

Turin is also *elegant and perbene*.

The holidays in Turin have certain rituals that set the city apart from others in Italy. That's because Turin is home to the country's largest manufacturing company, the multinational auto maker Fiat SpA, and like all big companies, Fiat is a sort of state within a state.

Besides traditional winter festivities, such as buying orange-colored boxes of handmade hazelnut chocolates at Gobino and stopping for a cup of hot chocolate mixed with coffee and cream at Café al Bicerin to fight off the Alpine cold, Turin offers parallel Fiat activities.

In this photo from 1955, Fiat 600s are driven on the roof track of the Lingotto factory in Turin. Like the car maker that calls it home, Turin, more than any other Italian city, mixes old with new, tradition with innovation.

Fiat auto workers' kids receive gifts at the company's annual Christmas party as the car maker's sprawling Mirafiori factory shuts for the break. Fiat Chief Executive Sergio Marchionne delivers his annual speech to hundreds of managers gathered at the Lingotto—a former factory modeled on the Ford plant in Detroit where the Model T was born—that now houses Fiat's executive offices.

This year, 2,000 Fiat managers either attended the speech or watched by video link from 300 sites including Brazil, Poland, and—for the first time—from Detroit. In one of the most startling deals to come out of the financial crisis in 2009, Fiat took a stake in Chrysler in a partnership backed by the U.S. government.

Underlining the links between Turin and Detroit, Mr. Marchionne arrived at the Fiat event this year in a Chrysler 300.

His speech was upbeat. But the jury's still out on the future of both companies; 2010 is arguably a make-or-break year for Chrysler, and if the U.S. auto maker stumbles badly, so will Fiat. If it succeeds, the company could become a world leader. Fiat's alliance with Chrysler has made Turin the headquarters of a global auto experiment—a move that makes locals both proud and extremely anxious.

"We've always said the Fiat-Chrysler alliance was positive," said Andrea Bairati, commissioner for innovation for Italy's Piedmont region, of which Turin is the capital. "The headquarters of an increasingly global company are here. But I wouldn't like to see new auto products being developed in the United States and not here in our own research-and-development facilities." One of the battle cries of Fiat's unions recently has been that the two companies should develop an electric car in Italy, rather than in the U.S.

Fiat head Sergio Marchionne has no magic formula for Chrysler—just an outsider's ability to question ossified processes.

To understand Fiat, and to weigh whether it can revive Chrysler, it helps to understand Turin—a city that can be hard for outsiders to comprehend.

Though it is undoubtedly a factory town, Turin is also elegant and perbene, or well-mannered. It was a Roman army garrison town, and the stone streets of its city center follow the square pattern of the Roman military settlement. Turin's Baroque squares were created as military parade grounds for the Savoy royalty to review their troops. In the Middle Ages, it was the center of an armaments industry, where craftsmen beat sheets of metal into suits of armor. In later days, those artisanal skills were turned to carriage making. (Queen Elizabeth II rides in a carriage made in Turin.)

That military rigor has infused Fiat since it was founded in 1899 by Giovanni Agnelli and a group of Turin's elite. Mr. Agnelli served as a military officer, and his military training helped give him the authority to deal with workers—his troops—on the factory floor, solving labor disputes and improving productivity.

The understatement of Turin is typified by the latest generation of the Agnelli family. John Elkann, currently Fiat's deputy chairman, and his family aren't seen much around town. They live in a hillside villa hidden by a hedge, invisible from the street. They don't hand out gifts at the Christmas party or light the city Christmas tree. At the very most, they might make an appearance at the football stadium where the Agnelli-owned Juventus football team plays.

But beneath Turin's prim exterior lies a fierce vitality. Turin's city government has done a show-stopping job of diversifying the city's economy since the mid-1980s, when Fiat was digging itself out of the doldrums. The Lingotto factory itself was closed in 1982, and workers were laid off by the thousands.

"There's a perception of Turin that it's about rigor and good manners," said Giuseppe Recchi, a Turin native who runs General Electric's Southern European operations.

"That's true, but if you dig deeper you find its true essence of a creative and sparkling brain power."

The Lingotto architectural landmark, once renovated, became the epicenter of a new start for Turin that began in the late 1980s and culminated with the 2006 Winter Olympics. The Turin book fair, an annual event housed in the Lingotto that started in 1987, had 300,000 visitors last year.

Turin, more than any other Italian city, mixes old with new, tradition with innovation. At Fiat, Mr. Marchionne has kept some of the company's traditions and junked others. He ripped apart Fiat's rigid hierarchy. He prefers sweaters over jackets. He reads Turin daily *La Stampa* on an iPhone. But he has maintained age-old mainstays such as the annual Christmas party.

Mr. Marchionne doesn't have a magic formula for Chrysler. He is a doer, bringing the outsider's ability to question ossified processes—just as he did at Fiat, where Turin's rigor and vitality had over time fossilized into rigidity and conformism.

Production time was slashed to 18 months from 36 when Fiat became the world's first auto maker to move the design process onto computers in 2005. At Fiat, Mr. Marchionne has harnessed engineering in the service of marketing, knowing that customer experience is what counts. At the Mirafiori factory he has opened a supermarket where employees can do their grocery shopping to save time, and he also put in a shiny espresso bar where people from outside the company can stop for coffee. Mr. Marchionne pushed for the transformation at Fiat to happen quickly. He wants to bring the same urgency to Chrysler.

If Fiat hadn't reached an agreement with Chrysler, Mr. Marchionne told his management this month, "plans for our future would have been different and less ambitious." He added: "The fates of the two companies are now intertwined."