1

The Big Issue

Managers Lacking Courage to Make Tough Decisions

Many managers shy away from the tough decisions. Yet managers become leaders only when they lead, which means tackling the hard decisions head-on. In this chapter, we will explore the characteristics of tough decisions, the key reasons why many managers wimp out, and most important, the disastrous implications of such behavior. The rest of the book will provide you with ten useful principles you can use to avoid such problems.

To gain insight into just how important this topic is, let's take a look at a company that was brought close to the brink of bankruptcy because of weak leadership. Then, miraculously, a really strong, gutsy leader emerged, saved the franchise, and put it back into a leading position in its industry on a global scale.

FIAT: A NEAR-DEATH EXPERIENCE

Founded in Turin, Italy, in 1899, Fiat emerged in the twentieth century as Italy's largest and most prestigious company. In the late 1980s and early 1990s, Fiat accounted for more than 50 percent market share in Italy's auto business. In fact, this company was so revered in Italy that whoever took on the role of the CEO was considered "a kind of mythical personage, somewhere between Pope and Prime Minister."[1]

Then, beginning in 1995, the Fiat Group experienced a rough financial patch that would last for ten years. In fact, some thought that Fiat was bound to "spiral into nothingness."[2] The company was suffering from excessive executive turnover, stifling bureaucracy, and unexciting cars. Why was this perennially successful company, which had been thriving for nearly a century, in such a state? Most analysts cited weak leadership throughout the company. Tough decisions were not being made, and as a result, a company that was once a national treasure was being run into the ground. In more detail, here are the key problems Fiat was facing due to poor leadership.

Turnover and Confusion

Fiat has always been a family-run company, even though it is publicly traded. In 1999, one hundred years after Fiat was founded by Giovanni Agnelli, about a hundred descendents of the founder held 31 percent of the company.[3] The "family" took high interest in keeping control of Fiat, but it was a very messy task indeed. The grandson of the founder, also named Giovanni Agnelli but often called Gianni, was a long-standing chairman of the Fiat Group until 1996, when he became the honorary chairman until his death in January 2003.[4] Although board member Paolo Fresco served as chairman most of the time that Gianni was honorary chairman, Gianni was clearly the patriarch of the company and the family.

When Gianni died, his brother Umberto Agnelli became chairman, and Fresco retired. When Umberto suddenly died in 2004, there was somewhat of a family crisis. The family's only option was to make twenty-eight-year-old John Elkann, grandson of Gianni and Fiat board member since age twenty-two, the vice chairman to protect the family's interests, and to appoint close family friend, Luca Cordero di Montezelemolo, a thirty-plus-year employee and head of Fiat's Ferrari division, to be chairman.[5] It was clear to everyone that young Elkann was in charge, given the family's large shareholdings.

While this family version of musical chairs was going on, the business was suffering badly, and during the period from late 2001 to early 2004, the company had four different CEOs; most of them quickly becoming a casualty of the latest quarter's disastrous financial results. All four had been career Fiat employees for over twenty-five years. The fourth one left when Elkann was installed as vice chairman.

All of this handing off of the company among family members and career employees led Stephen Cheetham, an analyst at Stanford Bernstein Company, to remark that "Fiat isn't an automobile company; it's a national industrial conglomerate in crisis."[6] To illustrate the degree of confusion, in late 2002 Paolo Fresco, chairman of Fiat's board of directors, who at age sixty-nine had been looking forward to retirement, found himself immersed in board chaos. Owning 31 percent of Fiat, the Agnelli family had tried to oust Fresco as chairman, a post he had assumed in 1998. Gabriele Galateri, who had been Fiat Group CEO for only five months, had just quit. In December 2002, after a raucous board meeting, Fresco wound up as both chairman and CEO, instead of sailing off into retirement sunset, because that arrangement resolved a family and board power struggle.[7]

During this period, rather than looking both inside and outside Fiat, and thoughtfully and carefully selecting highly experienced and successful executives for key positions such as chairman and CEO, Fiat seemed to be appointing the most convenient alternative, reflecting family wishes and only looking inside.

Excessive Layers of Management

By 2002, Fiat had become an excessively large and bloated company with almost one hundred thousand workers.[8] This was due to overstaffing and organizational fragmentation, which led to a thick hierarchical management culture, filled with midlevel managers and bureaucracy. The CEO of the company hired Jack Welch to help Fiat figure out how to speed things up. Welch's assessment: "Fiat suffers from too many layers of management and a consensus culture that protects under-performers."[9] Fiat was burdened with "a very hierarchal, status-driven, relationship-driven organization," wrote Stefan Faris in *Fortune*.[10]

Ugly Cars and Plummeting Market Shares

Fiat's share of the Italian car market dropped from 52 percent at the start of the 1990s to below 28 percent in 2003.[11] Fiat was making cars the public didn't much like and that were too expensive for their class. For example, Fiat introduced a compact car called Stilo that did poorly in the marketplace because consumers thought it was ugly and believed it cost too much; because of this, the Stilo was a disappointment, selling less than 50 percent of what Fiat expected.[12] Courageous leaders drive hard to provide their customers with great value—exciting products at attractive prices. Such courage was lacking at Fiat.

Bad Branding and Poor Quality

No one seemed responsible for brand image at Fiat, leading to "boxy and uninspired" models.[13] Unfortunately, when you're trying to sell boring products, about the only marketing tool left for generating sales is to reduce prices. Weak product followed by price cuts causes your brand reputation to atrophy further, setting off a vicious cycle. This is what happened to Fiat.

In the rush to get products to market, Fiat didn't test its products for consumer appeal—a crucial step, and one that takes place preferably before the product is in the marketplace. Such testing enables leaders to act immediately when defects and weaknesses are detected. At Fiat, there was no leader demanding the necessary rigor in the product development process.

During this period, another product issue with which Fiat was struggling was quality. The small-engine Fiats of the 1980s had poor reliability.[14] The negative word of mouth caused Fiat to take another hit; Fiat's reputation for poor-quality cars led to the joke suggesting that the name Fiat stood for *F*ix *I*t *A*gain, *T*ony.[15]

Duplication

Massive complexity and duplication throughout the company also meant that Fiat's costs were high. Each of Fiat's auto brands, Fiat, Alpha Romeo, and Lancia, worked separately on its own brand development, engineering, component design, and market analysis. The Fiat Stilo and the Alpha Romeo Model 149 were very similar cars with similar performance, yet they shared no components. Neither capitalized on information the other turned up. So Fiat wound up with nineteen completely different platforms on which it built different models and brands.[16] For example, the product development groups were so independent that only two of the nineteen used the same heating, ventilating, and air-conditioning system. Weak leaders had let the different organizations go about their business and do whatever they wanted. They were not taking advantage of economies of scale and information sharing.

Lack of Focus

Although Fiat's core business was automobiles, over the years it diluted its focus by getting into a mind-numbingly diverse set of businesses: insurance, banking, farm and construction equipment, publishing, energy, trucks, aircraft engines, and Formula One automobile racing with Ferrari.[17] It was as if Fiat had become a holding company for ventures that caught the Agnelli family's fancy. Strong leaders get into only those businesses in which they are intent on becoming a major player. In general, there is no way that a diverse set of interests can lead to the kind of focus required for a company to be successful. Fiat violated that concept.

THE RESULTING FINANCIAL CATASTROPHE

By 2004, the Fiat Group was close to bankruptcy, with a negative cash flow of over $1 billion.[18] It had recorded record losses of $1.5 billion and needed to raise over $1 billion in twelve months to pay off maturing bonds. The financial community was very concerned with Fiat's ability to take on even more debt.[19] It was borrowing heavily against its receivables, pushing its total obligations to almost $13 billion.[20] By mid-2004, "the ailing automaker had racked up more than $12 billion in losses over five years and was headed for insolvency," according to *Business Week*.[21]

Back in 2000, when Fiat's liquidity crisis was beginning to emerge, Fiat's chairman, Paolo Fresco, signed a controversial contract with

GM.[22] GM agreed to take a 20 percent position in the Fiat Group. GM seemed to have thought this long-standing European company had a strong future and would quickly pull itself out of any financial problems. The deal essentially gave Fiat the right to "put" the whole company to GM in the future at a fair market price at the time of the put.[23] For Fiat's leaders to sign any such agreement meant that their confidence in the company's future was weak, because they were basically creating a way out. The intent on GM's part was not very clear. It may have had interest in Fiat's small car business in Europe as a means of increasing market share and production capacity in that segment and area.

THE OVERALL ASSESSMENT

In 2004, the prevailing wisdom in the auto industry was that Fiat had "the talent, knowledge, and skills, but it lacked leadership."[24] As responsibility fell from family member to family member, none individually had the guts or experience to step up to provide the courageous leadership required to run a large corporation like Fiat. This lack of committed, courageous leadership left Fiat floundering.

FIAT: AT LAST . . . A GUTSY LEADER

Although the Fiat Group had multiple problems as a company, none of its individual problems were that complex. By far, Fiat's largest, most complex problem was the lack of strong leadership. Fortunately, the company's board of directors finally realized this. In June 2004, they hired a courageous leader, Sergio Marchionne, as CEO. Born in Italy but raised in Toronto, Marchionne had a strong track record as a turnaround specialist. He was also an outsider to the auto industry, which many regarded as a major plus.

Putting Top Talent in Key Jobs

After a couple of months of getting oriented to the company, Marchionne moved into action. He began by firing numerous Fiat managers he thought were obstructing change and brought in new talent with automotive industry experience.[25] For example, he convinced Stefan Ketter, the former head of quality at VW's U.S. subsidiary, to join his team. He also recruited Karl-Heinz Kaldfell, a former BMW veteran and CEO of Rolls-Royce Motor Cars Ltd., to run Alpha Romeo. Herbert Demel, a former Audi executive, was hired to overhaul Fiat's industrial operations and try to lower its cost base.

Marchionne also found high-quality emerging talent within Fiat and quickly put those individuals in key jobs. For example, soon after arriving at Fiat, he spotted Antonio Baravalle, then marketing manager at Alpha Romeo. Baravalle recalls being asked by Marchionne, "Tell me what was wrong with what you did in the past."[26] Baravalle explained that he hadn't thought big enough; he had set his market share targets too low behind Alpha Romeo's push into Britain, causing the organization to field only a modest marketing effort. Marchionne was looking for objectivity and a high energy level. He liked what he saw in Baravalle and put him in charge of Lancia.

It takes courage to move into a new organization and, after quickly assessing what needs to be done, grab the people you think can do it, and put them into the key jobs. No doubt some people get bruised in the process, but as long as the leader's objectives are clear to the troops, they usually end up applauding the fact that the organization has a plan and is tackling it with gusto.

Tackling Excess Layers and Personnel

As Marchionne saw it, "This was a very hierarchical, status-driven, relationship-driven organization. All that got blown up in July 2004."[27] Within months of arrival, he began chopping out layers. A 10 percent reduction among the twenty thousand white-collar workers in

Fiat headquarters was announced. This was a big shock to a workforce which assumed that a job at Fiat was for life, and was unaccustomed to outsiders taking key positions or emerging leaders being promoted quickly.[28]

Marchionne set about to simplify the complexity generated by the company's nineteen platforms independently developed across Fiat's many brands. Hard-charging Harald Wester was hired in 2004 as head of engineering. He was from Magna Steyr, an Austrian automobile manufacturer, and he quickly announced that 85 percent of Fiat's models would be produced on just four platforms by 2010.[29] He also announced that models of the same size would share two-thirds of their components, most of which are not visible to the customer. His view was that "you cannot survive with small steps, you need to leapfrog to put yourself in a state-of-the-art position as soon as possible."[30] Nothing was going to hold Wester back.

Innovating While Killing What Doesn't Work

Although not a "car guy," Marchionne aggressively innovated new models for Fiat, such as the Fiat Grand Punto. Also, under his leadership the Fiat Panda achieved four years of increasing sales. This was due to a strong product development effort, leading to a sequence of new features and upgrades and resulting in such cars as the Panda Cross, a 4-by-4 version of the Panda that also had SUV features and was the most popular of the Panda series.[31]

He also oversaw the contemporary remake of the Fiat 500, a model from the 1960s. Launched in September 2006, it went head-to-head with BMW's Mini. The car was a huge hit in Europe, with sales of nearly a quarter million between July 2007 and June 2008.[32] The new Fiat 500 reminded the Italians of a simpler era, just as BMW's Mini did for the BMW franchise. Its distinctive styling was in contrast to some of the "ordinary" Fiat models of the recent past.

While supporting innovation, Marchionne also quickly killed off projects that he viewed as lacking big impact, even in late stages of product development. For example, he stopped production of the Bravo because he wanted a better-looking, more exciting car.[33]

He then demanded that the redesigned Bravo be developed in half the usual time.

Getting out of the GM Deal

In early 2005, with just eight months under his belt as CEO of Fiat, Marchionne was able to negotiate a $2 billion payment from General Motors to cancel the "put" Fiat had bargained for in 2000, which would have required GM, at Fiat's discretion, to buy Fiat at the current market price. The automotive industry experts were frankly amazed that "against all expectations, Mr. Marchionne managed to wring $2 billion from GM in return for ending the partnership."[34] I suspect that GM at that point didn't think Marchionne could pull Fiat out of its disastrous tailspin, and didn't want to be forced to add Fiat to its long list of horrendous problems.

Taking those funds, Marchionne continued to restructure Fiat, cutting staff and management layers, reengineering how work was done at the company, and launching a series of what eventually proved to be very successful models. Whereas previous leaders of Fiat had used the GM deal as the ultimate crutch to fall back on, Marchionne's attitude was exactly the opposite. He was anxious to get rid of the deal as soon as possible and restore Fiat to its previous glory.

Setting Big Goals

At the November 2006 Fiat financial analyst meeting, Marchionne described an aggressive plan to boost Fiat into becoming one of the world's top-performing mass market automakers by 2010, consisting of a series of product moves projected to increase sales volume by eight hundred thousand vehicles and move Fiat's European market share from 8 percent in late 2006 to 11 percent. Given these plans and his performance leading Fiat during his two years as CEO, the financial analysts were impressed. Marchionne had already managed to save Fiat from very nearly becoming bankrupt. If he could truly bring his new plans for 2010 to fruition, "his overhaul of Fiat would rank as the most impressive turnaround in the history of the auto industry," according to *Business Week*.[35]

To preserve capital, Marchionne aggressively pushed for partnerships abroad in China, India, Russia, and Turkey, manufacturing Fiat-branded cars and selling them through local dealers.[36] By mid-2008, Marchionne was investigating plans for reintroducing Fiat in the U.S. market, which it had left in 1983.[37]

THE IMPACT

Marchionne's strong leadership at Fiat generated quick results.[38] In 2006, Fiat returned to profitability for the first time since 2000. Revenues reached $31.1 billion, up 35 percent from 2005. Trading profits moved from a loss of $332 million in 2005 to a profit of $384 million in 2006. The Fiat Group announced that in 2007 it would pay its first dividend in five years.

Things continued to improve for Fiat after that incredibly successful year of 2006. In fact, the stock price moved from a low point of $7 per share when Marchionne joined the company to over $30 a share in the last six months of 2007. In the third quarter of 2008, the global financial crisis began to take its toll on Fiat, as it did on all auto companies. Business slowed, and Fiat's stock price was pummeled, down 60 percent from April to December 2008. But compared to both Chrysler and GM, who were driven into bankruptcy, and to Ford, which was down 75 percent, Fiat survived fairly well.

Being one of the few relatively healthy auto companies in spring 2009, Fiat offered to acquire a 35 percent stake in Chrysler as it emerged from bankruptcy, in exchange for Fiat technology only, no cash.[39] The deal was completed within a few months, enabling Chrysler's continued existence. Most industry experts speculate that Marchionne may eventually use the Chrysler deal as Fiat's entrée into the U.S. market via the Chrysler dealerships and service operations in the United States.

Fiat exemplified weak leadership in the late 1990s to mid-2004. But when Sergio Marchionne came on board, we saw the reverse. His courageous leadership turned the company around, simply by quickly grasping the situation and making the tough decisions needed to fix the problems.

WHY MANAGERS DON'T MAKE TOUGH DECISIONS

Fiat got into its problems because of behavior I see over and over in managers at all levels: namely, shying away from the tough decisions that can make the difference between mediocrity and success. Failure to make such decisions occurs all the time, at all levels in organizations. But it is especially damaging during difficult financial times. Let's review what tough decisions are, why people often shy away from them, and what happens when they do.

The Nature of Tough Decisions

The more responsibility a manager assumes, the greater the likelihood that he or she will face tough decisions characterized by one or more of the following traits:

- *No ideal option*. For many tough problems, there is no perfect path to improvement, solution, or innovation. This means that the decision maker must make trade-offs and choices. The worst option is to do nothing: you pass up the chance of improving things, and doing nothing leads to poor morale and a culture with no sense of urgency.
- *Lack of data*. For some decisions, there are issues for which no valid data exist or can be generated to significantly reduce risk. For example, this is often the case in setting staffing levels, deciding how to organize your group, or selecting a strategy from a set of conceptually different options, because there is no one "correct" answer. You are going to have to use some judgment based on experience, input from others, and your intuition.
- *Guaranteed disappointment*. There is almost never one solution that will please everyone. The big trap here is to endlessly seek compromises as a way of gaining the support of those affected. This just eats up time and weakens the impact of any eventual decision.

- *Long-term perspective needed*. Although a short-term, temporary solution may exist, the courageous leader demands that a longer-term perspective be taken. Many managers give in to an expeditious short-term fix instead of embracing the pain and hard work demanded by the correct long-term decision.

Unfortunately, when faced with the kind of tough decisions outlined here, many managers immediately start contemplating the downsides of confronting the problem. Let's take a look at why this kind of hesitation and fear occurs.

Why Do Managers Wimp Out?

When managers fail to provide courageous leadership on tough issues, it is usually for one or more of the following reasons. These managers are

- *Avoiding conflict*. Knowing that not everyone will agree, some managers would rather compromise or do nothing than clearly state, after adequate study, where they come out on an issue and why, and then exercise their authority and make a decision.
- *Striving for certainty*. Many managers don't want to risk being wrong, so instead of taking action in a timely fashion, they continue searching for new data or theories that will unequivocally support their decision.
- *Avoiding a career risk*. Some people fear that if they take action and things go badly, their careers will be jeopardized or they will offend colleagues who will hold some sway over their careers in the future.
- *Lacking self-confidence*. Unfortunately some managers are simply too timid to take the lead and make tough decisions because they are uncomfortable trusting their own views. They often prefer not to make a decision at all when there isn't universal agreement.
- *Lacking a sense of urgency*. When things are going well, many managers can become complacent and are often reluctant to shake things up by taking risks. Their attitude is, what's the hurry? Things are

going along just fine. We have our challenges, but let's not rush into things.

- *Protecting their turf.* Some individuals become too comfortable in their jobs and fear that any change may render them vulnerable. They could lose status or be put out of a job; their lack of varied experiences would be revealed, or it could become clear just how out-of-date they are regarding technology.

The Implications

There are huge implications when managers lack the courage to make the tough decisions. The problems to which this sort of behavior can lead usually fall into one of the following two categories.

1. *Operational complexity*. Weak leaders often lack the courage to turn down the never-ending requests for more manpower; their failure to do so results in excess personnel. Organizational fragmentation (various groups going off in separate directions) and nonstandardized processes emerge as the manager fears confronting and denying the endless requests of groups wanting to do their own thing. Ever-increasing bureaucracy and complexity are the results.
2. *Lack of innovation*. In dealing with new ideas and change, insecure or inexperienced managers often seek the safety of consensus-oriented decision making, thus suffocating innovation. Often there are no clear goals regarding innovation, and the qualification process for new ideas is random. Weak leadership also often causes a lack of clarity regarding who is responsible for spotting key trends and innovating accordingly.

What to Do About It

The key question is, How can managers avoid such problems and significantly improve their ability to be courageous, gutsy leaders? The truth is, you are probably never going to turn the inherently timid person into a naturally charismatic, hard-charging leader. But all managers can learn ten fundamental principles that will enable them to spot what needs to be done, and to provide the leadership to make it happen. I based these ten principles on my forty years of business experience, and the remainder of this book focuses on describing them in detail and providing rich, specific examples from the marketplace that make the principles come alive.