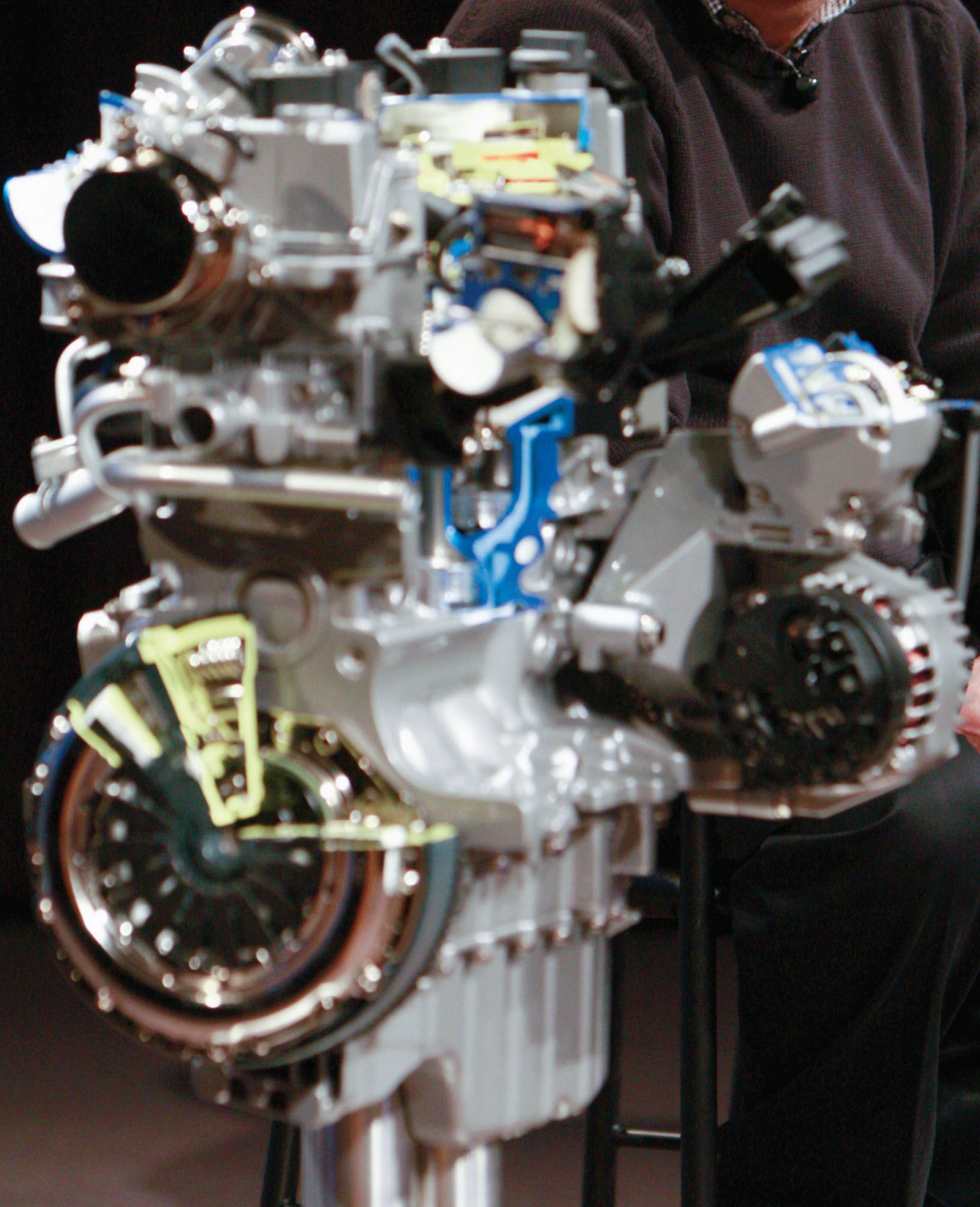


"My job as CEO is not to
make business decisions —
it's to push managers to be
leaders."

Sergio Marchionne, CGA
Chief Executive Officer
Fiat SpA, Chrysler Group



DRIVING SUCCESS

Sergio Marchionne Rescued Fiat from the Brink of Bankruptcy. Can this CGA steer Chrysler in the Right Direction?

by Colin Ellis

His most important auto executive in North America today is a certified general accountant.

Sergio Marchionne, the Italian-born, Canadian-educated CEO of automakers Fiat and Chrysler, speaks five languages, can debate dialectical theory and owns some serious wheels: a Ferrari, Maserati and — wait for it — a *Fiat Panda*. Marchionne rescued Fiat from the brink of bankruptcy when he grabbed the steering wheel in 2004. Today, he is the CEO of Chrysler, a company so rust-worn that Fiat bought it for “no money down.” Can this CGA steer Chrysler in the right direction?

The Five-Year Plan

On November 4, 2009, Sergio Marchionne strode into the four-storey atrium at Chrysler's headquarters in Auburn Hills, Michigan, surrounded by a phalanx of security and hundreds of reporters hanging on his every word. Five months after taking over the bankrupt automaker (and installing himself as CEO), Marchionne thanked U.S. taxpayers for their bailout, praised Chrysler's veteran workers, slipped in a reference to the legendary Lee Iacocca, and delivered a five-year plan to save the cash-strapped automaker.

Cars like the Wrangler, Ram and Avenger will get makeovers. The Commander and PT Cruiser will disappear. Some Fiats will be built in North America. Some Chryslers will be sold in Europe.

The rumpled Marchionne, in trademark black sweater and dark trousers, stood amongst the sweaty, agitated paparazzi and pronounced, with sleepy self-assurance, “In this business, mediocrity will kill you. We can't accept it.” The media lapped it up.

But it's the same wherever Sergio goes. The Frankfurt Auto Show. The Geneva International Motor Show. The North American International Auto Show in Detroit. Marchionne delivers the news with a twinkle of insouciance and a refreshing lack of corporate jargon. In some ways, he's the typical CGA: approachable, trustworthy. A straight-talker who can crunch the numbers but sees beyond them. A leader.



TRANSATLANTIC MAN: Report on Business Magazine named Marchionne CEO of the Year in its December 2009 edition.

(Image courtesy: Report on Business Magazine.)

Whether he can lead Chrysler into a new era of solvency will be a challenge. As a company, Chrysler is an Edsel, a Pinto, a Trabant. It owes \$16 billion in debt to North American taxpayers. Its share of the U.S. market is less than 10 per cent. In 2009 its annual sales declined by almost half.

Meanwhile, Fiat — which also includes the Alfa Romeo and Lancia brands (Ferrari and Maserati are held in separate companies) — has been deeply stung by the recession. Though Fiat ended 2008 with \$2.2 billion in profits on sales of \$78 billion and a 5.7 per cent operating margin that was one of the best in the industry, its debt rating was downgraded to junk status in 2009, it posted a net loss of \$254 million in the second quarter, and its current sales significantly depend on incentives provided to buyers by the Italian government.

The fact remains that two of the largest auto companies in the world are on life support, and their future depends on a certified general accountant who, until just seven years ago, had no experience in the auto industry.

A Precocious Child from Chieti

Wintergreen Road is a cul-de-sac of brick bungalows and postage stamp lawns in the Keele and Wilson neighbourhood of Toronto. Amongst its predominantly Italian residents, pride without pretension seems to be the unofficial motto here, spoken *sotto voce*. The homes are freshly painted. A single elm or modest maple adorns each lawn. The car in each driveway is a four-door sedan. The only thing missing is a marble statue of the Fiat Nuova 500, because Wintergreen Road should have something to signify that the CGA who saved Italy's auto industry once lived here.

Marchionne was born in 1952, in Chieti, about 200 kilometres northeast of Rome, near the Adriatic Sea. His father, Concenzio, a *carabiniere* who retired at the age of 50, moved the family to Canada in 1966.

The change from the rolling hills and baroque architecture of Chieti to the flat streets and strip malls of suburban Toronto must have been a shock to the young Sergio. At the age of eight

he had been the head altar boy at his church in Chieti, a precocious child who helped the local priest remember his lines during Latin mass. Arriving in Canada at the age of 14, the former altar boy worked weekends stocking shelves at the local Italian supermarket while juggling classes in a new language at St. Michael's College School on Bathurst Street.

Life on Wintergreen Road was dominated by "the three F's": family, football and Fiat. Marchionne considered returning to Italy and following in his father's footsteps by enrolling in the military academy at Nunziatella, the Italian version of West Point. He worshipped Juventus, the Italian football (soccer) club, and its star, Omar Sivori, just as a Canadian-born teenager of the time might worship the Maple Leafs and Frank Mahovlich. And he bought his first Fiat, a white 124 coupe.

"That car was beautiful," recalls Marchionne wistfully, "but it could not handle the Canadian winters. No rust protection. That's a flaw we have since removed." But the 124 was not the first Fiat in the Marchionne family. "My father owned a Fiat 500 when we were living in Italy," Marchionne told a European newspaper recently, adding that, in his opinion, his father was not a great driver but drove carefully, and "the Fiat 500 was an indestructible car."

To European readers that must have sounded like an odd statement, given that, on November 3, 2007, Marchionne crashed his Ferrari 599 GTB Fiorano on a Swiss highway. Pictures of the mangled car were splashed across Europe's front pages and television screens. Marchionne was physically fine, but the blow to his ego must have been painful.

A Career He Could Count On

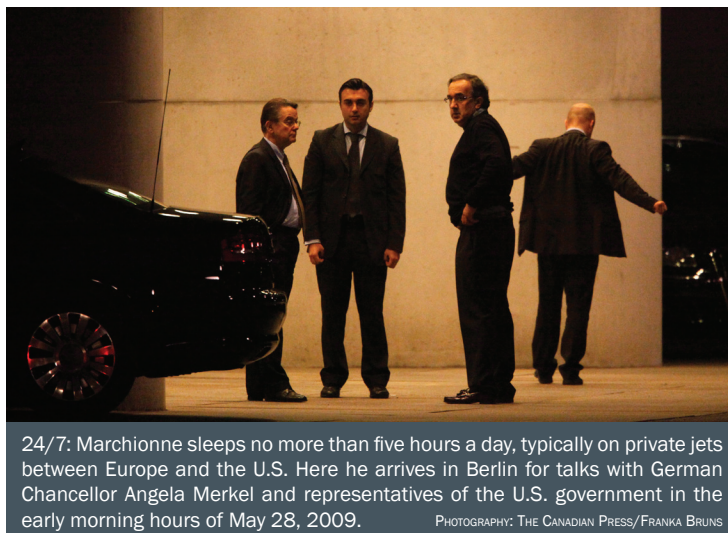
Marchionne entered the University of Toronto in the mid-1970s and embarked on the studies that would lay the groundwork for a career that combined accounting with law. He took courses in economics, finance, statistics and management accounting. He also pursued the traditional undergraduate path to law school — philosophy — studying the great dialecticians (Hegel, Kant, Marx), plus general areas of philosophy such as logic and metaphysics.

He graduated with a bachelor of arts degree in 1978, then enrolled at the University of Windsor, where he graduated two years later with both a bachelor of commerce and a master's in business. Marchionne was 28 years old. With the exception of a summer job at the Canadian branch of the Italian bank Unicredit, he had little practical experience in business. His solution — like so many ambitious adults looking to climb the corporate ladder — was to immediately enrol in the CGA program of professional studies.

The decision paid off quickly. In 1983 he was hired as an accountant and tax specialist by Deloitte Haskins & Sells (now De-

loitte) while still enrolled in the CGA program. Remarkably, he was also pursuing a degree in law, and would graduate with a bachelor of laws from York University's Osgoode Hall Law School in 1983. One year later he became a certified general accountant and was admitted into membership of CGA Ontario.

In 1985, Marchionne made a momentous decision: he left the world of big accounting firms for a career in manufacturing. 10 years and successively senior positions later, he was working as the vice-president of legal and corporate development and chief financial officer of the Lawson Group, a Toronto packaging company, when it was acquired by Alusuisse Lonza (Algroup), a biotech and manufacturing firm based in Basel. Algroup moved him to Switzerland, where he ultimately rose to the position of CEO.



Alcan, the Canadian aluminum giant, bought Algroup in 2000. Marchionne moved to SGS Group, a Swiss testing and certification business partly owned by Fiat's Agnelli family, where he was again appointed CEO. At SGS, Marchionne established his reputation as a turnaround artist, similar to that of another certified general accountant, K. Rai Sahi, the real estate and golf course magnate who built his reputation in the trucking industry.

Marchionne succeeded in restructuring SGS during a period of crisis, which brought him to the attention of the Agnellis, who gave him a seat on their board of directors. In 2004 Fiat poached Marchionne from SGS and named him CEO. Significantly, on the day his appointment was announced, SGS shares tumbled eight per cent. Shares in Fiat leapt five per cent.

Fiat Freefall

The Fall of the House of Fiat began in 1996, when Gianni Agnelli, the playboy patriarch who built Fiat into a global empire, stepped down to become its honorary chairman. Gianni's handpicked successor, nephew Giovanni Alberto, died one year later from cancer. Gianni's only son, Edoardo, committed suicide in 2000. Gianni's brother Umberto stepped in and by all accounts did a good job but died in 2004. Gianni himself died at the age of 81 in 2003, and the family disintegrated further into lawsuits over the Agnelli estate as various scandals played out daily in the European tabloids.

Umberto Agnelli served as chairman of Fiat for just one year before his death in 2004, but in that time he chose Marchionne, who had never worked in the auto industry, as his successor. Marchionne wasn't sure he wanted the job. "Give me 40 days to decide," he told Agnelli. "40 days was the time it took me to visit all of Fiat's factories and get an idea about the health of the company."

The diagnosis was depressing. "When I accepted the leadership of Fiat, it reeked of death, it was a dying industry," he says bluntly. "Fiat was crippled by debt, there had been four CEOs in two years and the brand's reputation was in ruins."

Marchionne promptly began a turnaround that Italian reporters still refer to as *il miracolo di Torino*. First, he pledged not to shut down any Fiat factories, including the flagship factory in Turin (*Torino* in Italian), bucking the stereotype of the accountant as a “slash-and-burn” manager who can only see numbers. “Labour is only six to seven per cent of the cost of making a car,” Marchionne explains. “When a company loses two million dollars a day, it’s not the fault of the workers.” Instead, he took advantage of an Italian labour law that allows financially troubled companies to send workers home and pay only a portion of their salaries.

Second, he stamped out the cheap financing that artificially inflated sales, boasting that, at first, “Fiat will sell fewer cars, not more.” Third, he scandalized the auto industry by ignoring its habit of hoarding hardware, and instead pushed his managers to sell as many Fiat engines and parts as they could, even to competitors. Fourth, he eliminated 19 of Fiat’s production platforms and pushed for more shared parts along product lines, significantly improving production.

First Person

According to Marchionne, the corporate culture of the Agnelli era, known as *L’era del Grande Uomo* (“The Era of the Great Man”), came to an end on the day he was hired. Instead, as he wrote in “First Person: Fiat’s Extreme Makeover” (in the December 2008 issue of the *Harvard Business Review*), “we have created a culture where everyone is expected to lead.”

Marchionne looked over the management at Fiat and did not like what he saw. Senior managers refused to take responsibility for decisions. Executives who worked on the same floor scheduled appointments with one another through their secretaries. “The further I got from the centre, though, the more autonomous management became,” Marchionne wrote, “and I soon realized that we had plenty of hidden leadership.”

Marchionne took a blowtorch to the management ranks. He fired 2,000 executives. Then he surrounded himself with bright young managers, promoted from the lower ranks, and worked them relentlessly. “Being a leader at Fiat is a lifestyle decision,” he said. “It’s not the Buena Vista Social Club.”

His moves turned Fiat into a profitable company. The accolades followed. The Fiat Panda won the 2004 European Car of the Year Award. The Fiat Nuova 500 won in 2008. Marchionne was named Industry Leader of the Year and European Business Leader of the Year. Then the credit crisis hit, and Marchionne saw opportunity, where others saw only loss.

A Fuel Injection of Fear

According to the *Wall Street Journal*, in order to select his new management team at Chrysler, Marchionne held dozens of 15-minute interviews with Chrysler executives over the span of just a few days in order to decide who to let go and who to promote. It was a classic move from the Marchionne playbook: “I don’t believe in 360s,” he wrote in the *Harvard Business Review* of the popular profiling tool. “They’re hard to manage and people can game them. I look at numbers in assessing performance, but I’m more interested in how well [managers] lead change.”

The Chrysler interviews led to the ouster of several veteran executives, the stripping of titles, and a fuel injection of



PHOTOGRAPHY: BILL PUGLIANO, GETTY IMAGES

Can Marchionne do for Chrysler what he did for Fiat?

fear into the cozy senior ranks of Chrysler. It also led to the promotion of several junior executives, just as it had at Fiat. Marchionne moved his office from the executive tower to the technology centre to be closer to the designers and engineers. He decided that Chrysler’s brands should compete with one another for marketing and development resources and appointed to each a CEO. Then, to prevent the little chiefs from warring with one other, he gave them corporate responsibilities as well.

He was livid last summer when he found that his executives had given further discounts on top of the “clash for clunkers” program. In a reportedly “ballistic” tirade, he excoriated Detroit’s “fanatical, maniacal interest in [market] share.” Firings ensued. Apparently his executives had not done their homework: Marchionne began the Fiat turnaround with the boast, “Fiat will sell fewer cars, not more.”

Marchionne’s ultimate vision is to combine the best of Fiat with the best of Chrysler, but it’s a race against time — the bailout bucks will only last so long. Last September he resigned his seat on the board of Swiss insurer UBS (where he could look across the table in Geneva and commiserate with fellow CGA Ann Godbehere, also a member of CGA Ontario), due to a schedule that has him racing on all cylinders. Reportedly, he sleeps five hours a night, mostly on flights between Turin and Detroit, with stops around the world to meet with politicians and auto execs in China, Russia and even Brampton, Ontario — where Marchionne recently confirmed renewed investment in the operations of the local Chrysler plant.

Of course, Brampton is not far from Toronto, where Marchionne’s mother, now in her 80s, still lives. According to one Canadian magazine editor, Marchionne voiced some displeasure with a recent profile because it quoted him dropping the “F-bomb.” Apparently his mother had read it and chastised him for swearing.

And so the most important auto executive in North America today lives the life of an international vagabond. It’s easier, of course, when you have two company jets (a Cessna Citation X and a Dassault Falcon 900) awaiting your beck and call, but Marchionne plays the part with a certain Canadian understatement, in his rumpled black sweaters, each of which discreetly bears a small Italian flag.

Colin Ellis is editor of *Statements*.