Lessons Learned: Sadiq Malik

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Sadiq Malik was a member of the Obama administration’s Task Force on the Auto Industry, which was established in 2009 and charged with providing aid to Chrysler and General Motors, and later to other entities, to avoid their disorderly failure and the loss of a million or more jobs. The Auto Task Force worked intensively throughout 2009 to swiftly negotiate with the corporate leadership, unions, investors, and other stakeholders of the two manufacturers, to design an orderly restructuring that would put the companies on a path to stability. Malik, working for the Auto Task Force, helped take General Motors through the largest industrial bankruptcy reorganization in US history. He also helped Steven Rattner, head of the Task Force, chronicle the team’s work in Rattner’s book, Overhaul: An Insider’s Account of the Obama Administration’s Emergency Rescue of the Auto Industry. This “Lessons Learned” summary is based on an interview with Mr. Malik.

There are many opinions on when it is appropriate for the government to intervene in the private sector; however, if the system is collapsing, then the government must intervene to prevent chaos.

When and why and to what extent the government needs to step into a crisis is not an easy decision to make, but Malik believes there are times when government action is necessary:

[At some point] the public institutions do have to step in, such as when the private sector stops functioning as it’s meant to function. That is exactly why the government exists—to make sure that if the private sector is failing, they can step in to stabilize it. Otherwise, there would be chaos. My personal view is that if the private sector could have solved the problem, it should have been left to the private sector.

Once the government decides to intervene, leaders must set a vision, create a sense of calm, find the best specialists to deal with the situation, and then get out of the way.

Malik’s advice to leaders is straightforward and allows for no wavering—leadership, the courage to set a vision, and direction are necessary and vital in a crisis:

When you’re in a position of power, like the president and the executive branch, it really is up to you to set the agenda for the country, to set a vision and create a sense of calm when things are not calm.

[... ] people need a sense of calm, vision, and a high-level policy objective that they can work towards. It doesn’t have to be 100 percent right because you’re never going to get it 100 percent right. You’re dealing with so many uncertainties in a crisis, that you will never get it 100 percent right. But, as long as you are being focused and thinking about setting a goal for the country, knowing that you may have to change it
along the way, and giving the people you are representing at the executive branches, presidents and others, it’s one of your key responsibilities to create calm in the country, to show that there’s a far-out effect and execute towards [that goal]. People will understand and forgive you if you do it genuinely and try to find the right solution and the right structure. But, to keep it chaotic is not sensible at all.

Malik also shared that an additional requirement for effective crisis management is for the policymakers to realize that they may not have the expertise needed to craft the needed solutions. In that case, once they have set the vision, they have to be humble enough to hand things over to the experts and let them execute towards the vision:

A leader needs to be self-aware that there are professionals who deal with situations of this nature, and they have to find the right people to deal with the problem. To the extent you tap into those people, you need to give them autonomy. There’s oversight, but you need to give them the right governance structure within which they can work, with a level of autonomy and the right checks and balances. It’s not unfettered autonomy. There must be some overarching objective, but you also need to make clear that you are not going to get your political objectives get in the way of the right solution. The process must be played out. If you start interfering with the process of finding the right solutions for your own political objectives, everything falls apart.

Getting Congress to approve crisis funds swiftly and in a bulk manner provides policymakers the ability to act quickly once actions are decided. To do otherwise risks paralyzing the rescue as politics are debated.

Malik attributes much of the success of the auto industry bailout to the Troubled Asset Relief Program (TARP) that was approved by Congress in October 2008: “One of the reasons we were successful was because we could take part in TARP.” Having those funds available (once President Bush determined to use them) permitted the “technocrats” to “move quickly versus waiting for the approval from Congress.” In Malik’s view, the alternative would have been a disaster:

If that capital had not been passed by Congress and had to be approved every time you were bailing out a business, I don’t think we could have done our job. Point being, that politics can be a tricky situation, and if politicians must make decisions on every capital investment during the crisis, no decisions might get made because of the political fighting.

For the most efficient and effective results, you should keep politics out of the crisis and decision-making.

Malik is adamant about keeping politics out of any government intervention in a crisis.

If you have a team of professionals dealing with a crisis, then you should leave them to do their job so they can do what’s best for that particular situation, instead of trying to win political points, which can have secondary and tertiary effects. In my position, I never felt any pressure politically from anybody to do anything. Our goal was: Do
your job. Figure out what’s the best way to help restructure GM, and work with the management teams to find the right business plan. That’s what we did.

**Making good crisis decisions does not mean that every party must be treated equally. The best decisions consider the role of the party, how they fit within the larger objectives and structure of the intervention, and what individual solution would contribute to achieving the overall objectives.**

The overarching objective in structuring the GM rescue was to try to put the company on a path to long-term viability. To do that, the Auto Task Force made decisions as if they were a private investor, Malik says, and it was how every stakeholder was managed:

There were lots of liabilities, whether they were pension related, creditors who were lent money, suppliers who were owed money. . . Various stakeholders took haircuts. Some more than others. I’m pretty sure that the suppliers, who were owed money, got all their money back because if you don’t do that, you basically bankrupt the suppliers, and if you do that, how do you get the parts? If you don’t get the parts, how do you make cars? It was almost a commercial decision process, and as part of the back and forth the Treasury ended up with a certain stake in GM. GM did not make its money back. But Chrysler and the auto financial companies made their money back and more.

**The basic focus and scope of the intervention needs to be discussed and agreed to upfront.**

Many policymakers have expressed the view that a crisis is not the time to address fundamental weaknesses of an entity or system. Crises are by nature urgent situations; distraction can lead to delay, which can lead to disaster. Therefore, many authorities believe that the primary focus should be narrow, on how to stabilize the entity or system as quickly as possible—first put out the fire and later ask how the fire started.

Malik, however, sees it differently: “Any crisis should be taken as an opportunity. You shouldn’t let a crisis go to waste.” This view informed his approach (and to some extent that of the Auto Team) during the crisis. For General Motors, he explained, the auto crisis was a time to educate corporate management on the larger crisis around them:

Over time, organizations, can tend to only look at their own internal views. [General Motors] couldn’t see the bigger picture around them with a 360-degree view because they were so inwardly focused.

We were critical, and we viewed [their offered] business plans from the lens of a private lender or a private person bailing them out. Said differently—the customer’s last resort. We wanted the management teams to make plans that were realistic—not plans that were impractical and that would not solve the problems, and not permanently fix the issues inside these companies . . . We looked at the plans thinking, if the Treasury is going to bail them out, the US government is going to bail them out—that really is the taxpayers bailing them out. From our perspective, we had a
significant amount of pressure to do right by the taxpayers. It’s not our money. It’s the money of the taxpayers.

... Critical questioning on our part helped to make sure they were solving the crisis in a more realistic manner. It gave the management team [the opportunity] to say—Do we need to cut benefits? Do we need to rework our liabilities on our balance sheet? Do we need to rework our relationship with our suppliers, the contracts we have with them? What about our relationship with our dealers? We did not push them in any direction. A lot of what we did was ask the right questions so they could get to the right plan on their own.

Their management teams came to see that this is an opportunity to right-size their business so that it can function, [and] the next time a crisis of this nature comes around, they can survive and thrive and not come back to the government looking for a bailout.

It is not a perfect tool, but an expedited bankruptcy is the fastest way to stabilize a company in a crisis and in this case it worked well.

Given the magnitude of the crisis at GM—“These are very old companies. They had all sorts of liabilities . . . massive balance sheets, lots of leverage, lots of liabilities related to pensions and labor”—the Task Force thought it was best for the company to file for bankruptcy because that was the best way to restructure the business and the quickest way to do it, Malik said.

We worked with the management team and tried different ways of running their numbers, but their cashflow profile, their financial profile was such that their liquidity needs were massive. There was so much in liabilities that if you just gave money, you could not be sure if—or how—you would get your money back. Going through the bankruptcy allowed you to create more value and more ability to make your money back.

Given the crisis, and given the need for speed, I think doing the [expedited] bankruptcy in the organization was the fastest way to achieve a stabilized business. Otherwise, it would have taken forever. Getting to the other side was quickest with the bankruptcy . . . With the [expedited] bankruptcy, you were in and out in a month and you were done. They created a new GM, and it stabilized them. They were able to move on. I think that type of expeditiousness is good.

When government lends money via equity purchases, it must develop an exit plan that considers how it will recoup its investment but must also consider other important factors, such as the government being a majority shareholder in a private company.

The government invested in stock equity to enable GM to get back in business without the burden of enormous loan debt. This engendered a debate and criticism at the time.
There’s a moral dilemma because the government had a big stock equity stake at GM. It was always an internal debate . . . Within the Treasury, there was a group who felt that the government should not be a big equity owner of large private businesses, because . . . that kills private investment. Then, there were other people who felt that, if you come to the Treasury to ask for capital, then the government is going to take all the appropriate protections for the taxpayers.

Malik further explained that after the restructuring, the Treasury owned more than 50 percent of GM’s stock; there was a team at Treasury charged with managing that investment. In such a situation, he continued, the timing of any sale of the shares had to be balanced against the government’s remaining the majority shareholder of a private company. The government sold its shares at a loss. In Malik’s opinion, the decision was made to exit early rather than waiting for the stock price to go up. In such cases, he noted, you lose the ability to capture more gains on future increases in the stock price.

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