



# The Struggle for Control of the Modern Corporation

*Organizational Change at  
General Motors, 1924–1970*

Robert F. Freeland

*Stanford University*



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# *The Struggle for Control of the Modern Corporation*

*Organizational Change at General Motors, 1924–1970*

*The Struggle for Control of the Modern Corporation* provides a fascinating historical overview of decision-making and political struggle within one of America's largest and most important corporations. Drawing on primary historical material, Robert F. Freeland examines the changes in General Motors' organization between the years 1924 and 1970. He takes issue with the well-known arguments of business historian Alfred Chandler and economist Oliver Williamson, who contend that GM's multidivisional corporate structure emerged and survived because it was more efficient than alternative forms of organization. This book illustrates that for most of its history, GM intentionally violated the fundamental axioms of efficient organization put forth by these analysts. It did so in order to create cooperation and managerial consent to corporate policies. Moreover, it was the top managers who advocated these changes. The corporate owners vehemently opposed them, touching off a struggle over corporate organization inside GM that lasted for decades. Freeland uses the GM case to reexamine existing theories of corporate governance, arguing that the decentralized organizational structure advocated by efficiency theorists may actually undermine cooperation, and thus foster organizational decline.

Robert F. Freeland is Assistant Professor of Sociology at Stanford University. He has published in the *American Journal of Sociology*, the *Journal of Law and Economics*, and *Business and Economic History* and is the recipient of the 1998 Social Science History Association's President's Book Award for this book.

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For my parents

and to the memory of Carol Hatch

*... we must shake off the sadness and take her and place her  
before us, though she may be faded, a figure from days long past,  
and we must have the confidence to be amazed that she ever did  
exist.*

## *Acknowledgments*

This book has been a long time in the making. Without the intellectual and personal encouragement of my closest friends and colleagues it would have taken longer still, for it is only through my relationships with them that this endeavor in sociology has taken on and sustained meaning. Their friendship and intellectual engagement have sustained me; without them, this book could not have been written. Theirs is a gift I scarcely know how to acknowledge, much less repay. Fortunately, none of them are highly calculative exchange theorists, so they are not awaiting repayment with balance sheet in hand, ready to figure the sum due. That is why I treasure them so highly, and it is undoubtedly why I have learned so much from them.

I have been very fortunate to have had two teachers whose commitments to scholarship and to their students have been without parallel. It would be difficult to overstate the influence that Mark Gould has had on my intellectual development in general, and on this work in particular. During my years as an undergraduate at Haverford College, Mark introduced me to social theory and taught me how to do social science. Any ability that I have to construct a logically coherent theoretical argument comes largely from the courses that I took with him and the continuing exchanges that we have carried on for more than two decades. During the period in which I researched and wrote this book he has patiently provided me with invaluable feedback, guidance, and encouragement. In the process he has become not only the most important intellectual influence on my work but also one of my closest and most valued friends, one who has had an enormous impact on my life.

Michael Burawoy became my mentor and advisor while I was a graduate student at Berkeley, and there is no way I would have finished this book without him. Michael was crucial in helping me to link general theoretical concepts to concrete evidence, and I still marvel at his ability to extract a compelling sociological analysis from data in which I see only a jumble of details and contradictions. More than anybody else, Michael also had the unenviable task of combining coercion and consent to moti-

vate me to finish the dissertation from which this book is drawn. That was no easy task, but Michael managed it with his usual charm and aplomb, proving – much to his horror, I'm sure – that he's pretty good at manufacturing consent. Over the years, Michael has also given much of himself – taking me out to meals, introducing me to the intricacies of academe, helping me through difficult times, delivering delightfully inebriated readings from works such as *The Art of Massage*, and even buying me a Lexus. Perhaps the major drawback to leaving graduate school is that I have had much less opportunity to enjoy his company.

Another important teacher was the late Carol Hatch, to whose memory this book is dedicated. Carol did not have a teaching position at Berkeley, but she nonetheless had a significant intellectual influence on generations of graduate students there. Over the course of countless conversations Carol forced me to examine many assumptions that I took for granted, pointed out contradictions in my theoretical arguments, and exploded many of my pretenses and intellectual rigidities with her humor. More than anybody I have known, she drew me out and enabled me not just to talk about my ideas, but to play with them in order to see what, for better or worse, they might have the potential to become. Even as she did this, drinking endless cups of coffee and chain-smoking cigarettes, Carol would always be carrying on at least four other conversations with me – plotting over department politics, discussing current events, comparing personal histories, excoriating the nefarious, and looking through the mountains of paper on her desk for some memo that she had to finish immediately. And of course, even when she was relentlessly critical, Carol was also fiercely loyal; she never lost faith in me. At those times when I found it difficult to keep working on this book for myself, I vowed to complete it as a gift for her. All things considered, I'm sure she would have preferred some expensive jewelry. But I'm equally certain that were she still here, Carol would be delighted to accept this book, criticize it, and help make it a much better work.

Marc Schneiberg has been one of my best friends and most important intellectual collaborators since we met as undergraduates. Because he too is an organizational and economic sociologist, our almost weekly conversations have been crucial in helping me to shape the conceptual framework and the arguments contained within this book, and he has been a never-ending source of ideas for me to steal and claim as my own. Marc's friendship, generosity, and emotional support have also helped me to endure manifold disasters – deaths, divorce, deflagration, and graduate school, to name but a few. More important, having Marc around just makes life a lot more meaningful and a lot more fun. I look forward to collaborating with him for many more decades to come.



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Because this book has been a long time in the making, numerous other people have had opportunities to comment on various portions of the manuscript. At Berkeley, Suava Salameh provided particularly insightful criticism, while her friendship and support helped make life much more enjoyable. I also received considerable feedback from the "Smith group," which included at various times – in addition to Suava and the secretive and anonymous Mr. Smith – Patrick Heller, Mary Kelsey, Hyun Ok Park, Chris Rhomberg, Brian Rich, Anders Schneiderman, Gay Seidman, Rob Wrenn, and Mona Younis. Nancy Chodorow and Jerry Karabel also provided helpful input at various junctures. At Columbia, Richard Nelson, Harrison White, Patrick Heller, Yasuo Watanabe, and David Gibson were sources of useful feedback on various aspects of this work. And at Stanford, John Meyer and Dick Scott provided written and verbal comments that have been more important than they probably realize in helping me to rethink various aspects of the argument contained in this book. Finally, Charles Perrow provided detailed critical commentary of the entire manuscript, which was of enormous help during the revision process. The initial research for this project was supported by a grant from the Hagley Museum and Library's Center for the History of Business, Technology, and Society. At Hagley, Patrick Nolan, Michael Nash, Marjorie McNinch, and Gail Pietrzyk were particularly helpful.

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including reading and commenting on early chapter drafts of this book and providing comments on job talks. Most important, however, is that Karla has always been there for me when I have needed her, whether helping me through personal tragedies, commemorating triumphs, or simply sharing her life with me. Jennifer Pierce was my best friend for years, and later my wife, during which time she helped sustain me intellectually and personally. Over time I have come to realize that much of what she gave to me during those years remains with me, even though our relationship does not. As a fellow traveler from Haverford, Ward Bell has always challenged me to deliver when I have made glib and dismissive theoretical pronouncements. He also continues to indulge my vanity by assuring me that, despite our pointed lack of success in the academic world, we are still smarter than the rest of our erstwhile colleagues. Throughout my years at Berkeley, and beyond, Vicki Smith and Steve McMahon have been constant sources of intellectual engagement and friendship. In addition to helping me keep academe in its proper perspective and providing transcontinental intelligence reports, Mary Waters has offered support and advice at various junctures. Karla, Jennifer, Ward, Vicki, Steve, Mary, Michael Burawoy, Carol Hatch, Mark Gould, Marc Schneiberg, Suava Salameh, Judy Auerbach, Karen Chin, John Diliberto, Kimberly Haas, Maureen Katz, Kwok Kian Woon, Tom Long, Zena Ratner, Terry Strathman, and Chris Williams have all been important in a variety of less (and sometimes more) tangible ways as well, providing intellectual stimulation, camaraderie, fine and not-so-fine dining, music, gossip, flirtation and debauchery, friendship, transference and countertransference, network diagrams explaining a great deal of what goes on in academe, and much more – I leave it to them to figure out who provided what. Little of this is evident in the book that follows, but the book would never have been written without it. I owe them all an enormous debt of gratitude.

Finally, it is no coincidence that the bulk of this book was written only after I met Jodi Lerner. Jodi has been my companion, partner, and closest friend for more than seven years. Throughout this time she has supported me wholeheartedly in my endeavors, and she has never lost faith that I would surmount whatever difficulties I encountered. More importantly, she has accepted me as I am, something all too rare in my life. Knowing that she will be there at the end of the day makes facing blank pieces of paper (or computer screens) much easier. By sharing her love, she has reawakened joy in my life. Through Jodi I have also come to know the Honorable Winston K. Lerner. Although he is not an academic, and although he retains an unfortunate theoretical and practical bias in favor of fiat, Winston is certainly the intellectual equal of many social scientists. He has used his acumen repeatedly to remind me that even the most

sophisticated theoretical arguments are useful only insofar as they have practical applications. In addition, his curmudgeonly good nature and his playful sparring have been sources of great warmth, affection, and companionship. I am grateful that he and Jodi have seen fit to make me part of their family.

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## *The Modern Corporation and the Problem of Order*

Analysts of the modern industrial corporation tell a remarkable story. In it, the invisible hand of the market has become cramped and atrophied, perhaps broken beyond repair. The damage has been inflicted by none other than the modern corporation, its visible hand clenched into a fist, pounding away at the fetters of the market, struggling to bring about a “managerial revolution in American business.”<sup>1</sup> This story is told not by critics of modern capitalism, nor by those advocating a return to unencumbered free markets, but by analysts who see this managerial revolution as inevitable and desirable. Only with its success has capitalism come into its own, attaining previously unimagined levels of productivity and profit. In their account, the modern corporation emerges triumphant precisely because the visible hand of management is more efficient than market allocation. At the heart of this efficiency are new forms of organization that lower the cost of governing the business enterprise. The triumph of managerial capitalism has led to the dominance of a new type of business organization: the decentralized or multidivisional form (M-form) characterized by a number of distinct operating divisions and overseen by a hierarchy of professional managers.<sup>2</sup> Described as the “most significant organizational innovation of the twentieth century,” the M-form has been perhaps the most important single factor underlying the success of the managerial revolution.<sup>3</sup>

The ascendance of the modern corporation is not the end of the story, for many of the enterprises that led the managerial revolution now face serious difficulties. They have been challenged by foreign competition and declining profit rates, while critics have asserted that they are plagued by wasteful and inefficient production, inept decision-making, and the practice of placing short-term profits ahead of the firm’s

1 Chandler (1977).

2 The term “M-form” (for “multidivisional form”) originated with Williamson (1975). I use the terms “M-form,” “multidivisional structure,” “decentralization,” and “decentralized structure” interchangeably.

3 Williamson (1985, p. 279).

long-run interests. The efficiency of the M-form itself has been called into question by charges that it is ossified and bloated by bureaucracy, plagued by information-flow deficiencies, and too large and unwieldy to govern effectively. The situation has become so critical in some cases that long-dormant shareholders have intervened to take control of governing committees or replace top management, events that were nearly unthinkable in earlier decades. At least in some industries, the victory of the managerial revolution and the efficacy of the decentralized form appear to be in doubt.

Perhaps the foremost example of the modern corporation's triumph, as well as its decline, is General Motors. GM created and perfected one of the earliest multidivisional structures, during the 1920s, under the leadership of Alfred P. Sloan, Jr., and Pierre S. du Pont. Following the seminal work of Alfred Chandler, GM's organization, along with that of its largest shareholder, E. I. du Pont de Nemours, has been regarded as one of the paradigmatic examples of increased efficiency through decentralization.<sup>4</sup> After implementing the M-form, GM quickly became one of the most successful corporations in history, a position it held for nearly half a century. Surpassing Ford in the late 1920s to become the leader in the automobile industry, GM amassed a record of profitability that stretched unbroken into the 1970s; in some years, its share of automobile sales was over 50 percent of the North American market. The corporation became one of the most important institutions in the U.S. economy, single-handedly capable of having a serious impact on the country's economic well-being. By 1956, one government study concluded that "there is probably no company in the United States that affects the lives of the citizens of the country as much as General Motors."<sup>5</sup> Analysts inside and outside of GM attributed the corporation's incredible success in large part to the decentralized structure that it put into place in the 1920s. GM's organization was taken as a model of efficiency, and Alfred Sloan, who served as the corporation's president or chairman of the board for over thirty years, continues to be hailed as "an organizational genius" who was "relentlessly given to profit maximization."<sup>6</sup>

By the 1960s, GM's long record of success was beginning to show cracks. As early as the mid-1950s, GM began to lose market share to foreign competitors such as Volkswagen in the small market for economy cars. Because this market accounted for only a tiny fraction of GM's profits, the corporation was slow to react to the developing trend toward

4 Chandler (1962); Chandler and Salsbury (1971).

5 U.S. Senate, as quoted in Cray (1980, p. 10).

6 Williamson (1991b, p. 79, fn. 8).



smaller, more fuel efficient autos. When it finally decided to develop such a car, the result was the ill-fated Corvair. The car that Ralph Nader dubbed “unsafe at any speed” led to millions of dollars in lawsuits against GM and increased government regulation of the automobile industry. Perhaps more important, from GM’s point of view, the corporation’s reputation as a forward-looking producer of high-quality autos was called into question. But GM’s problems ran even deeper than considerations of quality, safety, and customer relations. Between 1964 and 1969, the return on investment for the Chevrolet division, long the mainstay of GM’s profit base, reportedly plummeted from 55.4 percent to 10.3 percent.<sup>7</sup> Following the 1973 oil embargo, GM’s overall sales and profits fell dramatically, and its long dominance of the U.S. auto industry was shattered. The corporation that once had been hailed as the paradigm of efficiency was now charged with wasteful and inefficient production, failure to plan for the future, and inability to recognize emerging trends. Yet on paper, at least, GM’s organization looked very much like the M-form that had been erected in the 1920s.

Why did the decentralized structure that served Alfred Sloan and his successors so well prove to be so ineffective later in GM’s life? To address this question, I set out to examine the changes in GM’s organization over time. Initially, I expected that my research would focus primarily on the latter stages of GM’s history, for the period prior to 1960 seemed well documented. Chandler’s pathbreaking work focused extensively on the period from 1920 to 1925, when the M-form was created. Arthur Kuhn’s comparison of GM and Ford extended the analysis through 1938, one year after the corporation’s first formal reorganization.<sup>8</sup> Decades before these works were published, Peter Drucker had written about his experiences in GM during the 1940s, providing a less systematic description of the decentralized structure that nonetheless seemed consistent with Chandler’s analysis.<sup>9</sup> Finally, Alfred Sloan’s best-selling autobiography provided a firsthand account of the development of GM’s organization over the years.<sup>10</sup> Sloan’s account emphasized that the GM structure had changed little between 1925 and 1960, and, like Chandler, he attributed the corporation’s success to that organization.<sup>11</sup> While a few reviewers noted inconsistencies in Sloan’s story, there appeared to be no reason to doubt that the M-form had changed only minimally prior to 1960.<sup>12</sup> Nonetheless, I set out to examine the primary historical documents that were available – internal memos and reports disgorged by the

7 Wright (1979, p. 100). 8 Kuhn (1986). 9 Drucker (1972).  
10 Sloan (1964). 11 Chandler served as a research assistant for Sloan’s book.  
12 See Wolff (1964).