

# TEACHING NOTE

## Case 15: Transforming the Prancing Horse

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### 1. INTRODUCTION

This case focuses on the development of the Ferrari Formula 1 team from their first races in 1950 through to 2003 when they won both the drivers' (for Michael Schumacher) and constructors' world championships. It can be used on its own as a basis for studying the relationship between organisational performance and transformational change. It can also be used in conjunction with Case 14 *The Formula 1 Constructors* as a basis for exploring one particular team in more detail.

The case is constructed in five sections. The first '*Breaking all the records*' summarises the unprecedented success of Ferrari over the last six years (the case is written up to the end of 2003, but Ferrari's success continued even more strongly during 2004 although they have struggled to be competitive in 2005). The second '*The prancing horse*' focuses on the background of Enzo Ferrari and the creation of the Ferrari racing team – Scuderia Ferrari. This section also sets out some of the key steps in Ferrari's history which help to underline their organisational culture. The third section '*Ferrari renaissance: the mid sevenites*' describes the ten year period between 1969 and 1979 when Ferrari were able to recapture some of the success they had enjoyed in the 1950s through the development of the flat-12 engine and 312T car. However this period of success was followed by one of Ferrari's least competitive periods between 1980 and 1990. In the fourth section '*Ferrari: the end of an era, 1980-1990*' Ferrari's inability to respond to new technical breakthroughs in aerodynamics is described along with their first attempts to access the specialist expertise that had developed within Britain's motorsport valley. This section concludes with the death of Enzo Ferrari in 1988 and the unsuccessful attempts by Fiat to manage Ferrari as a full subsidiary of their organisation. The fifth and final section '*Transforming the prancing horse 1990-2003*' charts the rebuilding of Ferrari. This section emphasises some of the key personnel and organisational changes which were made to transform the team from a highly-politicised Fiat subsidiary to a championship winning Formula 1 team who were able to dominate the sport to a level which was unprecedented in the history of Formula 1.

## **2. POSITION OF THE CASE**

This case can be used to explore the challenge of sustaining performance in a highly dynamic competitive environment. In particular this case allows students to explore the connections between organisational transformation and competitive performance. It emphasises that Ferrari had to effectively reverse many areas of its well established culture, whilst at the same time emphasising their unique strengths in order to make the breakthroughs necessary to become a championship winning team once more.

The case was designed to be used on an MBA programme where students consider the challenge of enhancing performance through organisational transformation. The case has also been successfully used on final-year undergraduate programmes and also for executive development in helping managers explore the challenge of organisational change.

## **3. LEARNING OBJECTIVES**

The overall learning objectives can be summarised as follows:

- To understand that achieving high performance levels in dynamic competitive situations requires organisations to be continually adaptive, and needs ongoing transformation of their resources and capabilities in order to meet new competitive challenges.
- To appreciate the challenge of recognising when existing core competences can become core rigidities and undermine rather than create competitive performance.
- To recognise that achieving organisational transformation can require actions which are both radical and potentially damaging, with no guarantee as to whether or not they will succeed.
- To challenge whether there can ever be a 'sustainable competitive advantage' in dynamic environments.
- That successful change is never down to a single or small number of events. It requires many integrated changes to occur to support the change in values needed for the organisation to enact the behaviours needed for real change.

## **4. TEACHING PROCESS**

There are a number of different ways in which the case can be used. It works particularly well in combination with the Formula 1 constructors' case (Case 14) where it can help the participants to move from an exploration of competitive advantage to consider the role of organisation change in embedding new strategies and levels of performance. A series of questions are used to guide the way in which the students

approach the case as outlined below. The questions effectively split the case into two time zones 1950 – 1980 which can be described as the ‘old’ Ferrari organisation and 1981-2003 which focuses on the transformation to the dominant Ferrari of the early 2000s. One way to handle this is to split the class into two groups, one half focusing on the old (Question 1 below) and the other half on the new (Question 2 below). By summarising the answers to each question on separate white boards you can then emphasise the major differences between these two time periods and demonstrate the significance of the change process needed to be to move from one to the other. Having done this the instructor can then focus the discussion around the change process by first focusing on Question 3, followed by Question 4. The summary can then review some of the generic lessons for organisational change which can be drawn from the case (see learning objectives).

## **5. QUESTIONS FOR DISCUSSION**

1. How would you characterise the Ferrari organisation in the period 1950-1980?
2. How would you characterise the Ferrari organisation in the period 1999-2003?
3. What actions were taken to try to restore the success of the team in the period 1980-1990, why do you think these were unsuccessful?
4. What actions were taken to try to restore the success of the team in the period 1991-1997, why do you think these were successful?

## **6. CASE ANALYSIS**

This section offers a number of suggestions for discussing the above questions and exploring related issues.

### ***6.1 How would you characterise the Ferrari organisation in the period 1950-1980?***

Some of the main observations here would relate to the importance of Italian national identity with Ferrari – the blood red cars being distinctive from all other competition. Their particular focus on designing and building their own engines, emphasising that the engine is the most important component of the car. This is also underlined by the fact that all the chief designers/technical directors were engine designers right the way through to 1980. During this time it is also important to bring out the particular management style of Enzo Ferrari – enigmatic, using the press to communicate to the factory, rarely travelling beyond the immediate area, an autocratic style, but at the same time recognizing the need for change as exemplified in the merger with Fiat. Another important area is the way in which the drivers were traditionally secondary to the cars, it

even being implied that Ferrari 'managed' the results of the drivers to ensure they didn't become more celebrated than the cars themselves.

## **6.2 How would you characterise the Ferrari organisation in the period 1999-2003?**

Some of the key distinctions from 6.1 would be the recognition of the commercial imperative as opposed to the romance of the old Ferrari. This is probably best illustrated in the change in the colour red used from the 'old' Italian national colour to a more orange hue that looked better on TV and was also closer to the colours used by their major sponsor Philip Morris's Marlboro brand. There was also a shift in management style away from the 'divide and rule' of Enzo to Jean Todt's emphasis on constant communication and bringing everyone together as one team (see Di Montezemolo's quote at the end of the case). Di Montezemolo also took a more detached role as president avoiding the kind of micro-management that Enzo often engaged in.

## **6.3 What actions were taken to try to restore the success of the team in the period 1980-1990, why do you think these were unsuccessful?**

Enzo's main emphasis during this time was in attempting to capture the new technology and expertise in aerodynamics and composite materials that had developed in the UK motorsport valley. The recruitment of British designers Harvey Postlethwaite and John Barnard were important steps along this route, although these caused problems in terms of both cultural clashes and the distance between the design and racing parts of the operation. These were undoubtedly important and necessary steps to make, but Enzo's death in 1988 meant that a lot of this momentum was lost when Fiat attempted to run Ferrari as a formal subsidiary. A interesting side-discussion here is to consider why this may have been a problem and the contrast between the 'entrepreneurial' racing team and the 'bureaucratic' car manufacturer.

## **6.4 What actions were taken to try to restore the success of the team in the period 1991-1997, why do you think these were successful?**

A key step in the process was the appointment of Luca di Montezemolo as President of Ferrari. This was important because Montezemolo had a positive effect on morale as he had been a key part of Ferrari's success in the 1970s, but perhaps more importantly this also gave him the credibility to take authority and make some major changes to the organisation. He focused on keeping some of the positive changes such as keeping the GTO concept, but also he made sure that it operated without the political problems of the Italian factions resisting the design changes being made in England. He also made some key management appointments, notably Jean Todt and gave him the space to get on and build a team from the fragmented organisation that Ferrari had become. Another key change was the move to build stronger and longer-term relationships with commercial partners such as Marlboro and technical partners such as Bridgestone and

Shell. A further contrast from the 'old' Ferrari was their approach to drivers. Michael Schumacher was used as a cornerstone in their new strategy, with the team being built around him, rather than the driver being seen as secondary to the cars. He was a key part of the process, even to the extent of influencing Todt to hire the technical team of Ross Brawn and Rory Byrne from Benetton. An interesting question to consider whether they could have done this without Schumacher and also whether it would have worked if they had just hired Schumacher without any of the other changes having taken place.

**For further background on Formula 1 and the management issues in these and other teams the following publication is available:**

Jenkins, M., Pasternak, K. & West, R. (2005). *Performance at the Limit: Business Lessons from Formula One Motor Racing*. Cambridge, UK. Cambridge University Press.

<http://www.cambridge.org/uk/catalogue/catalogue.asp?isbn=0521844002>