Applied strategic management - the american automobile industrys road from glory ...

Business, Management

Applied Strategic Management Summary of Chapter Six Various scholars have given limelight to the history of the automotive industry in America, repeatedly focusing on the theme of mismanagement. They have given an epic saga of the rise as well as the demise of the automobile industry, missed opportunities and bankruptcy, focusing on Detroit’s big three firms namely, General Motors, Chrysler, and Ford. As a result of mismanagement, companies such as Chrysler and GM ended up going bankrupt and Ford almost ended up averting to the same fate. The three companies relied heavily on the profits from SUV’s and pickups, losing a lot of money on regular cars. Consequently, there was a catastrophic failure when the price of gasoline finally rose. It is alleged that the main problem was complacency in the area of management and absurd demands from the UAW, for instance, the Jobs Bank paid workers around 95% of their previous wages until the organization found them a job and the management was reluctant to solve the problems (Ingrassia 87). It is alleged that one thing that the General Motors did right was to lead Detroit in establishing a joint venture with the Japanese companies that helped Ford and Chrysler to equally engage into partnerships. Consequently, they were able to see first hand how the Japanese worked to ensure a competitive advantage. During this period, they learned that the Japanese registered higher profits because they kept their inventories lean, did not keep the store weeks’ worth of parts at great costs unlike the Detroit, and practiced just in time delivery to ensure timely supply of the materials. Moreover, unlike Detroit, the Japanese motivated their workers by rewarding them. Consequently, this gave them a competitive edge (Ingrassia 78-79). Despite what the three big companies learnt from the Japanese, they failed miserably during the recession period that saw competition heighten. Between 1979 and 1982, Chrysler and Ford lost around $ 5billion, while the General Motors lost $763 million. Consequently, other people were affected, like in the case of the employees whereby, around 250, 000 of them got fired (Ingrassia 80) It is argued that people panic when gas prices go up to an extent of vowing to drive less and to purchase vehicles with better mileage. However, when the gas prices go down, the people go back to their old behavior as well as the actions that had initially created a market for big trucks and SUV’S. For instance in the 1980s, when the gas prices started to drop, Americans started buying the big cars just like before (Ingrassia 85). It is claimed that organizations end up selling their jets during unstable economic times and even buy better models once the risks are over. Additionally, the unions end up giving wage benefits and hikes only to realize that the management has heightened their bonuses and the retirement figures (Ingrassia 88-92). Consequently, this creates conflicts and long term hatred; hence, destroying all efforts to have a collaborative partnership that is required to have an effective and a successful organization. Various reasons have been linked to the challenges that faced the ‘ big three’. For instance, after the US engaged in the Persian Gulf War, the economic recession heightened as the sale of cars dropped. During this period, General Motors lost around $2 billion. Instead of correcting the situation, the company ended up coming up with rigorous management strategies such as layoffs followed by plant closings. Subsequently, the company went into bankruptcy following the poor management by the CEO, Stempel. As a result of poor management and lack of rational changes, GM, Chrysler, and Ford continued to record more losses. The companies tried to reorganize, diversify and form joint ventures with no success. The Japanese companies such as Toyota, Nissan, and Honda, on the other hand, continued to expand and register higher profits than that of Detroit as they launched new brands such as Acura and Lexus (Ingrassia 96-97). In that case, most scholars focus on analyzing what went wrong in ensuring success in the ‘ big three’ companies. One thing that is evident is that the companies failed to have a proper timing and instead of focusing on ways to solve their problems, they ended up creating more. Additionally, this shows what can go wrong with an incompetent CEO and management staff. It is obvious that though Stempel was not entirely guilty as far as the bankruptcy of GM was concerned, he played a major role. Leaders should be competent and act as change agents to ensure that their followers act accordingly. In this case, Stempel was the wrong person to lead the organization during the crisis. The companies should have emulated the Japanese and borrowed some few strategies to ensure that they were on the right route to ensuring success. However, it is only at the last minute that they realized the need to change after their reputation had gone down and registered losses. This sums up the reason why the automotive system failed. Detroit’s catastrophe did not just happen, but it emanated because of the lack of effective solutions that needed courageous and competent managers. For a long time, the UAW officials and the executives were not courageous and competent enough; thus, innocent people ended up caught in a chaotic system, whereby, they were not in a position to escape the aftermath or the consequences that came with the system. This urges organizations to change their management styles to suit any challenges that might occur in future. Moreover, the management should avoid actions that might trigger losses and poor relationships, since this would end up making it hard for such organizations to be successful. Generally, it is evident that most problems can emanate from mismanagement, poor timing, ineffective leaders and lack of strategic changes. There is a need for organizations to elect competent leaders who can lead their firms through effective and strategic changes that are success oriented. Work Cited Ingrassia, Paul. Crash Course: The American Automobile Industry’s Road from Glory to Disaster. New York: Random House Publishing Group, 2010. 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