On a chilly morning in February, the new chief executive of Ford Motor Co., Alan R. Mulally, boarded one of the company's Falcon twin-turbo jets and flew to Consumer Reports magazine's automobile testing facility in East Haddam, Conn. He was joined by two senior engineers. Their mission: to spend half a day with the publication's staff getting detailed evaluations of every model made by Ford, Lincoln, and Mercury.

It wasn't a fun trip, according to a source close to the company. At one point, the Consumer Reports team criticized the new Ford Edge crossover SUV for lacking an electric opener triggered by the key fob — or at least a handle on the rear hatch. Both are standard equipment on many of its rivals. A woman on the magazine's staff demonstrated how she, at five feet tall, struggled to open the rear of the SUV as she carried two bags of groceries. Had it been a rainy day, she would have had to set her purchases down on the wet pavement and then muscle up the hatch. Once she'd done that, she'd face another hurdle: She was too short to shut it.

After a couple of hours on the firing line, Ford's engineers got defensive. Interrupting the testers, they started airing their side of the story in front of the new boss. Sensing that the meeting was deteriorating, Mulally says he handed each one a pad and pen. "You know what? Let's just listen and take notes," he said. The episode was a perfect illustration of what Mulally considers one of Ford's major problems: the tendency of employees to rationalize mistakes instead of fixing them. "We seek to be understood more than we seek to understand," he observes.

It's no secret Ford is fighting for its life. After losing $12.7 billion last year, it had to endure the indignity of pledging its factories, headquarters, and the rights to the iconic blue oval logo to the banks and bondholders just to get enough money to [finance](http://www.msnbc.msn.com/id/18923357/ns/business-us_business/t/new-heat-ford/) its turnaround plan. Those were all tough steps. But these are tough times for the U.S. auto industry. With Cerberus Capital Management taking over at Chrysler, the status quo is no longer an option in Detroit, a town infamous for incremental change.

For Mulally to have any chance of making Ford profitable by 2009, he'll have to strike a tough deal with the United Auto Workers this summer. He will also likely ditch a struggling brand such as Jaguar or Mercury. But fixing Ford will require more than simply whacking expenses. One way or another, the company will also have to figure out how to produce more vehicles that consumers actually want. And doing that will require addressing the most fundamental problem of all: Ford's dysfunctional, often defeatist culture.

Although Ford once exemplified corporate efficiency — it is the birthplace of the assembly line and home of the celebrated Whiz Kids, who pioneered many modern management techniques in the 1960s — it has degenerated into a symbol of inefficiency. Weary corporate lifers have become all too comfortable with the idea of losing money. Mediocrity is acceptable. The company's complacency shows up in the very language it uses internally to rate its own models. It uses the designations "L" for Leader, "AL" for Among Leaders, and "C" for Competitive. Too many executives simply strive for Cs, says William C. "Bill" Ford Jr., executive chairman of the board. When asked about the grading system, the great-grandson of Henry Ford mimes putting a gun to his head and pulling the trigger. "We still do that?" he asks in disbelief. "I don't know where that came from."

**Feet to the fire**Last September, THE 50-year-old family scion, who had served as chief executive for nearly five years, threw up his arms in frustration and concluded that an insider could no longer fix Ford. The job required the emotional detachment of an outsider. While Mulally was not his first choice, the former chief of Boeing Co.'s commercial airlines [division](http://www.msnbc.msn.com/id/18923357/ns/business-us_business/t/new-heat-ford/) had impressive turnaround credentials. He helped the aerospace giant bounce back from the September 11 terrorist attacks by axing 27,000 workers, cutting jet production in half, repairing the company's antiquated production lines, and making a courageous bet on the 787 Dreamliner. That remarkable performance earned the 61-year-old ex-engineer recognition as one of BusinessWeek's top managers of the year in 2005. The hard-nosed Mulally is somebody, Ford promises, and “who knows how to shake the company to its foundations."

Just eight months into the job, Mulally is working hard to change institutional work habits that took years to develop. He wants managers to think more about customers than their own careers. He has made it a top priority to encourage his team to admit mistakes, to share more information, and to cooperate across divisions. He's holding everybody's feet to the fire with tough operational oversight and harsh warnings about Ford's predicament. "We have been going out of [business](http://www.msnbc.msn.com/id/18923357/ns/business-us_business/t/new-heat-ford/) for 40 years," Mulally told a group of 100 information technology staffers at a "town meeting" in February. He has repeated the message to every employee group that he has addressed.

It is far from guaranteed, of course, that any of his cultural reforms will be enough to rescue Ford. Far-reaching as they are, they may not go far enough to do the job. And now that Cerberus is in the process of buying Chrysler, Mulally can no longer claim the title of most feared outsider in town. He may very well have to develop an even more radical rebuilding plan to stay ahead of his crosstown rival.

Mulally has yet to convince Wall Street that he can reach his goal of profitability by 2009. Of 15 analysts surveyed by Bloomberg.com: News recently, only two rate the stock a buy. "They're in a precarious situation," says John Novak, an analyst with Morningstar [Investment](http://www.msnbc.msn.com/id/18923357/ns/business-us_business/t/new-heat-ford/) Service Inc. in Chicago. "Mulally's honeymoon period isn't going to last."

History provides ample basis for such skepticism. Ford is a place that's notorious for destroying auto industry outsiders -- and Mulally is admittedly no car guy. Despite Bill Ford's strong backing, Mulally has run into plenty of internal resistance. Nearly all of his managers have been inherited, and some of them snickered when he received a $28 million paycheck for his first four months' work. On Mulally's first meeting with his inherited team, one manager asked: "How are you going to tackle something as complex and unfamiliar as the auto business when we are in such tough financial shape?"

The questioner discovered that the wiry former Boy Scout from Lawrence, Kan., a veteran of many bruising political battles at Boeing, is hard to intimidate. Unfazed by the challenge, he looked the questioner directly in the eye and said: "An automobile has about 10,000 moving parts, right? An airplane has two million, and it has to stay up in the air."

Although Mulally lacks in-depth auto industry knowledge, he is also free of many of the intellectual biases and habits that have gotten Detroit into so much trouble. "He doesn't know what he doesn't know," says Ford Americas President Mark Fields. When Mulally was reviewing the company's 2008 product line last September, for example, he was told that Ford loses close to $3,000 every time a customer buys a Focus compact, according to one executive. "Why haven't you figured out a way to make a profit?" he asked.

Executives explained that Ford needed the high sales volume to maintain the company's CAFE, or corporate average fuel economy, rating and that the plant that makes the car is a high-cost UAW factory in Michigan. "That's not what I asked," he shot back. "I want to know why no one figured out a way to build this car at a profit, whether it has to be built in Michigan or China or India, if that's what it takes." Nobody had a good answer.

How did Ford evolve from one of the most admired companies in the world into one where losing money has seemingly lost nearly its entire stigma? Until the mid-'60s, it was considered a management shrine. Under U.S. Defense Secretary Robert S. McNamara, one of a celebrated group of military veterans at the company dubbed the Whiz Kids, Ford developed scientific consumer research techniques that are now commonplace throughout the business world. It was one of the first auto companies to create products that were based on hard data rather than the personal tastes of executives.

But after McNamara exited in 1961, Henry Ford II (Bill's uncle) gradually assumed a bigger role in management. He built a high-testosterone culture where rising stars like successive Ford Presidents Lee Iacocca and Semon "Bunkie" Knudson were often pitted against one another like gladiators to prove themselves. As the auto industry's postwar growth slowed, limiting opportunities for a swelling cadre of managers, executives turned on one another. They also became more cautious. "The bureaucracy at Ford grew, and managers took refuge in the structure when things got tough rather than innovate or try new ideas that seemed risky," says Allan Gilmour, a retired chief financial officer at Ford who has met twice with Mulally, at Bill Ford's behest, to offer historical perspective on the company's woes.

Personal ties with the Ford family, always important at the company, sometimes trumped genuine performance in promotion decisions. So ambitious managers focused increasingly on kissing the right rings instead of racking up results. It became "something of a palace atmosphere," says Gerald C. Meyers, a professor at the University of Michigan School of Business. Some critics also blame the family, which has many members who depend on dividends as their main source of income, for encouraging a focus on current profits rather than long-term planning over the decades.

In the royal hierarchy at Ford, an elaborate system of employment grades clearly established an employee's rank in the pecking order. The grades also had the unintentional effect of quashing ideas and keeping information tightly controlled. When Fields, now president of Ford Americas, first arrived at the company from IBM in 1989, he couldn't make a lunch date with an executive who held a higher grade. People asked him what his grade was "as a condition of including me or socializing with me," Fields recalls. And he was discouraged from airing problems at meetings unless his boss approved first.

**Too many fiefdoms**The company's unusual approach to grooming leaders also discouraged collaboration. Ford has a long tradition of rapidly cycling executives through new posts every two years or so. In fact, managers refer to their posts as "assignments" rather than jobs. But one consequence of employees' need to make their mark in such a short time was to discourage cooperation with other divisions and regions, whose products were often on a different timetable. And no engineer ever got noticed by carrying over his predecessor's design or idea -- even if it saved big money. Mulally, who is moving to lengthen job tenures, finds this system appalling. "I had the same job at Boeing for seven years," he says. "You can't hold somebody accountable for a job they've held for nine months."

Thus did Ford become what it is today -- a balkanized mess. It has four parallel operating units worldwide, each with its own costly bureaucracy, factories, and product development staff. According to a Mulally audit designed to uncover cost-cutting opportunities, no two vehicles in Ford's lineup share the same mirrors, headlamps, or even such mundane pieces as the springs and hinges for the hood. And that's just taking into account the Ford brand. Add Volvo, Jaguar, and Land Rover to the mix, and the company has more than 30 engineering platforms worldwide. That leaves Ford at a big cost disadvantage in engineering and parts compared with General Motors, Chrysler, Toyota, and Honda. Mulally wants to get that number down to five or six platforms, similar to Honda. "There's no global company I know of that can succeed with the level of complexity we have at Ford," he says.

Examples of Ford losing opportunities because of its byzantine corporate structure abound. A recent example involves Sync, a system that allows voice-command control of a cell phone and MP3 player. It was a big success at last January's North American International Auto Show. Ford developed it with Microsoft Corp. last year and will start rolling it out this fall. Although Volvo and Land Rover are also dying to offer Sync, neither will get the system because the electrical architectures of the Swedish and British cars are incompatible with Ford's. Mulally finds that incomprehensible, considering that Ford has owned the European brands for nearly a decade.

To try to eliminate all of Ford's unnecessary duplication, Mulally is asserting more control over the product line. Now he personally approves every new vehicle worldwide. Production is now coordinated by Derrick M. Kuzak, Ford's first-ever chief of global product development.

Kuzak's team is already hard at work designing cars that can be easily adapted to appeal to worldwide markets. They've developed a global small car that Ford will build in two or three plants starting in 2010, and which will sell in the U.S. for $10,000 to $12,000. It will differ only slightly from the version that will sell in South America, Europe, and Asia. Another key goal in the near future is to create a midsize sedan that could serve both North America and Europe. Today, for example, the European Mondeo sedan and the North American Fusion are built independently of one another. Kuzak is overseeing an attempt to coordinate the future designs of those vehicles.

But Mulally knows that changing the organizational chart won't cure Ford. The company's deeply ingrained hierarchical culture needs to be blown up. So for the first time ever he's forcing every operating group to share all its financial data with every other group. That information used to be closely guarded. Shortly after he ordered the change, three separate executives called him to make sure they had heard right. Says Mulally: "You can't manage a secret."

To spread his new religion, Mulally has turned the traditional monthly meeting of divisional chiefs into a weekly affair. Every executive has to attend in person or by videoconference. No subordinates can be sent. To ensure focus, the BlackBerrys that used to be common at these meetings are now banned. So are side conversations when someone is talking, even if by video link. But the most radical change is that operating chiefs are now encouraged to bring a different subordinate to every meeting -- a big step at a company where underlings formerly were not privy to sensitive data. Mulally wants staffers to start buzzing about his ideas through unofficial e-mail, blog, and water cooler channels.

He is also taking symbolic steps to treat white-collar and blue-collar employees more equitably. This year many workers on the shop floor will receive bonuses of $300 to $800, based on a new formula that is also being applied to executives. Of course, his popularity with union workers will depend a lot on this summer's contract negotiations with the UAW. The new deal will give Mulally an opportunity to cut his workforce's costly health benefits. That's expected to lead to divisiveness. The arrival at Chrysler of Cerberus, though it increases the competitive pressure on Mulally, may turn out to be a blessing in this arena. Cerberus has sent a message to labor leaders that the old ways of doing business are no longer acceptable. Partially for that reason, the Cerberus deal "is good for us," Mulally says.

Ford's new CEO is fond of talking about how he is breaking long-standing company taboos, such as the one about never admitting when you don't know something. At a meeting last fall, one of Mulally's operating chiefs chattered on for several minutes trying to answer a question to which he clearly did not have the answer. After the meeting, Mulally asked Fields why the executive droned on for so long. "Because 'I don't know' isn't in Ford's vocabulary," Fields explained.

Now it is. To reinforce the point, Mulally has actually banned the thick background binders executives used to bring to the weekly meetings. That means they sometimes can't immediately summon the necessary details to answer Mulally's questions. That's fine with him: "I know that if they don't have the answer one week, they'll have it next week," he says.

As a longtime observer of the auto industry, David E. Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich., is not sure that Mulally will succeed in his mission. But he has concluded that Ford's culture is beyond fixing by anyone who has spent a long time inside the company, or any of the "usual candidates" at other automakers. "Ford employees feel very paternalistic toward Ford," says Cole, "and the only way Bill was going to convince them that the company was truly at risk was by bringing in someone they'd never heard of to break the cycle."

Discussion Questions:

1. What attributes of good organizational leadership do you see Alan Mulally display?
2. What changes is he making in rewards, skills and selection of key leaders that are most different from Ford’s past
3. Do you think they will be embraced? And work?
4. How is he changing the Ford culture?
5. What will be his hardest task?
6. Do you sense he operates at the margin, ethically speaking, or that his principles are transparent? Why?