

Being a Different Kind of Company At



How does a different kind of car company remain a different kind of car company? This is the challenge facing Saturn, a wholly owned subsidiary of General Motors. Saturn had the luxury of creating a company with strong financial investments by the parent organization. Since its inception in 1985, it has created many new models for management and labor relations. It has been able to create a culture that truly lives by values of customer focus, collaboration, and market responsiveness. But as it faces increasing competition and a changing marketplace, there are pressures to return to “traditional” ways of operating. The important conclusion is that Saturn cannot go back to old practices because the changes have been fundamentally integrated into the very fabric of the organization.

One of the major contributors to the process of change and the organization’s culture has been its reward systems. However, as Dennis Finn, Saturn’s human resources advisor points out, the reward systems support the new process of management but do not determine it. One needs to fully understand the cultural dimensions that characterize Saturn before one can appreciate the value of this statement.

The Formation of Saturn

The genesis of Saturn’s formation was based on a simple reality— the American automobile industry had lost significant market share over the 1970s and 1980s to foreign car companies, principally Japan. General Motors, which was perhaps the most resistant to change, decided to create a skunks-works organization to develop a new car model and a new manufacturing process. Roger Smith, chairman of General Motors, sponsored this effort at the highest level of the corporation. He was joined in the sponsorship by Don Ephlin, the then vice president of the International United Auto Workers (UAW) and the representative to the General Motors Corporation. A group of 99 individuals from across the corporation and the union were brought together to research high-performance work sites, analyze customer needs and preferences, and develop a new car model. They were chartered under an entity known as the Saturn Study Center with a simple but powerful mission to recommend the best approaches to manufacture a small car for the United States based on the integration of people and technology.

This massive study effort resulted in the preparation of a paper, which some have referred to as the equivalent of a constitution or Declaration of Independence, entitled “Memorandum of Agreement.” This 1,600-word document laid out the principles and practices necessary to develop a new car for the American marketplace. The key points included:

- People want to and should be involved in decisions that affect them.
- People care about their jobs and those they work with.
- People take pride in their work and their contributions to the company.
- People should share in the success they help create.

These simple statements of philosophy became the basis for the organization in practice today and the reward systems that support the process of the organization. Furthermore, the Memorandum defined goals for quality, cost, and customer satisfaction. It was a business document as well as a statement of organizational success factors.

The UAW representatives were highly involved in the Saturn Study Center, drafting the Memorandum and defining the staffing process for the new company. When the UAW ratified the Memorandum, it achieved a commitment that the organization would be highly committed to the labor organization. This meant that more than 6,000 people would be drawn from other parts of General Motors and moved to Spring Hill, Tennessee. They had no facility, car designs, or dealer networks. Each of these would need to be built, but these tasks would conform to the principles and spirit of the Memorandum.

A Different Kind of Reward System

From the start, Saturn wanted to build on the concepts of collaboration and sharing in the success of the enterprise. This also meant that people would have clear goals, accountabilities, and contributions to make the company highly competitive in the marketplace. New people would be hired based on consistent hiring criteria and they would work within the guidelines of the Memorandum. One key objective outlined in the Memorandum was that pay would ultimately be at-risk and that 20% of the target total compensation would be variable. This meant that base pay would be set at below market levels and the difference would be made up through variable compensation. After the initial start-up phase of the company, it was determined that the at-risk portion of pay would be phased in, but that the company would have an active variable compensation program.

The variable pay program was implemented in 1992. In this initial year, the incentive target was set at 5% of pay. Individuals could earn this amount if they successfully completed specific critical training activities to enable the teams to handle nontraditional responsibilities such as budgeting, workplace organization, materials management, scheduling, safety, and housekeeping. This was important as a precedent-setting measure for several reasons. First, the company was in a start-up mode and new work practices needed to be established. The focus of work would be through teams, and employees needed to understand the production process, have strong communication skills, and be highly effective in working with others as a team. Second, Saturn established a goal to be a learning organization. By emphasizing training as the initial focus, this reinforced the point of learning within the culture of the new organization. Finally, there was little baseline from comparable manufacturing plants on which to establish reliable goals. By using a fairly conservative approach initially, the program was able to get up and running and establish standards of performance that would be set once the process was understood.

By 1998 the pay at-risk portion has grown to 12%. The variable compensation program was structured in two parts. The first component, the pay at-risk portion, focuses on three key goals:

1. *Quality performance (4% of pay)*. The goal is to build Saturn cars that meet or exceed competitive quality levels. This was measured by an audit team using International Uniform Vehicle Audit (IUVA) standards. Saturn needed to attain 9.0 discrepancies per vehicle (DPV) or lower to achieve maximum payout of 4%.
2. *Achievement of training goals (4% of pay)*. The goals included performing an approved individual training plan (50%) and receiving a minimum of 92 hours of training credit during the year (50%).
3. *Team effectiveness goals (4% of pay)*. The focus is on strengthening the effectiveness of teams and their contributions to the performance of the company. Teams are defined by functional groups and need to complete a minimum of one communication meeting per quarter and to identify and solve at least three high-priority safety problems. The guidelines and review process for these goals have been thoroughly defined.

The second component is the reward pay. This component is based on exceeding budgeted earnings before interest and taxes (EBIT), matrix production schedule, and quality goals. The EBIT threshold is adjusted based on production schedules to account for changes in market conditions. The financial payout is based on a sharing of actual cost reductions versus current year budgeted cost; individuals share 50% of any cost reductions above the budget. There is no cap on this sharing. However, the payout may be modified by the quality performance (based on the IUVA ratings) and on time delivery schedule performance.

The program makes payouts quarterly. Data is charted and displayed daily and weekly so that individuals are continually aware of the performance standing and the opportunity for their additional pay. Based on the overall results, all members of the organization receive a common payout as a percent of their total earnings.

Remarkable Results

The marketplace has clearly appreciated the quality of this automobile. For several years Saturn was the only small car within the GM line that was profitable. It achieved a profitable status three years after the plant start-up; this is unprecedented in the automobile industry. The company has established a leading reputation for its cars as well as the sales and service process that supports the products. This “experiment” has changed GM as well and has served as a model of what the American autoworker can accomplish.

Members of the organization have benefited as well. The variable compensation program was established in 1992. Payouts have been achieved each year, as follows:

<i><u>Year</u></i>	<i><u>At Risk</u></i>	<i><u>Payout</u></i>
1992	5%	1,800
1993	7%	5,000
1994	10%	3,200
1995	10%	10,000
1996	10%	10,000
1997	12%	2,100

Base salaries have increased with the market and have retained 88% of the average GM compensation. There was a \$10,000 cap on the program; this was increased to \$12,500 in 1997.

To illustrate the impact of the performance capabilities of the organization, one needs to review productivity results in 1996. At one point during the year, Saturn was 40,000 cars behind production schedule. This was due to strikes at part suppliers that brought work nearly to a halt. By year-end, the Saturn team had produced 314,000 cars, which was 4,000 above target. This required careful coordination among all elements of the organization and was a testimony to the leadership and involvement by many in the organization.

A Challenge to the “Memorandum of Agreement”

In March 1998, the UAW members at Saturn voted again on whether to retain this “very different” agreement between labor and management. At issue was the decline in the payouts for 1997 in relation to previous years. Since sales for small cars have declined, some hourly workers pressed for the UAW to void the agreement and replace it with a conventional wage contract. This vote was watched carefully for its test of commitment by the UAW to the partnership and whether this philosophy of compensation would endure hard times. The program is perhaps the most innovative labor contract in the U.S. auto industry. Furthermore, the market segment for small cars has cooled greatly as American consumers have become attracted to larger luxury and sport utility vehicles. Thus, would a pay program that targets base wages 12% below market and provides opportunity for incentives remain available pay philosophy in light of declining market growth?

The agreement implied that when business was strong, members of the Saturn organization would share in the benefit. When times were weak, would they also suffer on the downside? The union vote would test not only this philosophy of compensation but in some measure the core values of the organization.

The vote on March 11, 1998, was strongly in favor of the “Memorandum of Agreement.” The margin was nearly 2–1, with 4,052 voting in favor of the agreement and 2,120 voting

to change it. Both union and management leaders felt that this demonstrated that the “partnership is alive and well in Tennessee.”

Although this represented a decline in the margin of victory, given the prospects of the immediate future, it remains a strong statement of support. In 1992, the union voted for the compensation contract by a margin of 87%. At that time the Saturn car was strong in the market and the prospects of payouts were high. Today, the market has changed and market success will be more difficult. It is no wonder that the average employee is concerned about the pay, but the commitment to the principles of the partnership remains intact.

The Future Will Be Different

Saturn has clearly demonstrated that a partnership in working together and sharing in the results can be highly effective. The reward system is an important element of the culture, but it is not the driving force. Instead, the focus is on a commitment to the customer, the quality of the cars, and effectively utilizing resources. Actions taken on a daily basis demonstrate how the organization is different. For example, the hiring process involves people from all levels, training is extensive and applied to the work setting, and marketing involves people in organization. This is an organization that leads by its values.

While the market for small cars may not hold the same opportunity in the future, GM is committed to keeping the success record of the company. There are efforts under way to modify the existing product line, introduce new products into this company, and expand Saturn’s market reach on a global basis (e.g., manufacturing right-handed cars to fit the Japanese market). Other strategies are being developed to retain Saturn’s long-term leadership in the marketplace.

The success that Saturn has achieved has given it confidence that it is indeed a high-performance organization. Among the major positive attributes are the trust and partnership established at all levels of the organization. This is perhaps the most important outcome of the management and reward process. With this characteristic as a cultural foundation, Saturn does not need to worry whether the organization can produce on commitments. It will seek new opportunities and address challenges in a manner that will retain its uniqueness. In the future, Saturn may not be a different kind of a company, only because other organizations will follow its lead.