Is Crisis in the Auto Industry the New Normal?
*Lessons from GM’s Ignition Switch Recall*

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I. Introduction

For Judith Rodin, the former president of The Rockefeller Foundation, soul searching after Hurricane Katrina and Super Storm Sandy devastated huge swathes of coastline led her to a profound insight that changed the way the group helps communities prepare for and respond to crises. Crisis, she realized, is the new normal. And building resilient communities is the best way to survive the inevitable storms.

In her book, “The Resilience Dividend,” she defines resilience as “the ability of people, communities and institutions to prepare for, withstand, and bounce back more rapidly from acute shocks and chronic stresses,” and she argues it should be the focus of business, government and community leaders.

This is practical advice for the U.S. auto industry, where crises are common. Just consider how external events alone have disrupted the industry, including the Great Depression, World War II, the oil shocks of the 1970s, the rise of Japanese and German imports, and the 11 economic recessions between 1945 and the end of 2009.

The concept of resiliency is something General Motors embraced independently after it began recalling 2.6 million small cars for defective ignition switches in 2014. While addressing the immediate impact and fallout of the recalls, the company aggressively moved from a posture of managing crises as they arose, to proactively trying to avoid them, especially with respect to customer and workplace safety.

Since then, GM has set about creating a robust and reinvigorated safety culture that relies on personal commitment, teamwork, data analytics and extensive training to preempt issues. And if things do go wrong, for whatever reason, the lessons learned during the ignition switch crisis continue to drive the company’s behavior.

II. Crisis Triggers

In the corporate context, a crisis usually has one of three root causes:

1. Something that causes the public to believe that a company’s conduct has imperiled or harmed people physically, emotionally or financially.
2. An event or risk involving a company that threatens the health, safety and security of a community.
3. An event that could have a material negative impact on profitability or the viability of a company as going concern.

It is a straightforward exercise to assign recent, high-profile automotive crises to one of these categories. But contrary to what many trial lawyers assert, willful misconduct is very rare. Rather, it is the scale and inherent complexity of the auto industry that helps gives rise to most crises.

A few statistics bear this out:

• More than 4.2 million Americans are directly employed by auto manufacturers, suppliers and dealers.

• A single vehicle can have as many as 30,000 parts, and each one takes about three years to design and 17-18 hours to build.
• There are more than 253 million vehicles on the road with an average age of more than 11 years; each one is driven about 13,500 miles per year, on average.

With millions of hands touching our products, billions of miles traveled and myriad individual decisions made along the way, it’s easy to see how quickly and unpredictably issues can arise. To err, quite simply, is human.

In such a complex world, engineers, managers, line workers, attorneys, communicators, investigators and policy teams must work in partnership and share information to anticipate, react to and fix problems. Teams working in isolation will miss important trends and information silos will contribute to crises.

III. Anatomy of a Crisis: What Went Wrong at GM?

The GM ignition switch crisis came to light in 2014 when the company announced a series of recalls to replace 2.6 million ignition switches in certain small cars because, in the simplest terms, they were too easy to turn.

The problem is a switch that turns when it’s not supposed to can stall the car, and a stalled car may not have power available to deploy the airbags in a crash. Several fatalities and injuries were linked to the defect when the recalls were announced.

Public interest and media coverage was global, and reached a fever pitch very quickly because many of the vehicles had been on the road for more than a decade, questions were raised about whether GM should have initiated the recalls earlier, and repair parts were not readily available.

In short order, the recalls precipitated investigations by committees in both houses of Congress. GM’s Board of Directors ordered an independent investigation by the Chicago law firm Jenner & Block. Subsequently, investigations were conducted by the U.S. Department of Justice, the Federal Trade Commission and the Securities and Exchange Commission.

The findings of the investigations included the following:

• More than a decade before the recalls, a GM engineer approved a switch design that did not meet the company’s internal performance targets. Some years later, he ordered an upgrade to the switch but did not change the part number, which violated company policy. This fact was discovered during his deposition in a product liability case in 2013.

• Customers and media complained about stalling soon after the cars were introduced, but inside GM at the time, stalling in and of itself was not widely viewed as a safety concern.

• Engineers did not understand that inadvertent switch rotation could disable the airbags.

• The company, including its legal team and safety investigators, was slow to make the connection between inadvertent switch rotation and airbag non-deployment because teams worked in silos.

Any one of these issues in and of itself could precipitate a crisis. Together, they were more than enough to mobilize media, customers, the plaintiffs’ bar, the Congress, federal regulators and state officials to launch broad-based inquiries and sprawling litigation.

The financial impact alone has been significant. As of July 2017, GM has paid more than $2 billion in financial penalties and civil settlements related to the recall. This includes a nearly $600 million compensation facility that was established to independently assess and settle personal injury and death claims. The company continues to face numerous personal injury and class action lawsuits alleging the GM customers suffered economic harm, including lost resale value.
Nevertheless, GM so far has fared better than other automotive companies facing similar challenges. For example, the financial penalty GM paid to the federal government was hundreds of millions of dollars less than Toyota paid following its sudden acceleration crisis, and it was billions less than Volkswagen’s penalty for cheating on diesel emissions tests. The biggest reason is that GM behaved in a way that was marked by unprecedented candor, clarity, consistency and compassion for customers.

IV. GM Under the Microscope: How the Company Responded

Almost from the beginning, GM recognized the gravity of the ignition switch recalls. And the company’s new leadership team, led by Mary Barra who was named CEO just a few weeks before the crisis, charted a bold course that was marked by simple messages.

Not long after the recall, she said, “As I lead GM through this crisis, I want everyone to know that I am guided by two clear principles: First, that we do the right thing for those who were harmed; and, second, that we accept responsibility for our mistakes and commit to doing everything within our power to prevent this problem from ever happening again.”

This led to a massive mobilization of resources to:

1. Fix the Vehicles as Quickly as Possible
   • Quickly restarted replacement parts production
   • Offered loaner vehicles to concerned customers at GM’s expense
   • Rallied the company’s dealers to help address customer concerns
   • Launched an extensive customer communications and outreach program leveraging print, digital and social media to fix the vehicles as quickly as possible

2. Hold Ourselves Accountable
   • Commissioned an internal investigation by Jenner & Block, without constraints on access, resources or scope
   • Pledged full and complete cooperation with state and federal investigators
   • Made personnel decisions that included disciplinary actions and separations

3. Do the Right Thing
   • Created an independently administered compensation facility designed to resolve personal injury claims in a non-adversarial way, without consideration of legal defenses such as contributory negligence or the statute of limitations

4. Build a Safety Culture: Make it Personal
   • Ordered what we believe is the most comprehensive safety review in the history of our company, including an analysis of field data, customer feedback, legal claims, federal databases and publicly available data
   • Created new Global Safety organization, which elevated safety decision making to the highest levels of the company
   • Developed new data mining and analytic tools to identify potential safety issues earlier
   • Developed new design, engineering and vehicle integration processes
   • Launched a “Speak up For Safety” program to give dealers, suppliers and employees new, easy-to-use tools to report safety concerns easily and without fear
• Created new safety training programs for employees at all levels.

The results of this compressive approach include a repair rate for the ignition switch recall that is now above 90 percent in the United States – an extraordinary result for such a large population of older cars. In addition, there has been a meaningful reduction in the size of recalls because more issues are being addressed earlier, before large numbers of customers are impacted.

V. GM’s Communications Response

The intensity and duration of the media coverage GM experienced following the ignition switch recalls cannot be overstated.

The Detroit press corps and global news organizations including The Wall Street Journal, the New York Times, Bloomberg News, Reuters, The Associated Press, the BBC and all major U.S. broadcast and cable news networks devoted significant resources to the story, which evolved almost daily for months on end.

• The span of time between the first recall and the last congressional hearing was about five months, between February and July 2014.

• The compensation facility accepted claims for six months, ending in January 2015, and it publicly disclosed a running total of death and injury claims received, paid and rejected.

• The Department of Justice investigation lasted until September 2015.

• Bellwether trials have been underway in state and federal courts since 2016. So far, GM has won three defense verdicts. A number of other cases were voluntarily dismissed by plaintiffs or the trial judge, and others were settled.

Media coverage was almost uniformly critical of GM. Possible victims and their families were interviewed on nightly newscasts, leaked documents drove front-page stories, allegations of a cover up were made time and again, plaintiffs’ lawyers and advocacy groups announced headline-grabbing estimates of GM’s potential liability. Even Saturday Night Live parodied the situation.

GM was able to manage through this storm without permanent damage to the company’s reputation for three reasons:

1. The company created and empowered a cross-functional team that included Communications, Public Policy, Legal, Sales, Marketing, and Customer Care and Aftersales to develop communications for customers, media, dealers and policymakers. The team was co-located for several months, roles and responsibilities were clearly defined, information was shared freely and the review process was streamlined.

2. Early on, the GM leadership team established clear objectives and set the tone for all communications. Specifically, the company promised to repair affected vehicles as quickly as possible; fairly compensate people who were physically harmed; investigate why mistakes were made; hold people accountable; cooperate fully with investigators, and take steps to ensure something like the recall never happens again. The communications were marked by candor, clarity and compassion, and the messages were consistent for all audiences.

3. GM did exactly what the company promised it would do, and the lessons of the ignition switch crisis continue to be openly and frequently discussed with employees at all levels of the company, including new hires.

This approach has helped GM manage media interest in the ongoing product litigation as well. Most automotive media are now well-versed in the steps GM has taken to correct its mistakes and resolve claims.
This has allowed the trial teams, which include an embedded Communications professional, to focus on the merits of each individual case.

**VI. Postscript**

The lessons learned and changes made by GM since the ignition switch crisis have made the company much more customer focused, and thus far, more resilient. The company’s approach to the recall and the cultural change it sparked, combined with record operating results, have earned GM’s leadership a reputation for teamwork, results and vision. For example, in the fall of 2016, Mary Barra was named *Fortune* magazine’s Most Powerful Woman in business for the second year in a row.

They wrote, “(Barra) understood from the beginning that one of her hardest jobs would be changing the risk-averse, process-obsessed, inward-looking GM culture. Wisely, she didn’t even talk about culture change, though. She just focused on behavior change.

Asked to provide an example, she spoke about an exchange she had with the company’s top 300 leaders, which goes to the heart of GM’s newfound resilience: “If you could change one behavior across the organization, what would it be? We came up with about five or six things we all wanted to improve—including driving accountability, owning each other’s problems, a relentless desire to win, and having candor and transparency. People were able to walk out the door and start to behave that way.”