

Gm powertrain case analysis

Business



GM Powertrain: Case Study Shannon Mitchell Regis University October 30, 2011 History The General Motors (GM) manufacturing plant located in Fredericksburg, VA was purchased and renovated by GM in 1978. Although this is a small plant comparatively to many of GM's other plants it is a staple within the small town of Fredericksburg. As a major producer of the Torque Converter Clutch (TCC) for GM's automatic transmission worldwide the Fredericksburg plant plays a key role in GM's manufacturing line.

In the late 1980's to the mid 1990's the plant struggled to meet budgetary goals and was faced with potential closure. These struggles stemmed from the plants inability to increase efficiency and reduce cost. Reducing labor costs could only be accomplished through natural worker attrition because GM's contract with the United Auto Workers Union (UAW) made it almost impossible to lay workers off. As workers retired and left the company current employees found themselves working many hours of overtime to make up for the decrease in staffing. Because the plant was looking to make changes they were reluctant to hire anyone new.

The abundant amount of overtime pay adversely affected the plants ability to meet their budgetary goals. Any decrease in overtime also caused grief amongst the workers, as many of them heavily relied on the overtime pay to support their families. Both the management and staff of the Fredericksburg plant understood that if they did not start meeting the annual budget their time as an open plant would be short. Because the plant was located in such a small town many of the employees had family members also working there. If the plant were to shut down it would have huge negative implication to the town as a whole.

Although the plant employed many highly skilled and motivated workers it was difficult for management to implement change. The GM genetic code had not changed in many years, especially at plants like Fredericksburg. The same assembly lines that were used when the plant was established were still being used in the mid 1990's. Although the company had started to implement new, more technological lines, this had been a slow process and had not eliminated the old lines. In order to get many of the plant employees on-board with any change the plant management would also have to get the union to agree to the changes. Getting the union to agree to change that might require greater productivity from workers could be difficult.

” But unless the plant does something to increase genetic variety, it will find it very difficult to increase efficiency and meet annual budget goals (Hamel & Prahalad, 1994). Management In February of 1996 the Fredericksburg plant hired Joe Hinrich as the new plant manager. Hinrich had worked for GM since 1989, holding many supervisory and manager positions during his career. It was after completing his graduate work at theHarvardBusiness School that GM moved Hinrich to the Fredericksburg plant. Hinrich had shown motivation, knowledge and passion for GM as a company and was likely moved to Fredericksburg for those reasons.

He had fresh ideas and because he was new to both the town of Fredericksburg and the GM plant he didn't bring tired genetic codes from the past with him, instead he could contribute in increasing the plant genetic variety. The plant was in dire need of change and it was apparent that GM thought that Hinrich could accomplish it. Prior management had failed to accomplish much of the change needed to help the Fredericksburg plant

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meet its annual budget goals. Hinrich hoped he could change that. By implementing change slowly, taking the time to include union leaders in the changes and talking to the supervisors and staff throughout the change process Hinrich hoped to build trust and accomplish things that previous managers could not.

Hinrich had a keen eye for noticing when procedural changes could be made and utilized that when implementing change within the plant. He also had a way of communicating with plant staff that made them feel comfortable and like they had accomplished something. Hinrich had no intention of laying workers off to meet bottom line numbers. Although this was partially driven by the difficulty in laying workers off imposed by the union, he also felt that it would cause a decrease in moral and even further hurt the plants productivity. Instead of utilizing denominator management Hinrich chose to use numerator management and meet budget goals by improving processes, decreasing production costs and improving efficiency. This is a much harder approach for managers to take when trying to increase revenues and meet budgetary goals, but it was what Hinrich felt needed to happen.

In his first year at the Fredericksburg plant Hinrich implemented many changes that included reducing worker idle time by redesigning employee job responsibilities, installing more efficient machinery and working to attain QS 9000 certification. Although these changes were made slowly, the supervisors and staff seemed to be on board and support the changes as they came. This was likely due to Hinrich's diligence in including them in the process. Hinrich had a goal of not only meeting the budget, but also exceeding it, and doing so with all of his employees on board. If Hinrich is <https://assignbuster.com/gm-powertrain-case-analysis/>

successful he will help the Fredericksburg plant to meet its goals as well as help GM meet its goals and maybe even change its genetic code.

Competition Although the Fredericksburg plant was key in the production of GM's automatic transmission it was not considered irreplaceable.

Other plants could take over the production of the TCC and eliminate the need for the Fredericksburg plant altogether. Additionally, GM could outsource the production of the TCC causing there to be no need for the Fredericksburg plant. If the plants that Fredericksburg currently delivered to started producing their own TCC's they could reduce their own production costs, reduce the price of the parts and potentially attract new customers, all of which would take business away from the Fredericksburg plant. Luckily GM invested \$30 million into the improvement of TCC and into the Fredericksburg plant. This could buy the plant the time needed to improve its numbers.

In addition to the threat of plant closure the company as a whole needed to be competitive within the automotive industry. Like many other companies, in the early 1990's GM was pressured to prove its ability to provide superior quality and highly reliable products through the QS 9000 certification. With its competitors, like Ford and Chrysler, also working to attain their QS 9000 certification, GM and the Fredericksburg plant were facing higher competition and higher pressure to attain the certification. If other automotive companies were able to improve quality and reduce cost before GM they would likely suffer due to lost customers and decreased revenues.

As mentioned previously, the impact that the plant had on the town of Fredericksburg is enormous. If the plant were to shut down it would not only affect many of the families that live within Fredericksburg but it would adversely impact the community as a whole. The families that work at the plant would have to move to places like Detroit to find new work. Due to the large number of people in the community that work there a closure would be detrimental to the economy in Fredericksburg. A majority of the population would have to move and the town would likely fail itself.

Environment The Fredericksburg plant is facing many major changes in both its internal structure and production systems and within the industry as a whole. The plant's need to achieve the QS 9000 certification has pressured Hinrich to accomplish increased productivity in a short amount of time. The biggest changes needed include thorough documentation of production and increased internal discipline, both of which were missing with prior management. Hinrich saw the training and changes needed to receive the QS 9000 certification as a good challenge that would help the plant perform better in the long run. One major environmental impact on the Fredericksburg plant was the influence of the union on various labor issues both internally and externally.

Internally the plant had to adhere to contractual relationships that the UAW held with GM. Any changes made within the plant including, but not limited to: job responsibilities and duties, wages, hours of work, vacation and holidays and benefits, had to be approved by the union prior to implementation. This made it difficult to make any changes, especially quickly. Luckily, Fredericksburg was a small town, with people that valued <https://assignbuster.com/gm-powertrain-case-analysis/>

their jobs, the plant and the community. This resulted in less reluctance to change from the workers and made any changes easier to implement than in other plants around the country.

Externally, the workers strikes occurring throughout the industry could be very detrimental to the plant. Any loss in production could make it even harder for the plant to meet its budget goals. Hinrich used the strikes as an opportunity to have workers catch up on needed training and test new production processes. This could lead to increased production in the long run. By focusing on the long term Hinrich will hopefully help the plant be more successful and efficient once the strikes are over.

Problem The main issue that Hinrich is faced with is the plants ability to meet its annual budget. This can only be accomplished through reducing production and labor costs, improving efficiency and increasing overall production. With the plants prior history of poor financial performance Hinrich has to find a way to not only accomplish meeting the annual budget, but also implementing immense amount of change within an industry that traditionally has a high resistance to change. For the necessary change to be accomplished Hinrich needed to find a way to reduce processing steps, train employees on the new processes, bring in new equipment and renovate the current plant space. Reducing productivity and labor costs imposed a problem of its own. Reducing labor costs involves getting rid of large amounts of overtime pay.

Overtime pay that is greatly relied on by the workers for day-to-day living expenses. With this loss of income the workers will likely become less

motivated during their regular hours, which will make it even harder to reduce productivity costs. Motivating workers to be more productive for less pay is a huge task for Hinrich. He can only accomplish it by getting the workers to understand and believe in the bigger picture of keeping the plant open through meeting budgetary goals. Once the workers are on board with the big picture changes productivity cost will be easier to manage. GM introduced more genetic variety into the Fredericksburg plant when they places Hinrich their.

By doing this they where crossbreeding old members of the Fredericksburg plant with new management (Hamel & Prahalad, 1994). Hinrich knows that if he can get the employees with the most experience and time at the company, therefore the most genetic coding, on board with changes the others will follow suit. GM also knows that if they can start by changing one plant they can slowly change them all and step into the future ahead of the competition. Options There are several options available to help the Fredericksburg plant and Hinrich achieve the goal of meeting and exceeding the annual budget. The overall scope involves cutting costs and increasing revenues through more efficient production. The first option to achieve this goal is to cut out workers.

This option involves laying people off, working with the unions, paying the monetary costs of doing so and potentially hurting moral that the plant managers have worked so hard to build. This option would be a quick fix to some of the budget problems and would free up labor costs almost immediately. The added cost of laying the employees off and training current employees to do multiple jobs would need to be considered if this option was <https://assignbuster.com/gm-powertrain-case-analysis/>

chosen. Additionally, the impact on the Fredericksburg community would also need to be considered. If one multiple people within a family are laid off the community's economy could be adversely affected. This type of denominator management could potentially drive the plant into the ground.

The second option is to create improvements throughout the plant to create lower costs and improve efficiency. By keeping all of the current workers and just restructuring the way they work the plant can run more smoothly.

Currently plant workers are reliant on machines and other workers to accomplish their daily tasks. With the implementation of the new cells that will improve assembly line processes and the achievement of the QS 9000 certification the plant would drastically increase their production capabilities and the quality of their product. This option will be good in the long term but will have large up front costs that will affect the plants budget. These costs will need to be weighed and only the changes that can be made without going overboard on the budget should be done initially.

Recommendations Based on the facts of the case and the options available to the Fredericksburg plant and to Hinrich there is only one route that they should take. Changes at the plant should continue to be implemented slowly and with the workers input, but changes should definitely be made. Laying workers off is out of the question due to the high costs related to it and the difficulty the union causes. Additionally, the plant cannot afford to lose any of the moral that it has built in the past year. Therefore the best option for Hinrich and the Fredericksburg plant is to restructure the plant in a way that is more efficient and will increase production.

The new single cell assembly lines will increase worker production and give the workers a sense of accomplishment. A competitive atmosphere may even ensue. By completing the QS 9000 certification the plant will reduce waste through quality control systems, which will ultimately increase revenues. It will be important for Hinrich to continue to observe the day-to-day process of the plant and continue to combine duties, adjust responsibilities and eliminate unneeded task as necessary. By continually varying the plants genetic code they will be less likely to fall behind the competition. Hinrich will also need to maintain his enthusiasm about the new processes and the transition to them.

This will help workers to adjust and accept these changes. Many times a lack of support from upper management is what will cause changes to fail. With that in mind Hinrich needs to be prepared to explain his changes to upper management and defend his stance on why they are needed. Any resistance, from upper management, the UAW or workers themselves will need to be resolved quickly to ensure that the process of change is not delayed. Lastly, Hinrich should continue to utilize the highest level of workers in his new processes and plant procedures.

This will ensure that other plant employees give less resistance to the change. The Fredericksburg plant is on the cutting edge for plant processes and could easily contribute to changes throughout GM. This new era of production and assembly line management could launch the company ahead of its competitors and help them prepare for the future. References Hamel, G. & Prahalad, C. K.

(1994). *Competing for the Future*. Boston, Massachusetts: Harvard Business School Press.