

The Struggle for Control of the Modern Corporation: Organizational Change at General Motors, 1924–1970. By Robert F. Freeland. Cambridge, U.K.: Cambridge University Press, 2001. xvii + 364 pp. Index, notes, bibliography, appendix, figures, tables. Cloth, \$59.95. ISBN: 0-521-63034-7.

Reviewed by Jeffrey Fear

Robert Freeland has written an impressive management history of General Motors, in which he corrects the claim made by Alfred Sloan in *My Years at General Motors* that GM's "1958 structure [was] a logical evolution of the organization that he devised in the 1920s." Instead, Freeland demonstrates that the post-1958 structure departed significantly from previous organizational incarnations, which had effectively included operating executives in strategic planning committees in both formal and informal ways. Freeland discovers an important discrepancy between M-form theory and GM's practice, and he contends that the move to a "textbook M-form" after 1958 helped lead to GM's subsequent decline. Drawing largely on correspondence between owners and senior executives at DuPont and GM, Freeland documents the ebb and flow of power relations among owners, executives, and divisional heads in the struggle for control of the corporation. Freeland reminds us of the importance of consent, motivation, legitimacy, psychology, personality, and even of emotion in the functioning of any business organization, and he points out that long-term efficiency is undermined when senior management expects subordinates merely to comply with fiats issued from above. In real life, decrees may actually call forth disabling resistance or sullen compliance, which destroy motivation, an insight that is likely to be a problem only for neoclassical or transaction-cost economists.

Freeland's book is an extended critique of the "textbook M-form" described by Oliver Williamson. Such a structure amounted to little less than a "financial dictatorship" (Sloan's words). Freeland argues forcefully for the effectiveness of a little "corruption," that is, the importance of including divisional executives in strategic planning or policy formulation through a process he calls "participative decentralization." Throughout his tenure, Sloan valiantly defended this so-called corruption of M-form theory. Sloan found

that including operating executives in strategic planning brought critical legitimacy and authority (“consent”) to senior-level directives, what Freeland nicely calls “legislation with representation.” Surprisingly, however, we rarely encounter quotes from divisional executives in Freeland’s text. We read the owners’ complaints about them rather than the operating executives’ own take on organizational change. Their presence emerges only when they gain formal representation on senior boards.

Ironically, Freeland affirms the broad principles and virtues of the M-form. The term “M-form” rarely appears in the book without the modifier “textbook.” He (effectively) demolishes the formal, stylized version of the theory, but not the M-form itself. Only transaction-cost theory implies that there should be soundproof walls between headquarters and divisional executives. Strategic planning still requires that senior executives at least listen to division heads—although theoretical economists might not agree. Even within his notion of participative decentralization, Freeland makes a distinction between strategic planning and operations. GM suffered when the two functions became conflated, either through too much divisional autonomy or as a result of edicts issued by owners from headquarters, orders from CEOs with too much power, or the management-by-numbers practiced by a financial staff based in New York.

Freeland seems to argue that a healthy M-form depends on striking a balance among the triad of owners, senior executives and staff, and divisional managers—that is, between strategic planning and operations. The real “corruption” of the M-form does not occur when divisional commanders gain a voice in strategic planning, but rather comes about when the M-form is warped by one of the three main agents of control. The book reveals the danger of unchecked divisional autonomy or excessive administrative centralization, be it through owners (DuPont executives), CEOs (Harlow Curtice or Frederic Donner), or the New York financial staff.

Because he expends the most effort arguing against the “textbook M-form,” Freeland broaches a number of important questions only at the end. Throughout the book, Freeland is skeptical about the role of owners who sought to assert control through finance and interfered in operations. His portrayal of the ferocious conflicts between owners (at DuPont) and managers (at GM) is truly a highlight of the book. Yet activist owners provided a much needed check on divisional and CEO profligacy. Why should

the company not work for the “permanent welfare of the owners of the business” as defined by owners themselves, rather than for the benefit of managers? In conclusion, Freeland echoes Michael Jensen’s warning against managers’ hoarding massive amounts of free cash and locates the beginning of decline precisely at the point when GM’s immense profits created such slack that Curtice could subvert financial oversight. Then, after DuPont had to sell its stake in GM in 1959, a textbook M-form was left in place that relegated control of the corporation to the New York financial staff. Is financial control by involved owners, however knowledgeable, different from control by a financial staff located far from Detroit (and removed from the input of widely dispersed shareholders)? GM’s decline also coincided with the departure of activist owners who once acted as a brake on management. In the conclusion, he also answers the question of why a textbook M-form worked at DuPont by arguing that owners there had had operational experience, but what about other companies with textbook M-forms?

In the end, if there is a hero in the book, it is Alfred Sloan, who retired in 1956. Freeland shows that Sloan’s years with General Motors were one long exercise in organizational diplomacy, during which he balanced warring claims by owners and division heads. When considering the appointment of a successor to Harlow Curtice, Donaldson Brown, who had designed GM’s famous accounting system and represented DuPont after being passed over as GM’s chairman in 1946, commented that it was nearly “impossible to find men like Sloan, who had an ownership stake in the firm as well as a deep knowledge of both operating and financial issues” (p. 260). Freeland reminds us that business is all about managing tradeoffs and overcoming tensions. A well-rounded CEO who listens to all sides of the business is decisive to a company’s success.

Using his excellent theoretical insights about the necessity of creating consent, Freeland clarifies Sloan’s simple statements about the necessity of motivating people, exemplified in this passage:

It takes more than the structural design of an organization, however, to ensure sound management. No organization is sounder than the men who run it and delegate others to run it. They are in a position to tip the balance in a decentralized organization toward centralization and even one-man rule. General

Motors' long-term survival depends upon it being operated in both the spirit and the substance of decentralization . . . my experience tells me that there is no simple formula in the matter of organization. (Alfred Sloan, *My Years at General Motors*, p. xvi)

Freeland reminds us to apply management theory skeptically. The language of much management theory cannot capture the idea that people make the modern corporation, navigating the tension inside firms between control and efficiency, between fiat and consent.

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