THE IMPLICATIONS OF PRODUCT SAFETY ISSUES FOR FIRMS: A REVIEW OF GENERAL MOTOR’S 2014 RECALL

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BACKGROUND ON GENERAL MOTOR’S 2014 RECALL

The average car is made up of more than 30,000 parts (Aon 2015). If any one of these parts fails, this can be disastrous for automotive manufacturers. Failure typically results from manufacturing issues, faulty parts from suppliers or installation errors. In certain cases, these failures can cause critical harm to users and require the manufacturer to initiate a recall, costing companies billions of dollars in losses and serious reputational damages.

2014 was the worst year in U.S. history for automotive industry recalls. Over 50 million cars and trucks were recalled—more than 5 times the number of vehicles sold in the U.S. (Aon 2015).

While most auto manufacturers have been affected by recent recalls, few have suffered as much reputational damage as General Motors. In 2014, GM alone accounted for over half of the 54 million vehicles recalled (Aon 2015). Of the 30.4 million GM cars and trucks recalled, the most serious were related to a flawed ignition switch in 2.6 million cars that disabled airbags and has been tied to at least 51 deaths (Isidore 2015).

The National Highway Traffic Safety Administration (NHTSA) fined GM the maximum allowable $35 million fine for not reporting the defect within 5 business days (Healey 2015). GM CEO Marry Barra, promoted after the recall, commissioned a 3rd party probe, conducted by former U.S. Attorney Anton Valukas. The report found that GM engineers did not realize that the faulty switches could disable airbags (Healey 2015). This fundamental lack of understanding of GM’s own cars by its engineers is a serious
product safety issue that had devastating real world impacts.

**GM’S MISGUIDED RESPONSE**

GM’s initial response to the ignition switch issue could be considered a prime example of how not to respond to a product safety issue. At its core, GM’s response was slow, involved misinformation and a lack of transparency. There are 4 key issues that demonstrate GM’s poor reaction.

First, the engineer who designed what has been labeled the “switch from hell,” Ray DeGiorgio, did not alert others within GM nor did he change the part number when he eventually changed the design of the switch (Healey 2015). Had he reported the issue at this time, perhaps the devastating impacts of the switch failure could have been minimized.

Next, it was revealed that the switch problem actually surfaced in 2001 (Healey 2015). While the extent of the problem was not known throughout the organization at the time and there was also a lack of understanding of the relationship between the switch and the disabling of airbags—a 13 year delay in initiating a recall certainly had a direct impact on the lives of many.

Third, the initial recall was insufficient. After announcing the first recall for the faulty switches, it was revealed that as many GM cars with the same switch were not recalled as those that were (Healey 2015). GM recalled the remaining cars shortly after this was disclosed.

Lastly, GM’s board has been widely criticized for relinquishing to GM management too much responsibility in responding to the switch crisis. “Several lawsuits have been filed by G.M. shareholders against current and former board members for failing to exercise their fiduciary duty to oversee management. In addition, the company faces wide-ranging investigations of its actions by the Justice Department, the Securities and Exchange Commission and 45 state attorneys general” (Vlasic 2014).

**FINANCIAL AND NON-FINANCIAL IMPLICATIONS**

The 2014 GM recall had far reaching financial and reputational implications for the company.

**Financial**

The latest figures suggest that the 2014 recall cost GM $4.1 billion total (Isidore 2015). This represents nearly 3% of GM’s 2014 revenues of $155 billion (Isidore 2014). Though GM sold a record number of cars worldwide in 2014 (largely due to sales growth in
China, now GM’s largest market), 2014 profits fell to $6.5 million (Isidore 2015). The company essentially merely broke even in the first half of 2014.

The most substantial recall related cost, $2.8 billion, was the estimated cost to repair the recalled cars during the year (Isidore 2015). As of January 22, 2015, GM had fixed 65% of the cars recalled in North America (Healey 2015).

Another major cost was the $400 million charge GM took for expected payments to victims (Higgins 2015). It also took an $874 million charge in 2014 for the cost of expected future recalls (Higgins 2015).

Reputational

Beyond the massive financial costs, the 2014 recall has had serious implications for the reputation of the GM brand, especially in North America. The repeated issues, misinformation and delayed action were well publicized on American media and trust in the brand has diminished. From the maximum NHTSA fine to congressional hearings to a scheduled federal trial and numerous shareholder lawsuits—it is clear that the widespread belief is that GM did not properly manage the serious safety issues in its cars.

Further, the company’s slow response and resistance to a recall cost lives. The GM victim fund, which stopped accepting claims in February 2015, received 4,180 claims for compensation. While it will take months to review all claims, at the time of closing, 51 deaths were confirmed (Healey 2015).

GM has been the subject of widespread criticism throughout this crisis and will have to work to restore trust in its brand moving forward.

KEY TAKEAWAYS AND RECOMMENDATIONS

The GM recall and its associated impacts serve as a somber reminder of the critical nature of product safety. To prevent future similar disasters, manufacturing firms should have in place proactive product safety management practices, ranging from policy and procedures to culture and supply chain integrity.

Recommendation 1: Proactive Product Safety Practices

Manufacturing firms should have comprehensive and proactive product safety practices embedded in the company. This begins with a product safety policy and extends to having dedicated product safety management roles and established procedures. The process for testing for safety, testing supplier components and reporting any potential issues up the chain of command should be clear and simple for all employees.
Companies can also leverage technology to be more proactive when it comes to identifying potential safety issues. Social media monitoring, which allows companies to aggregate discussions of their brand online and thus respond to issues faster, is an underutilized tool in product safety management. Aon Risk Solutions, a provider of recall insurance, suggests that companies better integrate their public relations, consumer affairs and product safety/quality teams to develop proactive social media monitoring approaches (Aon 2015).

Recommendation 2: Create a Culture of Safety and Transparency

In addition to establishing the policies and processes for product safety, firms must also work to create a culture of safety and transparency. If employees do not take safety seriously, do not understand the wider implications of their role as it relates to safety, or do not feel safe reporting potential safety issues to managers, the existence of product safety policies becomes nearly obsolete. The fact that the GM engineer that designed the faulty switch later changed the design without notifying anyone in the company indicates potential issues in the company’s culture regarding safety.

Recommendation 3: Supply Chain Integrity

Lastly, the effective management of a firm’s supply chain is crucial for risk management and product safety practices. This holds especially true in the sourcing of component parts for which the firm does not have direct oversight of the design, manufacturing process or quality/safety testing. Companies can work to avoid supply chain safety issues by building strong relationships and establishing trust with their suppliers, and by putting into place strong policies and procedures for supplier audits and safety standards. In a 2015 study of supplier trust for automotive OEMs, GM ranked the lowest among the 6 OEMs evaluated and also the lowest for GM in the last 3 years (Hedge 2015). This not only presents a risk to GM’s supply chain, but also increases costs for the brand as it is unable to secure favorable terms with diminished trust.
Bibliography


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