

Lessons for Suppliers from GM's Belated Ignition Switch Recall - General Motors

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GM's well-crafted, post-bankruptcy image as a more efficient, product savvy, financially prudent, customer-focused automaker is suffering severe damage. The cause of the damage is that GM did not **recall** until this year over a million older vehicles that GM now reports had defects affecting motor vehicle safety. According to chronologies in the defect reports GM submitted to **NHTSA**, GM approved an ignition switch for production that did not meet GM's specifications. It then launched new vehicles with those out-of-spec switches. After the vehicles were on the road, it attributed post-launch customer complaints and potential safety concerns about the switch to customers inadvertently bumping and turning off the switch. It issued a service bulletin that it thought addressed that issue. Then notwithstanding the corrective service bulletin, it revised the switch design to make it comply with its specifications. Then after the redesign, it failed to give the good part a revised part number. These actions have resulted in a large product recall, nine years after the fact, then the doubling of the recall population to include vehicles that may have had their switches replaced during service because GM could not tell whether they were replaced with good or bad switches because of the common part number. Worst yet, during the delay GM received "claims" that the switches were "linked to" injuries and deaths.

Members of Congress, safety advocates resurrected from the sixties and seventies and the news media have since accused the entire company of being narrowly and entirely focused on cost and profit at the expense of motor vehicle safety. Senator Claire McCaskill was even harsher accusing the company as having a "culture of cover-up". Whether there is any merit to these accusations or characterizations they demonstrate the immediate and intensely negative impact a publicized safety issue like this can have on a manufacturer's image and business.

In fact, even known contrary facts are doing little to minimize these accusations. For example, GM has internal product development, engineering, manufacturing, product analysis, product safety and compliance procedures that have been in place for years. These procedures were designed to prevent just the type of alleged internal actions described above from occurring. In fact, these procedures have routinely resulted in the design of vehicles by GM that perform very well in government safety testing. They resulted in the timely filing under the TREAD Act of appropriate information about "claims" GM received attributing its products to injuries or deaths. They have also resulted in the company recalling almost 17.5 million vehicles between 2005 and 2013 due to motor vehicle safety and non-compliance issues.^[1] These facts are certainly inconsistent with the vocal

accusations of GM's critics. Yet, the accusations continue to fly. This highly charged assault on the company highlights the significant effect that failing to resolve product issues that affect motor vehicle safety can have on a company, even one that appears to normally play by the rules.

The failure to fully identify, disclose or resolve potential product safety concerns is certainly not an issue that only exists in and impacts the ranks of the OEMs in the automotive industry. Suppliers can make mistakes or overlook issues that can affect the safety of not only their own products but also the products of their supplier or OEM customers. Suppliers are an integral part of the design process for OEMs. Suppliers, like the OEMs are subject to the same business concerns that can tend at times to be overwhelming. These include concerns about the company's image with customers, product deadlines, production demands and budgets. Faced with such inevitable concerns, the risk is that they can, if not kept in check, influence, delay or even trump the identification, disclosure and resolution of potential safety issues.

If a supplier is not vigilantly alert to the importance of the identification, disclosure and resolution of safety issues relating to its products it might do the following in the name of reducing costs, meeting deadlines or protecting the company's image:

- Agree to an OEM engineer's request that the supplier not provide it with a report on a revised version of a vehicle that failed a test at the supplier's test facility.
- To meet a deadline and address a manufacturability concern, use engineering judgment to attribute the established performance level a product to another slightly revised version that is easier to make when the engineer knows that additional testing should be done.
- Engage in an overly extensive and lengthy product root cause analysis in hopes of finding a cause that won't result in the need for a recall or that might result in blame being shifted elsewhere.
- Fail to disclose a short-term production issue to either supplier or OEM customers.
- Let supplier or OEM customers learn about a product issue on their own instead of promptly disclosing it in the hope it won't develop into a severe issue.
- Ignore defect reporting requirements.

All of these examples have the potential to create or conceal product safety concerns or stall necessary remedial actions. And, the variety of these examples demonstrates that many activities and groups within a company can cause or contribute to those outcomes.

So what are the lessons to be learned from GM's experience? What should a supplier do to avoid the same fate?

1. Stress throughout the company that the quick discovery, disclosure and resolution of product issues is as important, or even more important, than budgetary, timing and other concerns. Quick identification and resolution of product concerns improves a company's image and saves the company money and avoids unknown risks in the long run.
2. Don't ignore red flags concerning your suppliers or your customers.
3. Publicize the product issues within the company and to affected supplier and OEM customers so that everyone is aware of the issue and can participate in decision making about the scope

and significance of the issue. Those in the supply chain potentially affected by the product issue should have equal if not greater interest in the issue and its resolution.

4. Designate someone to monitor the evaluation and resolution process through to conclusion.
5. Follow and fully document your compliance with internal procedures and protocols.
6. Preserve all communications with your customers about the product issue and its resolution.
7. Be aware of your legal obligations.

The GM scenario highlights in the extreme how consequences and costs of not resolving product safety issues can mushroom out of control. No one can doubt that GM would rather have paid the extra development and launch costs associated with resolving its issue prior to launch than to face the recall and other costs and potential penalties it will now incur. And, undoubtedly, the supplier of those switches to GM is watching how the scenario plays out with some concern.

[i] This number came from a review of quarterly reports GM filed with NHTSA supplemented by more recently filed Part 573 defect notifications.

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