GM directors bigger idiots than Stempel

by Anthony K. Wikrent

Faced with continuing multibillion-dollar losses and increasing pressure from his outside directors, General Motors chairman Robert Stempel resigned on Oct. 26. This stunning upheaval at the world's largest industrial corporation was hailed in the U.S. business media as auguring a new era of board activism. As usual, the pundits have got it all wrong. The board coup that toppled Stempel is only the latest portent of the brutal austerity that is about to be imposed on the U.S. population—right after the election, and regardless of who wins.

After a decade of grooming by the GM bureaucracy, Stempel was made chairman in August 1990. The appointment was a break from GM's tradition of having a financier as chairman: Stempel rose through GM's ranks as an engineer, and there were great hopes that finally having a "car guy" at the helm would help turn around the ailing company. GM's market share has shriveled from nearly half of the U.S. market in the 1960s and early 1970s, to little more than one-third in the late 1980s. Like Ford and Chrysler, GM needed to achieve a capacity utilization of about 85% to break even; but at the time Stempel took over, GM was operating at less then 70%, and would soon be operating at only 55%. In January 1991, GM told its workers not to return from their Christmas break for a week or two, initiating a new phase in the physical collapse of the U.S. economy.

GM's losses in 1990 were $2.0 billion. By the summer of 1991, GM was losing over $500 million a month in North America. Losses for the year were a devastating $7 billion in North America, but GM's overseas profits reduced the loss to $4.5 billion—still the largest ever annual losses by a private corporation. In December, Stempel announced a massive downsizing program, to bring operating capacity up to nearly 100% by closing 21 parts and assembly plants, and eliminating 71,000 jobs.

Stempel's undoing was that the United Auto Workers refused to play dead. In August, the UAW struck a stamping plant in Lordstown, Ohio, crippling production of GM's best-selling Saturn cars. UAW members also struck another plant and authorized strikes at two others, to protest job cuts and work rules changes. The UAW's national leadership had approved all four strikes.

With red ink gushing from everywhere, and both blue-collar and white-collar morale reportedly on the skids, it didn't take much to convince GM's outside directors (who control the GM board) that the UAW was seeking to sabotage the massive cuts Stempel had announced back in December. Faced with the prospect of continuing losses for the next two years, and with a labor contract that has GM paying laid-off workers up to 90% of their base pay, the activists on GM's board began pressuring Stempel to confront the UAW.

Morgan interests lead the attack

Already in April, the outside directors, led by former Proctor and Gamble chairman John Smale—reportedly close to the Morgan banking interests—had demoted Stempel's hand-picked heir apparent, Lloyd Reuss, from his position as president, replacing him with John F. Smith, Jr. Smith was given greater day-to-day oversight of the company, intruding on Stempel's powers. Smith also replaced Stempel as chairman of the board's executive committee. According to reports, these changes rendered Stempel's functions largely ceremonial.

The Oct. 27 *Washington Post* reported that the effective sacking of Stempel was spearheaded by Ira Millstein, the attorney for the outside directors and a senior partner at the elite Wall Street law firm of Weill Gotshal and Manges. Back in 1990, Millstein had warned the outside directors that increasing unrest by some of GM's large institutional stockholders, such as the California Public Employees Retirement Fund, could possibly lead to "legal liability and public embarrassment."

According to the *Post*, after Stempel collapsed from hypertension in Washington, D.C. on Oct. 13, Millstein began calling Stempel loyalists in GM's hierarchy, telling them to urge Stempel to resign for medical reasons.

Joining Smale and Millstein in pressuring Stempel were Marriott Corp. chief executive J. Willard Marriott, Jr.; former Labor Secretary Ann D. McLaughlin; former CBS chairman and current chairman of the U.S. arm of S.G. Warburg, Thomas H. Wyman; NBD Bancorp chairman Charles T. Fisher III (described as "a pivotal figure in Detroit's business establishment"); and J.P. Morgan and Co. chairman Dennis Weatherstone.

But as John Nash, president of the National Association of Corporate Directors, asked the *Post*, "Where's the board been for the last 10 years?" Fisher has been a director for 20 years, Smale for 10, Wyman for 7, and Weatherstone for 6 years. Stempel had been chairman for only about two years.

To quote Michael Moore, producer of the movie "Roger and Me" that excorciates Stempel's predecessor, "What wasn't [Stempel] doing fast enough? Laying off people?" With or without Stempel, the auto management known as "Detroit" is continuing to preside over the extermination of once useful companies because of their subservience to Wall Street. Moreover, the mass layoffs under way at GM, along with the layoffs throughout the skilled work force in auto, aerospace, and related sectors, marks the end of the industrial capacity of the United States, unless emergency measures for economic recovery are implemented.