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GENERAL MOTORS (1980-2010): A STORY OF PATH DEPENDENCE AND EXECUTIVE HUBRIS

Abstract

General Motors (GM) hung on to the No. 1 spot in the global automobile industry for more than 77 years, and then lost this position to Toyota Motors in 2008. Using path dependence as the central concept, we explain how and why GM lost its market leadership to Toyota. Through a three-phase model of path dependence, we track the story of GM and briefly summarize the processes leading to its success until the 1970s and explain how the embeddedness of some of the same set of processes afterwards had led to its being deposed from the No. 1 spot. We set this demonstration within a model of path dependence which introduces environmental change as a key feature of the analysis. Our analysis further reveals that the main reason for the reversal of market leadership position of GM was executive hubris and the way it further reinforced choices GM had made for the perpetuation of market leadership. The study’s implications are given.

Key Words: Auto industry, Executive hubris, GM, Groupthink, Lock-in, Path-dependence, Strategy
General Motors (GM, hereafter) lost its position in 2008 as the number one automobile manufacturer because its leaders stuck to the path forged by earlier generations of leaders. Leadership had become ossified and resistant to change. Why did this happen? Did GM’s top management endanger the firm by sticking to the historical path that led to its greatness?

This paper examines the role of “organizational path dependence,” which posits that the dynamics of self-reinforcing mechanisms are likely to lead an organization into a lock-in (Sydow, Schreyogg, & Koch, 2009). Simply put, path dependence is the degree to which a company is locked into past decisions. According to this conceptualization, lock-in may result from organizational contexts, strategies, managerial cognitions, beliefs, resources, or a combination thereof. This conceptualization fits in with the complexities of organizational life, and provides an opportunity to observe how interactions among human and nonhuman elements can serve as reinforcing mechanisms and lock an organization into past decisions, thus careening it toward decline or eventual death. More succinctly, as Rothmann and Koch (2013) demonstrated, this view of path dependence helps us understand how the scope of action of organizational actors narrows down in the process of reinforcement, resulting in an ultimate lock-in. Using executive hubris and the stage-model of path dependence (that is, preformation, formation, and lock-in), as presented in Sydow et al. (2009), we seek to understand why or how GM lost market leadership to Toyota after 77 years. In this effort, we track the story of GM and briefly summarize the processes leading to its success until the 1970s and explain how the embeddedness of some of the same set of processes afterwards have led to its being deposed from the No. 1 spot. We posit that the reasons for the reversal of market leadership position of GM can be understood finally through executive hubris and the way it further reinforced choices GM had made for the perpetuation of market leadership.

Although CEO/executive hubris has been studied in different contexts, its examination
remains relatively sparse in the literature of organizational decline and death. As extreme executive hubris may lead to disastrous consequences for large corporations by accentuating path dependence, its exploration is particularly timely and important. Executive hubris seems to sit perfectly with managerial capitalism, and manifests as a managerial appetite for firm growth despite its lack of relationship to profitability (Chowdhury, 2014). An analysis of the fall of GM from the top position provides an interesting opportunity for such exploration. In this paper, we use CEO hubris and executive hubris interchangeably.

Extant research posits that the experiences, personalities, schemas, and values of top executives infiltrate their interpretations of competitive contexts and the strategic choices they make to steer their firms. The management style, strategic orientation, industry experience, and leadership qualities of the top managers combine with the tangible and occult properties of the organization in this interpretation (Chowdhury, 2002; Sheppard & Chowdhury, 2005). Because context and action are always interwoven whenever human beings shape outcomes (Pettigrew, 1992), the combination of executive hubris with practices such as rigid union contracts, tight vertical integration, obsessive diversification, restricted franchise ownership, and inbred practices served as reinforcing mechanisms in GM. If institutions are carriers of their history (David, 2007), then, it is logical that in its last 30 years (1980-2010), GM’s CEOs must have formalized only those strategies and practices that such mechanisms supported. GM’s initial choice for union contracts, CEO succession practices, diversification, and vertical integration turned out to be a set of choices in the period we are examining that, together, resulted in an “impetus, a trigger stimulating further actions” (Sydow et al., 2009: 692). We argue, and demonstrate, that CEOs of GM resorted to such practices because of hubris.

With its origins in Greek mythology, hubris combines pride with arrogance. Extended to
the global financial crisis in 2008, Gantz summarized, “Perennial winners cloak themselves in a mantle of righteous armor that is impervious to criticism, self-doubt, or pleas to exercise caution” (2008: 2). In the context of large business, it “infects extremely confident managers who highly estimate their ability” (Hayward & Hambrick: 106). A strong inclination of top management to maintain power and prestige leads to a tradition of what Kroll, Toombs, and Wright equated with seeing “growth as a means of building a bureaucracy of sufficient size” (2002: 119). The history of GM over the last 30 years corroborates the penchant of its CEOs for size and market leadership. In GM, repeated episodes of various degrees of success culminated in a belief that global market leadership was an entitlement and, as such, growth had to be perpetuated regardless of its attendant outcomes. Although past performance is no guarantee of the future and market leadership is not a permanent condition, GM pursued growth in a path-dependent mode.

The remainder of the paper is organized as follows. We define path dependence and discuss its central elements in the first section. The second section presents a three-phase model of path dependence and briefly explains how this can be used to explain the loss of GM’s global market leadership in 2008. In the third section, we explain how executive hubris serves as a barrier to firm adaptation in a changing environment, leading to a lock-in. The fourth section presents a detailed narrative of GM and explains how its success and failure supports the theoretical model. The last section concludes the paper.

PATH DEPENDENCE

Definition

The concept of path dependence arose in part out of dissatisfaction with the ahistorical positivism of postwar social science. Rooted in the metaphysics of historical causation, the heart of the concept is a theory of self-reinforcing mechanisms. A self-reinforcing mechanism is an
action which puts in place a practice that encourages that choice to be sustained. It strives, therefore, to incorporate intentionality without a commitment to the naked individualism of rational choice. The literature has come to focus on various externalities as the central feature of path dependent mechanisms: complementarities in the interrelatedness of components or processes; coordination effects deriving from switching costs, network feedbacks, adaptive expectations, and agglomeration; and knowledge effects arising from learning-by-doing and cognitive dependencies (Dobusch & Schussler, 2012; Farrell & Klemperer, 2007; Puffert, 2004; Schreyogg & Sydow, 2011).

**Theoretical Model**

A standard analytical model of path dependence consists of three essential elements: initial conditions, self-reinforcing mechanisms, and lock-in. However, while reviewing the properties of path-dependence, Seidel (2013) noted that path-dependence processes do not necessarily exhibit the real properties from their onset to the final lock-in. Sydow et al. (2009) filled up this void with a three-stage process model, where they placed all stage-specific properties under each appropriate stage. Although the meaning of process can be study-specific (For a review, see Chowdhury, 2002; Van de Ven & Poole, 1995), Sydow et al.’s model approximates one of the three alternative conceptualizations of process; that is, a sequence of events describing how things change over time and why they change in this way. Before returning to Sydow et al.’s model, we discuss the three elements.

*Initial conditions*

Early work on path dependence focused on small contingent events which, when coupled with self-reinforcing mechanisms, led to outcomes which were arbitrary or sub-optimal. The process starts with the preformation phase, characterizing a “historically imprinted contingency, in
which small events might set in motion self-reinforcing mechanisms” (Seidel, 2013: 39). Much of this work was located within the economics of innovation, and was used to study new technologies or startups. However, as organizational theorists engaged with this concept and extended it to existing organizations and institutions, it became clear that “triggering events in organizations are likely to prove to be not so innocent, random, or ‘small’ … path dependence may be triggered by ‘bigger’ events or even strategies as well” (Sydow et al., 2009: 692). This position also goes some distance to resolve another weakness of the small, contingent event conception; namely, the confusion between the initial conditions of a new event and the analytical conditions of a new analysis. In the world we live in, there are no conditions de novo without some preceding event.

The problem that arises in our case is how to reorganize the conception of initial conditions for an ongoing organization, such as GM, which already has routines and practices in place for decades of years. A resolution seems possible by incorporating an understanding of environmental fitness. If different traits or practices “contribute in interrelated ways” to the fitness or competitiveness of agents, then “the initial positions in the landscape and the adaptation rules that underlie the movement of individual entities in the landscape together determine which (local) peaks are going to be attained by the system” (Castaldi, & Dosi, 2006: 104). In this broader view of initial conditions, a shift in the competitive environment can constitute the critical juncture which opens up an analysis of path-dependence.

One way to resolve this conception of initial conditions for an ongoing organization like GM is to assume that whatever the initial conditions were, they have already occurred and have set in motion a chain of events that can be constituted as Phase I, as described in Sydow et al (2009). In the analysis of GM’s decline, our timeline starts in 1980 and we aver that GM is already in Phase II; that is, a period where positive feedback about the senior executives’ strategic decision-making
has formed the basis of self-reinforcing mechanisms that continued to propel them into the lock-in phase; that is, Phase III. We illustrate this in Figure 1. In Figure 1, we place Sydow et al.’s model beside GM’s timeline, along with a chart showing its market share during the period 1970-2005.

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Self-reinforcing mechanisms

With the above conception of initial conditions, the new or existing practices of an organization will have better or worse fitness in different environments, depending on whether those environments are stable or shifting. By definition, an existing organization with routinized practices has already achieved some level of fitness. But it is fitness for a particular competitive environment, and when that environment changes the routines are no longer as good a fit: in the absence of innovation, the environment and organizational practices are divergent. Innovation works as the inverse of routines: dangerous in stable environments, essential in shifting environments. This can be schematically presented in Figure 2. Thus in the case of a self-reinforcing sequence, the contingent period corresponds with the initial adoption of a particular institutional arrangement, while the deterministic pattern corresponds with the stable reproduction of this institutional arrangement over time (Mahoney 2000). When an organization gets into an inextricable loop of self-reinforcing sequences leading them to be locked-in to a particular path, the organization has not adapted to the changing environment and has not evaluated its methods of operation to test the necessary fit for each context.

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Lock-in

In the final lock-in phase, the prevailing action pattern has become fixed, leaving the organization inflexible and bound to an inefficient path. At this stage, most alternatives are already ruled out (Rothmann & Koch, 2013), and the choice of the actors is rather limited. This description of “lock-in” has also faced some ambiguity. If routines are well-established and deeply embedded, then they could be either beneficial or problematic. The capabilities of the organization, once its greatest source of strength, are now the chief obstacles to adaptation. The answer is always empirical, not theoretical, as it depends on the fitness of those routines for the environment.

The focus in the concept of lock-in is not, therefore, about whether the organizational behavior is institutionalized or not, or even whether there is a flow of benefits from the behavior. Rather, it is about the hardening of organizational arteries such that adaptability is decreased. It is true that self-reinforcing mechanisms play a role. Where they improved alignment in a positive trajectory of convergence, they inhibit and restrain adaptation in a negative trajectory of divergence.

Looking closely at Figure 1, we surmise that for GM, the critical juncture occurred after Roger B. Smith took over as CEO and Chairman of the board. When Smith took over, GM had suffered its first annual loss since the 1920s and had begun losing market share to foreign auto manufacturers. During Smith’s tenure as Chairman and CEO, GM’s U.S. market share fell from 46 to 35%. However, it was during this period when GM also acquired Hughes Aircraft and Electronic Data Systems (EDS), both of which were later sold or released, but GM was already in the lock-in phase by this time. Under the stewardship of John F. Smith, GM in the 1990s tried to extricate itself out of this downward spiral, but none of the sweeping changes that Smith executed could prevent GM’s downfall, particularly its rapidly declining market share. Sydow et al. (2009) presented an alternative route for breaking out of the lock-in phase and
John Smith’s attempts to turn GM around can be seen as those path-breaking measures intended to un-lock GM’s tailspin. However, that was not to be. His personally chosen successor, Rick Wagoner, earlier the President of GM, would eventually capitulate and be asked to step down by U.S. President Barack Obama.

Given the 30-year timespan (1980-2010) during which a part of GM history unfolded, we need to start from Phase II of the Sydow et al (2009) model. We also shift our focus to executive hubris, which we propose as the mechanism that sustained the self-reinforcing sequences leading to GM’s lock-in to a downward spiral. We explain this with both illustrations and a narrative.

**ILLUSTRATIVE CASE AND EMPIRICAL MODEL**

Our proposed empirical model becomes tangible when we examine GM’s loss of market leadership after 77 years. A number of different longitudinal methods could be used to observe the process of path-dependence in GM. However, some of the longitudinal methods, especially real time study of events, would seem inappropriate because path-dependence is largely an ex post facto phenomenon. We, therefore, decided to construct a comprehensive case with sufficient detail on executive hubris to see the extent to which it supports Sydow et al’s (2009) theoretical model.

Figure 2 demonstrates the GM case in terms of the theoretical model in Figure 1. We contend that there was a rupture or regime change in the external environment for GM in the period between 1970 and 1980. The initial conditions we focus on—advance in production systems from Fordist single product flow to Toyota’s just- in- time (JIT) and Toyota Production Systems (TPS) [according to Best (2001), this is an improvement model], the beginnings of a shift towards a more dedicated free trade commitment, greater oil dependence and environmental costs, and lower dynamic transactions costs with the increasing development of markets (Langlois, 2003) – represent a change in the competitive environment, small at first, but accumulating over time. What is significant about the GM story is that the very same factors—rigid labor contracts,
excessive diversification, tightly-integrated vertical integration, and inbred succession—which had led to its dominant position and glory are those that also reduced its options, and eventually led to a lock-in. A careful scrutiny of the GM case reveals that a strong managerial hubris, which was developing from the early 1960s, provided the fulcrum for such strategies and practices. Resultant product cannibalism and brand dilution led to its loss of automotive leadership to Toyota in 2008. In the next section, we elaborate on the conceit of GM executives which eventually locked it into a destructive spiral of decline.

GM had been the market leader in the global automobile industry for 77 consecutive years from 1931 through 2007. By 1960, although GM was holding 50 percent share of the automobile market, this market share plunged to slightly more than 20 percent before its bankruptcy in 2008. Toyota achieved its goal of becoming the No. 1 carmaker on Earth. That same year, the financial crisis severely hit the auto industry. The credit crisis, coupled with an already declining market share, customer perceptions about poor quality, redundant product offerings, and huge legacy costs pushed GM into bankruptcy court protection. In comparison, Toyota reported a $4.8 billion loss during the first quarter of 2009, the largest quarterly loss in the company’s 72-year history. Compared to Toyota’s loss, a government-sponsored bail-out for GM reflected very negatively on its century-old history and competitive standing. We view this loss of market leadership and the consequent bail-out by the U.S. government as one type of serious organizational failure.

EXECUTIVE HUBRIS

The existing routines of an organization are no longer a fit with its shifting environment. Consistent with the stage-based view of path dependence, we maintain that both cognitive and behavioral traits of top management hubris profoundly affected strategic choices at GM, thus leading to a strong barrier to its adaptation to a changing environment. Accordingly, a central
reason why GM locked itself into a path, especially in a downward spiral, was executive hubris. In this paper, we use an extended meaning of the term to include the hubris of a company’s top management team, including its directors on the board. As Mahoney (2000) argued, once economic elites come into being, they work to reinforce the institution responsible for their dominant position. In the absence of strong countervailing mechanisms of change, the executive or elite group continues with their ways of decision making, overly confident in their prowess and infallibility. Here lies the foundation of executive hubris.

An impressive body of research on CEO/executive hubris, both in terms of quantity and quality, has accumulated in organizational science over the last few decades. However, as with most research areas in the field, the literature is confusing, uneven, and noncumulative. Although research on hubris convincingly documents its undesirable effects, it suffers from a lack of agreement on a conceptual definition as well as on its manifestations along cognitive versus behavioral dimensions (Bollaert & Petit, 2010; Petit & Bollaert, 2012). The frequent use of two other related concepts, narcissism (e.g., Chatterjee & Hambrick, 2007), and overconfidence (e.g., Brown & Sarma; 2007; Chowdhury, 2014; Hayward & Hambrick, 1997; Malmendier & Tate, 2008) in relation to firm performance has also added to confusion surrounded hubris. To some researchers (e.g., Kroll et al., 2000), narcissism and overconfidence are the source and outcome of hubris, respectively. The treatment of narcissism and overconfidence as proxies for hubris and their treatment as the cause and effect of hubris, respectively, make it difficult to compare the results of empirical studies on hubris. Treating power as the context for hubris, Petit and Bollaert (2012) characterized executive hubris as a combination of beliefs and behaviors that revolve around one’s relation with the self, with others, and with the world. They also detailed how these relationships span across cognitive and behavioral traits. Emphasizing different conceptual roots,
some researchers have focused mainly on the manifestations of hubris vis-à-vis certain performance consequences of a company. Through a comparison of the fall of GM and Toyota, Chowdhury (2014) demonstrated how hubris contributed to the fall of these companies from their market leadership positions. Kroll et al. (2000) explained how executive hubris manifested in acquisitions, unbridled growth, and blatant disregard for the rules. In the context of large organizational decline, Collins (2009) identified five distinct manifestations of hubris: 1) undisciplined leaps into areas where a company cannot be the best, 2) pursuit of growth beyond what a company can deliver with excellence, 3) risky and ambitious decisions that clearly indicate conflicting and negative evidence, 4) denial of the possibility of being imperiled by external threats or internal erosion, and 5) arrogant neglect. Arguably, besides capturing the mythical (excessiveness), cognitive (overconfidence), and personality (narcissism) dimensions of hubris, such manifestations provide readers with a clearer understanding of the dynamics of hubris in the decline and fall of a company. Therefore, Collins’ manifestations of executive hubris certainly serve as a good starting point for our investigation into the linkage of executive hubris to path dependence. We conjecture that in organizations where an elitist top management holds the power to ensure organizational supremacy; that is, the largest carmaker on Earth, a set of self-reinforcing mechanisms must be at play. We emphasize that such mechanisms are the strategies and actions taken by hubristic CEOs of GM. Moreover, inbreeding (to be expanded later) leading to the selection of CEOs from within the organization would be another mechanism that seeks to cultivate a culture of “more of the same”. The decisions that would follow from such an executive group (for the perpetuation of inbreeding) will mirror decisions taken earlier. Homophily and imprinting would result in a resemblance between the practices of subsequent executives with those of their predecessors (Beckman & Burton, 2008). The executive group will then react and
respond in concert to both external and internal triggers, because of the extreme cohesiveness that is demanded by being part of such an elite group. It has been shown that extreme cohesiveness in a group can lead to groupthink and eventual failure of the group effort (Janis, 1972). Janis writes, coining the term groupthink, that it refers “…to the mode of thinking that persons engage in when concurrence-seeking becomes so dominant in a cohesive group that it tends to override realistic appraisal of alternative courses of action” (1971:43). This tendency to constantly override realistic appraisal of alternative courses of action is also a tendency to seek positive feedback for one’s decisions while shunning negative feedback. Allowing negative feedback to influence executive decisions could have helped GM break out of their downward spiral and possibly get un-locked from this path. However, the inherent belief that their way was the right way kept the executive/elite group on a path that propagated this illusion of infallibility and invulnerability.

What fuels executive hubris and makes the executive group stay the course, as it were, would have to be their feeling of empowerment and infallibility, their ignorance, avoidance or neglect of other ways of doing things, censure of opposing views and an inherent belief that their way is the right way. Remarkably, these characteristics, often displayed by senior management in GM, are quite comparable to the characteristics of the “bane” of any group or collective action, groupthink. A group is especially vulnerable to groupthink when its members are similar in background. Groups that are highly cohesive and have an established pattern of unopposed decision making will begin to develop group hubris and in the context of this paper, executive hubris. While we have averred earlier that groupthink is a corollary of executive hubris, we restrict ourselves to those manifestations of executive hubris for the sake of simplicity. We produce this in Figure 3.
As Figure 1 and Figure 3 demonstrate, GM remained locked into its strategies and thus lost touch with reality. These figures also show how executive hubris played a decisive role in keeping GM locked in a path where self-reinforcing sequences were at play. In figure 4, we see the role of positive feedback in ensuring the perpetuation of self-reinforcing sequences and how positive feedback also fuels executive hubris.

Figure 4 illustrates how the top management of GM got locked-in to a set of self-reinforcing sequences which led them to exhibit executive hubris, spend huge sums to vertically integrate their supply chain, as well as acquire companies which did not fit their traditional work-flow or supply chain. Nor was any overt attempt made to integrate some of these acquisitions. While GM could have broken out of this path, executive hubris prevented any negative feedback that could allow them to unlock from this path. Our next section delineates how at each stage GM had the chance to change its destiny, but chose to stay on a path based on what they considered to be the GM way.

**THE GM NARRATIVE**

In an effort to understand how GM got locked into its previous practices and strategies, we present the story of the rise and fall of GM. Our measure of fall is GM’s loss of market leadership in 2008 which it had maintained for 77 consecutive years. The narrative for path dependence, provided below, will follow the sequence articulated in Figure 1.

Alfred P. Sloan became the president of GM in 1923, and is widely credited with
reinventing the motor car as a work of style and design. A brilliant visionary, Sloan organized GM’s range of activities into five car divisions—Chevrolet, Pontiac, Oldsmobile, Buick, and Cadillac—for five broad market segments. This reorganization plan gave operational autonomy to these independent divisions, while centralizing overall planning and financial operations at the corporate level. Each brand was priced so that the top of the line of one brand cost just a little bit less than the lowest priced model of the next most expensive line. Alfred P. Sloan himself called this a ‘ladder of success’ (Gazarek, 2012). This strategy of broad differentiation, coupled with a self-contained multi-divisional structure, made GM the undisputed market leader in 1931 and set it on the road for dominating the U.S. automobile industry for decades to come. GM maintained its leadership position by emphasizing its brands, separate price points among the brands, and modest technological innovation.

Since Alfred P. Sloan’s formal retirement from GM in 1956, his successors followed his legacy and locked into strategic and organizational choices that made GM successful. Even after the 1970s, when fundamental structural changes were reshaping the U.S. automobile industry, the mindset and orientation of GM’s executives remained tied to their heyday. The result: decisions involving vertical integrations, brand proliferations, acquisitions, and diversifications that would—through existing or perceived technological commonalities or massive advertising—offer GM a seemingly secure market leadership position over its key rivals.

In the post-war period, under a set of very blissful conditions, GM was the flagship for corporate America. Large and vertically integrated, it was the epitome of the industrial organization of Chandler’s “Visible Hand”. As the largest automaker of the world, GM accounted for nearly half of the cars bought in the U.S. (Monks & Minow, 2008). Its dominance of the US market continued roughly until the 1970s. It came as a shock in 2008 when it teetered on the edge
of bankruptcy and Toyota took over the No. 1 spot. Essential to the beginning of this story is the now familiar radical change in the economic environment which came to a head during the 1970s. It is a story in which Alfred Chandler’s vertical integration loses its traction, and various market and network forms of industrial organization progressively become more widespread.

Working broadly within the capabilities perspective, Best (2001) argues that a major change in production regimes left the Fordist system (and GM) in a fundamentally uncompetitive position. Using the same general capabilities perspective, Langlois (2003, 2004) more broadly argued that changes in dynamic transaction costs were central to both the vertical integration of the later nineteenth century and, as markets became thicker and increasingly complex, led also to the vertical disintegration of the later twentieth century. Not just the division of labor, but also its organization is dependent on the extent of the market. Regardless of the causal structure of the change, it is amply clear that an environment of increasingly stratified demand, dispersed knowledge, and cheaper communications made the high overheads and bloated management of the vertically integrated corporation an expensive alternative to flexible manufacturing.

GM was born in 1908 through a collection of small car companies and then progressed through a series of mergers and vertical integrations. Although not very deep initially, its vertical integration was progressively augmented over the next 100 years. Given the scale and scope economies of the automobile industry and the lack of significant sustained competition in the wake of the Second World War, GM was not just a vertically integrated corporation, but it was the leading symbol for the postwar model of business development. One might, therefore, say that vertical integration was central to the very identity of the company. Given this situation, how did GM respond to the radical change in the economic environment in the 1970s? It is to this question that we now want to turn our attention.
Executive Hubris at GM

The history of GM can be divided into four eras: 1908-1929, 1930-1970, 1971-1980, and 1981-2010. The first two periods represent GM’s founding followed by rapid growth and market leadership. The last two periods represent just the opposite—a declining market share and a resulting financial loss so colossal that GM ultimately went into bankruptcy protection in 2008. Given the objective of this paper, we focus on the last two periods, with a special focus on the very last which spanned roughly 30 years.

We argue that more than anything else, it was hubris that contributed to GM’s decline. We also argue that it is hubris that propelled GM management to continue to invest in growth strategies, which took forms as diverse as expansion of product lines, acquisitions, diversifications, and vertical integrations, with the often unrealistic belief that they can retain or even grow their market leadership in perpetuity. To support this argument, we mainly focus on the behavior of four of GM CEOs from 1980 to 1992. Although problems in GM were brewing since the late 1960s and early 1970s, by most accounts, the actions of two CEOs—Roger Smith and Robert Stempel—demonstrated extreme hubris, debilitating GM’s standing and competitiveness for many decades. It should be noted here that although these two CEOs were at the helm of affairs that led to GM’s problems, they were aided by their handpicked senior executives and captive members on the board. During Smith’s time, the non-executive directors were paid an annual average fee of $45,000 and received a new GM car for their personal use every quarter (Monks & Minow, 2008).

Although GM somehow remained the industry leader until it sought bankruptcy protection in 2008, its real struggle to keep up with Japanese competitors started in the 1970s. The energy crisis of that decade, the emergence of low-cost Japanese vehicles with ever-improving quality and
design, and US federal regulations demanding better fuel efficiency and safety standards combined to deal a harsh blow to U.S. automakers, especially GM. A shift in consumer demand and the capability of the Japanese to dominate the small-car market precipitated a real crisis for GM. Demands for its large sedans plummeted, and a growing consumer awareness of quality problems in many GM models helped contribute to its eroding market share. While the Japanese were showing increasing efficiency in production of high-quality cars through techniques such as just-in-time (JIT) and Toyota Production System (TPS), GM remained “a badly organized, insular, backward-looking, and inefficient producer of motor vehicles” (Monks & Minow, 2008: 432), and remained wedded to the ideal Fordist system (Best, 2001). From 1980 to 1992, by far the most crucial period in determining the destiny of GM, Roger Smith and Robert Stempel demonstrated hubris in its utmost form. In 1972, for example, GM was the fourth largest corporation in the world with a market valuation of over $23 billion. By 1992, it had slipped to 40th with a market valuation of $22 billion, one billion less than it had 20 years earlier (Monks & Minow, 2008).

From 1970 onward, when GM should have paid attention to belt-tightening, efficiency, and compact cars, it focused on massive investments involving alliances, acquisitions, and diversifications, ostensibly with the purpose of maintaining market leadership by thwarting Japanese competitors. The result: in 1980, GM lost $700 million, its first loss since 1921. Roger Smith, who became GM’s CEO and Chairman in 1981, went on massive and questionable acquisition binges, diversified, and pursued joint ventures. Consider the following examples. GM’s partnership with Fujitsu-Fanuc in 1981 made GMF Robotics the world’s largest robot manufacturer. The acquisition of Electronic Data Systems (EDS) for $2.5 billion in 1984 made GM the largest data-processing company in the world. Given that GM could simply hire EDS’ skills on a contractual basis, this $2.5 billion would have been better spent developing its core
capabilities in automobiles. Because of Roger Smith’s obsession with microelectronics, to market analysts’ surprise, GM acquired Hughes Aircraft, an aerospace manufacturer, in 1985 for an estimated $5.2 billion to access its radar and satellite technology. Moreover, product cannibalism and brand dilution, which started in the 1970s and reached a new height in the 1980s, also demonstrated chronic CEO hubris. In 1983, GM introduced four new cars—Chevy Celebrity, Pontiac 6000, Oldsmobile Cutlass Ciera, and Buick Century—and placed colorful, fancy ads on the back cover of Fortune magazine, claiming these cars to be “the embodiment of innovation and sophistication” (Magee, 2007: 118-119). Although their prices differed, all four cars looked alike with corresponding disappointment in the market. Such blatant exhibition of CEO hubris cannot be sustained unless it is enabled by the executive group that supports the CEO.

Smith’s successor in 1990, Robert Stempel, followed the former’s footsteps and decided against paring the number of manufacturing plants and the size of the workforce even though market share was steadily declining. During 1980-1992, in order to reform itself, GM wasted nearly $100 billion, an amount that could easily have bought both Toyota and Honda (Jones, 2009). Its market share fell from 50 percent in 1978 to 35 percent in 1992, and GM remained a high-cost, inefficient dinosaur. From 1992 to 2009, two other CEOs—Jack Smith and Robert Wagoner—led GM. Although they initiated and implemented minor changes to maintain GM’s market leadership with limited success in some areas, nothing seemed to reverse—or even slow—its downward spiral. GM had not made a profit since 2004 and nearly ran out of money at the end of 2008 before the US Treasury Department provided emergency loans, but Wagoner took home more than $14 million in 2007, a 41 percent raise over 2006 (Bissonnette, 2008). When President Obama fired him in 2009, he walked away with a $20 million severance, retirement, and pension package. To sum up, this recap of GM’s last 30 years clearly illustrates Collins’ (2009)
five forms of CEO hubris mentioned earlier. As Gazarek (2012: 96) nicely put, GM’s stance over these years “became one of arrogance, false confidence, and delusions.”

GM’S LOCK-IN

The history of GM, especially its last 30 years, serves as an instructive case of how path dependence can lock firms into decline, and even failure in extreme cases. For the last three decades, GM made all efforts to remain the largest automaker, and its CEOs did everything that seemed consistent with its institutional legacy. Consider this. Historically, GM was setting the labor terms for the US automobile industry, signing very generous contracts with the United Auto Workers (UAW), and thus making labor expensive for Ford and Chrysler (Magee, 2007). The fact that GM was the market leader in a relatively well-protected market for a long time meant it was able to meet organized labor’s demands for medical, pension, and other benefits, which locked GM into expenses that had been avoidable earlier. GM later found itself a victim of its own folly when, in many cases, it was unable to downsize or close plants because of its contractual obligations to members of the UAW (Jones, 2009).

The actions initiated by the four GM CEOs—especially Roger Smith—over the last three decades were path-dependent. Roger Smith repeated what his predecessors pursued a few decades ago to hedge against potential declines in automobile sales and guard against competition from peripheral industries, such as that of small airplanes (see Sloan, 1972, especially Chapter 19). Over four decades (1913-1953), GM diversified into businesses such as diesel electric locomotives, household appliances, aviation engines, earth-moving equipment, and a variety of other durable products. In order to realize different types of flexibility, GM also undertook massive vertical integration to connect with its own suppliers. Since Delco Brake’s founding in 1936 as a new division of GM, it was turning out 19,000 car brakes daily for inclusion in every GM car produced.
in the US (Monks & Minow, 2008). GM was dependent on the brake factory for more than 90 percent of its vehicles. When union workers at the Delco plant went on strike in 1998, 62 years after its founding, GM’s 24 US assembly plants were quickly brought to a halt.

As mentioned earlier, organizational lock-ins may occur due to a combination of strategy, structure, managerial cognitions, and normative beliefs. This appeared to be the case with Roger Smith and the other CEOs, enabled by their executive groups. Smith was determined to keep GM the largest car manufacturer on Earth, and all his actions were predicated on his belief that GM would recover its 50 percent market share, which it held in the late 1970s. This is how he and his protégé, Robert Stempel, locked GM into highly questionable expansionary moves. The other two CEOs—Jack Smith and Rick Wagoner—both groomed inside the GM hierarchy, by and large stuck to what Smith and Stempel pursued. The leadership succession at GM was quite straightforward since 1958, as each outgoing CEO would choose his successor long before retiring (Monks & Minow, 2008). This policy of selecting CEOs from inside led to inbreeding and social influence which, in turn, locked its CEOs into repeating past strategies, rituals, and traditions.

When many American customers began switching to smaller, more fuel-efficient cars, GM was not capable of providing such vehicles. Even after the automotive landscape changed drastically in the 1980s and 1990s, it was the mindset of its CEOs to remain the biggest and do everything that would preserve this posture. GM was focusing mainly on the differentiated appeal of its cars. “A car for every purse and every purpose” helped Sloan elevate GM to its leadership role in the industry. To reinforce that its vehicles were different every year, GM’s designs created the look of the modern automobile, which it promoted with the world’s largest advertising budget. The way GM marketed was a model for the industry. GM’s marriage to market segmentation and the triumph of marketing over production locked it into a dedication to styling and marketing, thus
allowing a proliferation of similar offerings across divisions. Consider this. In 2008, Chevrolet, GMC, and Saturn debuted crossover vehicles based on the same platform, but the three crossovers looked exactly the same (Jones, 2009). As we mentioned earlier, similar ‘look-alike’ blunder took place in 1983 when Roger Smith was CEO.

Even in the early 2000s, under Wagoner’s leadership, instead of buying state-of-the-art technology to build high-quality, reliable, and low-cost vehicles, GM continued buying premium car brand names with enormously inflated prices (Jones, 2009). These acquisitions proved to be disastrous. In 2005, GM had to pay $2 billion to terminate its ill-fated, Wagoner-led alliance with Fiat, and its acquisition of Saab was losing it millions of dollars (Gazarek, 2012; Jones, 2009). Being the No. 1 carmaker was of paramount importance to Rick Wagoner, who is quoted as saying, “I think our people take pride in that, so it’s not something that we’re going to sit back and let somebody else pass us by” (Magee, 2007: 28). Wagoner’s long tenure in GM, coupled with the influence of his three predecessors, locked him into this determination.

CONCLUSION

Using path dependence as the central concept, we have explained how and why GM lost market leadership to Toyota after 77 years. In this effort, we also demonstrated that the reasons for the reversal of leadership position of GM can be understood by examining how executive hubris reinforced choices that GM made earlier for the pursuit of market leadership. We demonstrated how the hubris of a company’s top executives may perpetuate path-dependence.

We considered the deterministic reproduction of events as an organizational lock-in to a particular path in the context of GM’s long history. We resorted to Sydow et al.’s (2009) three phases of path dependence which formed the basis for relationships among GM’s strategies, rituals, and culture and different manifestations of hubris (e.g., Collins, 2009). It appears clear
from our analysis that GM’s top executives fell prey to hubris in almost all expansionary decisions (vertical integration, diversification, and product proliferation) that were inconsistent with the demands of a changed time, thus perpetuating GM’s lock-in and its ultimate bail-out. However, our story is set within a model of path dependence which introduces environmental change as a key feature of the analysis. Our analysis, besides corroborating Sydow et al.’s (2009) stage-model, opens up avenues for its extension to the survival and death of industries, such as German newspaper (e.g., Rothmann & Koch, 2013) and individual firms, such as Chrysler (e.g., Chowdhury, 2002) in the automotive industry and T. Eaton Co. (e.g., Sheppard & Chowdhury, 2005) in the retail merchandising industry in Canada. Given the extension of path dependence analysis from the domains of new technologies and start-ups to that of large and complex existing organizations, where adaptation becomes the critical issue, senior executives can benefit from our findings. We hypothesized that path dependent mechanisms play a major role in the locking-in process, but it is executive hubris and the related cognitive and knowledge dependence which reduce or eliminate the possibility of escape.

The story of GM demonstrates how organizational lock-in can be disastrous. After the 1970s, GM executives should have agreed on a drastic course of action that would pull it out of its lock-in into its history and conventions. While reversing the grip of lock-in is a big challenge in itself, a confluence of executive hubris with the mechanisms of lock-in makes the challenge even more difficult. In such a case, the first and foremost step should be to decouple lock-in from hubris with full force. Over the last 30 years, an inbreeding of CEOs preserved GM’s old ambitions and strategy, and helped promote initiatives that were consistent with lock-in. When organizational lock-in was perpetuated by GM’s hubristic CEOs, its board could have played a decisive role in recruiting CEOs from outside who would be able to break with the past.
REFERENCES


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FIGURE 1: GM TIMELINE: CEOS, MARKET SHARE, AND ORGANIZATIONAL PATH DEPENDENCE
FIGURE 2: EXTERNAL ENVIRONMENT AND ORGANIZATIONAL ROUTINE

ENVIRONMENT

<table>
<thead>
<tr>
<th>STABLE</th>
<th>SHIFTING</th>
</tr>
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<tbody>
<tr>
<td>LOW FIT</td>
<td>HIGH FIT</td>
</tr>
</tbody>
</table>

INNOVATIVE

PRACTICES

ROUTINE

HIGH FIT | LOW FIT
FIGURE 3: THE SELF-REINFORCING MECHANISMS OF THE DIMENSIONS OF EXECUTIVE HUBRIS

- **Manifestations of Executive Hubris**
  - **Phase I – Path Creation – Phase of Increasing Selectivity**
    - Series of events from the past existing as organizational memory and creating a set of initial conditions
    - Risky and ambitious decisions that clearly indicate conflicting and negative evidence
    - Denial of the possibility of being imperiled by external threats or internal erosion
    - Arrogant neglect

- **Self-Reinforcing Feedback**
  - Self-Reinforcing Sequences
    - Undisciplined leaps into areas where a company cannot be the best
    - Pursuit of growth beyond what a company can deliver with excellence

- **Phase II – Lock-In**
  - Path Dependence and Lock-In –
    - In the case of GM leading to product cannibalism, brand dilution, wasteful spending on needless mergers and acquisitions
FIGURE 4: THE SELF-REINFORCING MECHANISMS OF THE DIMENSIONS OF EXECUTIVE HUBRIS AND THE CONNECTION TO PATH DEPENDENCE

GENERAL MOTORS – EXECUTIVE HUBRIS & PATH DEPENDENCE

In-breeding → Positive Feedback → Growth in Hubris (Arrogant Neglect, Risky & Ambitious Decisions, Erosion, Collapse)

Executive Hubris

VERTICAL INTEGRATION

DIVERSIFICATION – MERGERS & ACQUISITIONS

GENERAL MOTORS EXECUTIVE - BOARD

EXECUTIVE HUBRIS AND GROUPTHINK PREVENT NEGATIVE FEEDBACK

DECLINE AND COLLAPSE

LABOUR CONTRACTS

RESPONSE TO COMPETITION

Organizational Imprint → Positive Feedback → Organizational Expansion → Lock-In → Erosion → Collapse

Self – reinforcing Sequences