

*My Years With General Motors*

By Alfred P. Sloan

“A CAR  
FOR EVERY  
PURSE AND  
PURPOSE.”

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ALFRED P. SLOAN



## Summary

1. Alfred Sloan, CEO of GM for more than 30 years, recounts some of GM's history and how it came to dominate the car industry.

## Key Takeaways

1. Organization – Coordinated Policy With Decentralized Administration
  - a. It should be clear from this that I do not regard size as a barrier. To me it is only a problem of management. My thoughts on that have always revolved around one concept which contains considerable complexity in theory and in reality — the concept that goes by the oversimplified name of decentralization. **The General Motors type of organization — coordinated in policy and decentralized in administration — not only has worked well for us, but also has become standard practice in a large part of American industry.** Combined with the proper financial incentive, this concept is the cornerstone of General Motors' organizational policy. An essential aspect of our management philosophy is the factual approach to business judgment. The final act of business judgment is of course intuitive. Perhaps there are formal ways of improving the logic of business strategy, or policy making. But the big work behind business judgment is in finding and acknowledging the facts and circumstances concerning technology, the market, and the like in their continuously changing forms. The rapidity of modern technological change makes the search for facts a permanently necessary feature of the industry. That seems obvious, but some of the biggest changes of position in the industry came about in part because someone got an idea he thought was eternal. It takes more than the structural design of an organization, however, to ensure sound management. No organization is sounder than the men who run it and delegate others to run it. They are in a position to tip the balance in a decentralized organization toward centralization and even one-man rule. **General Motors' long-term survival depends upon its being operated in both the spirit and substance of decentralization.**
  - b. **In no instance was the answer explicitly provided by the automatic operation of the organization. The task of management is not to apply a formula but to decide issues on a case-by-case basis. No fixed, inflexible rule can ever be substituted for the exercise of sound business judgment in the decision-making process.**
  - c. It distinguished policy from administration of policy, and specified the location of each in the structure. It expressed in its way the concept that was later to be formulated as decentralized operations with coordinated control.
  - d. A distinction should be made between the expansion itself and the need for organization which grew out of it.
  - e. [It] Increases the morale of the organization by placing each operation on its own foundation, making it feel that it is a part of the Corporation, assuming its own responsibility and contributing its share to the final result.

- f. [It] Enables the Corporation to direct the placing of additional capital where it will result in the greatest benefit to the Corporation as a whole.
- g. I still, after a year's experience, [am] just as firmly of the same belief that a decentralized organization is the only one that will develop the talent necessary to meet the Corporation's big problems. But let me say that, though I have often been taxed, by people who do not know me, with being a committee man — and in a sense I most certainly am — I have never believed that a group as such could manage anything. A group can make policy, but only individuals can administer policy.
- h. In sum then, the whole picture of coordination in 1925 and for a number of years thereafter was as follows: The interdivisional-relations committees gave a measure of coordination to the functions of purchasing, engineering, sales, and the like. The Operations Committee, including the general managers, appraised the performance of the divisions. The Executive Committee, with contacts in all directions, made policy. It sat at the head of operations, responsible to the board of directors — indeed it was a committee of the board — but beholden to the Finance Committee for its larger appropriations.
- i. **The answer, essentially, is that I always tried to run General Motors by a policy of conciliation rather than coercion; and when a majority was opposed to my thinking, I was often disposed to give way.** I might add that the top officers of General Motors who were involved in this situation were men of unusual talents and strong convictions, and as president I felt I should respect their judgments. But notice, in my cable to our group in England, that I placed the responsibility for the deal squarely on their shoulders. They would have to validate it.
- j. One of the corporation's great strengths is that it was designed to be an objective organization, as distinguished from the type that gets lost in the subjectivity of personalities. Let me say, however, that my experience tells me that there is no simple formula in the matter of organization. **The role of personality can be so important that sometimes it is necessary to build an organization, or rather perhaps a section of it, around one or more individuals rather than to fit individuals into the organization.**
- k. Several kinds of economies are made possible by centralized staff operations. Among the most important are the economies that derive from the coordination of the divisions. These arise through the sharing of ideas and developments among general officers and divisional personnel. The divisions contribute ideas and techniques both to each other and to central management. Much of our managerial and engineering talent, and many of our general officers, have come out of the divisions.
- l. Our decentralized organization and our tradition of selling ideas, rather than simply giving orders, impose the need upon all levels of management to make a good case for what they propose.
- m. Much of my life in General Motors was devoted to the development, organization, and periodic reorganization of these governing groups in central management. This was required because of the paramount importance, in an organization like General Motors, of providing the right framework for decisions. There is a natural

tendency to erode that framework unless it is consciously maintained. Group decisions do not always come easily. There is a strong temptation for the leading officers to make decisions themselves without the sometimes onerous process of discussion, which involves selling your ideas to others. The group will not always make a better decision than any particular member would make; there is even the possibility of some averaging down. But in General Motors I think the record shows that we have averaged up. Essentially this means that, through our form of organization, we have been able to adapt to the great changes that have taken place in the automobile market in each of the decades since 1920.

- n. Decentralization or not, an industrial corporation is not the mildest form of organization in society. I never minimized the administrative power of the chief executive officer in principle when I occupied that position. **I simply exercised that power with discretion; I got better results by selling my ideas than by telling people what to do. Yet the power to act must be located in the chief executive officer.**
2. Ready for and Embracing Change
    - a. **We were favored by change. We had no stake in the old ways of the automobile business; for us, change meant opportunity. We were glad to bend our efforts to go with it and make the most of it.**
    - b. **The circumstances of the ever-changing market and ever-changing product are capable of breaking any business organization if that organization is unprepared for change — indeed, in my opinion, if it has not provided procedures for anticipating change.**
    - c. **The old master had failed to master change.** Don't ask me why. There is a legend cultivated by sentimentalists that Mr. Ford left behind a great car expressive of the pure concept of cheap, basic transportation. The fact is that he left behind a car that no longer offered the best buy, even as raw, basic transportation...His precious volume, which was the foundation of his position, was fast disappearing. He could not continue losing sales and maintain his profits. And so, for engineering and market reasons, the Model T fell. And yet not many observers expected so catastrophic and almost whimsical a fall as Mr. Ford chose to take in May 1927 when he shut down his great River Rouge plant completely and kept it shut down for nearly a year to retool, leaving the field to Chevrolet unopposed and opening it up for Mr. Chrysler's Plymouth. Mr. Ford regained sales leadership again in 1929, 1930, and 1935, but, speaking in terms of generalities, he had lost the lead to General Motors. **Mr. Ford, who had had so many brilliant insights in earlier years, seemed never to understand how completely the market had changed from the one in which he made his name and to which he was accustomed.**
    - d. **Change, as I have often said, means challenge, and the ability to meet challenge is the sign of good management.**
  3. Dealer Relations
    - a. The big gap in our information system at headquarters and in the divisions was at the retail level. We knew how many cars and trucks our divisions were selling to

our dealers, but we did not know the current rate at which those vehicles were being resold to the public. We were not in touch with the actual retail market. The division managers gave me monthly reports on the number of cars in the hands of their dealers, but most of them estimated dealers' inventories without asking the dealers themselves to supply current data. **This method — or lack of it — limited our sensitivity to changing market trends and required the staff at headquarters to base its sales forecasts on figures that were not only weak but also several weeks old. Such a time lag could be dangerous. It became, in fact, the source of a new crisis... Two things were involved: first, the art of forecasting, and second, shortening the reaction time when a forecast proved wrong,** which can be expected to happen even in the present day of complex mathematical forecasting technique.

- b. **When I was chief executive officer of General Motors, I gave a large part of my attention to dealer relations, amounting at times, you might say, almost to a specialization. I did so because the experience of the 1920s, when the modern problems of automobile distribution took shape, taught me that a stable dealer organization is a necessary condition for the progress and stability of an enterprise in this industry**
  - c. The franchise system of distribution makes sense only if you have a group of sound, prosperous dealers as business associates. I have never been interested in business relationships that are not of benefit to all concerned. It is my belief that everyone should hold up his end of the relationship and be rewarded accordingly. The significance of the dealer in automobile distribution is twofold. First, as in many industries, the dealer makes the direct personal contact with the customer; he makes and closes the deal that sells the car. The producer's contact, on the other hand, is with the dealer, not the customer, except to the extent that the producer speaks to the public as a whole through advertising, automobile shows, and other instrumentalities — and I might add that the product on the streets and highways is a persuasive message to the consumer. Second, in the automobile industry, the dealer is franchised. This policy, I believe, was new in the industry when we began it. It reflected our desire to protect dealers against unreasonable product-depreciation losses and to place the responsibility for reasonable production schedules in the later months of the model year on the management of the divisions. It imposed a penalty on the factory in the form of an automatic assessment if for any reason there was an excess supply of cars in the model year.
4. Production
- a. From the standpoint of the dealer's convenience and the most economical control of finished-goods inventory, the factory should have varied its output to conform to seasonal demand. Such a practice would have reduced the risk of obsolescence and the cost of storing finished products for both dealer and manufacturer. On the other hand, absolutely level production — or the nearest to it that could be attained — was ideal from the standpoint of efficient utilization of plant and labor and from the standpoint of the employee's welfare. Since considerations of economical distribution and economical manufacture were thus diametrically opposed, planning and judgment were required to find a reasonable balance between them.

- b. Progress was made, too, in stabilizing employment. But the problem of keeping production at a stable level is still unsolved today and very likely will remain so, owing in part to the incompletely solved problem of forecasting sales in the uncertain future. Other problems — the variations in the level of demand, both cyclical and seasonal, and the influence of the model change and the buying habits of the general public — have also had much to do with keeping production from remaining stable. As a matter of fact, we could achieve perfect forecasting and still find ourselves unable to stabilize production much more than we can today.
  - i. *Why forecasting and precision can be such a waste of time. Positioning > Prediction*
- c. The Pontiac represented the first important advance in coordinating the physical product in manufacturing. Physical coordination in one form or another is, of course, the first principle of mass production, but at that time it was widely supposed, from the example of the Model T, that mass production on a grand scale required a uniform product. The Pontiac, coordinated in part with a car in another price class, was to demonstrate that mass production of automobiles could be reconciled with variety in product. This was again the opposite of the old Ford concept, which we persistently met and opposed at every turn. For General Motors, with its five basic price classes by car makes and several subclasses of models, the implication of the Pontiac idea was very great for the whole line. If the cars in the higher-price classes could benefit from the volume economies of the lower-price classes, the advantages of mass production could be extended to the whole car line. This gave new significance to the product plan of 1921, and was in fact eventually applied in varying degrees by all the General Motors car divisions.
  - i. *Brilliant insight – able to benefit from economies of scale but, unlike Ford, not be tied down to a single model*
- d. **I should mention one other very important decision reached in 1940. We decided that General Motors should seek to perform the most complicated and difficult production assignments.**
  - i. *Work on the hard stuff. By being able to design, produce, test, sell, repair the most complicated or difficult to make items, you create a moat for yourself*
- e. To work with this volatile and largely unskilled labor force, we were obliged to rationalize our production techniques as much as possible. For example, when the M-24 tank went into production at Cadillac, the division developed a “merry-go-round” type of conveyer which made it possible for each of the welders to perform one specialized, relatively simple task, instead of a difficult series of welding operations.
  - i. *Through standardization and smart production flows, you can make the complex simple*
- f. **Any rigidity by an automobile manufacturer, no matter how large or how well established, is severely penalized in the market** — as we have seen was the case with Mr. Ford in the 1920s, when he stayed too long with his old and once dominantly successful concept of the business.

- g. We have not bought our way into operations, we have built them up.
  - i. *A tendency towards organic growth rather than growth from acquisitions*
- 5. Finances
  - a. **My responsibility involved the application of financial method, for finance could not exist in a vacuum but had to be integrated with operations.**
  - b. I did establish in United Motors a unity of business purpose through the principle of return on investment. By placing each division on its own profit-making basis, I gave the general office a common measure of efficiency with which to judge the contribution of each division to the whole.
  - c. It is not, therefore, a matter of the amount of profit but of the relation of that profit to the real worth of invested capital within the business.
  - d. The point I wish to make here relates not to technique — which other people know better than I do — but to the general principle of rate of return as the measure of the worth of a business. That idea was fundamental in my thinking about management problems.
  - e. **The problem for General Motors, as I saw it in 1922, was to get the advantages of volume by buying on general contracts such items as tires, steel, stationery, rags, batteries, blocks, acetylene, abrasives, and the like, and at the same time to permit the divisions to have control over their own affairs.** In a preliminary memorandum I argued that coordination of purchasing would save the corporation an estimated five to ten million dollars a year; that it would make it easier to control — especially to reduce — inventory; that in an emergency one division could obtain materials from another, and that the corporation’s purchasing specialist could take advantage of price fluctuations. I conceded, however, the peculiar difficulties that arise “when one considers the extremely technical character of practically all the Corporation’s product and recognizes that we are dealing with many personalities and viewpoints developed through years of contact with certain products as compared with others”. In other words, it was a question of acknowledging the natural constraints of decentralization that were built into both the technology of the product and the minds of the managers. The latter were not long in making precisely this point when I first proposed to have a purchasing staff do the coordinating. They gave as argument their long experience, the variety of their requirements, and the loss of divisional responsibility in an area which could affect their ability to carry out their car programs. Therefore, I think the General Purchasing Committee itself cannot be cited as an unqualified success. It caused us, however, to make a strong effort to standardize articles where possible. This and the description of standardized production were very important matters. **The General Purchasing Committee’s real and lasting success was in the area of standardization of materials.**
  - f. A word on rate of return as a strategic principle of business. I am not going to say that rate of return is a magic wand for every occasion in business. There are times when you have to spend money just to stay in business, regardless of the visible rate of return. **Competition is the final price determinant and competitive prices may result in profits which force you to accept a rate of return less than you hoped for, or for that matter to accept temporary losses.** And, in

times of inflation, the rate-of-return concept comes up against the problem of assets undervalued in terms of replacement. Nevertheless, no other financial principle with which I am acquainted serves better than rate of return as an objective aid to business judgment.

- g. **The figures did not give automatic answers to problems. They simply exposed the facts with which to judge whether the divisions were operating in line with expectations as reflected in prior performance or in their budgets.**
- h. The early return-on-investment form, which with some modifications is still used in General Motors, was the first step in educating our operating personnel in the meaning and importance of rate of return as a standard of performance. It provided executives with a quantitative basis for sound decision making, and thereby laid the foundation for what was to be one of General Motors' most important characteristics, namely, its effort to achieve open-minded communication and objective consideration of facts.
- i. Uniformity is essential to financial control, since without it comparisons are difficult if not impossible.
- j. The development of a uniform accounting practice enabled us to analyze the internal condition of each division and to compare one division's operating performance with another's. But what is equally important, the uniform accounting practice created guidelines, with some exceptions, for overhead-cost accounting, both for actual costs of production and for developing yardsticks for evaluating operating efficiency.
- k. It seems to me that management should now direct its energies toward *increasing earning power through improved effectiveness and reduced expense*. In other words, the drive during the past few years has been for more and better cars of constantly increasing value. From now on we should drive just as hard toward still better cars, but we must give more detailed consideration to values in respect to price and as a part of this program the efforts that have been so lavishly expended on expansion and development should now be directed toward economy in operation.
- l. Our profits dropped from about \$248 million in 1929 to \$165,000 in 1932, still in the black, thanks mainly to our financial-control procedures. In 1932 we were operating at less than 30 percent of capacity.
  - i. *What a drop!?*
- m. The record shows, I believe, that we have done a very creditable job for the shareholders, without neglecting our responsibilities to our employees, customers, dealers, suppliers, and the community.
  - i. *Everyone in the ecosystem must thrive, or else you increase risk. Doesn't mean the business will blow up or not be successful, but it is suboptimal*
- n. If I could wave a magic wand over our dealer organization, with the result that every dealer could have a proper accounting system, could know the facts about his business and could intelligently deal with the many details incident to his business in an intelligent manner as a result thereof, I would be willing to pay for that accomplishment an enormous sum and I would be fully justified in doing so. It would be the best investment General Motors ever made. Accordingly, in 1927 we set up an organization called Motors Accounting Company. We developed a

standardized accounting system applicable to all dealers and sent a staff into the field to help install it and to establish an audit system. Through its intimate association with dealers in the Motors Holding operation, General Motors has obtained a clearer and more sympathetic knowledge of dealers' problems. Motors Holding has also provided the corporation with a better knowledge of the retail market and consumer preferences. **But more important than anything else, it has been useful in the development and maintenance of a strong, well-managed, adequately capitalized dealer body.**

6. Filling the Gap

- a. **A policy which we defined simply as “a car for every purse and purpose”.**
- b. From the inside the picture was not quite so good. Not only were we not competitive with Ford in the low-price field — where the big volume and substantial future growth lay — but in the middle, where we were concentrated with duplication, we did not know what we were trying to do except to sell cars which, in a sense, took volume from each other. Some kind of rational policy was called for. That is, it was necessary to know what one was trying to do, apart from the question of what might be imposed upon one by the consumer, the competition, and a combination of technological and economic conditions in the course of evolution. The lack of a rational policy in the car line can be seen especially in the almost identical duplication in price of the Chevrolet “FB”, Oakland, and Olds. Each division, in the absence of a corporation policy, operated independently, making its own price and production policies, which landed some cars in identical price positions without relationship to the interest of the enterprise as a whole.
- c. The product policy we proposed is the one for which General Motors has now long been known. **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 fancy-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 the price fields or steps.** These new policies never materialized precisely in this form — for example, we always have had in fact duplication and competition between the divisions — yet essentially the new product policy differentiated the new General Motors from the old, and the new General Motors from the Ford organization of the time and from other car manufacturers. Naturally we thought that this policy was superior to competing policies in the industry and would win over them. **Again let me say that companies compete in broad policies as well as in specific products.**
- d. Having thus separated out a set of related price classes, we set forth an intricate strategy which can be summarized as follows: **We proposed in general that General Motors should place its cars at the top of each price range and make them of such a quality that they would attract sales from below that price, selling to those customers who might be willing to pay a little more for the additional quality, and attract sales also from above that price, selling to**

**those customers who would see the price advantage in a car of close to the quality of higher-priced competition. This amounted to quality competition against cars below a given price tag, and price competition against cars above that price tag.**

- e. **With Ford in almost complete possession of the low-price field, it would have been suicidal to compete with him head on. No conceivable amount of capital short of the United States Treasury could have sustained the losses required to take volume away from him at his own game.** The strategy we devised was to take a bite from the top of his position, conceived as a price class, and in this way build up Chevrolet volume on a profitable basis. In later years, as the consumer upgraded his preference, the new General Motors policy was to become critically attuned to the course of American history.
    - i. *Must be creative when dealing with a stronger opponent. Do not go head to head, find a way to use their strengths against them. For every positive aspect of a strategy, there is a corresponding negative. Do they have scale? That can mean they're slow moving. Use velocity to your advantage. Do they have a laser focus on low-priced cars like Ford did but little else? Produce a variety of cars to suit customer's needs...*
  - f. We set out to produce not for the chosen few but for the whole consumer public on the assumption of a continuously rising standard of living. Our interpretations of the significance of the rising standard of living marked an important difference between us and others in the formative years of the modern market.
  - g. I see three simultaneous patterns in the way Mr. Durant set up General Motors. The first was variety in cars for a variety of tastes and economic levels in the market. That is evident in Buick, Olds, Oakland, Cadillac, and, later, Chevrolet. The second pattern was diversification, calculated, it seems, to cover the many possibilities in the engineering future of the automobile, in search of a high average result instead of an all-or-none proposition.
  - h. From the strategic standpoint at that time, however, the most dangerous gap in the list was that between the Chevrolet and the Olds. It was big enough to constitute a volume demand and thereby to accommodate, on top of Chevrolet, a competitor against whom we then had no counter. It was therefore an important gap to fill both offensively and defensively; offensively because there was a market demand to be satisfied there, and defensively because competitive cars could come in there and come down on Chevrolet as we planned for Chevrolet to come down on Ford. On this reasoning, we made one of the most important decisions in the history of General Motors, namely to fill the gap above Chevrolet with a brand-new car with a new six-cylinder engine. We had come to believe from an engineering standpoint that the future favored sixes and eights. However, to make the strategy effective, it would be necessary to fill the gap with a car that also had some volume economies. Otherwise, because the new car would draw some volume away from Chevrolet, reducing its economies, a loss would result for both cars. We concluded, therefore, that the new car must be designed in physical coordination with Chevrolet so as to share Chevrolet's economies, and vice versa.
7. Taking Advantage of Downturns

- a. We were not alone among automobile companies. Others were also in trouble. That was no particular comfort, for economic declines have a way of shaking out the weak ones in business, and we had weaknesses. Some people cannot see beyond a slump, but I have never yielded to economic pessimism and in times of decline have kept in mind the eventual upturn of the business cycle and the long-range dynamics of growth. Confidence and caution formed my attitude in 1920. We could not control the environment, or predict its changes precisely, but we could seek the flexibility to survive fluctuations in business.
  - b. It would be unfair to claim any particular prescience on our part; no more than anyone else did we see the depression coming. I think the story I have told shows that we had simply learned how to react quickly. This was perhaps the greatest payoff of our system of financial and operating controls.
  - c. We poured many millions of dollars into this unproven product at a time when many of the customers for it were in serious financial condition or bankrupt and the majority of them appeared to be totally uninterested in innovation; and we thereby helped the railroads back to solvency — a fact that is acknowledged by railroad management today.
8. Checklist for New Projects
- a. The core of our concept lay in the determination of the propriety of proposed projects. Four principles were to be satisfied, which we stated as follows: a. Is the Project a logical or necessary one considered as a commercial venture? b. Has the Project been properly developed technically? c. Is the Project proper, considering the interest of the Corporation as a whole? d. What is the relative value of the Project to the Corporation as compared with other Projects under consideration, from the standpoint not only of the return on the necessary capital to be invested, but of the need of the particular Project in supporting the operations of the Corporation as a whole?
9. Annual Models
- a. When we did formulate it I cannot say. It was a matter of evolution. Eventually the fact that we made yearly changes, and the recognition of the necessity of change, forced us into regularizing change. When change became regularized, some time in the 1930s, we began to speak of annual models. I do not believe the elder Mr. Ford ever really cared for the idea. Anyway his Model A, which he brought out in 1928, as fine a little car as it was in its time, it seems to me was another expression of his concept of a static-model utility car.
  - b. These new elements I think I can without significant loss reduce to four: installment selling, the used-car trade-in, the closed body, and the annual model. (I would add improved roads if I were to take into account the environment of the automobile.)
10. GM's Role During WWII
- a. Very large demands were made on General Motors during the next six years, and the corporation, I think I can say, like most of American industry, responded with distinction. When World War II began, General Motors rapidly converted itself from the nation's largest manufacturer of automobiles to the nation's largest producer of war materials. And when the war ended, General Motors rapidly

reconverted to peacetime production, a capability, in both instances, that derived from our scheme of management and a great deal of planning.

- b. **We had learned from experience that wars create a backlog of unsatisfied demand.**
  - c. Furthermore, it became increasingly clear that General Motors could not employ its mass-production techniques effectively in the airframe industry. We decided, therefore, that it would be in the best interests of both General Motors and North American to dispose of our holdings in the company at some appropriate time.
  - d. Related to this policy of profit limitation was another policy of taking war-production contracts on a fixed-price basis, wherever possible. We preferred the fixed-price contract because of the greater incentive which it provided for efficient operation (as compared with the cost-plus-fixed-fee type of contract).
11. Incentives, Bonuses, & Compensation
- a. We have always taken great pains to keep foremen's morale at the highest level. In 1934 foremen were placed on a salary basis, and in 1941 we adopted the rule that their salaries had to be at least 25 percent higher than the earnings of the highest-paid group of employees under their supervision.
  - b. **But perhaps the most important reason for the high morale of our foremen is the solid support we have given them on matters of discipline and work standards. They know that they are considered members of management.**
  - c. Some union spokesmen talk as though the entire benefits of increased productivity should go to labor. I do not believe that is sound. New machinery costs money and the additional investment must be justified by a return on that investment. **An argument could be made that the consumer, and the economy as a whole, would benefit most if productivity increases were applied entirely to the lowering of prices. Ideally that might be a good thing. But since it is in the nature of people to work better with the incentive of an individual or group gain and to want to bargain over it, it is a good thing to have something to bargain over. And so I conclude that the benefits of productivity increases should be apportioned among the consumer (lower prices or better product), labor (higher wages), and the shareholders (return on investment).**
  - d. Our management policy, as the 1942 annual report formally stated it, "has evolved from the belief that **the most effective results and the maximum progress and stability of the business are achieved by placing its executives in the same relative position, so far as possible, that they would occupy if they were conducting a business on their own account. This provides opportunity for accomplishment through the exercise of individual initiative, and opportunity for economic progress commensurate with performance. In that way managerial talent is attracted to and retained by the Corporation.**" The **Bonus Plan** and the policy of decentralization are related, since decentralization gives executives the opportunity for accomplishment, and the **Bonus Plan** makes it possible for each executive to earn a reward commensurate with his own performance, and so gives him an incentive to put forth his best effort at all times.

- e. At the present time, bonuses may be awarded out of net earnings only if the corporation has earned more than 6 percent on its net capital employed. The maximum annual credit to the bonus reserve is limited to 12 percent of the net earnings after taxes and after the 6 percent return, and in its discretion the Bonus and Salary Committee may determine to credit less than the maximum.
- f. But while bonus awards depend on profits, the bonus system is not a profit-sharing plan. It does not entitle any employee to any regular share in the earnings of the corporation or any of its divisions. The Bonus and Salary Committee may — and sometimes does — award less than the maximum sum available for bonus payments. More important, each man must earn the right to be considered for a bonus award each year by his own effort. Since his effort is judged each year, his bonus award may fluctuate widely from year to year — if, indeed, he receives one every year. The knowledge that his contribution to the corporation is weighed periodically, and a price put on it, acts as an incentive for each executive at all times.
- g. The Bonus Plan has also had an important effect in creating an identity of interest between management and shareholders by creating an owner-management group: in most cases, bonus awards have been made partly or wholly in General Motors stock. As a result, General Motors has always had a top management group with a heavy stock interest in the corporation — heavy, that is, from the standpoint of the executives' total personal assets, if not from the standpoint of the corporation's total stock outstanding. Since the bulk of their own assets usually consists of General Motors stock, General Motors executives are more conscious of the identity between their interests and those of the shareholders than they would be if they were professional managers only.
- h. **Decentralization provided the opportunity; [the incentive compensation] . . . provided the stimulation; jointly they made the top level executives in the Corporation a cooperatively constructive group without destroying individual ambition and initiative.**
- i. **The Bonus Plan established the concept of corporate profit in place of divisional profits, which only incidentally added up to the corporation's net income.** Suitably, it provided for bonuses to be paid to employees “who have contributed to its [General Motors'] success in a special degree by their inventions, ability, industry, loyalty or exceptional service”. At first total bonus awards were limited to 10 percent of the net earnings after taxes and after a 6 percent return.
  - i. *The importance of having everyone rowing in the same direction*
- j. The 1922 revisions also related the employee's level of responsibility to his eligibility for bonuses. Since the simplest measure of an employee's level of responsibility is his salary, eligibility for the bonus was set on that basis: for several years, beginning with 1922, the minimum salary for bonus eligibility was \$5000 per year.
- k. **One of the basic purposes of our incentive program is to make our executives partners in the business. Part of this concept has been that bonus awards should be made in General Motors stock.** Common stock is purchased in the market from month to month to meet each year's needs for bonus purposes.

Originally, the entire bonus award was payable in stock, but with the development of high personal income taxes, it became evident to the Bonus and Salary Committee that delivering the entire award in stock was futile if the beneficiary had to sell a large part of that stock in order to pay the related income taxes. Therefore, in 1943 the corporation adopted a policy of making bonus awards partly in cash and partly in stock.

1. **Is the Bonus Plan really worth all the executive time and effort taken up by its administration? And is it worth the money it costs? I believe so emphatically. I am convinced that the Bonus Plan has not cost the shareholders a single dollar, but has, on the contrary, greatly increased their return over the years. I believe that the Bonus Plan has been, and continues to be, a major factor in the remarkable success of the General Motors Corporation.** When an enterprise is new and small and is operated by a few people who have invested their own savings, it is perfectly apparent to them that their own interests are interwoven with those of the enterprise. But as the enterprise grows and more and more men participate in its management, this connection becomes remote and needs periodic expression and emphasis, such as the Bonus Plan provides. **The Bonus Plan creates different kinds of incentives at different levels of the corporation. It creates a tremendous incentive among employees not yet eligible for bonus awards to become eligible.** One of our top executives recalled a while back in a letter to me: “I well remember the thrill that came with the time when I was first awarded a bonus — the feeling of having made the team and the determination to continue to advance in the organization.” I believe that same feeling has been shared by all who have had the opportunity to participate in the Bonus Plan. And for many of them, bonus awards today probably comprise the great bulk of their personal assets. Since bonuses are awarded annually, the incentive continues as long as the man stays with the corporation. The stimulus in fact becomes increasingly effective as a man advances in the organization, for **the bonus is generally larger in relation to salary at high-salary brackets than it is at low brackets. In other words, the bonus tends to increase in a kind of geometric (rather than arithmetic) progression as a man is promoted. And so there is a tremendous incentive for him not only to do the best possible work in the job he already has, but to do such an outstanding job that he will be promoted to a higher rank.** The incentives and rewards are not solely financial, however. Again, I quote from the letter mentioned above: There is still another value which I am sure the Corporation derives from the administration of the Bonus Plan. It is the intangible incentive it provides as distinct from the tangible incentive of a monetary reward. The potential rewards of the Bonus Plan to ego satisfaction generate a tremendous driving force within the Corporation. **Each bonus award carries with it considerably more than the intrinsic value of its cash and common stock.** To the recipient it is also an evaluation of his personal contribution to the success of the business. It is a means of conveying to the executive a form of recognition which he prizes independently of his monetary compensation. This non-financial incentive is reinforced by a fairly general practice of having each recipient’s supervisor deliver the bonus notification letter. This furnishes an opportunity for a

review and discussion of the recipient's performance. **One important side-effect of the Bonus Plan is that it makes each participant acutely aware of his relation to his job and his superiors; he is obliged, as it were, to dwell on his own and the corporation's progress. A man derives satisfaction from knowing that his superiors have judged his value, and at the same time there is the spur of having his work reviewed annually.**

- m. **The Bonus Plan also provides much more flexibility on the up side than is possible under a salary system.** It may be difficult to reward a man for superior performance by raising his salary, since the increase may upset the whole salary stratification. A salary increase, moreover, commits the company indefinitely, whereas the bonus makes it possible to tailor the reward to the period in which performance was unusual. And so the Bonus Plan makes it possible for the exceptional individual to break out of the overall salary schedule without at the same time upsetting the schedule. The Bonus Plan, moreover, tends to keep executives with the corporation.
    - i. *Turning fixed costs into variable costs*
  - n. **Experience has convinced me, however, that for those who are responsible for a business, two important factors are motivation and opportunity. The former is supplied in good part by incentive compensation, the latter by decentralization.**
  - o. **An administration may also be measured by the caliber of the men brought in or retained by it.**
12. Other
- a. Sloan married Irene Jackson of Roxbury, Massachusetts, in 1898 but he and his wife had no children. He had few, if any, hobbies, didn't enjoy sports (though he owned a yacht once), didn't smoke, rarely drank, and was content to simply watch television after dinner. **His sole passion was the General Motors Corporation, and since he believed that his company was only as strong as its weakest link, he was involved in almost every aspect of its administration and operation.**
  - b. **Growth, or striving for it, is, I believe, essential to the good health of an enterprise. Deliberately to stop growing is to suffocate...** I have always believed in planning big, and I have always discovered after the fact that, if anything, we didn't plan big enough. But I did not foresee the size of General Motors or have size in mind as an objective. I simply took the view that we should go at the job vigorously and without hampering restrictions. I put no ceiling on progress. Growth and progress are related, for there is no resting place for an enterprise in a competitive economy. Obstacles, conflicts, new problems in various shapes, and new horizons arise to stir the imagination and continue the progress of industry. Success, however, may bring self-satisfaction. In that event, the urge for competitive survival, the strongest of all economic incentives, is dulled. The spirit of venture is lost in the inertia of the mind against change. When such influences develop, growth may be arrested or a decline may set in, caused by the failure to recognize advancing technology or altered consumer needs, or perhaps by competition that is more virile and aggressive. **The perpetuation of an unusual success or the maintenance of an unusually high standard of leadership in any industry is sometimes more difficult than the**

**attainment of that success or leadership in the first place.** This is the greatest challenge to be met by the leader of an industry. It is a challenge to be met by the General Motors of the future.

- c. Early Cadillac engineering had an important influence on the industry and upon my operations in Hyatt. This was largely due to Henry Leland, who, I believe, was one of those mainly responsible **for bringing the technique of interchangeable parts into automobile manufacturing.**
- d. I have described how he had been out of General Motors for a number of years and was about to return at that time as president. **I found Mr. Durant a very persuasive man, soft-spoken and ingratiating. He was short, conservatively and immaculately dressed, and had an air of being permanently calm — though he was continuously involved in big and complicated financial deals — and he inspired confidence in his character and ability.**
- e. The significant influence of the copper-cooled engine was in what it taught us about the value of organized cooperation and coordination in engineering and other matters. It showed the need to make an effective distinction between divisional and corporate functions in engineering, and also between advanced product engineering and long-range research.
- f. **The guiding principle was to make our standards difficult to achieve but possible to attain, which I believe is the most effective way of capitalizing on the initiative, resourcefulness, and capabilities of the operating personnel.**
- g. **“When your competitors follow you, that’s the medal in business.”**
- h. In some organizations, in order to tap the potentialities of a genius, it is necessary to build around him and tailor the organization to his temperament. General Motors on the whole is not such an organization although Mr. Kettering was an obvious exception.

What I got out of it

1. Some brilliant insights into human nature and organizational impact (annual models, coordinate policy with decentralized authority, filling the gaps, how to incentivize with bonuses/compensation, taking advantage of downturns, the importance of sound dealer relations, and more). Too long of a book but worthwhile

