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G.M.'s Board Is Seen as Slow in Reacting to Safety Crisis

By **BILL VLASIC** SEPT. 7, 2014

DETROIT — After General Motors emerged from bankruptcy and a government bailout five years ago, the board of directors of the "new G.M." was expected to keep a more watchful eye on a company that had gone seriously off track.

But on the issue of vehicle safety, the board until recently took a mostly hands-off approach, rarely even discussing the topic beyond periodic reviews of product quality with company executives, according to interviews with current and former board members, as well as G.M. officials with knowledge of the board's actions.

In February, the initial recall of hundreds of thousands of cars with defective ignition switches was treated in such a routine manner at the board's monthly meeting that the board's chairman, Theodore M. Solso, said he had only a vague recollection of the details.

"I can't remember the specifics," Mr. Solso said in an interview. "It was a large recall. There were probably cost estimates."

Since February, G.M. has been rocked by additional recalls totaling nearly 30 million vehicles, as well as by disclosures that some company officials had known about the defective switches for more than a decade. At least 13 deaths have been linked to the defect; the automaker is the subject of multiple investigations and has set aside nearly $4 billion to cover its costs. Although Mr. Solso said the directors were never as passive as others suggest, he acknowledged that since the first recall they have met more frequently and have received regular updates about safety issues.

"It was a period of time that we learned how serious the situation was," he said, adding, "When we had all the facts we did our job."

The events of the last few months have delivered a jolt to a board that has experienced high turnover and the sudden retirement in January of its leader, Daniel F. Akerson, who had held both the chairman and chief executive jobs for four years. The board is now confronting the fact that it was blindsided by years of corporate misconduct that has set off the most serious safety crisis in the company's history.

The directors are coming under harsh criticism. Several lawsuits have been filed by G.M. shareholders against current and former board members for failing to exercise their fiduciary duty to oversee management. In addition, the company faces wide-ranging investigations of its actions by the Justice Department, the Securities and Exchange Commission and 45 state attorneys general.

One shareholder lawsuit, filed on behalf of a St. Louis police pension fund and an individual stockholder, claims board members are "guilty of a sustained and systemic failure" to keep informed of safety and recall issues. "They set up a system that is calculated not to inform them about safety issues," said David Honigman, a lawyer for plaintiffs in the case.

Senator Richard Blumenthal, one of G.M.'s sharpest critics during congressional hearings, said the board had abdicated to G.M. management too much responsibility for resolving the switch crisis. "The board's silence and apparent absence as a force is really regrettable," said Mr. Blumenthal, Democrat of Connecticut.

G.M. officials dispute the notion that the board has been absent, noting that it has hired outside lawyers to investigate the company, approved a compensation fund for accident victims and formed a new committee to monitor potential risks within G.M.'s vast engineering and manufacturing operations.

"We didn't understand the enormity of the situation at the beginning, because I don't think management did," said Mr. Solso, who became chairman in January after serving on the board since June 2012 and who is the retired head of the Cummins engine company. "It was an evolving problem."

Interviews with current and former executives and directors reveal that the first weeks after the February meeting were tumultuous for the board. One former official, who spoke on condition of anonymity, said the directors became "very nervous" as G.M. followed the initial recall with a flurry of others.

There were also concerns among board members that senior management, primarily Mary T. Barra, the chief executive, and Michael P. Millikin, the company's general counsel, had been given too much latitude to chart the company's response to the ignition switch problems, according to one director who was not authorized to speak publicly. Said another G.M. official, also not authorized to speak on the matter: "It was a little bit of Mary and a whole lot of Millikin."

It was Mr. Millikin, the officials said, who pushed for G.M. to retain a former federal prosecutor, Anton R. Valukas, to investigate the long-delayed recall — an inquiry that found no wrongdoing by either Mr. Millikin or Ms. Barra, who is also a board member. And the board relied on Ms. Barra and other executives to select the 15 employees that G.M. dismissed for their involvement in the delay, as well as to initiate major changes in safety and engineering functions.

Mr. Solso, who has spoken only rarely in public since February, said during a 40-minute interview by telephone from his home in Indiana that the G.M. board was now "very much involved and engaged." He was the only board member made available by G.M. to The New York Times.

At least one former G.M. director, Cynthia A. Telles, said unidentified company officials had instructed board members to keep quiet about events surrounding the switch crisis. "I really can't talk because of the issues," said Ms. Telles, a psychologist who served on the board for four years before stepping down in June. "There are all these shareholder lawsuits."

Mr. Solso was circumspect about the board's performance before the recall — particularly after Mr. Valukas's report in June uncovered years of errors, missteps and deception among engineers, lawyers and product specialists charged with finding out why a deadly defect could cut engine power and disable air bags in millions of older-model Chevrolet Cobalts, Saturn Ions and other compact cars.

"Yes, we should have known earlier," Mr. Solso said. "The way I look at it, G.M. has not been well run for a long period of time."

Mr. Solso said he was "shocked" and "stunned" at the findings in the 315-page report by Mr. Valukas, which detailed how dozens of G.M. employees failed repeatedly to repair the switch defect, despite mounting evidence that the problem put drivers and passengers at risk of death and serious injury.

But Mr. Solso contended that the board and management were not lax about safety. "The problem with the ignition switch recall is that people did not do their job," he said. "They didn't have a sense of urgency, and they didn't communicate up the ladder."

Documents turned over to federal regulators and Congress show that the board did not devote much time to safety in recent years, with the exception of one meeting in which crash-test issues with the Chevrolet Volt hybrid-electric vehicle were discussed. Safety issues were typically folded into occasional reports from management on product quality. According to the Valukas report, the last time that happened was in October 2013, but the discussion was mostly about how G.M. vehicles fared in consumer polling. Nothing about the switch came before the board until its meeting in February.

By then it was a board in transition. Mr. Solso had been a surprise choice to succeed Mr. Akerson as chairman, having beaten out another director, Patricia F. Russo, who was lead outside director during Mr. Akerson's tenure.

Mr. Solso acknowledged that the board, whose members are paid $200,000 annually, had relied heavily for direction on Ms. Barra and Mr.

Millikin, as well as Mark Reuss, G.M.'s global product chief. And he conceded that some directors were "frustrated" by the volume of recalls that followed the ignition switch action, and that they questioned whether enough employees were fired after the Valukas report. But he said all major decisions had been reached by consensus between directors and management since that February meeting. Still, the board hired its own law firm, Wachtel Lipton Rosen & Katz, in April to help evaluate management. A senior partner in the firm, Martin Lipton, has attended every board meeting since then.

Mr. Solso had particular praise for Mr. Millikin, a veteran G.M. lawyer who was attacked during congressional hearings for his failure to know about switch-related lawsuits against the company. He called Mr. Millikin a "really important person" at G.M. and a valued adviser to both the board and Ms. Barra. "We're plowing through some new ground," Mr. Solso said, "and he's been one of the strongest and most honest voices we have."

The board is also seeking some stability within its own ranks. Besides Mr. Akerson's retirement, three of its 14 directors left in June. One new director, the union official Joe Ashton, was elected at the company's annual meeting that same month.

Some members are stepping up their involvement by serving on the new risk-management committee, including James J. Mulva, a former head of the oil company ConocoPhillips; Adm. Michael G. Mullen, a retired former chairman of the Joint Chiefs of Staff; and Thomas M. Schoewe, a former chief financial officer at Wal-Mart Stores.

"The ignition switch recall basically raised the bar in terms of increased involvement," Mr. Solso said.

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