MANAGERIAL STRATEGIES TO COMBAT THE AUTOMOTIVE INDUSTRY CRISIS: THE CONTEXT OF FIAT AUTOMOBILES SRBIJA

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Abstract
In recent years, in the most industrialized countries, the leading companies in the field have safeguarded their competitiveness, looking for greater production efficiency, in order to better the price-quality ratio of products and services to the customer.

The only way to achieve this goal was the transfer of either a part or the whole production process in those geographical areas where the cost of certain inputs (e.g. labour) is definitely lower than the manpower available in the local market.

Thus, at the end of 2009, the Fiat Group made a joint venture with the Serbian government for the creation of Fiat Automobiles Srbija (FAS), which provides for a majority stake of 67% for the Group, while the remaining 33% is controlled by the Balkan State.

So, in the light of what described above, the present paper, starting from the financial, production, social and economic data collected, aims at analyzing the terms of this important international managerial operation, and then investigating the possible advantages and disadvantages ensuing from both for the Turin firm and the Serbian government.

Afterwards, the model of the organizational structure adopted to ensure competitiveness in the new Italian-Serbian company will be examined; the work will then consider the strategic aspects as well as the future expectations that the Turin company is willing to achieve thanks to this important managerial transaction.

Key Words: Management, Enterprise, Fiat Automobiles, Production, Serbia.
JEL Classification: L62, L26, M11, L22

1. Introduction
Owing to the current phase of globalization, the most developed countries have been increasingly led to start a process of relocation of their companies to developing countries, mostly in labour intensive sectors, in order to preserve their competitiveness by cutting production costs.

This trend also involves the motor sector where, in recent years, a lot of global companies have made joint ventures abroad aimed at improving the return on investment.

Among the latter, the relocation of Volkswagen to Mexico is particularly worth mentioning; in fact, through investing one billion dollars over three years, the company has set up a new branch based in Puebla; this firm, that already records an output of 525,000 items, is going to assemble the Jetta model (70% of its components are Mexican) designed for the American market (Lilli 2010).

The same strategic trend has concerned the main world motor companies, not least the Fiat Motor Company that has relocated its own activity to other countries such as Turkey, Poland, Brazil and so on, in order to knock down production costs.

The Italian-Serbian joint venture made in 2009 was the result of such a corporate policy aiming at achieving the very ambitious goal of moving the production of the “LO” space wagon from the Italian factory in Mirafiori to the Serbian plant based in Kragujevac (Moretti 2010).

Anyway, before analysing thoroughly such an important managerial operation at an international level, it is probably useful to take a step backward in order to identify the origins of this remarkable Serbian factory as well as the reasons for the collaboration that Fiat had previously developed with it.
2. The Origins of the Collaboration and the Terms of the Managerial Operation

The Zavodi Crvena Zastava plant, a factory originally producing weapons, was changed over to a car producing company in 1953, after the Second World War. Based in Kragujevac, one of the main towns in the country, it started a profitable collaboration with Fiat that sold a licence, to produce the Fiat “Campagnola”, to the then Yugoslavia ruled by General Titus, leading to the Zastava Yugo 45 in 1981, the most successful model manufactured in the factory, equipped with the Fiat 127 engine and exported both to Italy and to the USA as Koral under the Innocenti brand.

Thus, at the end of the eighties, the development of the factory together with the contribution made by the induced economic activity had allowed over 35,000 people to be employed and about 223,000 motor vehicles to be produced.

In 1999, after Titus’ death, the factory was destroyed during the Kosovo War by the Nato aircrafts (including the Italian ones). It was then rebuilt and it started to produce, as from 2005, the Zastava 10, exactly the same as the former Fiat Punto Classic, marketed under the Serbian company brand, thanks to the acquisition of a licence by the Fiat Company that spent 3 million Euros on it, in addition to 14 million needed to move the aged Mirafiori models to the Balkans (De Pascale 2009).

In 2008, on April 30th, the two motor companies signed a memorandum of understanding in Belgrade, that strengthened the above collaboration. It provides for the factory shake-up aiming at producing and exporting the new models to the EU, in addition to the already known Punto that the Serbian citizens can buy for 6,000 Euros benefiting from Government incentives reaching 1,000 Euros for car scrapping as well as from low interest rate loans granted for purchasing.

However, the joint venture between the Fiat Group and the Serbian Government was actually created only in 2009, on December 23rd, leading to the starting up of Fiat Automobiles Srbija (FAS) of which two thirds are owned by the Fiat Group and one third by the Serbian Government, thus bringing the glorious Zastava Automobiles to an end.

The agreement provides that the Fiat Group shall make the most important foreign investment in Serbia (reaching 700 million Euros over three years) aimed at producing about 200,000 “LO” space wagon models in the former Zastava factory, thus replacing well-known models such as the Fiat Multipla, the Fiat Idea and the Lancia Musa.

3. Fiat Auto and the Two Sides of the Transaction

At this point, it is convenient to analyse the reasons for this transaction, about which there has been a lot of debate among the social parties involved in Italy, so as to identify the prospective advantages leading the Turin motor company to stipulate this memorable agreement.

First of all, the opportunity of producing cars at a competitive cost, due to the low cost skilled labour force whose wages are about 400 Euros per year, turning out to be well below both the Italian and Polish ones reaching about 1,200 Euros and 600 Euros respectively (Di Napoli 2010).

Besides, the State bears the total cost of the factory decontamination (to dispose of about 370 tons of dioxins resulting from the Nato air raids in 1999, during the war that split the former Yugoslavia), handing over its ownership to the Fiat Group.

Another advantage which is not negligible concerns the number of employees that, at present, are paid by the Fiat Group. In fact, for the moment, only 1,060 out of the 2,600 total staff are paid by the Turin Company, while the remaining ones will be on the payroll of the Serbian Government until the development of the Kragujevac factory allows new recruitment for which, on the other hand, the “Lingotto factory” will be granted a loan of 10,000
Euros for each new employee by the Serbian Government.
In addition, the Italian motor company will be allowed remarkable tax reduction; in fact, it is not going to pay taxes either to Belgrade Government or to Kragujevac municipality for ten years.
The strategic importance of such an investment in the heart of the Balkan area is even linked to the fact that Fiat can use Serbia as a launching pad to market the product in Russia on highly competitive conditions, thanks to a free trade agreement involving also the motor industry. In fact, through the elimination of customs duties and with a view to achieving the ambitious goal of 200,000 cars exported per year, the above agreement will allow the Turin firm to earn 2,000 Euros more, on average, on each motor vehicle, for a total amount of 400 million Euros.
Moreover, the workers quitting the Zastava company of their own will benefit from a gratuity of 300 Euros for each year’s service completed, while those employees that are not going to take legal proceedings against the firm to assert their own rights and to be paid off interest on the arrears from 1997 to 2001 will get a total settlement of the debt (for a total value of 10 million Euros) (Mijalković 2008).
Furthermore, thanks to a number of benefits and tax relief granted by the Serbian Government, the agreement is favourable to the Turin firm even on the fiscal side.
In fact, among the most important concessions granted, the following are worth mentioning: the voluntary conveyance of the factories to the Fiat Group, exemption from paying taxes to the municipality for ten years, the creation of a “free zone” of 75 hectares (55 for the Fiat Group) (De Pascale 2009), to allow the duty-free import of goods from Italy, as well as the concession of another industrial estate to house 14 firms connected to Fiat (from Iveco to Ditec and Magneti Marelli) involved in the construction of a motorway link for the E75 aimed at improving the road network of the area.
Concerning the main disadvantages of the agreement, they are mostly of a social nature.
The above agreement has, in fact, brought about tension both in Serbia and in Italy. Indeed, in the Balkan country, following the production of the new Fiat Punto at the end of 2009, a fire was deliberately set to the factory in Kragujevac, destroying the conveyer belt between the painting line and the assembly line; the management considered this event as a warning sign aimed at urging more care in employing the staff.
In Italy, instead, there was much tension between the Turin firm and the unions concerning the Mirafiori factory that, as a matter of fact, lost the “LO” production. However, in the above factory, a referendum was held by the owners at the beginning of the year, concerning the acceptance or not of the new labour agreement, in exchange for considerable production investment reaching 1 billion Euros to produce new “luxury” models (like Jeep and Giulietta). The referendum was successful, with the favourable opinion of 54.1% of the workers, out of the total staff of 5,400 employees in the factory.
In particular, the agreement is penalizing for workers who, nevertheless, due to the current international economic recession, opted for keeping their job in spite of reduced rights.
Going further into details, the agreement provides for reduced breaks, shrinking from 40 to 30 minutes, with 32.47 Euros added, monthly, on the wage packet for the extra minutes worked, the non-payment of the first day off sick for those employees who will be out shortly before holidays or on their weekly day off for more than twice a year, a 40-hour weekly work salary, including breaks, spread over a total of 18 work-shifts, compulsory overtime up to 80 hours per year and, above all, new sanctions about striking that
can lead to the worker’s dismissal if production is seriously damaged (Sciarra 2010).
It is important to point out that the assent of almost all the trade unions to this independent contract providing that the Joint Trade Union Committee (JTUC) is replaced by the corporate one is only possible because the Fiat Group is no more party to the Italian Manufacturers’ Association (Confindustria).
Another disadvantage is, however, linked to this corporate Taylor-style policy inhibiting workers from any kind of protest. Which, in the long run, is likely to bring about growing social unrest due to exhausting work-shifts, lack of dialogue with the top management, as well as a worker’s wages which are not up to the average standard of living of the country. All these factors are likely to lead the employee to develop a state of depression thus causing either long periods of absenteeism from work or lesser commitment by the worker as compared with his own potential.
From the point of view of taxation, even if the elimination of customs duties allows the Russian market to collect 400 million Euros, considering 200,000 motor vehicles exported, this amount is not going to be cashed by the Turin firm but it will be handled by the Kragujevac joint company (Mijalković 2008).
Besides, it is to be pointed out that the incidence of the labour cost doesn’t exceed 7% of the total capital in a highly complex and technologically advanced structure, with a final saving that, after all, should only reach 3% of the end-product. Which would make one consider that the GOM (Gross Operating Margin) is very scant if, to keep it steady, in this period of international recession, it is necessary to sacrifice the social peacefulness of the firm.

4. The Fiat Group Corporate Redesigning

In the current globalised market, companies are increasingly required to expedite their decision-making process in order to achieve the flexibility needed to meet promptly the market evolution. For this purpose, in September 2010, the Fiat Group split, giving birth to two separate bodies: Fiat Auto and Fiat Industrial. The first will include, besides Fiat Group Automobiles, such companies as Ferrari, Maserati, Magneti Marelli, Teksid, Comau and Fiat PowerTrain automobiles; the second will incorporate CNH and Iveco, in addition to the industrial and marine sector of Fiat PowerTrain.
This reorganisation will eventually allow the motor sector to go its own way and the management and funders to really understand the extent of the value yielded through the production and sale of cars. In fact, from a financial point of view, the above shake-up will also include a fair distribution of the industrial debt between the two groups reaching approximately 2.5 billion Euros as well as initial liquidity of 10 billion Euros for Fiat Automobiles and of 3 billion Euros for Fiat Industrial (Fornovo 2010).
In addition, the spin-off of the automotive industry from the industrial one has allowed Fiat Automobiles and Fiat Industrial shares to be quoted separately as from the beginning of the year; which was highly appreciated by the financial community.
In an international market which is currently experiencing a state of turmoil due to a process of continuous change influencing its evolution, the logic of this splitting is primarily oriented to preventing the heterogeneity of the businesses that made it up because of a clear difference distinguishing the two main activities as regards their specific features, commitments, capital profitability, margins and dynamics of their markets. This will enable each of the two business units to focus on its own SBA (Strategic Business Area) with goals easily identified
and recognized by the market and to show specific features with strategies that are determined independently, as well as to bring out the amount of value that each entity is likely to yield. Specifically, the Fiat Group will be able to better its competitive position on a world scale and to enhance its efficiency thanks to an alliance with Chrysler that will allow the Group to benefit from the best distribution in Chrysler’s dealer network itself. This will help the development of the brand in new emerging markets like India, China as well as Russia. Prospects for the future are highly ambitious for the Turin firm whose turnover is expected to reach 64 billion Euros, within four years, which would actually double the amount expected for 2010, of which as much as 80% would result from Fiat Group Automobiles, 6% from Ferrari and Maserati, while the remaining part would come from component production (Fornovo 2010).

5. The Possible Organizational Structure of the Serbian Factory and Its Future Prospects

From what discussed above, it turns out that, given the current international recession, the markets’ globalization increasingly requires those companies aiming at preserving their competitiveness in order to produce value, to meet the international customers’ requirements, bringing new low cost quality products into the market. Consequently, the markets’ turbulence has changed the companies’ strategic structure (meant as the company’s organisation that is strategically relevant) that, being originally of a unitary kind (namely having a single competitive reference system), has got diversified (i.e. involving companies that are willing to compete in different areas and ranges of activities characterized by different reference economic operators and different rules). As a result, it was necessary to support the corporate decision-system with a suitable organisational structure that was to be different from the hierarchic-functional one aiming at developing an analysis of the value chain carried out by function. In fact, it provided for segmentation into sub-systems of operations sharing the same “object” and hence the same professional skills, competence and resources called for, thus neglecting the distinction between the different kinds of activities and their own interconnections.

In particular, a rapid historical survey of the Turin motor company shows that, since the early 90s, the Fiat Group has worked out a new organisational structure, namely by process, already successfully developed first by the Japanese Toyota Motor Company.

The main purpose of such a structure is to segment the corporate system into processes both at a global level and for each single SBA (Strategic Business Area), which means subdividing the system into a set of sub-systems involving homogeneous activities that are interconnected and aimed at the creation of value for the customer, by transforming an input into an output.

Going further into details, organisational redesigning has involved all the organisational variables (structure, technology, human resources) with the sole purpose to achieve maximum competitiveness on the market, thus meeting the customers’ demand and improving the business performance through increased flexibility, innovativeness and corporate integration.

In particular, it is to be pointed out that this organisational structure is based on a set of fundamental criteria with which compliance is critical to the effectiveness and efficiency of the structure itself. They include: the process diversification, the decision-making power delegated to employees, the tasks unification, avoiding production waste thanks to the Just-in-time system, the process activity outsourcing, the total involvement of suppliers (Golhar and Stamm 1991).
Thus, in the light of what described above, it could be assumed that the organizational structure of the factory in Kragujevac could be based on the above considerations. Therefore, it could be established on three basic principles that are totally different from those supporting the former hierarchical-functional structure of Zastava Automobiles:

1) - management by “process” rather than by “function”;
2) - the redesign of the decision-making system through the setting up of the “Business Units”;
3) - the abolition of the “teams” and the establishment of the “basic organizational Units” (Ute).

The first point has already been previously dealt with, while the two other points are worth discussing.

In regard to the second aspect, concerning the redesign of the decision-making system, it is to be pointed out that, following the process of phase integration, five Business Units (BU) were created in the Italian independent bodywork-section of the Fiat factories, assembled by homogeneous technologies (moulding, steel bodywork, painting, mechanics and assembling).

It follows that in the new plant, as in the Italian ones, the different stages of the manufacturing cycle should be assembled together to obtain homogeneity of the end-product rather than of the process. Besides, in order to reduce the assembling time as well as to minimize transport costs, suppliers are settling close to the Serbian factory.

In particular, among these suppliers, Magneti Marelli, a leading global manufacturer of components for the automotive industry, is investing 60 million Euros to build the new factory in the free zone of Kragujevac, only 4 kilometers far from the Fiat plant. The agreement signed, according to which the factory should be completed in the summer of 2011 to produce car components for about 200,000 motor vehicles and to employ about 400 people, will be financed by the Serbian Government with 10 million Euros and funded by the Employment National Service for the training of the new workers, with 800 Euros for each new employee.

The examination of the professional figures existing in the new structure shows, for example, as the plant manager should be responsible for the economic efficiency of it, playing, in fact, the role of a true entrepreneur.

In the new Italian-Serbian factory, his main tasks would be the following: managing the production process in its different stages of development, assessing the actual realization of the production schedule at the minimum transformation cost, maintaining the levels of quality and service provided as well as ensuring, in addition to proper maintenance of the plants, the implementation of the suitable innovations needed for a constant improvement of the process.

Another important difference as compared to the past should cover the merging of two activities that were previously centrally controlled, that of “production” and that of “production engineering” under the control of the BU director.

Such a merging would allow, on the one hand, a more fluid communication, thus accelerating the decision-making process and, on the other one, the levelling of the organizational structure by reducing hierarchical levels.
As to the last aspect, namely the Ute (basic organizational Unit) representing the core of the organizational structure, the major professional figure involved is the team leader, who is in charge of managing the technical and human resources, making a preliminary analysis of the problem to be tackled, convening the team, deciding priorities, being representative of the management progress, ensuring final results (Volpato 1996).

Other professional figures within the structure are the Integrated Process Technicians and Operators (CPI/OPI) that are frequently concerned, especially in highly automated assembly lines; their main task is training workers within the team through refresher courses and constant maintenance practices in order to improve the workers’ skills.

Finally, service engineers as well as various technological experts, namely the line and process technologists complete the structure, ensuring, through their different tasks, the efficiency of the whole production system.

6. Conclusions

The present work has shown that, in a period of serious international recession, in order to safeguard their competitiveness, companies have to: understand and meet the consumer’s needs promptly, minimize production costs, achieve, in a short time, product innovation and quality, by adopting a lean and flexible organizational structure.

Therefore, the paper was aimed at investigating whether the strategy adopted by Fiat has met the critical successful factors mentioned above, in order to understand whether the Turin firm can still play, in the near future, a major role in the international automotive scene.

In the light of what analysed above, the answer can only be positive.

Thus, the alliance with Chrysler must be judged from this angle; in fact, it allows a complete range of products covering all market segments to be brought in, from the utility passenger car (in which Fiat has no equal as a producer) to the luxury one (for which the American firm is internationally held in high repute).

As regards the issue concerning the decision-making flexibility, the spin-off involving Fiat Auto and Fiat Industrial is a historic event in this sense since, by avoiding the heterogeneity of activities that were previously managed in common, it allows each of the two new business units to focus on its own SBA (Strategic Business Area), developing autonomously the market goals, and it helps identify the amount of value that each entity is able to produce.

Finally, concerning the need to plan a lean and flexible structure, as well as to reduce production costs, this expectation is met by relocating the Turin company’s production at an international level; in fact, after setting up its factories in Brazil, Poland and Turkey the company decided to play a leading role in the Serbian market, by taking over, thanks to the Government support, the glorious local factory, namely Zastava Automobiles, planned according to the Integrated Business successful model following the Just-in-time principle; the plant should produce the “LO” space-wagon, which will replace the already known models of the Fiat Multipla, the Fiat Idea and the Lancia Musa.

1 The Ute can be defined as “the basic organizational unit capable of governing an elementary technological subsystem, measurable, characterized by a specific sphere of competence and acting as an instrument of prevention and control to achieve those goals of quality, productivity and service, which are essential for pursuing the customer satisfaction”.

2 The Italian acronyms CPI/OPI stand for “Conduttori di Processi Integrati/Operatori di Processi Integrati” respectively.
In addition, in order to promote innovation, the firm has a mind to establish a global centre of technological importance aimed at developing and producing electric cars based on the latest Phylla prototype, the first city car fed by solar power and hydrogen that is going to bring in the new “Topolino” powered by lithium batteries, a mineral abounding in the country (De Pascale 2010). Nevertheless, some difficulties are to be expected concerning successful coordination, at least during the factory start-up phase, if only for the fact that, due to long years of rigid dictatorial regime influencing the mentality of workers, the newly hired Serbian employees are not accustomed to taking prompt initiatives, to delegating, to exchanging information, to managing the decision-making power, to working in teams, to speaking directly with the top management; all these elements are peculiar to the organisational structure by process, and if they are lacking, the organizational model considered will definitely fail.

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