



Fiat's Extreme Makeover

My job as CEO is not to make business decisions – it's to push managers to be leaders.

FOUR YEARS AGO, Fiat was a laughingstock. Whenever you opened a newspaper in Italy, there was another embarrassing story: Fiat had lost more money; its new car had flopped; a strike was on somewhere. Even more worrying to me was the fact that the company had gone through four CEOs in three years. Imagine showing up in June 2004 and being the fifth guy to try to resuscitate what appeared to most people to be a cadaver.

And just imagine what top management thought. These poor fellows saw this executive (almost a foreigner – I'd left Italy in 1966) coming from outside the car industry to be their

new leader. They all sat there thinking: "Here we go again. We're going to have to teach this guy what the business is about, and if he ends up being like the last one, we're screwed." I could see it written all over their faces. I would have felt exactly the same had I been in their shoes.

What's more, this is an incredibly tough business. I used to think that chemical companies set the benchmark for value destruction, but the auto industry is certainly up there. With a few exceptions – Toyota in Japan and Porsche in Germany – car companies have consistently destroyed value over the years. Fiat was one of the worst offenders.

We've come a long way since then. Our bottom line is solidly in the black, and our latest car – the Cinquecento, one of the smallest compacts in the world – is the talk of the industry.

To complete that journey, we've had to make some major changes to the way the company runs. We've abandoned the Great Man model of leadership that long characterized Fiat and have created a culture where everyone is expected to lead. My job as CEO is not to make decisions about the business but to set stretch objectives and help our managers work out how to reach them.

Finding and Engaging with New Leaders

From day one I recognized that Fiat had a leadership problem. Traditionally, all important decisions in Italian companies are made by the CEO. It probably worked fine as a leadership model back in the 1950s, but today it's quite unsustainable. A business like Fiat is far too large and complicated for one man alone to lead.

Unfortunately, our senior leadership wasn't used to taking responsibility, and when you've been working for years in a well-defined status quo, it's almost impossible to change. In many cases, therefore, I had little choice but to lay people off; they had too many of the old habits ingrained in them.

The further I got from the center, though, the more autonomous management became, and I soon realized that we had plenty of hidden leadership potential. People in Latin America, for instance, felt free to take initiative: The head office was far away and so people from there wouldn't be over every week to ask some idiotic question. There was also a lot of young talent locked up in marketing and other functions that historically were not considered high-potential career paths. The guy who runs the Alfa division now is 40 years old. The guy running the Fiat division is 42. Neither has an engineering background, but both were first-rate consumer-products marketers, and the company sorely needed their talents.

At first, I found these people myself. I brought forward people who had impressed me in meetings and whom I'd met on my walkabouts. When I came

IDEA IN BRIEF

- In 2004, Sergio Marchionne became the fifth CEO in three years at the struggling Italian automaker Fiat.
- He identified a new generation of leaders, set ambitious targets, and pushed the company to be less inward-looking by benchmarking against companies like Apple.
- As a result, the time to market for a new model was slashed from four years to 18 months, and Fiat's bottom line is now solidly in the black.

back from my first trip to our operations in Brazil and Argentina, we probably made 20 leadership moves to promote the talent I'd spotted. Today, we're remarkably better organized about identifying talent. I was lucky enough to find a smart outsider who really gets it about leadership to head up our HR department. I work very closely with him now. He always tells me whom to take a closer look at when I'm visiting this or that operation.

Once we've identified our high potentials, I invest a lot of time engaging with them. I spend four to five months conducting performance reviews for the top 700 people. Of course I look at numbers in assessing performance, but I'm more interested in how well they lead people and lead change. I have long debates with people about whether or not they've displayed the right characteristics. My assessment is based overwhelmingly on this engagement; I don't believe in 360s. They're hard to manage, and people can game them.

Our engagement is mostly very informal. I'm always texting my people or calling them at odd hours to talk about the business or about their careers. They know that I care about what happens to them. If the organization can feel that kind of connection with its leadership, you're going to get a pretty sound culture aligned around strongly held common values.

As I give people more responsibility, I also hold them more accountable. A leader who fails to meet an objective should suffer some consequences, but I don't believe that failing to meet an objective is the end of the world. Markets and economies aren't perfectly predictable, and in an organization this size, you can always offset a failure here with a success there. But if you want to grow leaders, you can't let explanations and excuses become a way of life. That's a characteristic of the old Fiat we've left far behind.

Setting Targets but Sharing Decisions

In addition to finding leaders, I had to get people energized around a clear and ambitious target. When I announced in late July 2004 that we would make €2 billion in 2007, everybody thought I was out of my mind. But I'd been sitting in a room with 20 or so people for three days without getting anywhere, and I knew that we'd get no decision unless I imposed one. When I was much younger, this sort of control used to bother me tremendously. But as I've gotten older—I've been doing this now for 12, 13 years—I've realized there's no substitute. That's why choosing the CEO is the most crucial decision a board makes.

If you set what people think is an unrealistic target, you have to help them reach it. That's another crucial part of a leader's job. Helping them doesn't mean doing the job for them. I immerse myself in the business not so that I can make decisions in my corner office but so that I can guide the folks on the ground to make the right decisions. I don't know what those will be going into a meeting, but I think my involvement makes it more likely that we will get the right ones coming out.

A lot of what I do is challenge assumptions—which often looks like you're asking stupid questions. That's how we got our time to market for the Cinquecento down from four years to just 18 months, which means that we are now more or less in line with the best industry stan-

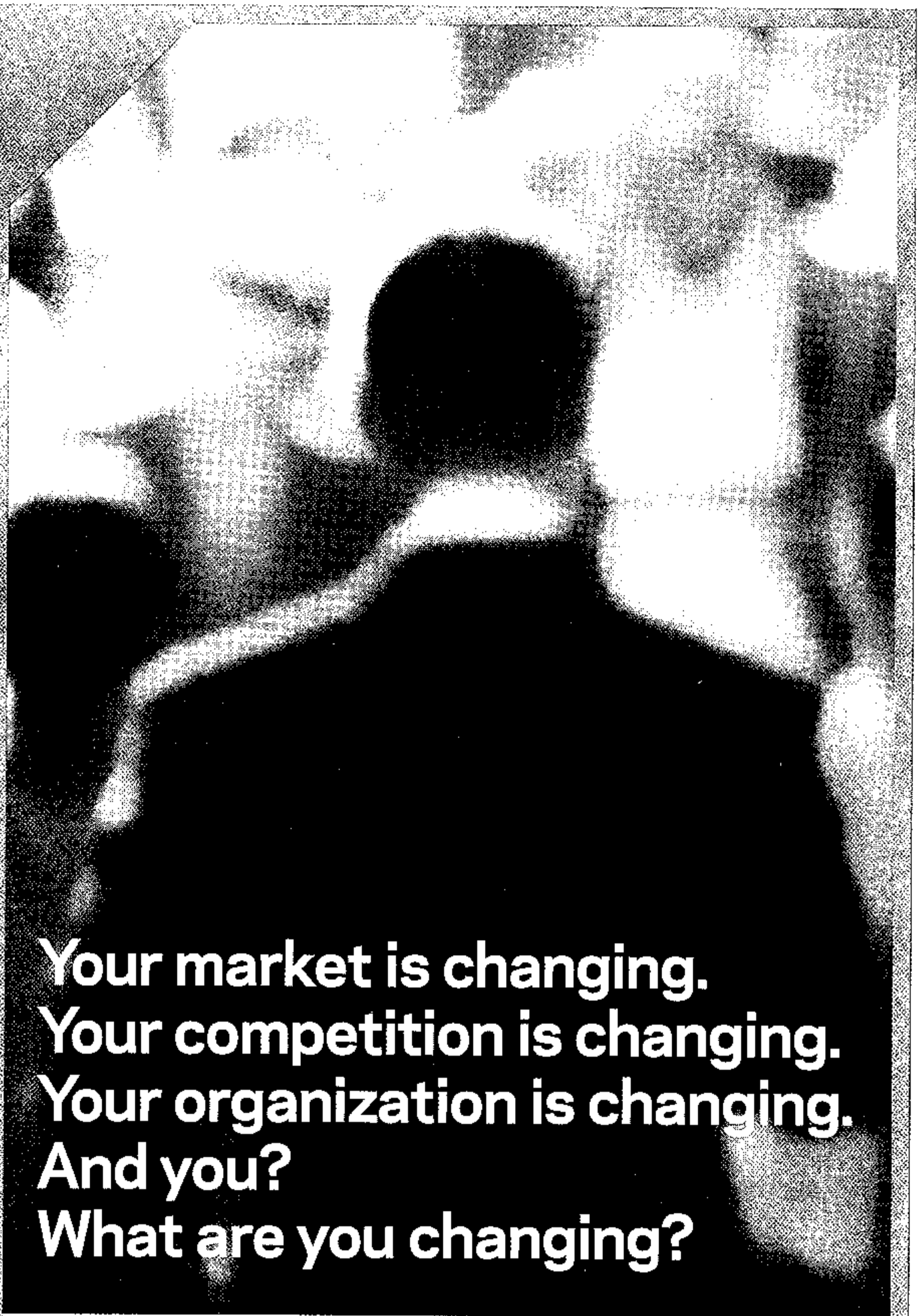
dards. I asked our designers and engineers why we needed 48 months. They told me it was because they had to have this or that input. Then I asked, "What would happen if you didn't get a particular input?" Sometimes they told me it wouldn't actually make much difference. You start removing a few bottlenecks in this way, and pretty soon people catch on and begin ripping their own processes apart. It takes some €400 million to bring a new car to market. Shrinking the time to market got us a lot more bang for those bucks.

Looking Outside the Box

Fiat's culture was traditionally dominated by engineers. That has given us some great advantages in developing cars and engines – we have long been at the leading edge in diesel, for instance. But it has also made us rather inward-looking, and part of a leader's job is to get the organization focused on markets and the competition.

In our case, the engineering focus had taken our eyes off our brands, which had been in a long, slow decline. Fiat has some of the most storied brands in the automotive industry, but they were being appallingly managed. Part of the story behind our success is that we got savvier about branding – not only by promoting people in marketing who understood the issues but also by benchmarking ourselves against companies like Apple and bringing in people from outside the car industry. I like to think of the Cinquecento as our iPod.

Fiat was also appalling at manufacturing. When you walked around a plant, you could feel the waste. It wasn't just the mess on the factory floor, it was the way people moved and worked. They were always working around some problem or another. There we had plenty of best practices to follow – Toyota, obviously, but we also got inspiration from manufacturers in other industries, like Apple. Our efforts at improvement worked. The Cinquecento wasn't just a cool car quickly brought to market – it was reliable and available everywhere



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very quickly once we realized it was catching on.

Of course, you can't just take other people's ideas wholesale. I couldn't possibly expect people in Italy to start singing the company song every morning as if they were at a Japanese plant. We're far too individualistic for that. But waste is waste in any culture. Italians don't

flexibility in these businesses and their margins are improving beyond all recognition. CNH used to struggle to cope with sudden shifts in demand, but the car guys there are familiar with the issue from the Cinquecento launch – when we had to ramp up car production by about 60% from 120,000 units in the first year – so that's starting to change.

Respecting Our Employees

Honoring our responsibilities to our workers is the final piece of the puzzle. A great deal of our success, I think, has come from having a committed workforce. But to earn that commitment, the company has had to give its ordinary folks – not just its leaders – a sense of connection.

One view of how to manage competitiveness is emblematic of Ameri-

at Mirafiori in Turin in 2004. I could not believe how badly we were treating our people – the very people that we were counting on to help us compete with Toyota. Since then, we've opened kindergartens and grocery stores next to the plant to make it easier for people to balance their work and domestic obligations. We've redecorated all the dressing rooms and bathrooms. Now we're rolling all that out to our other facilities. Nobody asked us to make these changes. We're doing it because we recognize that the commitment we make as leaders to our workforce goes beyond what's negotiated in our labor contracts.

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Being a leader at Fiat is a lifestyle decision. It's not the Buena Vista Social Club. Most of the management meetings are held on weekends, especially when I travel. Because of the magnitude of the tasks ahead of us, being a leader at Fiat requires an extraordinary commitment of time and resources. But if you like being truly engaged; if you like big, bold




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like it any more than the Japanese do, and they're as capable as anyone else of recognizing good practices when they see them.

We've learned to quickly share new ideas across the organization as well. Today, more than a third of the management team at CNH, our agricultural and construction equipment division, comes from the car side. In many cases these people are still working on the car side – I encourage our high potentials to learn to wear several hats at once. I have to wear many hats myself, and I shouldn't be the only one. Our information sharing is already having a huge impact: The operational efficiency and

can capitalism. My counterparts in the United States have a tendency to shed heads and shut plants. But in Europe we work in a different context, and the Americans might learn from this. When I showed up here, the easy thing for me to do would have been to shut down two plants and start reaggregating assets elsewhere. But had I done that, we would have had a very disgruntled workforce and would have suffered negative repercussions with our image and market share in Italy.

I take our commitment to our people seriously, and I expect all the company's leadership to do the same. I was ashamed when I walked into our plant

objectives; if you don't mind taking risks, this is the perfect place to be. You will end up being a phenomenally better person. If I can play a role in that transformation, then I think I've done a good job. I'm a conduit for change, but it's the people in my organization who actually make change happen. I derive my greatest satisfaction from seeing them succeed. 

Sergio Marchionne is the CEO of Fiat Group, a global automotive manufacturer based in Turin, Italy.

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