



THE SLOAN LEGACY

General Motors' legacy as an automotive juggernaut may be in doubt; but there is no question that one of GM's early leaders, Alfred P. Sloan, has left an enduring mark on management science – and London Business School. **Clarke Simmons** reveals what still can be learned from Sloan.

“Gentlemen, I take it we are all in complete agreement on the decision here.” The assembled General Motors executives nodded their heads in agreement. “Then, I propose we postpone further discussion of this matter until the next meeting to give ourselves time to develop disagreement, and perhaps gain some understanding of what the decision is all about.” Alfred Sloan thus closed a management committee meeting – and revealed something of his success as the fabled leader of GM from 1923–1956.

Sloan, the organizational genius, shaped the modern corporation and the discipline of management science. His influence and innovations are woven into business school curricula worldwide. Sloan revolutionized organizational design in the 1920s with GM's divisional structure. He perfected innovations such as market segmentation, car loans, annual product cycles, decentralized operations, centralized financial controls, management incentives, public relations and consumer aspiration-oriented marketing. Through GM, Sloan was instrumental in launching today's credit-fuelled, consumption-driven “consumerism”, according to Anthony Mayo and Nitin Nohria.

Born in 1875 to a coffee and tea merchant father, Alfred Pritchard Sloan, Jr., graduated from the Massachusetts Institute of Technology (MIT) in 1895. His Bachelor of Science degree was in

the pioneering subject of electrical engineering. Tall and thin, Sloan was hard-working and totally dedicated to GM. Apparently without any vices or outside interests, always well dressed, he didn't smoke, drank rarely, disliked parties, considered golf and fishing wastes of time, and read mainly corporate reports.

Seemingly disinterested in the great political and historic events of his day, Sloan only reacted when such events touched upon his beloved GM. Happily married for 58 years to his wife, Irene, they had no children. Unobtrusive, the couple lived quietly in an apartment on Manhattan's Fifth Avenue, enjoyed high-society life and vacationed in Europe. He reportedly brought waxed paper-wrapped sandwiches to work and occasionally took the underground to and from his New York City office. During a 70-year career between MIT and his death in 1966, Alfred Sloan built the modern GM and left behind a lasting legacy.

First, a draftsman

After college, Sloan found a draftsman job with the Hyatt Roller Bearing Company of Newark. When Alfred's father and another man bought control of the struggling company for \$5,000, Alfred became Hyatt's president in 1901 at the age of 26. His natural talent for industrial management quickly became apparent, and Sloan focused Hyatt on →

→ supplying axle bearings to the booming automotive industry. (A then-obscure Henry Ford was an early customer.) Henry Leland, the exacting patriarch of Cadillac and later Lincoln, mentored Sloan on quality control.

Starting in 1908 with the Buick Motor Company, energetic deal-maker William C. Durant assembled GM through the mergers and acquisitions of numerous automobile manufacturers and parts suppliers such as Cadillac, Chevrolet and Delco. In 1916, Hyatt was acquired by a GM affiliate for \$13.5 million, and Sloan eventually became a GM vice president. After Durant lost control of GM in 1920, Pierre du Pont made Sloan GM's president in 1923. Sloan was elected chairman in 1937.

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tours around the country visiting plants and dealers, however, kept him in direct touch with production and demand.

The selection and professional development of his engineers, managers and executives was very important to Sloan. He attracted and retained talent by devolving power, encouraging initiative, supplying resources and examining results fairly. Sloan utilized then-revolutionary management incentives, in the form of bonuses and stock, to reward performance both individually and collectively. Sloan instituted a methodical culture of results-oriented teamwork and accountability, says William Pelfrey.

Sloan said he took a "factual approach to business judgement". He would write, "The final act of business judgement is of course intuitive.... But the big work behind business judgement is in finding and acknowledging the facts and

Sloan systematically organized a chaotic early GM into a smooth-running, industrial behemoth of such scope and profit that it was seen as proxy for American economic might at large.

American economic might at large. So much so, that in 1952 GM president Charles "Engine Charlie" Wilson testified before the US Senate that "... what is good for our country is good for General Motors, and vice versa". In time, his statement became the catchphrase, "What is good for General Motors is good for America".

During Sloan's tenure, GM's US market share rose from 12 per cent in 1920, overtook Ford by 1930, and had reached 52 per cent when he retired as GM's chief executive in 1956. Throughout the Great Depression, with automobile sales down 75 per cent industry-wide, Sloan managed to keep GM profitable and built market share. He oversaw successful branch businesses in Frigidaire refrigerators, Allison aircraft engines, and Electro-Motive diesel locomotives.

Hailed among the leading industrialists of his day, "Motormaker Sloan" was twice on the cover of *Time* – in 1926 and 1945. Both the mantra "The business of business is business" and the term "professional manager" have been attributed to Sloan.

Sloan led through persuasion, delegation and the organizational mechanisms he devised. He preferred to work behind the scenes and was known as "Silent Sloan" to company workers. Always addressed as "Mr. Sloan", management by walking about the factory floor was not his style. Regular

circumstances concerning technology, the market and the like in their continuously changing forms. The rapidity of modern technological change makes the search for facts a permanently necessary feature of the industry."

Effective bureaucracy

In perfecting GM, Sloan laid the foundation of modern corporate management theory and practice. In 1920, his "Organization Study" became the blueprint for how GM was structured. It featured a sort of federal-style corporate constitution based upon "decentralization with coordinated control". Reflecting his engineer's mindset, this cornerstone document was influenced by Durant's poor example, the favourable example of DuPont and experienced contemplation. Seeking balance, decentralized divisional operations were centrally serviced by shared functional activities. Coordination was achieved through myriad committees, policy statements and periodic reports. Organization charts were manifold. Data collection, research and analysis underscored GM's policy-based decision making and administration. An effective industrial bureaucracy shaped by the communications and information technologies of the period arose.

Sloan believed in financial controls and management oversight of operations. Through centralized treasury services and capital allocation



Sloan grads

mechanisms, Sloan regulated autonomous GM business units. He also pushed through the first independent audit of General Motors. Sloan made sure consumer demand was carefully forecast so as to avoid excessive inventory production. Return on investment was his guiding metric toward shareholder value.

GM under Sloan is known for stratifying car makes according to market segment. “A car for every purse and purpose,” said Sloan. Chevrolet was the volume car for the working masses. Pontiac came next, then Oldsmobile, then Buick. Top-of-the-line Cadillac introduced innovations such as electric starters and offered luxurious prestige to those who could afford it. Socio-economic status and consumer aspirations stepped upward with the GM brands.

During the 1920s, an epic market struggle between Ford Motor Company and GM reflected the contrasting philosophies of their respective leaders. The struggle was between utilitarianism and consumerism. Henry Ford launched the automotive

mass market with the black-only Model-T in 1908. Deriding choice, Ford offered basic transportation with his “universal car” at ever-lower prices. Massive volume and strict standardization produced huge economies of scale. The 15 million Model-Ts Ford built engendered automotive networking effects like the widespread building of roads, parking garages, motels and petrol stations – networking effects that also paved the way for Sloan’s GM to prosper as well.

While Ford’s mass product offering was narrow, Sloan sensed aspirations and unmet desires among customers for choice, style and a measure of individuality. A steady stream of mechanical improvements and fashionable choices created demand for “new and improved” GM models. Annual product cycles emerged in the late 1920s and planned obsolescence soon followed. Enticed by new mass-marketing techniques, people bought new cars and moved up GM’s brand ladder. The used cars they traded for new cars created a vast secondary market. Through General Motors →

→ Acceptance Corporation, Sloan encouraged credit purchases while conservative Henry Ford accepted only cash buyers. With his market slipping away, the autocratic Ford abruptly ended production of the utilitarian Model-T in 1927 and belatedly joined market trends with his updated Model-A. Sloan's market strategy of consumerism had won.

While Sloan's life certainly centred on GM, he did have tangential outside interests and philanthropic pursuits. In 1934, he endowed the Sloan Foundation to foster "American economic education and research". Even today, it underwrites a continuing expanse of academic research and various projects. Influenced by his colleague and GM research director, Charles Kettering, Sloan saw cancer research as a challenge that his new management science could help solve. Sloan would give an estimated \$300 million to charities, including the Memorial Sloan-Kettering Cancer Center.

Sloan's treatise, *My Years with General Motors*, had a huge and lasting effect on the new profession of management. It dispassionately distils his considerable experience with success and failure in business. Heavily aided by *Fortune* magazine editor John McDonald and lead researcher Alfred Chandler, the book was a retort to Peter F. Drucker's path-breaking *Concept of the Corporation*, published in 1946. Substantially finished by 1954, GM tried to suppress the publication of Sloan's memoir out of fear it would provide evidence to government antitrust investigators. A lawsuit ensued, and the book was eventually published in 1963. An instant best-seller, it remains a classic.

In his introduction to the 1990 edition of *My Years with General Motors*, management guru Drucker describes the book as a succession of case studies with Sloan providing a narrative "model and exemplar for the professional manager". Drucker observes that, to Sloan, the "discipline of management" came a distant second to the "profession of manager". Against a contemporary backdrop of fascism and communism, capitalism's demigod, the constitutionalist Alfred Sloan argued for the good character and morality of manager-rulers.

Sponsored fellows

In 1930, Sloan presented MIT's Erwin H. Schell with a problem. Sloan lamented that his GM engineers understood little about management. Schell proposed a training programme for mid-career engineers with executive potential. "Sponsored fellows" would build upon their experience, study business subjects and broaden their perspective. The programme would prepare them for senior management positions. The world's first university-based executive education programme, the MIT Sloan Fellows, was thus

Sloan rangers

Sloan interacted with several early management science luminaries including:

Alfred Chandler (1918-2007) was a professor of business history at Harvard Business School. His 1997 book on manager cadres organizing and running large-scale corporations, *The Visible Hand: The Managerial Revolution in American Business*, won the Pulitzer Prize.

Peter F. Drucker (1909-2005) was Austrian, a self-described "social ecologist", and social science/management professor at Claremont Graduate University. In 1943 he gained access to GM's internal workings. He attended board meetings, conducted interviews, analysed production and examined GM decision making. The resulting book, *Concept of the Corporation*, popularized the multidivisional structure but Sloan was unhappy with the critique. Drucker would coin the term "knowledge worker" in 1969. He authored 39 books and numerous articles, including his 1973 tome, *Management: Tasks, Responsibilities, Practices*.

Charles Handy (1932-) is a London Business School professor of organizational behaviour and business thinker. Originally from Ireland, his 19 books include: *The Elephant and the Flea* and the autobiographical *Myself and Other More Important Matters*. In *The Age of Unreason*, Handy expounds on the Sloan-like "federal organization".

John McDonald (1906-1998) was an influential *Fortune* magazine editor and business writer for three decades. His last work was *A Ghost's Memoir: The Making of Alfred P. Sloan's My Years with General Motors*.

Erwin H. Schell (1889-1965) was dean of MIT's Department of Business and Engineering (forerunner of the Sloan School of Management) from 1930-1951.

created under Sloan's patronage. Further pursuing Sloan's vision of educating the "ideal manager", a \$5.25 million Sloan Foundation grant launched MIT's Sloan School of Management in 1952.

A second Sloan Fellows Programme was launched at Stanford University in 1957. It was Alfred Sloan's idea to establish a third Sloan Fellows Programme at London Business School, but it was not realized until after his death. The Sloan Foundation grant and charter to start a programme

at the fledgling London Business School did much to boost the school's early fortunes. The first programme director, Charles Handy, oversaw the 1968 inaugural intake of London "Sloans".

Many large corporations have used Sloan fellowships to groom promising individuals. These fellowships are designed to provide advanced management training during "a mid-career sabbatical for selected executives". In select companies like BP, having been a "Sloan" is virtually a prerequisite for top jobs. Today, the three Sloan programmes at Stanford, MIT and London Business School still share similar traits and adhere to the purposes Sloan first envisioned.

In 2005, *Forbes* ranked Alfred P. Sloan "the 12th most influential businessman of all time". Many great car companies are named after their founders, but Sloan's name never graced a vehicle. Unlike Daimler, Ford, Toyota, Renault, or Sloan's close friend, Walter Chrysler, Sloan's name is instead fittingly tied to a foundation, a business school, a hospital and three management training programmes.

Today Sloan's methods pervade management texts and corporate practice worldwide. Yet, perhaps the most successful of Sloan's management techniques remains his insistence on drawing out the best

decision by encouraging differing views – especially when a group of high-paid managers nod their heads in mindless assent. ■

Resources

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