Leadership Lessons Driven Home by the Struggles of U.S. Automakers
By Justin Pinkerman

Lately, news headlines have been dominated by the debate over a potential bailout of the American automakers. The economic recession has dented the sales of new vehicles, which has thinned the pocketbooks of auto manufacturers. Already in a precarious position due to past instances of mismanagement, Detroit's Big Three find themselves approaching a cash flow crisis.

Heated discussion continues on what, if any, action should be taken by the government to rescue the automakers. The purpose of this article isn't to argue for or against a bailout, but rather to point out the leadership lessons that have surfaced during the debate. Amid the bailout talks, three maxims standout as worthy of note, namely:

1. Wealth Makes Waste, Fight to Stay Lean
2. Once Broken, Trust Must Be Restored at a Premium
3. During Downturns, Leaders Model the Way of Frugality

Wealth Makes Waste, Fight to Stay Lean

What's true of your physical figure is true for your company's overhead. To be in the best shape, trim the fat.

Unfortunately, wealth lures us to indiscipline. Most Americans are blessed with overabundance. Given our longstanding prosperity, we have difficulty imagining living hand-to-mouth. We don't have to ration our food to survive. On the contrary, our cupboards and refrigerators overflow, and we dine at all-you-can-eat buffets. By the time we realize our old clothes won't fit, it's often too late. We're addicted to food and habituated to inactivity. Incapable of entering into a long-term lifestyle of fitness, we hunt for the latest weight-loss pill or dietary fad.

What's true for Americans at an individual level is true of our prominent automakers. Detroit's prosperity gave way to lax business practices. As hefty revenues gave automakers the aura of invincibility, productivity waned while payrolls and pensions ballooned. By the time foreign competition jolted The Big Three out of their profit-induced slumber, the vital signs were looking bleak. As recently as 2007, a worker at a GM plant in the USA cost the company $73 per hour, while Toyota spent only $48 of expense for the same American employee. The disparity in the price of labor spells drastic competitive disadvantages for domestic automakers. Last year Toyota could manufacture a car or truck while spending $4,000 less in labor than GM!

Chrysler, GM, and Ford cast themselves as protagonists in a valiant struggle to restructure their operations and renegotiate contracts with the United Auto Workers. However, it may be too little, too late. As any dieter knows, trimming the fat isn't easy, and habits of laziness aren't readily broken. Countenancing the harsh realities of further layoffs and plant shutdowns won't be pleasant for American car manufacturers. Given the pain of discipline, it's unsurprising to see them with palms up and hands outstretched, begging for another way out.

Once Lost, Trust Must Be Restored at a Premium

American automakers have long suffered from a quality deficiency when compared to foreign competitors like Honda and Toyota. To their credit, the Big Three have made strides to reduce defects in the design and assembly of their vehicles. In fact, surveys of consumers increasingly put American models on par with foreign made cars when it comes to reliability.

Unfortunately, quality improvements only go halfway to re-earning the trust of consumers. In addition to repairing its cars, Detroit must repair its image. Too many Americans have turned the keys in their ignition only to be greeted by the sound of silence. Too many drivers have made too many trips to the mechanic to make too many repairs. Painful memories from our experiences with American-made autos whisper in our ears as we stroll the lot in search of a new vehicle, "Want a dependable ride that won't break down? Buy foreign."

To resurrect its image, Detroit is forced to invest extra money in public relations and advertising. Erasing decades of poor performance requires automakers to pay a premium to inform consumers of quality enhancements. Unfortunately, with cash already scarce, the Big Three cannot well afford the extra cost.

During Downturns, Leaders Should Model the Way of Frugality

Detroit's top executives made the glaring blunder of flying on corporate jets to beg congressional leaders for a financial bailout. Journalists snapped up the story with glee. News outlets painted the picture of out-of-touch executives lounging in the plush surroundings of private planes as their businesses teetered on the edge of collapse.

When times are tough, people scrutinize leaders with greater intensity. For this reason, leaders must be especially careful to avoid the perception of being frivolous with expenditures. During a recession, leaders would be wise to make personal sacrifices to pave the way for organizational belt-tightening. When sales are slow, leaders should scale back on company-financed meals and luxury travel. Nothing raises the ire of the public like an arrogant leader cashing in on executive perks while steering a cash-strapped company.