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Leadership series: Conversations to make a Difference
AUTOMOTIVE LEADERSHIP FOR A NEW ERA

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St. Petersburg, Russia
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Moderator:

Basil Moftah, Managing Director Emerging Markets, Thomson Reuters

Panelist:

Daniel F. Akerson, Chairman and Chief Executive Officer, General Motors Company

B. Moftah:

Good morning, everybody, and it is a pleasure to have you here. I have with me today the Chairman and Chief Executive of General Motors, Mr. Daniel Akerson, to speak a little bit about his thoughts around leadership in a new era, especially for the automotive industry. I will start off by saying that the story of General Motors over the last few years has been one of quite outstanding results and quite an outstanding turnaround, and yet you are a very unlikely leader for that industry. It was quite a surprise to many people in Detroit when you were announced. Why do you think you were chosen to play this role, and why do you think your brand of leadership was needed at that time?

D. Akerson:

Well, a couple of interesting data points of the Detroit "Big Three." None of us are car guys. None of us grew up in the industry. And I think if you step back and look at business generally, good general business managers do not always have to grow up in an industry. In fact, sometimes it can almost be a bane, because it insulates you from outside experiences and perspectives. If you come in with a fresh look and look at an industry, at a specific company within an industry, you might be able to bring in new ideas and innovation that would help the company jump forward and maybe gain competitive advantage.

B Moftah:

I think many people talk about the fact that this new era is defined by the Internet, it is defined by technology, it is defined by a global economy, and yet General Motors was very much a US-centered company. How have things changed for General Motors over the last few years?

D. Akerson:

Well, I think that is a general misconception about the company. Seventy percent of the cars we build are built outside the United States, and that was true prior to the bankruptcy too. So when you look at the company, it is very global, it is very international. There are probably two or three, maybe less than five companies

that have the global footprint we have. There are certainly no American competitors that have the global diversity in terms of footprint and production around the globe. And it is right. Having coming from the technology and information industry, I know people do not understand how dependent we are on information technology. The average plant that we have, certainly in the more developed countries, where labour is at a higher premium, will have anywhere from 300 to 400 robots in a plant. And the physicality of writing that code is very complex. Not only do you have the actual, physical movement, but you then have the sequencing of bringing parts to the car, 300 spot welds on a car, multiple cars and different brands. Your sequencing and your knowledge of how to build a car is very, very data-driven. So we are more IT-centric than people probably realize. People in Silicon Valley think we are a bunch of metal benders. That is far from the truth.

B. Moftah:

That is great. And one of the big themes in this conference has been the rise of emerging markets, and the new role that they play. A lot of what you produce is obviously in international markets. How much of it is in the developing world, and how has that changed the industry, or the fact that China, India, Brazil are really big markets to go after now?

D. Akerson:

Yes, well, everyone knows about the BRIC markets (Brazil, Russia, India and China), and they are true drivers and high-growth markets. Russia is a good example. In Russia, we grew 49% last year, which is pretty good. But we also look at other emerging markets, such as Indonesia, Thailand, ASEAN, Central America, Latin America, the Middle East, and Africa, and these are also good and growing markets. I would say roughly just under 50% of our total volume is in emerging and growing markets.

B. Moftah:

Inevitably, if you look at it from an industry like the automotive industry, there is a

lot of work to do in relationships with governments, especially in emerging markets where obviously the role of government plays a big part. How do you deal with all these different types of governments around the world, and how do you manage the different regimes?

D. Akerson:

That is a good question, because every country is different but there are common concerns; for example, greenhouse gases, carbon emissions and so on. We have to have a robust and ongoing dialogue with the government because we want to be part of the solution, not part of the problem. So we want to engage early, we want to make sure we understand the regimen that is being set by a government in any particular country, and then we craft, shape and mould our solutions to fit with that. We have global platforms but we do individualize everything from power trains, propulsion, safety, emissions, and things of that nature, to meet certain regulatory requirements in a given country.

B. Moftah:

As the world looks more at environmental standards and looks at all this, do you think a brand and a company like General Motors could really position itself as being part of the solution, not part of the problem, in terms of carbon emissions and the product that you produce?

D. Akerson:

I do. Brands are important and they stand for certain attributes. One is that you are socially responsible, that you are concerned about your environment, that you are concerned about safety. These are issues that matter to consumers and to drivers. When a brand stands for safety and for concern for the environment, those are positive brand attributes. We want that. That is why we put so much stress on a global brand like Chevrolet or Cadillac that is important to us. Obviously, we have regional brands as well. It is something we push, something we are concerned about, and something we want to have our brands to represent.

B. Moftah:

When you look globally, in which countries or which markets do you see the government taking those topics seriously and really making a difference, as opposed to, let us say, just simply being part of the topic of decade?

D. Akerson:

It is almost regional. Europe has a common perspective. China actually has some of the toughest regulations and more of a drive for alternative forms of transportation, electric and potentially fuel cells. And of course North America as well. Those are your drivers. Now, the other thing you want to do when you engage these blocks or these individual countries is to craft a solution that has social value, social gain, clean air, safety, but at the same time you have to strike an accommodation in the dialogue that allows you to make money. Because, as you can see in certain areas of the world, even in Detroit in the United States, when you lose jobs, the social fabric starts to break down. A common thread I see is that all governments want jobs in their country. That is a fundamental underpinning to our strategy. We like to sell where we build, build where we sell. Source where you sell. For example, we are expanding quite aggressively here in Russia. We also want to see the supplier community develop with us so that when we assemble it, we have the best vehicle that we can in a particular market.

B. Moftah:

That is interesting. Could you build on that and talk a little bit about the strategy of General Motors in this new era? When you look back at General Motors and the bankruptcy it went through, and the rebirth, if you like, of the company, what lessons do you think can be learned in this new era about how to manage a company in a global environment as difficult as this one?

D. Akerson:

When you think about what management should do, there is something that in

many instances they do not do. They have to conceptualize their business around, I think, three core principles. What is the strategy of the business? What is the business model? For example, in our case, we are in a cyclical, global business. Therefore, in our approach to the market, it is imperative that we have a de-levered balance sheet, just given the cyclicity, so that we can invest in down and up markets, given that our product life-cycle and product development are so long: three to five years. General Motors, rightly or wrongly, had a huge amount of debt and had to serve that debt, and therefore had to cut back on product development. So strategy, the business model, and understanding and conceptualizing how to proceed were critical.

The second thing that I think good companies do is understand their risk profile. In other words, when I enter into emerging markets, what are the drivers of success? You mentioned a couple, everything from regulation, pollution control, greenhouse gas emissions, safety. But at the same time, if you see a country emerging with increasing gross domestic product and per-capita income, what kind of product do you deliver?

And then, the last thing is, do you compete for talent? Do you have a monoculture? For example, in many tech companies that I grew up in, there was a mantra that at a certain level 25–30% of the people that get promoted to a director or vice president level have to be brought in. We want to bring them from outside the company, from outside the industry, because they have new ideas. And, just as a vignette, that is not true in the auto industry. You even alluded to it. “Gee whiz, how did you get into the auto industry?” How did Alan Mulally get into the auto industry? Outside perspectives, new ideas and new experiences help, and you can learn from others. So three are the underpinnings, I think, to a successful company, whether in “the new era” or “the old era.” But people forget the fundamentals. We have tried to structure a four-pillar strategy around those broad management concepts.

B. Moftah:

If I follow on the theme of innovation and new ideas that you have been talking about, General Motors has built a very good balance sheet and cash position,

but there is always limited capital in any company. There is only so much you can do. What would you prioritize from an innovation point of view? Electric cars, hybrids? What would you suggest the industry spend money on?

D. Akerson:

First and foremost, in our business, as in most businesses, it starts and ends with great products, and we are going to meet the market where it wants to be met. That being said, if you look back on the automotive industry since say 1912, 100 years ago, it has not fundamentally changed. It is still largely four wheels and a combustion engine. We can talk about all the safety improvements and everything else. So you are going to see advanced propulsion, the electrification of the car, compressed natural gas, and alternative propulsion come along. As I described it, the red meat with no cholesterol solution is hydrogen fuel cells. But of course all of those have pluses and minuses. There's infrastructure. How many hydrogen fuel cell stations are there in the United States or anywhere in Europe? The number is pretty low. Compressed natural gas, which is a great alternative, is ubiquitous, and we have engines today that will burn either liquid gasoline or compressed natural gas. Same engine, with a slight modification, gets you tanks for two energy sources. But there is no infrastructure that is widely deployed in the United States or Europe or the rest of the world to support it. Now you have it for fleets. That will be the first application where I think you will start to see the ubiquity. But believe it or not, you can get a huge amount of fuel efficiency out of low-friction tires, better power trains going 6, 10, 11 years in a transmission, and better fuel injection technology. Everybody is striving for higher mileage and reducing carbon and greenhouse gas emissions at the same time, and so we are going to have to advance on all fronts. We will see. For example, the Volt, which is a huge motor trendsetter, was a moonshot. It is technology that was 10 years ahead of its time. We are still producing 2,000–3,000 a month; we are selling almost as many Volts in the United States, interestingly, as we do Chevrolets, but not at the same price. The technology is there. It is wonderful. But is the market ready for it? That is the question. And we cannot dictate terms to the market, so we are going to meet it wherever it wants

to be met.

B. Moftah:

Could we come back to General Motors and your leadership since you took over the company and started bringing it back to life? There is a lot of talk about, can Detroit change? Can the culture really change towards one that is more business-effective? What have you seen? How do you see the change in the industry, especially in the heart of the industry?

D. Akerson:

There is nothing that motivates change faster than a near-death experience, and we had a near-death experience. Fortunately, we have emerged from that period, and it has been three years this month since we went into bankruptcy in June 2009. We emerged in July 2009, 39 days later. I think you have to spend a lot of time on fundamental leadership; communicating the message, the purpose, and the sense of urgency that we had to have to revitalize the company and do it quickly, in half the time of what we previously might have done. We have to recognize all of the good things that existed in General Motors. For 100 years, it was the global leader in automotive technology. We are a reservoir, a repository of huge patent protection power and intellectual property. We did nine out of ten things really well. That last 10% was what I think was the difference between success and failure, and there has been a recognition within the company that we have to change. Like I say, that is the motivating factor; now every good team, every good leader, has to be able to articulate a vision of where we want to take the company, why, and how we are going to get there. You spend a lot of time communicating with people and trying to inject energy and a sense of purpose and a sense of urgency back into the company, and I think we have done a pretty good job. We probably could have done better in some areas.

B. Moftah:

I was reading a little bit online about some of the changes you have made also in terms of the role of women in the automotive industry, and how that has changed

at General Motors. Can you talk a little bit about how you did that and why you did that?

D. Akerson:

Let me state, I inherited a great culture that incorporated women on one basis and one basis only: ability. There is no job given because you are a woman or a man; it is on ability. What we have done as a company for many years, prior to my arrival, is afford that opportunity to women, and I have the benefit of reaping that investment that went back 15, 20, 25 years ago. So we do have a lot of women in key jobs, and four of our 13 directors are women. We put a lot of premium on finding, attracting, and retaining very capable and able women, so I do not think we should be given any credit or discredit; we have, quite candidly, done what was in our best interest.

B. Moftah:

That is great. If you look at the turnaround that happened at GM, if there is one lesson that you could sort of talk about for this era that we are living in now, in the continuing market environment, what would be that lesson? What would you tell other executives?

D. Akerson:

You have to have an external perspective, not just on how your products are doing but on how you build them and how you develop them. So we benchmark, benchmark, benchmark, benchmark. We cannot have that internal focus, that kind of an—this is not as bad as it is going to sound—institutional arrogance that we can do everything ourselves, that we can do it better than anyone worldwide. We do have the advantage of not existing in a Silicon Valley environment, where literally someone in the garage can come up with a better idea. This is a company that is hugely capital-intensive, with long product life-cycles, and people say, “Why can’t you build a car any faster?” Because of regulatory requirements and safety requirements. We have to ensure that these cars and these trucks are built well, that they are safe and they will last a while. And in

order to do that, you will not see that quick turnaround where you can turn out an iPad in 12 months, and if it does not work or it has a bad battery or something like that, [click of the fingers] someone buys a new one. We have a product that lasts 15, 20 years, and we are going to have to stand behind that product.

So there is a tendency to look inward and say we are going to focus on getting that car. In the meantime, the other guy is always trying to advance versus what he sees in the market today. So I have tried to think of myself as a Wayne Gretzky, a great hockey player, who once said, "I don't skate where the puck is, I skate where I know it's going to be." We are always trying to lead out and develop a product that we think will be clearly be superior to what we see in the market today, but it has to be superior to where we think our competition will be in three to five years.

That requires a very external rather than an internal perspective, and that is why you have to have a management team, a leadership team, that has experience from other companies: auto companies, technology companies, marketing companies, retail companies. For example, when I arrived, we did not put the emphasis on brands that I think is incredibly important in this industry. I mean, I made a comment one time that was misconstrued; hey, you know what, I picked up a Coke can and said, "This is a consumer product." People said, "Well, of course, everybody knows you're making a consumer product." But it is much more complicated than that. That is true in manufacturing and production of product, but taking it to market with a brand that you recognize, brand attributes, brand differentiation, brand separation, is much more complicated. We had nine products, nine different brands in the United States that overlapped with one another.

The classic example of inward thinking was when we had Chevrolet, which is a great global brand, one of the top three or four global brands in automotive in the world. We came out and said, "We have Saturn," which was basically a Chevrolet. But half of our population, half of our customer base, are women. Our behavioural analysis said they don't like to go in and argue with some guy in a plaid jacket on price. So it was, "Just tell me what I'm getting." This was not unlike the way the Japanese were marketing in the United States, but because

we had a sales tactic issue, we developed an entirely different brand, dealership network, distribution network, because we did not bring our product, one that was well received and well respected, to the market in the way that the customer wanted to buy it. We could have altered that. And so we had a lot of brand confusion. So it is not just benchmarking on how you produce a product, but it is integrating that across the entire front of how you run a business.

B. Moftah:

What you say about branding is interesting. How does that differ when you look at emerging markets, given the theme of the conference? Do you see similar ideas, or do you have to adapt your strategy?

D. Akerson:

That is why we want a value-driven global brand called Chevrolet and a premium global brand called Cadillac, which is a separate subject. But to answer your question, particularly in emerging markets, why are we pressing hard on soccer and/or football? Someone asked me, "Why aren't you investing in next year's Super Bowl, and why have you gone to soccer?" And it is simple. No one is watching NFL football in emerging markets; they are watching soccer. We have to align and start to develop a presence and an image that has certain attributes attached to the brand, whether it be fuel economy, carbon emissions, safety, luxury, etc. You want that umbrella of the brand so that when you do go into a market, you can reinforce it and make it unique to that particular country, that culture, and emphasize what you read in that market. So we have a global approach with a local tuning to make sure that we are in sync with the local market.

B. Moftah:

I am going to go the audience in a second for some questions, but let us come back to the theme of the conference around this new era and the role of emerging markets. GM has done a lot in this area. Can you talk a little bit about your experiences in one or two of your key emerging markets, maybe Russia and

somewhere else?

D. Akerson:

Russia is a good example. After the financial crisis, our market share dropped to about 6%. For the last five years in Russia, we have been the leading domestic competitor in terms of market gain, market share. We are now at 10%. That is a huge market share gain in a relatively short period of time. And what we did is bring products that we thought would be competitive not only with domestic but also with our foreign competitors that are also in this market. We introduced a dual-brand global brand in Chevrolet, and we also sell Opels, and we make sure there is not only a pricing difference, but a content and utility difference in how we approach the market.

Indonesia is my second example. Indonesia is an emerging market that is very dynamic, with high growth and rising GDP and per-capita income. So it has a profile that would draw a global competitor, a global manufacturer. We are not only opening a plant that we had put on reserve, but we are going in with specific applications because we think now is the time for these specific products. Russia, a more established, high-growth, large country, interestingly has huge metropolitan areas with huge expanses in between. That drives different behaviour in terms of your distribution network, and you are going to be isolated by cities. In a smaller country, highly populated, as in the case of Indonesia, one with many islands, you are going to focus on Jakarta. So you do shape and mould, shift, if you will, and innovate on the fly, not only regarding where you manufacture and how you do it, or what products you bring to the market, but also about your distribution network.

B. Moftah:

Sure. I want to tell the audience to get ready to ask you questions, but the last question from my side, I guess, is, just coming back to you. It strikes me as very interesting that you have a military background, and a private equity background. What lessons from those were useful to you as a leader in the automotive industry?

D. Akerson:

First of all, I was in the military 35, 40 years ago, so it has been a while. You learn discipline, and you learn to be persistent and to never give up. Private equity has probably prepared me more for this job than being in the military 35, 40 years ago. Restructurings and reorganizations and turnarounds are hard work, and sometimes you can carry an organization by sheer force of personality and conviction, but you cannot do it alone. It is a team sport, and if you look at the executive committee and the executive-level team globally for General Motors, it is a great combination. We could not do it all; 90% of the load is being carried by the veterans that really soldiered through the bankruptcy—the veterans of General Motors who looked through the fog and the uncertainty, got the company through and continued to produce great products, largely those that we are selling today. But then we have also tried to bring new ideas, new experiences, new perspectives in, not only from the automotive industry but also from outside the automotive industry, and we have stitched together what I would call an all-star team.

B. Moftah:

Fantastic. I am looking out in the audience to see if there are any questions, or if anybody would like to pose a question.

From the audience:

I have a question about how you go about meshing what is very much an American management culture with the various countries that you deal with, particularly emerging economies like Russia, China, and India. How do you develop a common understanding of how you are going to manage these firms? How do you deal with the different cultural attitudes that are brought to a work experience in various countries outside the United States?

D. Akerson:

I think that is a good question. First of all, our international operations are run out

of Shanghai; they are not in the United States. We just transferred our Argentine country manager; he now runs Korea. We have an Australian as the country manager for China. We have an American in Australia, and we have an Egyptian that was running India. We are shifting people with global experience all over the world; they are in our international operation organization. We have an American in Russia. Recently, we had an Englishman running Europe; we just put a German to run Europe. We had an American running Mexico; she is now running Brazil, and a Mexican is running Mexico, which is a good thing. So we constantly are looking for people with broad-based, multi-international assignments that are, in a way, what I call cultural chameleons. They can adapt to a new market, a new culture, a new language. That is a resource that General Motors never wants to lose. Seventy percent of the trucks and cars that we build are built outside the United States. So to think of ourselves as an American company would be too restrictive. We are a global company that is based in the United States. Admittedly, most of our profit is generated in the United States. But as we take our premium product, which is our premium brand, Cadillac, and transition from a regional to a global brand, I think you will start to see greater profits emerge from emerging markets, not only from our global value brand, Chevrolet, but also from Cadillac.

B. Mofteh:

Great. Thank you. Are there any other questions?

From the audience:

Good morning. Could you say a few words about the use of social media as a way of reaching a globally integrated consumer base, and maybe a few words about the recent decision not to continue with the Facebook advertising that you had?

D. Akerson:

Obviously, a certain segment of our customer base or prospective customer base (I would not be in that group) looks at social media as an important

dimension of how we come to market. I think Facebook is a great product. After the IPO, I read in a marketing document or magazine that 77% of their customers said they never bought anything on these pop-up type ads, and that is what they were asking us to pay for. So we never converted. We have had Chevrolet, Buick and Cadillac Facebook pages for a long while, and we can track how many people hit that Facebook page and then transition to our website. And there was a very high correlation there. At the end of the day, every marketer wants to make the best return, the lowest cost per lead, that they can. And we found that to be more effective. Other companies might have a different experience; I respect that. But that is what we saw. On your broader question, social media for the Millennials, as we call them, is critically important to reaching our audience, so we are going to continue to do that. It is important to us. You will see us more active in that arena for that demographic than you will on broadcast television.

B. Moftah:

Any more questions from the audience? Before we wrap up, maybe just one final question from my side. We are talking about a new era; people believe it is going to be a new era. It is definitely going to be turbulent, I think we can all pretty much agree on that. What are your thoughts about leadership going forward for the next decades?

D. Akerson:

Well, I think, fundamentally, old school is also new school. It never changes. Good leaders fundamentally have to have three attributes: You have to have confidence, you have to know what you are doing, and people have to believe that you have a vision and an idea of how to get the organization from point A to point B and move forward. The second is that you have to have integrity. You have to have character. People will not follow an individual that they do not think has their best interest or the company's best interest at heart. They will follow one that will subordinate their own personal agenda and will always tell them the truth, good news or bad news. And I think, lastly, you have to have passion about

your job, about your company and its prospects, and you have to have optimism to carry it forward. Because, let us face it, if you have someone who is honest but cannot fulfil the job requirements; nice guy, but no good. If you have someone who lies, cheats and steals, but is very confident; who wants to be associated with an organization like that? And if you do not feel strongly about what you are doing, then you should not do it. I think it boils down to how well you communicate. There are various forms of that. Some people are “Rah, rah, sis boom bah,” and the others are quiet, patient, confident, and they get it done. But I think it still matters, even in the age of high-tech automation. Personal attributes and personal conviction matter, and we have a lot of leaders at General Motors that are doing a great job.

B. Moftah:

Great. Thank you very much today for your comments and thoughts. I am sure there are plenty of people around the world who thank you for keeping General Motors alive today and growing and a very strong company. Thank you.

D. Akerson:

Thank you.