



OBSERVATIONS

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Cultural Quicksand in the Michigan-Windsor-Essex Automotive Region

A funny thing happens when one of the Detroit-based automakers releases a fantastic new car. Instead of building on their successes and using the rhetorical momentum of the "Miracle Car" to propel themselves to further heights, the common tactic is to sit back and bask in the Miracle's glow. This has been the state of affairs at DaimlerChrysler and Ford for several decades (less so at General Motors), and history is in the process of repeating itself.

One of the first examples of this breed was Chrysler's K-Car, released to much fanfare in 1981. The K-Car derivatives are said to have been the cars that saved Chrysler, as did the LH platform cars in 1993 (e.g. Dodge Intrepid) and the LX platform derivatives in 2005 (e.g. Chrysler 300).

Unfortunately for the Detroit-based automakers, the car business has undergone considerable change since the 1980s. The K-Car was introduced into a market that was annually absorbing 30 to 35 new products every year, so its presence was difficult to ignore and impossible to forget. The story was much the same with Ford's launch of the 1985 Taurus and GM's introduction of its 1988 full size pickups. Chrysler was able to extract fifteen years worth of products from the Methuselaic K-Car

platform, a super-longevity strategy also used by Ford and GM with their most popular products.

In the past decade, the new vehicle market has splintered so radically that "niche" is the new normal and we can expect to see 50 to 60 new products per year. Unless they carry the

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nameplates "Accord," "Camry," or "F-150," single products tend to get lost in the mix. Such is the case with the Chrysler 300 - a "Miracle Car" whose retail sales to consumers have dropped off and whose fleet volumes have risen exponentially.

The 300 has proved itself a great car, but it is not a "Miracle" in the same sense as its spiritual antecedents at DaimlerChrysler. Now that reality has once again set in at Auburn Hills, the DCX management team has some serious issues

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to confront: inventory pileup, low earnings, and gaps in the product lineup.

This *Observations* is not about those specific problems, but rather the prevailing corporate and social cultures that allowed them to percolate from the "Old Chrysler" to the "New Chrysler" - and in a more general sense, from "Old Detroit" to today's "New Detroit". It is our belief that a set of deeply-rooted cultural factors are partly responsible for the present underachieving state of the three Detroit-based automakers and not just the "economics" of the automotive sector.

It is important to remember that these cultural tics are prevalent in - but not confined to - Detroit. The attitudes of which we speak are widespread throughout the entire Great Lakes Automotive Region. If you centre a drafting compass on Detroit and draw a hundred-kilometer radius, you will find a number of declining automotive manufacturing communities within the circle. Detroit, Dearborn, Flint, Ypsilanti, Warren, and Windsor-Essex County. This certainly is not a US-based problem as it includes a number of communities North of the border as well.

Examining these philosophical problems helps us understand not

only the huge market share losses sustained by GM, Ford, and DaimlerChrysler, but also why the City of Windsor and the State of Michigan have become case studies for lost opportunity and squandered plenty. It's true that the core of this decline has everything to do with the transformation of the North American industry from a three-company to an eight-company game, but the culturally-dictated responses of the former "Big 3" are far more relevant than the various externalities that brought them about. If we accepted the "increased competition" argument, we would be endorsing the unions' contention that our domestic industry is simply a victim of circumstance - with stress on the word "victim."

That victims' mentality is a major piece of the culture puzzle. Perpetual victimhood only furthers the mire these organizations face, and it provides an excellent reason for changes to be undertaken in a less-than-wholehearted fashion. For instance, why did it take more than a decade for GM to recognize that its market share loss dictated a radical reduction in production capacity (performed last November)?

A strong case can be made that this long-term blindness was the result of a culture of entitlement on the corporate side of the equation - a belief that it would be

just a matter of time before the market share that was rightfully theirs came back into the fold. On the labour side, the enforced maintenance of unneeded, inefficient production capacity, committed-to many times over in union negotiations, also telegraphs an attitude of supreme entitlement. It didn't matter that GM, Ford, and DaimlerChrysler were caught in a downward spiral; the workers were 'entitled' to ever-increasing wages and costly benefits for doing less and less work. The loss of market share was always attributed to nebulous "unfair tactics" employed by the import-nameplate competition, creating pitiable victims in GM, Ford, and DaimlerChrysler. Remember, Detroit used to argue that the 'imports' were taking advantage of home country labour conditions, and that 'it would be different if they were forced to build their vehicles in North America'. Well, those import-nameplate automakers now build six million vehicles in North America every year, and they are more powerful than ever. It wasn't the home-country advantage that gave them the edge, but rather their ability to build great products that delivered value to consumers. To cite a current example, why are GM, Ford, DaimlerChrysler, and the UAW/CAW fighting Canadian-Korean free trade? Previous free trade agreements

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(the Autopact, the Canada-US Free Trade Agreement, the North American Free Trade Agreement, and the various European free trade areas and associations) have all been highly beneficial to the Canadian and American automotive sectors, so one can only believe that auto sector free trade with Korea would work in similar fashion (though, realistically, more competition from duty-free Hyundais and Kias is the last thing that GM, Ford, and DaimlerChrysler need at this point). The UAW/CAW is so invested in its anti-competitive labour practices that free trade with a non-Western country frightens it to the core.

I agree that the benefits from a free trade agreement with Korea are less obvious than, say, NAFTA, but I get a sense that the resistance from the above-mentioned parties is rooted in this "victimization" culture rather than sound economic thinking. Indeed, GM would appear to benefit from free trade with their GM-Daewoo products.

Every year, the ranks of GM, Ford, and DaimlerChrysler employees across North America grow thinner while their non-union counterparts grow greater in number. On a larger scale, employment at the three Detroit-based vehicle companies has plummeted over the past two decades. For example, in 2006,

GM's North American workforce is just over a quarter the size of its 1985 employee roster.

Admittedly, this can be construed as a positive sign (i.e. GM has taken big steps to eliminate unnecessary capacity) - and a large part of this reduction has come with the shedding of Delphi - but it also speaks volumes about the tangible effects of slipping market share and anti-competitive

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union practices. The attitude of blind entitlement that informs the union mentality is endemic across the Great Lakes Automotive Region and represents yet another facet of the "maintenance" (i.e., anti-growth) culture.

At the base of the Walter Reuther statue at the Detroit Institute of Arts is a quote: "Out of conflict comes accord." Contained in this small sentence is one of the fundamental problems with union culture - not only is conflict inherent in accord, but accord is impossible without conflict. The non-union mentality travels between points A to B as quickly and efficiently as possible, while the union environment has

structures in place that automatically create hundreds of crippling roadblocks. Thus we have union contracts longer than international trade agreements and a culture of conflict that is as unyielding as it is inefficient.

The belief that larger market forces control corporate destiny - not that corporation's responses to those forces - has fostered a number of other negative attitudes. Chief among these are insularity and anti-intellectualism.

The Great Lakes Automotive Region has flirted with xenophobic tendencies over the past three decades. For countless years, Michigan attempted to make itself an unattractive investment target for Japanese vehicle companies. Many public figures in Michigan went out of their way to badmouth the Japanese and other global players in the automotive sector. The Japanese were construed as the "bad guys," and the prevailing wisdom held that governments should erect trade barriers to keep them out of North America. As a result, many of those investment dollars went towards assembly plants in Southwestern Ontario and the U.S. South. Why would any global company invest in a jurisdiction that was openly hostile towards foreign companies?

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A microcosm for this industry's insularity exists in GM's interior design ethos. Much hay was made at the 2006 North American International Auto Show about GM's new commitment to high-quality interior materials. The message was, "We get it!" Unfortunately, this admission came a bit late - ten years late according to the market, twenty years according to the automotive press. Until the recent introduction of the GMT900-based SUVs, there was only the rare GM vehicle endowed with levels of interior quality/refinement superior (or even comparable) to equivalently-priced import-nameplate competition. GM's "commitment" to interior design rings hollow: the market has demanded high quality interior materials for the past three or four product cycles, and GM is only now becoming cognizant of the problem. Had there been less insularity, less smugness, and less cynicism towards its customers, generations of GM vehicles might have been spared the blight of identical low-rent dashboards. Since his coronation as GM's "product czar," Bob Lutz has worked magic changing this culture. Hopefully, his philosophy can become entrenched in the GM of the future.

Insularity is also related to a peculiar strain of anti-

intellectualism that runs through the Great Lakes Automotive Region. Aside from the coastal communities of Northern California, I doubt that there's another urban centre in the United States as rich in Faculty of Engineering graduates as the Detroit metropolitan area and its suburbs. Given the wealth of engineering knowledge at their collective corporate fingertips, how come GM and DaimlerChrysler are relatively behind the curve on the environmental agenda? Yes, GM has staked out the 2025 market with its fuel cell program, but its present-day hybrid efforts pale in comparison to those of Toyota, Honda, and even Ford. Why did GM choose the relatively low-cost solution (ethanol) over the more challenging answer (hybrid)? Why has DaimlerChrysler steered clear of the green agenda, content to cite its token diesel models as evidence of its commitment to the environment? It's quite obvious that very few North American DaimlerChrysler dollars went into the development of either the Mercedes-Benz BlueTec diesel system or the Cummins-sourced medium-duty diesels.

How does an automaker (or an entire geographic region) free itself from this cultural morass? One can argue that some have already taken positive steps - Chrysler's cultural purge in the

1990s (both the integration of AMC's team-based culture and the integration of Daimler-Benz's technology-oriented culture) and GM's capacity reductions in this decade are both examples of righthheaded thinking.

But what does it really take to bring about change? Since 1972 over a million union jobs in the auto sector have disappeared, yet unions have remained largely steadfast and inflexible.

Perhaps it takes a defining moment. A lifetime of coughs might give a smoker cause for concern, but a heart attack usually produces results. A bankruptcy at GM, Ford, or DaimlerChrysler could represent such a breakpoint, as could the closing of an assembly plant in a particular city. Would the culture in Windsor-Essex county change if Windsor lost its minivan plant? I certainly hope this doesn't become the case, but it may indeed take such a 'defining moment' for Windsor-Essex's insular, entitled, victim-centric culture to change - just as it may take a bankruptcy at GM, Ford, or DaimlerChrysler to shake the roots of the culture in the Michigan-Windsor-Essex Automotive Region. **DAR**