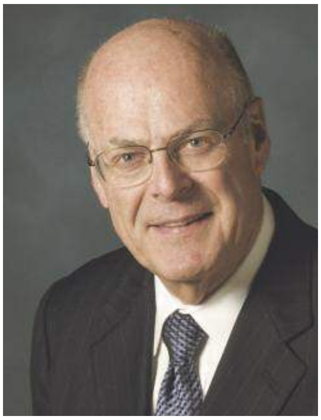
CEO STEVE MILLER explains the real reason why U.S. automakers are in trouble—and the right way to launch a corporate turnaround.

Hopeless?



Detroit is lost. As the Big Three steer through the economic crisis along a perilous, unfamiliar highway, their destination remains unknown. Will they ever find their way back on track? It's a question many are asking of any number of blue-chip companies, at a time that calls for clear-eyed thinking.

For thirty years, Steve Miller has been salvaging corporations on the brink of failure. In his book *The Turnaround Kid: What I Learned Rescuing America's Most Troubled Companies* (Collins), Miller recounts how he helped to save companies such as Chrysler, Aetna, Waste Management, and Delphi Corp., where he served as CEO for more than two years. Miller, 67, still "gets his jollies" as Delphi's executive chairman. He also knows a thing or two about what it takes to keep companies from crashing. "Mr. Fix It," as *The Wall Street Journal* dubbed him, spoke from his office in Michigan. —VADIM LIBERMAN

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YOU OPPOSE GOVERNMENT BAILOUTS—IN PRINCIPLE. WHY, THEN, DID YOU LOBBY FOR A BAILOUT THIRTY YEARS AGO WHEN YOU WORKED AT CHRYSLER?

Because company executives had tried every way possible to find a private solution. Lee Iacocca had entertained wealthy sheiks and foreign takeover bids, to no avail. Also, federal regulations had played a role in the company's troubles. Government-mandated equipment for pollution control, in particular, created a special burden for a lower-volume, cash-poor company like Chrysler. Given that burden and Chrysler's value to the national economy, why shouldn't the Feds have helped us out?

DO YOU FEEL THE SAME WAY ABOUT TODAY'S AUTO BAILOUT?

Yes. It's clear that had the government not made the loans, the auto companies would have plunged into bankruptcy. The direct impact of a bankruptcy and the psychological blow that would ripple through the economy could have done far more damage than the problem we already have. Hopefully, the bailout has bought these companies some time to address their structural issues.

WHAT'S THE BIGGEST PROBLEM THAT AUTOMAKERS FACE?

They have far too much debt and legacy liability costs. A company like GM, with 20 percent market share, cannot carry the $70 billion in debt that it has.

Then there's the issue of labor costs. I was disappointed in the congressional hearings on the bailouts, because when politicians talked about competitive labor costs, they seemed to focus on the base wage. Both GM and Toyota, for example, pay about the same per hour. However, there are two other elements of labor costs. One is the benefits structure, and for almost forty years GM has had a "thirty-and-out" policy, allowing retirement after thirty years. So you can come to work at age 18 and retire at 48 with a lovely pension and health care for the rest of your life. That means the company supports former workers for perhaps another forty or so years after they've left the factory. Each

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worker would have to create enough value in thirty years to pay for another forty years of support—that's tough! We didn't notice this issue much in 1970 because there were only three automakers that had a monopoly on assembling cars for the American public. But the increasing healthcare costs and life expectancy these days have contributed to rising costs for the company.

These issues are much harder for government officials to grasp. It's easy for them to say, "Gee, the GM worker is making $26 an hour and the Toyota guy is making $26 an hour. How come GM is so stupid?" The answer is because that's not where the real labor cost differential is.

SOME CRITICS ARGUE THAT DETROIT GOT ITSELF INTO THIS MESS FOR A REASON YOU STATE IN YOUR BOOK: "LIKE ALL BIG BUREAUCRACIES, AUTO COMPANIES SUFFER FROM INERTIA, AND THE PEOPLE WHO RUN THEM CAN BECOME SO ISOLATED THEY DON'T SEE CHANGES IN THE MARKET."

One of the popular things to say to automakers now is, "Jeepers, why were you guys so dumb that you didn't see the price of oil skyrocketing and that everyone would now want a smaller, more efficient car rather than an SUV?"

First off, I think that everyone in America wishes their neighbor would buy a more fuel-efficient car. They just don't want one for themselves, because they're quite comfortable in their big SUVs. Of course, these days, no one is buying much of anything, anyway, so what can a company like GM sell? Trucks but almost no cars, even though they've got a very competitive line of cars. And now, gas is again below two bucks, so people think, "Hey, I'd rather have the comfort and utility of a big vehicle than be scrunched into a car." So the automakers respond to what the public wants.

Over in Europe, the automakers have a much more fuel-efficient mix of vehicles. That's because gas is eight to ten bucks a gallon, and the average consumer makes his own self-interested choice not to get a big gas-guzzler. Here, we incentivize the consumer to buy gas-guzzlers because they're bigger and safer and not *that* expensive as long as gas remains below two bucks a gallon.

WHAT ABOUT THE GOVERNMENT'S MANDATED CORPORATE AVERAGE FUEL ECONOMY STANDARDS, SETTING THE AVERAGE NUMBER OF MILES PER GALLON FOR AN AUTOMAKER'S FLEET—DON'T THEY HELP TO CREATE A MORE FUEL-EFFICIENT MIX?

Yes, but with unintended consequences. Legislators imagine that some magic technology is going to allow making a very large vehicle become more fuel-efficient. No. It's the small cars that are more fuel-efficient, so the only way for an automaker to make its CAFE numbers is to sell many small cars to offset the sale of its bigger ones. So what happens is that the small cars have to be so discounted—especially since no one spends that much time trying to make them elegant—that automakers are practically giving them away to generate enough volume to make their CAFE numbers. Meanwhile, the bigger vehicles are sold at a premium in order to generate *some* profit. By having to force this mix, it fundamentally means that automakers are at war with their customers. It's like addressing national obesity by requiring clothing manufacturers to make smaller sizes. What we have is a public policy that only *sounds* good. A far better policy would be a gas tax.

DID YOU HEAR THAT?

What?

THE DRIVING PUBLIC JUST CALLED FOR YOUR HEAD.

Ha! Look, a gas tax works just fine in Europe. But I realize it's political suicide here. The thing is, so long as it is public policy that we shall have cheap gas, it's like we're swimming upstream.

SOME BELIEVE THAT NO AMOUNT OF RESTRUCTURING WILL SAVE GM AND CHRYSLER TODAY. WHEN IS IT TIME TO GIVE UP ON TURNING AROUND AN ORGANIZATION?

That depends on how you see things. If you look at a company from a stockholder's point of view, a hopeless case would be when the ongoing enterprise of the business produces less value than its fixed financial obligations—so whether you go into Chapter 11 or something similar, you won't be able to restore value within any meaningful timeframe. From that

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angle, there are lots of hopeless cases.

On the other hand, when I go into companies, I tend to look at all the assets and all the stakeholders—workers, predators, whoever—and my objective is to maximize the value that you've already got. For instance, people ask me if Bethlehem Steel was a success or failure.

WHEN BETHLEHEM HIRED YOU IN 2001, YOU WERE QUOTED AS SAYING, "I DID NOT COME HERE TO PUT THIS COMPANY INTO BANKRUPTCY." WEEKS LATER, YOU DID JUST THAT, EVENTUALLY SELLING OFF BETHLEHEM'S ASSETS.

Right, but a positive viewpoint is that today, there are the six steel mills that are still operating, making good money, providing good jobs, working at capacity. The mills did not go down cold; they weren't scrapped. They remained a vibrant part of their communities. The contrary point of view is that if you were an investor in Bethlehem Steel, this was an abject failure, since the company disappeared. See, it depends on what you're looking at. Are you looking at the name on the door? At a stock certificate? Or at industrial assets that are important to our society?

WHY CAN'T SITTING CEOs AND BOARDS TURN THEIR OWN COMPANIES AROUND? WHY DO THEY NEED A STEVE MILLER TO COME IN?

It's not that I'm any smarter than anyone else. But when someone fresh, like me, comes in, there are two advantages. One is that I don't have to waste any time upfront apologizing for how things got so bad. I say: This is the way it is, it's pretty ugly, and we'll all pull together to get us out of this ditch. The second thing is that in every organization I've gone into, no matter how troubled, people may be angry, scared, upset, but there is usually a very deep streak of loyalty to the employer they've had for a long time. When a company brings in someone new, there's hope that somehow this new person will change things, so let's rally behind the new person. Many times, people love their company, and if you can just get them pointed in the right direction, they can do OK. The only changes I make typically will be to retire some of the people at the top.

THAT'S A NICE WAY TO PHRASE IT.

I guess it is, but I like to replace those people with younger, more aggressive, creative, entrepreneurial people within the same organization. If you shuffle the deck with insiders, you are dealing with known quantities, and I've found that to be very successful.

INDEED, YOU CLAIM IT'S NEVER A GOOD IDEA TO KEEP A FORMER CEO ON BOARD.

That's not to say I ignore former CEOs. The first thing I want to do is pick their brains. I'm new here, and I'm not a genius—just a guy willing to take some risks and make some changes. However, a lot of times, when I come into a situation, I want to say, "We've got to change our business model" to the board of directors, and I don't want to be overly polite about it. If the former CEO who authored all the policies that you're now trying to reverse or redirect is sitting there, then you're inclined to be more polite and deferential. It's a little bit intimidating. Also, a former CEO will have tentacles down to the management group. He or she knows various executives, and you could very subtly get undermined. Some of these managers who may not like what you're telling them to do may appeal to the former CEO if he's around or sitting on the board.

AFTER TURNING AROUND A COMPANY, HAVE YOU EVER BEEN TEMPTED TO REMAIN LONG-TERM?

I've been tempted but have always resisted. It takes a very different mentality to do a turnaround compared to doing a good day-to-day job of managing a business. One of my friends said, "There are two kinds of people in the world—either process-oriented or project-oriented." Some people are happy being process-oriented. They keep managing for incremental gains year in and year out. I get bored if things go on too long. After I did a very traumatic restructuring of Chrysler in 1980, I stayed on until 1992 and decided I never wanted to go to another budget meeting or production scheduling meeting again. I have more of a dealmaker's mentality than a day-to-day operating manager's mentality. Give me a task with a start point and an end point. There! I've done it, and I'm out of here. I love the thrill of a challenge. I'm more like a fireman in that I get really excited when there's a big fire to put out, but then I'd prefer to wait for the next assignment. ■