

A switch between life and death

MANAGEMENT DECISIONS

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GM's choices and the outcome

The recall

As a result of the investigation of the faulty ignition switches, GM decided to issue a recall of the Chevrolet Cobalt in mid February 2014. GM announced that this recall was a result of the company linking the faulty switch to a total of 6 deaths. This initial recall affected a total of about 800 000 vehicles made between the years 2005 and 2007. A week later GM announced that the recall would be expanded to include four other types of vehicles with the same switch problem, adding up to a total of 600 000 vehicles. The company also announced that the internal investigation had increased the number of linked deaths to 12

In the middle of March, CEO Mary Barra issued a public statement that the repairs of the faulty vehicles would begin in the middle of April. Vehicle owners were asked to contact a certified repair shop for a free repair of the ignition switch. The reparation would take one hour and afterwards new car keys would be given to the owner. Early calculations found that the reparation of the faulty vehicles would cost GM approximately \$100 per recalled vehicle. Within the six first weeks of reparations two percent of the recalled vehicles had been repaired.

By the end of March, GM expanded the recall to also include vehicles manufactured after 2007 up until 2011. The reason for this recall was the revelation that the company had shipped around 100 000 faulty ignition switches to auto-repair shops and that these ignition switches could have been installed in vehicles of a later model as well. This third wave of recalls expanded the number of recalled vehicles by another 800 000. Three days after the beginning of the reparations GM found another fault in the ignition switches of the already recalled vehicles, announcing that this fault would also be repaired as a part of the recall.

In the middle of May, GM announced that they would recall another 3 million vehicles as a result of a newly discovered wiring problem. The wiring problem created a risk that the brake lamps would not light up when the brakes were applied and vice versa. It could also theoretically cause problems with the stability control or the brake assist. One week later the wiring recall is followed by another recall of over 2 million vehicles. The fifth big wave of recalls was due to a fault in the fastening of the seat belts, causing the front seat belts to risk loosening during car crashes, as well with the transmission of the vehicles. A day later GM added another 200 000 vehicles to the recall list for issues regarding overheating. In June the company issued another recall of half a million cars due to a problem with faulty car-keys.

The last of June GM issued another big wave of recalls involving over 8 million vehicles worldwide due to faulty ignition switches. During the first six months of 2014 GM had thereby recalled close to 30 million vehicles and among them over one tenth of all vehicles driven on American roads. The total cost of the reparations relating to

the recalls totaled over 4 billion USD, which was equal to the net loss GM made that calendar year.

Communication

Two weeks after the first recall was initiated, Mary Barra made her first public statement on the matter. The statement was made in the form of an internal letter posted on the company intranet (*see Appendix 1*). In the letter Barra emphasized the importance of transparency and cooperation when investigating the issue. She also emphasized that GM had changed as a company since the faulty switches were created and that such errors were in the past. As also promised in the internal letter, GM launched an internal investigation a week later, lead by two external law firms.

A week after the internal letter, Mary Barra released a four minute long video also internally with an update about the current situation with the ignition switch recall and internal investigation. In the video she underscored the gravity of the situation and the responsibility of GM in the handling of the situation. Barra said among other things that “something went wrong with our process in this instance and terrible things happened.” She also informed the employees about all actions that have been taken and that will be taken within the foreseeable future. The video was made with regards to the employees, the suppliers, the customers and other stakeholders. Among other things, GM would train personnel to handle recall matters exclusively, as well as work with suppliers and repair-shops to ensure quality of the vehicles in the future. As a result of the internal investigation, 15 employees were dismissed and another five were disciplined. In late April, GM announced that they were restructuring the quality and engineering departments to prevent similar errors in the future. Mary Barra has through the ordeal communicated that she is set on changing GM for the better, with a focus on customer safety. To give substance to the statement, an internal initiative called Speak Up For Safety was launched in April, aiming to improve internal safety concerns and processes.

Legal actions

At the end of February the media started to report that GM might have had prior knowledge about the problems with the ignition switch after having examined the documents that Lance Cooper had procured. Shortly thereafter, NHTSA began an investigation on whether GM had responded in proper time after becoming aware of the safety issue. As it became apparent that GM had known about the issue for a long time but not taken action, the Justice Department launched an investigation in March, trying to determine if the delay was a criminal act. As a part of the investigation Barra and David Friedman, acting administrator of NHTSA, were questioned by the Congress. Barra there said that he did not know why it had taken GM such a long time to issue a recall, referring to the ongoing internal investigation into the matter. Barra also offered her “sincere apologies to everyone who has been affected by this recall, especially to the families and friends of those who lost their lives or were injured.” Continuing with the statement that proposed, “today’s GM will do the right thing”. After another 18 months GM settled the case by paying \$900 million in damages and

with no individual within GM facing legal consequences. A civil lawsuit against GM was settled around the same time with GM paying an undisclosed amount in damages. Commentators noted that the short legal process were due to GMs cooperation with law enforcement.

The compensation fund

As the last wave of recalls were done on the last of June, GM announced that they would be setting up a compensation fund for the people who had been injured as a result of the faulty ignition switches and the next of kin to the people who died as a result. The compensation fund would pay out at least one million USD to the families of the victims in return for not pressing legal charges. The fund was initially funded by GM with \$600 million and the promise that they would add more funds if the initial ones ran out. The fund was to be managed by an external attorney who would have absolute power over the fund and the payouts. During the following year the fund would receive over 4000 filed claims, whereby over 90 per cent would be rejected. Of the around 400 eligible claims 124 were related to deaths and 17 to severe permanent physical injuries. This number greatly eclipsed the GM's reported number of 13 deaths caused by the faulty ignition switch.