

How the Ford board recruited Alan Mulally

This was a textbook case of world-class collaboration by seasoned directors, a passionate governance expert and board leader, and a powerful, determined chairman.

BY DENNIS CAREY AND JOHN J. KELLER

BIG ICONIC CORPORATIONS often struggle in times of terrible business stress with having to hurry up and pick a great new CEO. Choosing the right approach and being prepared is one of the most important responsibilities the board of a public company can have.

The scenarios that catalyze the need to find a new CEO are always different, but the urgency is nearly always the same. The new leader usually has to pick up quickly from where the last one left off and take the business forward without loss of momentum. Sometimes the stakes are epic, and the new CEO may have to take the business through a crushing crisis and turnaround, lest the company vaporize (like what happened to Enron). Could Ford Motor Co. find such a leader?

That was a challenge posed to its board of directors several years ago, and most today would say they rose to the challenge in finding Alan Mulally. Ford was in decline and skirting irrelevance just as the global economy was about to collapse and take major companies with it. How out of all the great CEOs out there was Mulally picked? How did Ford's board know — indeed, a direct descendant of Henry Ford among them! — that Alan Mulally would be the right choice?

It is the very question boards and CEO search committees are faced with every day. The question becomes monumentally critical when a search must be conducted in haste and under tremendous existing stress on the business.

Some of the best companies have conditioned themselves methodically to avoid the last-minute succession crisis and mint their CEOs. Other companies aren't so prepared or prescient to have the CEO solution readily available in-house. When faced with having to go external, the CEO recruitment can take several forms. Ford's process in-

involved key directors, an encouraging chairman, and an outside search adviser to conduct referencing on the finalist candidate for CEO.

How it began

Ford's recruitment of Alan Mulally is a textbook case of world-class collaboration by seasoned directors, all former CEOs, and led by a passionate governance expert and board leader, Irvine O. Hockaday, as well as a powerful, determined chairman, William Clay Ford Jr. It was Bill Ford's die-in-the-ditch commitment to saving his company as well as his family legacy that especially and courageously saved the day for Ford and ensured it a prosperous future under a new CEO.

The Ford search story begins in 2006. The road was becoming increasingly treacherous for the American auto industry. Meanwhile Ford's two biggest competitors, GM and Chrysler, were staring at potential bankruptcy, which would end up occurring two years hence. Bill Ford had informally tried to reboot things on his own, even sounding out other auto leaders to take Ford's reins, including reportedly Renault-Nissan's fabled leader Carlos Ghosn. It went nowhere.

Dennis Carey is vice chairman of Korn/Ferry International (www.kornferry.com). He has recruited many prominent CEOs and board members during his career in the search industry. He is the founder of G100, the Lead Director Academy, the CEO Academy, and the Prium, among other leadership organizations, and co-founded the Directors Institute at the Wharton School. **John J. Keller**, formerly of Korn/Ferry when this article was being written, is now vice chairman of CTPartners Executive Search (www.ctnet.com).

In identifying a new CEO, the Ford board would have to hit the bull's-eye on the first shot.

There was no way Bill Ford or his directors, led by Hockaday, would allow Ford Motor Co. to run aground let alone go bankrupt. Ford decided to tough it out, but also with an eye toward getting Ford Motor's finances sorted out and bear down hard on finding a new CEO. The board was in full alignment.

Ford's search had to be conducted quickly. The most storied American automaker couldn't afford any hiccups during this most extraordinary time in American economic history. In identifying and finding a new CEO, Hockaday and his directors would have to hit the bull's-eye on the first shot.

Fortunately for Ford, it had on its board exceptional firepower. There was Hockaday, one of the most seasoned CEOs and governance veterans in corporate America. The former CEO who built Hallmark Inc. into a major consumer brand and multimedia powerhouse, Hockaday also is lead director at Estee Lauder and until recently was the lead director at

Sprint Nextel. He is characteristically modest about his own contribution to bringing Mulally to Ford, and points out that his search committee partners included John L. Thornton, former president and co-COO of Goldman Sachs Group Inc., and Jorma Ollila, the chairman and former CEO of Finnish cellphone giant Nokia Corp.

Drawing up the spec

The Ford board met in extraordinary session to discuss the CEO project. They hashed out the issues at Ford, the macroeconomic forces internally and globally that were impacting the business. There was Ford's high cost structure, its balance sheet challenges, its distractions from numerous acquisitions, including Jaguar and Volvo (pushed by former Ford CEO Jacques Nasser). There were Ford's ongoing union and pension cost challenges. There was the threat from formidable players such as Volkswagen Group, the Japan Inc. contingent, and from lower-cost rivals such as Korea's Hyundai, which was surging spectacularly.

Indeed, running Ford would require a samurai of tremendous ability and stamina and one who had focus and a global view of the world and its challenges. The directors drew up a spec: Ford's next CEO would require that the ideal candidate be a CEO-ready leader, one who was world-class

in terms of his/her life and career experience. Furthermore, the next Ford CEO would have to be well-grounded in complex manufacturing and operations, and highly conversant in technology and its importance in sophisticated machinery such as today's vehicles and those contemplated in the future, including electric and hybrids that use a combination of electric and internal combustion for power.

Finally the leader would have to be a confident, passionate, and indefatigable manager. Tough, focused, and able to handle ambiguity and any major challenge the world could throw at Ford, including one as formidable as what was soon to become the worst economic meltdown since the Great Depression. Ford's turnaround would require a triathlete who could sprint and run the long-distance race as well.

That was the spec anyway. Now the Ford directors had to go out and find a match, or as near a match as possible.

A tall order

The Ford directors drew a deep breath and looked around at one another. This was going to be a tall order. No one manager could have all of this, but it would be great to find one who had most of it. Should they hire a search firm?

In fact, the board had discussed hiring a search firm to be its full partner in the project and conduct the search, but this idea was put aside at least temporarily when Bill Ford commented that he had some of the world's great CEOs sitting around his boardroom table. In addition to Hockaday, Thornton and Ollila, there was also Thornton's former colleague, Robert Rubin, who had been Treasury Secretary in the Clinton administration and who was a former chairman of Goldman Sachs and a Citigroup director. (Ollila and Rubin have since left the Ford board.)

"Bill Ford said 'You guys must have the best Rolodexes on the planet; you should be able to get anyone to come to the phone. Why not talk among yourselves first and come up with some ideas,'" recalled Hockaday of that day. "So that's exactly what we did."

The Ford board quickly agreed on a search strategy and formed a special committee of the board to find the new CEO. It would be confidential and contained within the walls of Ford for as long as possible, and it would have to be done very quickly. They talked about individuals, as Bill Ford had urged, and discussed a few individuals who were familiar to them. Then one of the directors — probably Thornton, according to Hockaday — said "How about Alan Mulally of Boeing?"

'You guys must have the best Rolodexes on the planet; you should be able to get anyone to come to the phone,' Bill Ford said to the board.

Finding their 'knight'

Alan Roger Mulally at first wouldn't have occurred to everyone as a realistic candidate to run Ford Motor Co. Schooled in aeronautical engineering and possessing a masters degree in management as a Sloan fellow from MIT's Sloan School, Mulally made airplanes. He had never been in the auto industry. Nor had he ever been a public company CEO. He was CEO of Boeing's highest-profile business, Boeing Commercial Airplanes, and by most accounts should have been given a shot at the top job at Boeing.

Yet incredibly, after a stellar career of devotion to Boeing and having produced fabulous, almost legendary, operating results, Mulally had been passed over not once but twice for the top job at Boeing. Two of Mulally's bosses — CEOs Phil Condit and Harry Stonecipher — each had been forced out of their jobs. But Mulally, who had never dropped the ball and in fact had kept Boeing in the lead against increasing odds, didn't cut the mustard for CEO, according to Boeing's board of directors.

Fortunately for Ford, Hockaday and his fellow directors were better informed about the true hero of Boeing's results than even apparently Boeing's own board. The Ford directors saw the record — such as *Aviation Week*, the industry's bible, naming Mulally "Individual of the Year." The Ford directors quickly seized on their knight, one who possessed most if not all of the qualities Ford was seeking in its next CEO. Indeed this was the guy who awakened every morning with a dual mission: build the best commercial aircraft in the world and kill Airbus! Maybe he could refocus his energies on doing the same to Ford's rivals.

Mulally was succeeding despite incredible odds and market and economic forces. He had been largely credited with putting processes into Boeing that kept it on top of the quality game in commercial aviation. As an engineering and operations leader, he had helped to shepherd along legendary craft such as the humped-top superstar of jumbo jets, the Boeing 747, workhorses such as the 727 and 737, and the newer jets from 757 through 777. Mulally was passionate, he drove hard on the job, and he was more demanding of himself than he was of his managers. He led by example. People who had worked with Mulally knew who was in charge. They found in him an earnest, idealistic doer, who

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Alan Mulally: 'He seemed totally at peace with his style of leadership, eminently comfortable in his own skin. In many ways he was a throwback to innocent, more confident days of an America of endless possibilities, where anyone with ambition could rise and be successful,' the authors write.

delivered what he promised and who was reverential about quality, teamwork and practicality.

A business all-star

The more they thought about it, the more excited they became about Mulally. Hadn't Mulally beaten back the major threat from Airbus — a business financially encouraged by the combined national wills and financial sponsorship of two of Europe's most powerful economies, Germany and France? Talk about global know-how and leadership! Hadn't Mulally done so with an intense focus on innovation and technology and improved production quality and service? Hadn't Mulally's personal, tireless involvement and sense of mission returned Boeing to top form globally?

Mulally even looked the part to run the most symbolic American car company. He dressed for business battle earnestly, wearing the simple uniform of a driven, purposeful general manager — natural shoulder dark suit, crisp button-down shirt, conservative tie, reddish gray hair. He hit the office every day at 5 in the morning and put in at least a dozen hours before making it home for dinner. He

seemed totally at peace with his style of leadership, eminently comfortable in his own skin. The kind of hero John Wayne used to project.

In many ways Mulally was a throwback to innocent, more confident days of an America of endless possibilities, where anyone with ambition could rise and be successful. Born in Oakland, Calif., he looked more American and fresh-faced than even that 1950s TV icon little Opie Taylor of Mayberry. Mulally looked like and had become what many of us probably imagined the clever son of the fictional sheriff from the famous TV show would turn out, albeit all grown up and now a sophisticated, world-

ly business all-star of the first-rank.

"Hmm," thought Hockaday and his fellow directors on the committee: "Alan Mulally."

The 'legacy' factor

The Ford directors had been under intense pressure, heightened more by the CEO search. They weren't just finding a leader for a big multinational corporation. They would be searching for the CEO of the company founded by Henry Ford and headed currently by his great grandson, who counted none other than late tire magnate Harvey Firestone as his other great grandfather. As a Hollywood pro-

A decisive meeting in Aspen

By Bryce G. Hoffman

Once he got back to Seattle [from his initial meeting with Bill Ford], Mulally called John Thornton. "Why do you want me?" he asked the Ford board member.

"We need somebody with vision," Thornton told Mulally. "But we also need an operating guy who can drive it home."

As they talked, Mulally wrote two phrases on his notepad: "compelling vision" and "ruthless execution." Those were what Ford needed. Those were what Thornton thought Mulally could deliver.

Thornton invited Mulally to Aspen, where fellow board member Irv Hockaday had a home. It would be a discreet place to meet for a more in-depth discussion. Thornton was going there for an Aspen Institute function and no one would think anything of Mulally jetting off to the trendy vacation spot for the weekend.

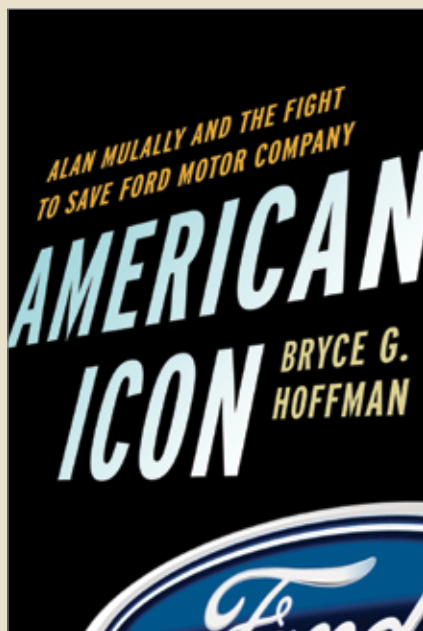
They met for lunch. Mulally peppered Thornton and Hockaday with questions throughout the meal, just as he had done with Bill Ford. They fired back with questions of their own.

They were particularly keen to learn how Mulally intended to better integrate Ford globally. Mulally pulled out a copy of the organization chart from Boeing and slid it across the table. It was a matrix that divided the commercial aircraft division into regional business units and functional departments. Mulally told them he would implement the same management structure at Ford. Both men studied the chart and nodded.

If Hockaday and Thornton had any doubts

that Mulally was the right man for the job, they evaporated over lunch. By the end of the meal, they had switched to selling mode.

"Alan, if the board offers you this job and you take it, you need to understand that there are no sacred cows," Hockaday told Mulally. "Any friends of Bill that are in the



wrong positions or you conclude are not the right guys, you can get rid of them—and Bill will confirm that."

Mulally shook his head. "That's not an issue, because I'm not going to have to get rid of many people," he replied.

Mulally's response was a little worrisome to Hockaday and Thornton. They believed the time had come for a little bloodletting at the top of the house in Dearborn. It was concern

about the weakness of Ford's bench that had prompted them to look outside the company for a CEO in the first place.

"How do you come to that conclusion?" Hockaday asked.

Mulally responded by outlining his system of weekly meetings. He told them this approach enforced extreme accountability on a weekly basis and left no hiding place for anyone who was not entirely committed to executing his part of the business plan.

"It's likely that a lot of people at Ford aren't used to that, and they will self-select out," Mulally said. "I won't have to do it."

Hockaday was impressed and offered Mulally one more enticement.

"If you think, Alan, that you need the chairman title to get the job done, Bill is willing to consider that," he said.

Once again, Mulally shook his head.

"I won't take the job unless Bill stays as chairman," he said to the surprise of both directors. "Bill has the name. I'm sure he has the magic with the employees, and probably with the dealers. He can do things that I wouldn't be able to do because of who he is and the way he is. I'm going to be so busy if I take this job that I'll need him in that job."

Mulally left Aspen confident that he would have the board's support if he came to Ford.

From American Icon by Bryce G. Hoffman, copyright ©2012 by the author, published by Crown Business (www.crownpublishing.com), reprinted with permission. Hoffman is an award-winning auto industry journalist who began covering Ford Motor Co. for the Detroit News in 2005 (www.brycehoffman.com).

ducer might put it, the Ford legacy was *huge!* Ford was a business that helped lead America into the Industrial Age and make the USA a world power. Ford had invented assembly-line manufacturing, which was a huge factor in making America prosperous as a mass producer and able to supply the war machinery that helped win two world wars.

Today Hockaday and his fellow directors were guarantors of the famous name on the blue oval, a brand that had fired the imaginations of millions, moving beyond its cookie-cutter Model T heritage to produce sleek transportation for the ages — long, beautiful Lincolns, iconic masterpieces such as the Mustang for which the term “pony car” was coined, the original Thunderbird and the legendary, impossibly fast Ford GT40 race car, which all but buried Ferrari and Porsche four years in a row in the 24 hours at Le Mans in the 1960s.

Hockaday and the committee were convinced their company needed Mulally-style passion, work ethic, a sense of destiny, and tough team coaching to save the business and return it to glory. Bill Ford felt so too. Ford told Hockaday that the Ford Motor Co. and family legacy meant so much to him that if the candidate made the additional title of chairman an absolute requirement for taking the job, “he would step out of the role immediately to make it happen,” Hockaday said. “Just imagine Bill Ford offering that. How many CEOs today would have such guts? It took courage for Bill. But he felt all along that the company was more important than him or his pride. I felt at that moment such personal pride to be working with Bill Ford as the chairman and to be on that board.”

Making the approach

It was decided that Mulally was the primary target and that Hockaday and fellow director John Thornton would approach the Boeing executive. But first they had to come up with a plan for reaching out and gauging Mulally’s potential interest. “I knew Gordon Bethune [the former chairman and CEO of Continental Airlines] from the Sprint board,” Hockaday noted. “I figured Gordon must know Alan pretty well since as chairman of Continental he was a customer of Alan’s, and sure enough Gordon did know him. So that’s how we got to Alan.”

The turning point: ‘Is anything not going well?’

By David Novak

Recognizing the behaviors you want and those you don’t is essential to keeping your people on track toward achieving your Big Goal. It’s important to do this formally, with things like performance reviews and raises, but even informal recognition can have a big impact. I heard a great example of this while talking with the CEO of Ford Motor Co., Alan Mulally, who has presided over what many consider a miraculous turnaround.

Mulally described to me what he believed to be the turning point. Soon after he took the job, he started bringing all the functional leaders and line managers from around the world together to review the status of all current projects, more than 300 of them in all. Protocol was to display the status of each project on a color-coded chart: red stood for serious problems, yellow meant progress was slow, and green meant everything was on track. But something curious was happening. For the first six weeks he was there, every single chart was green. Mulally told me, “I said to the team, I’m getting ready to announce a \$17 billion loss and all our projects are green. Is anything not going well?”

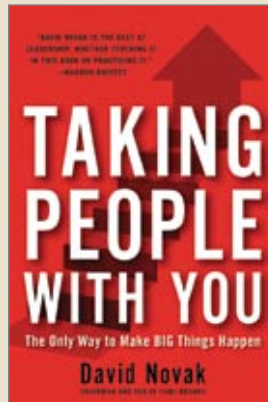
Two weeks later Mark Fields, leader of their Americas group, showed up with a chart that was bright red, the only one in the room. Something had gone wrong with the Edge car in Canada, a mechanical problem that had

caused him to delay the scheduled release for a week or two so they could fix it.

Mulally described the room as “deathly quiet” after that, and everyone turned toward him for a response. He told me, “I knew they were all wondering, ‘What’s going to happen now? Is it really safe to say how it’s going?’ So I said to Mark, ‘This is fabulous visibility,’ and then everyone in the room started to chip in with ideas on how we could solve the problem. The exchange took only about 12 seconds. Then I started to clap and said, ‘This is the kind of teamwork we need.’”

Things started to change after that. At the status meeting the following week, a few more red charts showed up. And the week after that, there were some reds and some yellows. The third week, Mulally says, “Three hundred sixty charts all of a sudden looked like a rainbow. I said to myself, oh my God, no wonder we lost \$17 billion. On the other hand, for the first time, I really knew deep down I would be able to turn the company around because we were finally acknowledging reality.”

And to think it all started with one small moment when Mulally chose to recognize those who were doing the right things.



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It didn’t turn out to be a protracted negotiation, but the recruitment had its moments. The two Ford directors found an intrigued candidate in Mulally. The Boeing leader had been watching Ford and found the company’s challenge compelling and the CEO role enticing, recalled Hockaday. At one point in the discussion, Hockaday and Thornton told Mulally that if the additional title of chairman was important, they would gladly consider it to make a deal happen. They told Mulally that Bill Ford himself had told them that he would

step aside and give up the title to make it happen.

Mulally was impressed by Bill Ford's selfless offer, but ever practical, Mulally wouldn't hear of it. "Alan dismissed it out of hand, said he respected Bill's offer and the reasons behind it. However, Alan said he would only consider accepting the Ford CEO position if we would guarantee upfront that Bill

Ford would remain as chairman," said Hockaday. "Alan said, look that is very thoughtful of Bill, but I need him. There will be a lot to get done at Ford, and I want his experience and knowledge of the business right by my side."

Still, some major loose ends had to be tied up with Mulally, which involved the intense involvement and seduction by Bill Ford himself. Mulally had been with Boeing 37 years, and he and his wife Nikki had made a nice life in Seattle. But the importance of the challenge, and his personal belief in a green future and the impor-

ance that Ford as a company had placed on playing a major role in transportation employing alternative energy, made the move irresistible to Mulally in the end. Hockaday, Bill Ford and the board tied up loose ends with their candidate, such as Mulally's start date and exit plan from Boeing, as well as his new compensation at Ford, tied of course mostly to improved performance by Ford. For imprimatur on their selection, Hockaday's committee used a CEO recruiter [this article's co-author, Dennis Carey] to conduct final referencing, which ended up confirming that their decision to make Mulally Ford's new boss was indeed the right one.

Ford found its 'great CEO'

Today Mulally's Ford 2.0 is a remarkable reboot. Enabled by a devoted board, encouraged by a determined chairman, Ford found a great CEO, who

is executing a winning and focused strategic plan refined with his board. His has been a textbook recruitment, onboarding, and lesson in corporate command. From the start Mulally grabbed the wheel, moving his and Nikki's home with unbridled enthusiasm to within a few minutes of Ford's headquarters in Dearborn, Mich. He has managed Ford with cold-eyed discipline and the precision of a skilled surgeon.

Mulally refocused Ford on the blue oval brand and quality. He took on a major \$24 billion loan that actually benefited Ford by enabling the company to finance a beautifully refreshed product line, engage better with its dealers, which Mulally insists on treating as full partners, and by keeping Ford's green strategy on track with a highly competitive line of hybrid vehicles.

Ford lately has surpassed GM as the No. 1 U.S. automaker. GM and Chrysler ended up declaring bankruptcy when the global economy nosedived two years after Mulally took the helm at Ford. His U.S. rivals took TARP funds to lubricate their turnaround efforts. Not Ford. Mulally brushed off a TARP infusion, choosing instead to manage Ford out of its mess the old-fashioned way: Grind it out, hard work combined with good strategy and intense financial discipline.

Not a car guy? So what

Given Ford's turnaround, it is amusing to recall the skepticism that greeted Mulally's hiring. Could a guy who has never worked in the auto industry or run a car company ever be able to handle the complexity of Ford and the auto industry? "An automobile has about 10,000 moving parts [while] an airplane has 2 million," replied the new Ford boss and former Boeing engineer. "And it has to stay up in the air."

It was an engineer's rational response and Alan Mulally's typically polite way of saying, "Of course." His Ford directors couldn't have said it better. "Just look at the results," said Hockaday. ■

The Ford board was better informed about the true hero of Boeing's results than even apparently Boeing's own board.