**Creating GM’S Multidivisional Structure**

1. Which motives pushed Alfread Sloan to apply the M-form at GM? Why was this choice successful?
2. How did evolve GM’s M-form over time?

William C. Durant formed the General Motors Company on September 16, 1908. Into it he brought about 25 different companies. Originally, each company retained its own operating identity, and the GM organization was simply a holding company, a central office surrounded by 25 satellites. When Alfred P. Sloan took over as president of GM in 1923, he inherited this collection of independently managed car companies, which made their own decisions, did their own R&D, and produced their own range of cars.

Ford, GM’s main competitor, was organized very differently. From the beginning, Henry Ford had pursued the advantages of economies of scale and mass production and designed a mechanistic structure to achieve them. He created a highly centralized organization in which he had complete personal control over important decision making. To reduce costs, Ford at first produced only one vehicle, the Model T, and focused on finding ways to make the car more efficiently. Because of its organizational design, Ford’s company was initially much more profitable than GM. The problem facing Sloan was to compete with Ford, not only in terms of making a successful product but also to improve GM’s financial performance.

Confronted with Ford’s success, Sloan must have been tempted to close several of GM’s small operations and concentrate production in a few locations where the company could enjoy the benefits of cost savings from making fewer models and from economies of scale. For example, he could have chosen a product division structure, created three product divisions to manufacture three kinds of car, and centralized support functions such as marketing, R&D, and engineering to reduce costs. But Sloan recognized the advantages of developing the diverse sets of research, design, and marketing skills and competences present in the small car companies. He realized there was a great risk of losing this diversity of talent if he combined all these skills into one centrally located R&D department. Moreover, if the same set of support functions, such as engineering and design, worked for all of GM’s divisions, there was a danger that all GM cars would begin to look alike. Nevertheless, Sloan also recognized the advantages of centralized control in achieving economies of scale, controlling costs, and providing for the development of a strategic plan for the company as a whole, rather than for each company separately.

So, Sloan searched for an organizational structure that would allow him to achieve all these objectives simultaneously, and he found his answer in the multidivisional structure, which had been used successfully by DuPont Chemicals. In 1920, he instituted this change, noting that GM “needs to find a principle for coordination without losing the advantages of decentralization.”

All of GM’s different car companies were placed in one of five self-contained operating divisions (Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac) with support services like sales, production, engineering, and finance. Each division became a profit center and was evaluated on its return on investment. Sloan was quite clear about the main advantage of linking decentralization to return on investment: It raised the visibility of each division’s performance. And, Sloan observed, it (1) “increases the morale of the organization by placing each operation on its own foundation... assuming its own responsibility and contributing its share to the final result”; (2) “develops statistics correctly reflecting...the true measure of efficiency”; and (3) “enables the corporation to direct the placing of additional capital where it will result in the greatest benefit to the corporation as a whole.”

Sloan recommended that transactions between divisions be set by a transfer pricing scheme based on cost plus some predetermined rate of return. However, to avoid protecting an inefficient high-cost internal supplier, he also recommended a number of steps involving analysis of the operations of outside competitors to determine the fair price. Sloan established a strong, professional, centralized headquarters management staff to perform such calculations. Corporate management’s primary role was to audit divisional performance and to plan strategy for the total organization. Divisional managers were to be responsible for all product-related decisions.

In the 1980s, after fierce competition from the Japanese, GM took a hard look at its multidivisional structure. The duplication of R&D and engineering, and the purchasing of inputs by each division independently, were costing the company billions of extra dollars. In 1984, GM’s five autonomous car divisions were combined into two groups: Chevrolet and Pontiac would concentrate on small cars; Buick, Oldsmobile, and Cadillac would focus on large cars.

GM hoped that the reorganization would reduce costs and speed product development, but it was a disaster. With control of design and engineering more centralized at the group level, the cars of the different divisions started to look the same. Nobody could tell a Buick from a Cadillac or an Oldsmobile. Sales plummeted. Moreover, the reorganization did not speed decision making. It increased the number of levels in the hierarchy by introducing the group level into the organization. As a result, GM had 13 levels in its hierarchy, as compared with Toyota, for example, which had just 5. Once again, the company was in trouble: Before the reorganization, it had been too decentralized; now it was too centralized. What to do?

Realizing its mistake, GM moved to return control over product design to the divisions while continuing to centralize high-cost functions like engineering and purchasing. This restructuring has had some success. Cadillac’s management moved quickly to establish a new product identity and design new models. During the 1990s, GM reduced the number of different models it produced, and in 2004 it closed down its Oldsmobile division to reduce overhead costs.

However, it was not able to recover by 2008 and make the innovative cars U.S. customers want and, after the financial crisis of 2009, it was forced into bankruptcy. As we described in an earlier chapter, during its reorganization GM closed down its Saturn and Pontiac divisions and sold off its global car divisions to create a streamlined multidivisional structure that would allow it to make innovative cars and compete effectively on price. By 2011, the new GM reported that it was once again profitable and that its new models of cars were selling briskly because it had finally found ways to control its organizational structure effectively.