

Industry Focus: World Class Operations

Ford CEO Alan Mulally: The turnaround specialist

Ford Motor Corporation made a \$2.7 billion profit in 2009; it was the first profit for the automaker in four years. What makes the story unique is that it didn't take federal loans and began preparing for an overhaul years before the current downturn in the economy. What lessons can be learned from Ford? And what should other businesses take away from what it has done?

By Ian Armitage | [Sun Mar 7, 2010](#)

It's 2006, the 'myspace generation' is sharing everything online, North Korea has tested nuclear weapons, Russia has turned the gas off in Ukraine and people are watching nervously as Avian Flu spreads from Asia to Europe. In the manufacturing industry, all eyes are on **Ford**. Once the symbol of modern industrialism, the auto giant was suffering the burden of union pensions, a quality gap with Japanese automakers, and the strength of **Toyota** and **Honda** in the U.S. market.

To make matters worse, it faced fresh competition from new automakers, which were barely a dot on the map just a few years earlier. At the time it seemed as if Ford had adopted a strategy of managed decline. It was cutting models and closing plants.

We thought the end was coming. How wrong we were — its new CEO was hatching a plan.

Fast-forward a few years and Ford's story is very different. It is **General Motors** and others that have fallen (need we mention the Toyota recall crisis?), while it is recovering well. It has made tremendous progress, investing in its car line-up and has taken efforts to pay back debt.

"Ford provides a great lesson in decision making," says **Michael McGrath, Executive Chairman of the Thomas Group** and author of the book, *Business Decisions!*. "One of the big things they did was to raise a lot of money and take out a lot of debt before it was necessary; they even mortgaged the Ford brand name, a move that was widely criticized at the time.

"They did all that before the financial crisis, I think in anticipation, and trying to be cautious," he adds. "And that put them in a much stronger position when the crisis hit."

On January 28, 2010, Ford forecast a 2010 pretax operating profit and posted \$2.7 billion in net

income for last year as its **CEO Alan Mulally**, 64, reaped the benefits of his recovery plan after three annual losses — the full-year profit was his first since coming from Boeing in 2006.

Perhaps more importantly, Ford gained U.S. market share for the first year since 1995, with new models such as the revamped **Taurus**. The likes of GM and Chrysler, meanwhile, reorganised with federal aid.

“Ford’s profit and cash from operations have been improving thanks to market share gains, better pricing and cost savings,” continues McGrath. “Back in 2006, long before the first rumblings of financial problems in the economy, Ford took a step back and made a decision. They looked at potential risks and made key strategic choices.

“They could see that there was a potential risk in the decline of auto sales; maybe they saw potential risk in the financial market. So, they borrowed \$23.6 billion, which proved to be a really wise decision, obviously.

“When the financial crisis hit, and it really hit the automotive industry hard, Ford was in a strong position because it had a lot of cash. GM couldn’t find the money it needed to weather the storm and we all know what happened there.

“Yes, it cost Ford money to pay-off the interest in the short-term, but it proved to be a brilliant move,” he adds.

McGrath believes successful companies are those that proactively manage risk, like Ford, and it is his belief that “a lot of companies just don’t do enough”.

“How do you manage risk? One of the things a company has to do is step back and really look at the potential risks they face. Also they need to look at their decision processes and then take action to try and reduce the risk, even if sometimes it costs money.

“You are hedging your risk a little bit, which is what Ford did. They did a hedge transaction, borrowing money they didn’t need immediately, paying interest on it and it really hedged risk in the future.”

The strategy is risky though and you can make mistakes — ask **Harvard University** — but it has paid off for Ford. “While we still face significant business environment challenges ahead, 2009 was a pivotal year for Ford and the strongest proof yet that our ‘One Ford’ plan is working and that we are forging a path toward profitable growth by working together as one team, leveraging our global scale,” Mulally said recently.

MULALLY TURNAROUND

Successful leadership hinges on such crucial skills as communication, collaboration and judgment. **Alan Mulally** has shown us how to embody these skills in an extraordinarily high-pressure environment. He has transformed Ford’s culture since arriving at the firm and has fostered cooperation among divisions and regions that used to compete with each other for resources. He’s also modelled transparency, meeting regularly with employees and instituting a dashboard system that makes key metrics about sales and market share more visible to the organisation.

“He showed superb judgment,” McGrath affirms. “He has helped create what the consumer is

looking for – a company that not only has a strong product line but is creating a strong business, and they know they are going to be around.

“Managing risk and making decisions that help you manage risk is the key here. In a lot of companies, it’s not like they even make a bad decision on that, they just don’t make a decision. Businesses should pay more attention to risk and examine the long-term implications short-term decisions can have.”

Ford, like most carmakers, still faces a rocky road. But the fact it is now showing real signs of promise is testament to how good leadership has turned the company around.

It did not accept a credit line from the federal government. And Ford’s now a beacon of light in a ravaged industry.