefore illogical that GM would treat them as fundamentally separate agencies. Its approach with each over history has demonstrated that it does not fully understand the degree of collaboration between its stakeholders.

GM consistently underestimated the power of its stakeholders, and their ability to analyze stakeholders outside of the firm. If GM had analyzed the motives of its stakeholders before attempting to either collaborate or compete with them, it would currently be in a far stronger financial position. Its inability to change to meet the needs of changing market conditions and consumer demands in the last 20 years of its existence is echoed in its ability to dynamically adjust to the needs of its stakeholders over the corresponding period.

A corporation needs to understand the strengths and limitations of being part of a larger stakeholder network, and how collaboration early on can mitigate the effects of decision made by other entities affecting their stakeholders.

Chapter Six: Conclusion

General Motors is merely the most recent example of a huge corporation failing due to poor stakeholder management. As evidenced in GM's relationships with stakeholders, it took a very long time before the results of poor stakeholder management caught up to the corporation. This case study should serve as an example to other corporations that may not notice the dangers that they face or the slippery slope they have embarked upon. Collaboration is a relatively recent addition to the field of stakeholder theory, but it is not too late for any organization to attempt to integrate stakeholder collaboration into their greater stakeholder management.

The key to adding collaboration is to have a dynamic relationship and understanding of the stakeholders in the corporation. Analyzing business conditions both inside and outside of the firm can allow the corporation to understand the actual power of a stakeholder, as a failure in stakeholder management policies can lead the corporation to perceive the stakeholder has more power than in reality.

Given more time, it would be interesting to look at the larger network of the Big Three as a network and determine how each interacted with each other in the market. Their differing approach to stakeholders both internal and external to the firm along with their interactions with the other firms in the network could add greater insight to stakeholder theory. The history and interconnectedness at the industry level as opposed to the firm level could prove useful to the field.

This research concluded prior to the announced bankruptcy of General Motors. An interesting stakeholder analysis of prioritization in times of crisis could be determined by examining General Motors and its greater stakeholder network over the bankruptcy period and beyond to see how severe financial crisis can alter long-standing stakeholder relationships and possibly serve to keep the corporation in business. Collaboration and prioritization as a last result could yield interesting results to the strength and expectations of stakeholder relationships over time.

Bibliography:

Argyres, Nicholas S., Liebeskind, Julia Porter, *Contractual Commitments, Bargaining Power, and Governance Inseparability: Incorporating History into Transaction Cost Theory*. Academy of Management Review, Vol. 24, No. 1, 49-63, 1999

Berle, Adolph, Means, Gardiner, The Modern Corporation and Private Property, Transaction Publishers, New Brunswick, New Jersey, 1991

Bensinger, Greg "GM Loses Almost a Third of Daily Output as Plant Closings Widen" Bloomberg
http://www.bloomberg.com/apps/news?pid=20601082&sid=arjrgMUB_c5I&refer=canada
Accessed 2/21/2010

Bicksler, James L., Cohen, Andrew H. *The Integration of Insurance and Taxes In Corporate Pension Strategy*. *The Journal of Finance*, Vol. 40, No. 3, Papers and Proceedings of the Forty-Third Annual Meeting American Finance Association, Dallas, Texas, December 28-30, 1984 (Jul., 1985), pp. 946

Buffa, Dudley W. *Union Power and American Democracy: The UAW and the Democratic Party 1935-72*. The University of Michigan 1984, pg 3

Chandler Jr., Alfred D. Strategy and Structure: Chapters in the History of the American Industrial Enterprise. The MIT Press, 1962. Page 16

Dodge v. Ford Motor Co., 170 N.W. 668, 684 (Mich. 1919)

Donaldson and Preston, *The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications*. The Academy of Management Review, Vol. 20, No 1 (Jan., 1995) pg 71

Ephlin, Donald F. Revolution by Evolution: The Changing Relationship Between GM and the UAW. The Academy of Management Executive (1987), Vol. 2, No. 1 (Feb., 1988), pp 63-66

Faulkner, David. Strategy: Critical Perspectives on Business and Management, Volume 1, Routledge, 2002. Pg 9

Fine, Sidney. The General Motors Sit-DownStrike: A Re-examination. The American Historical Review, Vol. 70, No. 3 (Apr., 1965)

Flink, James J. The Car Culture, The MIT Press, Cambridge, Massachusetts, 1975 pg 53

Freeman, Edward R. etc. Managing for Stakeholders: Survival, Reputation, and Success. Yale University Press 2007

General Motors Annual Reports 1985-2004

General Motors US Pension Review Dec 12, 2003

Hunter v. Roberts, Throp & Co., 83 Mich. 63, 71, 47 N. W. 131, 134

Katz, Harry C. *The Restructuring of Industrial Relations in the United States*, 1991Cornell University ILR School

Levitt, Theodore. *The Globalization of Markets*. Harvard Business Review May-June 1983. Reprint 83308 pg 8

Lichtenstein, Nelson. Labor's War at Home: The CIO in World War II. Cambridge university Press, 1982, pg 6

Lichtenstein, Nelson, *Auto Worker Militancy and the Structure of Factory Life* (1937-1955). *The Journal of American History*, Vol. 67, No. 2 (Sep., 1980), pp. 335-353 Published by: Organization of American Historians

Lowenstein, Roger. "The End of Pensions", October 30, 2005 The New York Times

Marchand, Roland *The Corporation Nobody Knew: Bruce Barton, Alfred Sloan, and the Founding of the General Motors "Family" The Business History Review*, Vol. 65, No. 4, The Automobile Industry (Winter, 1991), pp. 7

Maynard, Michelle. "At GM, Innovation Sacrificed to Profits" New York Times, published December 5, 2008
http://www.nytimes.com/2008/12/06/business/06motors.html?pagewanted=2&_r=1

McCraken, Jeffrey. "Detroit's Symbol of Dysfunction: Paying Employees Not to Work" Wall Street Journal March 1, 2006.
http://online.wsj.com/article/SB114118143005186163.html?mg=com-wsj
Accessed 4/9/2010

Mitchell, Agle, Wood. *Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts*. Academy of Management Review, 1997, Vol. 22, No. 4, pg 854

Pfeffer, J. Power in Organizations. Marshfield, MA: Pitman 1981

Phillips, Robert. Stakeholder Theory and Organizational Ethics, Berret-Koehler Publishers 2003

Philips, Robert A., *Stakeholder Theory and a Principle of Fairness*. Business Ethics Quarterly, Vol. 7, No. 1 (Jan 1997) pg. 57

Reynolds, Morgan O. *Unions and Jobs: The US Auto Industry*, Journal of Labor Research, Volume 7, Number 2, June 1986

Ross, Arthur M. *The General Motors Wage Agreement of 1948*. The Review of Economics and Statistics, Vol. 31, No. 1 (Feb., 1949), pp 2

Rowley, T.J., *Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences*, Academy of Management Review, 22(4), 1997, 887-910

Taylor, Jason; Selgin, George, *By Our Bootstraps: Origins and Effects of the High-Wage Doctrine and the Minimum Wage*, Journal of Labor Research 20 no4 447-62 Fall 1999

Tedlow, Richard. *The Struggle for Dominance in the Automobile Market: The Early Years of Ford and General Motors*. Business and Economic History, Second Series, Volume Seventeen, 1988

Volti, Rudi Cars and Culture: The Life Story of a Technology. Greenwood Press, 2004, pg 52

Walsh, J. Raymond CIO: Industrial Unionism in Action (New York, 1937), 56 (from Labor's War at Home)

Warshaw, Jerry L., Harfst, David L., *The Struggle for Auto Safety*, Volume 4, Spring Issue 1991, Cambridge, Massachusetts: Harvard University Press, 1990

Wigfield, Allan. *Expectancy-Value Theory of Achievement Motivation: A Developmental Perspective*. Educational Psychology Review, Vol. 6, No. 1, 1994

Yin, Robert K. Case Study Research: Design and Methods. Applied Social Research Methods Series, Vol. 5, Sage Publications, 1994, pg 38.

Online sources:

http://www.mrswing.com/articles/GM_Paid_Per_Hour_for_Labor_Costs_in.html Accessed 2/18/2010

http://finance.yahoo.com/q?s=MTLQQ.PK

Accessed 2/28/2010

http://www.businessweek.com/magazine/content/05_50/b3963114.htm
Accessed 2/28/2010

http://www.bloomberg.com/apps/news?pid=20601087&sid=agMEuJ_r_yxA&refer=worl
dwide
Accessed 2/28/2010

http://media.gm.com/content/media/us/en/news/news_detail.brand_gm.html/content/Page
s/news/us/en/2009/Jun/0601_BoardOfDirectorsStmnt
Accessed 2/21/2010

http://www.aftermarketnews.com/Item/31897/uaw_says_delphi_asks_too_much.aspx
Accessed 2/21/2010

http://money.cnn.com/2005/01/13/pf/autos/gm_nhtsa_fine/index.htm
Accessed 4/12/2010

http://www.exchange-
handbook.co.uk/index.cfm?section=articles&action=detail&id=60613
Accessed 4/13/2010

http://www.pbs.org/now/shows/225/gm-timeline.html
Accessed 2/20/2010

http://www.railsandtrails.com/AutoFacts/
Accessed 3/7/2010

Vehix.com
Accessed 2/10/2010

http://www.gm.ca/inm/gmcanada/english/about/OverviewHist/hist_auto.html
Accessed 3/6/2010

http://money.cnn.com/magazines/fortune/fortune500_archive/full/2001/
Accessed 4/1/2010

http://www.edmunds.com/chevrolet/corvette/history.html
Accessed 3/7/2010

www.nakedcapitalism.com/2009/03
Accessed 4/1/2010

http://www.financialsense.com/editorials/quinn/2009/0226.html
Accessed 4/1/2010

http://www.fivethirtyeight.com/2009/03/gms-problems-are-50-years-in-making.html
Accessed 4/1/2010

http://finance.yahoo.com/echarts?s=gm#chart1:symbol=gm;range=my;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=off;source=undefined
Accessed 4/13/2010

http://finance.yahoo.com/echarts?s=gm#chart4:symbol=gm;range=my;compare=^dji;indicator=volume;charttype=line;crosshair=on;ohlcvalues=0;logscale=off;source=undefined
Accessed 4/13/2010

http://online.wsj.com/article/SB119079465500439816.html
Accessed 4/9/2010

http://online.wsj.com/article/SB114118143005186163.html?mg=com-wsj
Accessed 4/9/2010

http://seekingalpha.com/article/122787-as-gm-goes-so-goes-the-nation-part-2
Accessed 2/18/2010

http://bigthreeauto.procon.org/view.additional-resource.php?resourceID=2050
Accessed 2/18/2010