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## **Fiat Chrysler Automobiles in Brazil: Alliance Consolidated**

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### ***Abstract:***

*This article presents a single descriptive case study reporting the consolidation of the strategic alliance between the Italian automotive manufacturer Fabbrica Italiana Automobili Torino (FIAT) and the North American Chrysler Group LLC (Chrysler), regarding their operation in Brazil. FIAT acquired Chrysler in 2009 due to its bankruptcy. In 2014, the group Fiat Chrysler Automobiles (FCA) was founded and became the world's seventh carmaker. In the same year, FCA launched in the New York Stock Exchange (NYSE) its Initial Public Offering (IPO), selling Ferrari's stocks. In 2015, FCA accumulated losses of 25 percent of commercial performance, due to the Brazilian crisis (FCA, 2015). Some complementary interests motivated such alliance: FIAT's interest in selling big platform cars in the North American market while Chrysler was interested in selling small platform cars in the European and Latin American Markets. FCA holds eleven brands, including Jeep, Dodge, Ferrari, and Maserati, for instance. FCA operates in 40 countries and has sales representatives in 150 countries. This study analyzes the challenges to the consolidation of the Brazilian operation, in Betim, Minas Gerais State, where Italians, North Americans and Brazilians work together, in the middle of a political and economic crisis in Brazil.*

***Keywords:*** Strategic alliances, negotiation, organizational cultures, global economic crisis, FCA.

### **1. Introduction**

The global economic crisis of 2008 led many companies to bankruptcy, including the North American Chrysler Group LLC (Chrysler). Klotzle (2002) posited that globalization required companies to adapt quickly to changes, and reducing costs. They had to increase productivity and improve quality of products or services, as well as training people, investing in new technologies and searching for alliances to enhance its market position, or at least, to survive. FCA Brazil suffered the effects of the downturn in the Brazilian economy losing 25 percent of the market sales (FCA, 2015).

The present study aims to investigate the consolidation of the strategic alliance between the Italian FIAT and the North American Chrysler, into Fiat Chrysler Automobiles, which unit of analysis (Yin, 1988) is the factory of Betim, Minas Gerais State, Brazil.

Three were the primary causes to the alliance's offspring: first, Chrysler financial situation. Second, the economic crisis that hit the world in 2008. Third, their complementary interests: while FIAT has never sold cars in the North America, Chrysler has never sold cars in Europe or Latin America. While FIAT was specialized in building small automobiles, Chrysler used to build large models such as pickup trucks and minivans (Clark, 2012). Therefore, FIAT had an interest in building large cars and selling them in the United States. Chrysler was interested in building small vehicles, and selling them in Europe.

Chrysler was one of the multinational companies that suffered the consequences of the global economic crisis, in 2008 (Dias, Valle & Fonseca, 2014). Japanese and Korean competitors were constantly defying Chrysler's strategy of building luxury cars and expensive minivans in North America, through the sales of small, fuel-efficient, and eco-friendly models (Clark, 2012). FIAT CEO, Sergio Marchionni, envisioned an opportunity in expanding FIAT's activities to the North American market, and simultaneously facing the world crisis. The two companies were vulnerable, but Chrysler was faced most serious problems than FIAT. Chrysler was acquired in 2007 by the North American private equity fund *Cerberus Capital Management* from the German group Daimler AG. Both acquisitions failed, regarding the attempt to make Chrysler a profitable company.

Eisenhardt & Schoonhoven (1996) have pointed financial vulnerability, as one cause to company's alliances formation, which are also helpful in protecting companies from hostile takeovers. However, both companies announced a merger, not an acquisition. Both parties feared that the repercussion of Chrysler being acquired for the third time in less than ten years could jeopardize Chrysler's reputation and weakened even further its competitiveness in the North American car market (Clark, 2012). Therefore, there was an expectation that both companies would face heavy losses, if the acquisition was initially confirmed. In fact, FIAT acquired Chrysler in five equal payments of 20% of the negotiated price, each (FCA, 2015).

However, both Chrysler and FIAT had barriers to overcome their differences regarding: (a) remunerations systems; (b) technology approaches to build cars; (c) accounting systems; (d) organizational culture; (e) supply chain management (Dias, Valle & Fonseca,

2014). Regarding the Brazilian case, there was an additional pitfall: Italian, North American and Brazilian organizational cultures would share the same workplace (Dias, Valle & Fonseca, 2014).

## 2. Methodology

This qualitative, inductive reasoning, interpretive, cross-sectional research, combined single case study method, which unit of analysis (Yin, 1988) is the FCA factory in Betim, Minas Gerais State, Brazil, with direct observation and in-depth interviews. Primary data were collected through audio record (N=5). The invitations were sent via e-mail or phone call, with 100% of response rate. The interviews were designed as semi-structured, to allow additional questions to be made. Three questions were posed and additional questions made when necessary, to clarify statements, if needed. All the interviews were processed and coded manually by one analyst. The sampling strategy adopted was purposive, following Miles, Huberman & Saldaña (2014). The process coding was conducted in two phases: (a) first cycle coding; (b) second cycle coding. In the first cycle coding, attribute, holistic, descriptive and in vivo coding were used. In the second cycle coding, eclectic and axial coding were utilized, following Saldaña's (2013) recommendations. All the interviews were conducted in Portuguese, transcribed and then translated into English. The interviewees signed a disclosure information protocol. The overall interviews were validated after final submission and acceptance by the interviewer. Disclosure information were assured and interviewees were told that they could end the interview at any point without necessity of additional explanation. Primary data were then analyzed through content analysis. Secondary data were gathered through literature review and archival research. Findings are discussed further.

## 3. Background: FCA Consolidation in 2014

FCA has presented the following statements in the 2014 report, regarding the consolidation of the strategic alliance with the North American Chrysler:

Our Group has just closed a truly momentous year that included: the acquisition of the remaining non-controlling interest in Chrysler; the formation of Fiat Chrysler Automobiles – the world's seventh-largest automaker; the debut of our shares on the NYSE; our return to the U.S. equity markets; record sales for both Jeep and Maserati; and Alfa Romeo's return to North America after a 20-year absence (FCA, 2014, p.8).

Therefore, FIAT has consolidated the strategic alliance with Chrysler in 2014, with the FCA as the major outcome. In Brazil, the first FIAT Brazilian factory was founded in 1976, in the city of Betim, Minas Gerais, South Eastern Brazil. In 2012, FIAT-Chrysler expanded their cars manufacturing production from 900,000 units per year to 1,000,000 cars produced in 2014. Betim became the most productive automotive industry of the overall FIAT industries at that time (Dias, Valle & Fonseca, 2014). On April 28, 2015, FCA inaugurated a 7-billion-dollar new plant for the production of Chrysler Jeep vehicles in Pernambuco state, North Eastern Brazil, designed to produce 250,000 cars by the end of 2016:

The Jeep factory covers a building area of 260,000 square meters and has the capacity to produce 250,000 vehicles per year. The maximum capacity is 60 cars per hour. By the end of the year a test track also will be on site (Globo AutoEsporte, 2015).

### 3.1. The Chrysler Downturn and the Final Agreement

In 2008, the *Cerberus Capital Management*, a North American private equity fund, controlled Chrysler, which by turn was acquired in 2007 by the German automotive carmaker Daimler AG (Dias, Valle & Fonseca, 2014). The economic crisis of 2008 pressured Cerberus's shareholders to withdrawal of capital from this fund, and the situation of Chrysler deteriorated quickly, as depicted in Figure 1, as follows:

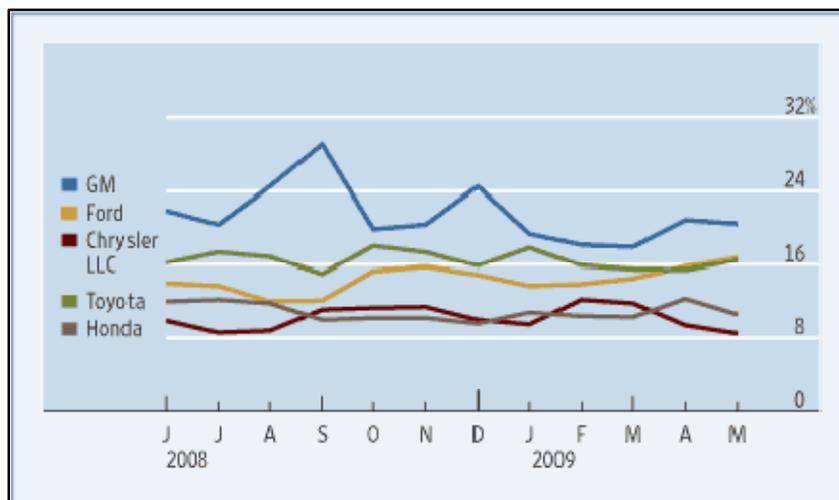


Figure 1: Car sales in the United States from 2008 to 2009

Source: *The impact of the global economic crisis in the automotive industry: a case study on General Motors*

Chrysler accumulated losses and had to negotiate with the U.S Government a solution for the crisis. By turn, U.S. Government demanded a partner for Chrysler in exchange of credit (Dias, Valle & Fonseca, 2014). Limited mobility, high losses and debts are reasons to engage in partnerships (Das & Teng, 2000)

The U.S. Government demanded a long-term economic viability, international competitiveness, and fuel-efficient vehicles. Chrysler's plan had by contractual obligation, to accept a partner in order to receive credit from the U.S Government (Clark, 2012).

Mowery, Oxley & Silverman (1998) argued that the role of technological capability of different companies could be crucial to the strategic decision to build an alliance. That was the case regarding FIAT and Chrysler. FIAT was interested in the North American market.

After a long negotiation with North American Government, Chrysler still resisted in closing a deal with FIAT. At least nine parties representing several interests were negotiating such alliance at that moment, in 2008: Chrysler and FIAT executives plus shareholders from each side; bankers; investors; creditors; union and the North American Government. President Obama made a statement at the United Automobile Workers of America (UAW), to break the impasse amongst Chrysler representatives: "It is FIAT or nothing. "Chrysler's executives accused FIAT of offering too low for its acquisition (Clarke, 2012).

Before the agreement signature, another major negotiation took place, since they were unifying their operations: what would be the predominant car making standards: FIAT's or Chrysler's? FIAT's *World Class Manufacturing Methodology* standards prevailed, after a long and tuff negotiation with the UAW (Clarke, 2012; Dias, Valle & Fonseca, 2014). Chrysler's standards, in comparison to FIAT's, were considered inefficient.

Finally, the agreement was signed on April 30, 2008, in Washington DC. FIAT announced a fusion, but in fact was acquiring Chrysler in five payments of 20% each, regarding the negotiated price, ended in 2014. According to Aline Fonseca, former FIAT's worker, both parties also negotiated a five-year accounting and logistics systems migration. This measure made the transition smoother than a quick change.

Thus, the agreement was established through rules that conditioned the stake in Chrysler's business to meet some pre-determined outcomes, such as: (1) initial stake of 20% (twenty percent) reaching intended 35%, if achieved particular levels, such as selling a car whose consumption was 17 miles per liter. The U.S. Treasury demanded a pricing model based on the market so that Fiat could raise its stake from 35% to 51%, besides establishing the mandatory refund of the public money before this step (Dias, Valle & Fonseca, 2014, p. 6).

### 3.2. The Technological Challenge: Chrysler Adopted FIAT's World Class Manufacturing Methodology

The World Class Manufacturing Methodology (WCM) was based on best practices in building FIAT's cars, a blend of Lean manufacturing system, Just in Time, Kanban, among others. The philosophy behind the WCM was to avoid waste at any costs. For instance, the seven principal wastes: (a) stock; (b) excessive production (which was pointed as one of the factors that weakened Chrysler); (c) transport; (d) rework; (e) unnecessary process; (f) motion, and (g) timing (FIAT, 2012). For instance, when the issue was stock, the WCM standard pointed possible failures in stocking too much raw material, much finished products, and stock at the departments, for instance. The WCM became the general standard that unified the whole FIAT-Chrysler manufacturing process. In practice, however, there was a tremendous necessity of training workers from both sides, but especially from Chrysler's side to adapt to the new reality. FIAT Brazil, for instance launched a massive training program for their workers (FIAT, 2012). According to Dias, Valle & Fonseca (2014):

In FIAT, the WCM system started to be implemented in 2005 and its creation is entirely due to Dr. Hajime Yamashina, who is an Emeritus Professor of Kyoto University, and a member of the RSA (Royal Swedish Academy of Engineering Sciences) (note), one of the greatest scholars of TPS (p.7).

The WCM standards are encompassed in Figure 2, as follows:



Figure 2: WCM pillars. Note that WCM is composed of ten major dimensions. Source: (FIAT, 2012).

The ten pillars of management are depicted in Figure 1: (1) Management Commitment; (2) Clarity of Objectives; (3) Route map to WCM, (4) Allocation of Highly Qualified People to Model Areas; (5) Commitment of the Organization; (6) Improvement towards Organization of Competence; (7) and Time Budget; (8) Level of Detail; (9) Expansion of Level; (10) Motivation of Operators.

### *3.3. Culture Integration: The Brazilian Challenge*

The first step was to integrate the technological, accounting, logistical systems and standards, such as the WCM discussed in the previous section. Such integration brought an additional challenge to the Brazilian operation. How to integrate different cultures, such as a European (Italian), a North American and a South American culture in the same environment?

There were two major differences that the executives should deal with in the first moment: (a) multicultural differences, (b) organizational culture differences, and (c) employee's payment systems and salaries. At the first moment, FIAT's and Chrysler's people worked in separate environments. This measure was taken in order to avoid a clash that could jeopardize the entire operation.

However, on the employee's point of view, the first point observed was the salary: by the Brazilian Labor Laws (CLT, 1943), salary reductions are forbidden. On the other hand, if two companies merge into one, there is no legal guarantee on salary equivalence. In other words, it is created an asymmetry in the remuneration systems that is a source of conflict. Chrysler's workers knew the consequence quite well: in 1998, Chrysler was acquired by the German car manufactures Daimler. One of the reasons that undermined the partnership was the difference of salary between FIAT's and Chrysler's employees. The ones who received less for the same job felt dissatisfied. The consequence was an internal migration from the smaller to the highest salaries, in this case, from FIAT's to Daimler's (Clark, 2012).

In the Brazilian operation, a solution was found: Chrysler and FIAT's top executives would be remunerated by the same standards, while Chrysler's newcomers would abide for the FIAT's remuneration systems, to equalize payments and to avoid future conflicts.

Another consequence of the salary integration lies in the cutoff of the highest salaries, levelling workers by the smallest salary, and therefore, abide by Brazilian Labor Regulations (CLT, 1943).

The next step was to integrate the multicultural differences. According to Hofstede & Hofstede, while Brazilians are more collectivistic than individualistic, Italians and North Americans are the opposite (2005). When applied to the workplace, these differences appear as individual x collective productivity. In collectivistic cultures, more informal relations. In individualistic, more formal relations. Group x individual management. In collectivistic cultures, relationship prevails over the task. In the individualistic dimension, it is the opposite: task prevails over the relationship (Hofstede & Hofstede, 2005). It turned out that Brazilians value the relationship, the group success, the collective productivity, while Italians and North Americans do the opposite, are much more focused in individual achievement and productivity, and not the relationship, in this regard. Aline Fonseca points cultural differences as barriers to understanding: "the Italians use to scream and to say everything they think, good or bad, at one meeting. Brazilians, on the other hand, tend to avoid the direct conflict". Roberto Baraldi, marketing manager, also pointed the difficulty of integration of these cultures: "Brazilians have a particular way of doing their work, without too much discussion or fighting".

Despite the difficulties, at the end of the day, the cultural differences become smoother to administrate and the workers tend to align by the organizational WCM standards. It was not difficult to North Americans to adapt to the WCM. Most standards are part of the North American organizational culture. Brazilian regulations, rules and norms also are factors that help levelling the three cultures.

Aline Fonseca also says: "at the end of the day, we get accustomed to the Italians and to the North Americans. One day or another we get used to it. The fact is that we shall learn to work together".

Despite the Brazilian economic and political crisis and production cutoffs, the three cultures are learning to co-exist by trial and error. "I think that the crisis helps to develop trust. I believe that everything has a good side. The things that I mentioned, crises, although they are difficult and everything else, if crises are well treated in a positive sense, they may even end up as a good result for the relationship. It is positive", reported one managing director.

### *3.4. FCA Future Challenges Regarding Brazil*

In the third quarter of 2015, in comparison to the same period in 2014, FCA increased in 9 % its sales from 632,000 vehicles to 674,000 units at the NAFTA market (United States, Canada and Mexico), representing 12.3 % of the North American market and 14.9 % the Canadian market (FCA, 2015). In the same period, Brazil had a decrease in the sales proportion, from 21.4% to 19.8% of the market share, with an industry downturn of 19%, attributed to the overall economic crisis in Brazil (FCA, 2015).

The number of units sold between 2014 and 2015 (3<sup>rd</sup> quarter) can be observed in the Figure 2, as follows:

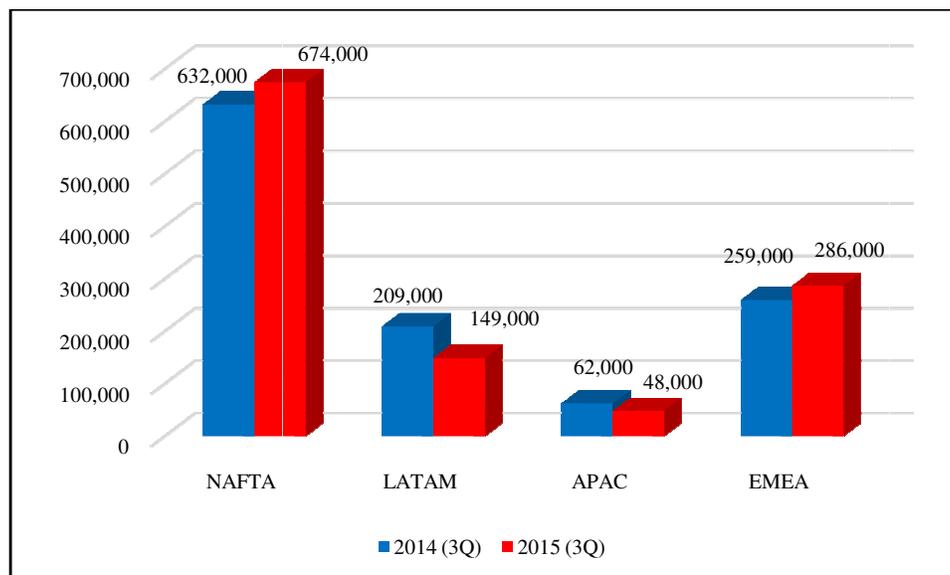


Figure 2: FCA unit sales per group of continents: 2015, 3<sup>rd</sup> quarter sales in comparison with the same period in 2014. Adapted from FCA (2015).

It is important to observe that FIAT, before the alliance with Chrysler, has never sold one single car at the NAFTA area (United States, Canada and Mexico). In these two years (2014/2015), FCA sold the triple of cars sold to LATAM to NAFTA. It can be considered a tangible evidence of success of the alliance between FIAT and Chrysler.

In 2015, a new agreement was signed by FCA and UAW representatives on October 22, which contemplates: (a) four years with wage increases for all eligible U.S. hourly and salary represented employees; (b) the “two-tier” wage was eliminated, through a multi-year salary progression plan; (c) the profit sharing formula was modified, tied to NAFTA adjusted EBIT margin. Finally, (d) FCA and UAW agreed to study ways to manage rising healthcare costs, while improving quality of service and care (FCA, 2015).

This agreement does not apply to Brazilian FCA, since Brazilians do not work by hourly, but monthly wages, abiding by the Brazilian Labor regulations. In Brazilian FCA, the challenge is how to revert the 25% downturn in sales. In the third quarter of 2015, FCA reported net revenues of 110 billion euros (FCA, 2015). Despite its global increase in shipments regarding 2014 to 2015, remarkably from 1,099,000 units to 1,114,000 (4% increase, approximately), Latin American (LATAM) results, which Brazil is the leader, decreased the overall shipment units in 31% in the same period (decreased from 209,000 cars in 2014, to 140,000 cars in 2015). LATAM net revenues also decreased in 30%, from 2,162 million euros to 1,515 million euros. Strategies to revert these unfavorable numbers represent a major challenge for 2016, regarding LATAM and consequently, FCA Brazil.

#### 4. Discussion

In this case, the participation of the American Government in the alliance formation was necessary to help consolidating FCA. Multicultural differences, as well as salary differences represent sometimes the offspring of interpersonal or intergroup conflicts within the organization. The other point is linguistics: Italians and Brazilians have the same Latin origin, which is easier to understand each other, differently from the North American’s Anglo-Saxon linguistic roots. Crisis helps to unify or integrate different cultures, only when there is a threat. As soon as the menace disappears, the conflicts start over again. In the following items, recommendations are dispensed for managers to deal with similar cases:

##### 4.1. Crisis Unify People, but Only When the Crisis Exists

As soon as the crisis disappears, the conflicts emerge. Therefore, it is important to deal with the causes of the conflicts, confronting the problems, instead of deviate the attention to a common problem.

##### 4.2. Dealing with Different Cultures Takes Time and Patience

One good way of understanding a new culture is through the language. Be frankly interested in the other’s culture. It implies in acquiring new knowledge and preparation to far more difficult tasks.

##### 4.3. Build Trust

To build trust requires: (a) coherence, and (b) predictability. The more negotiators interact and keep their promises, the more predictable and coherent they become. Trust surpasses all multicultural differences. Dias (2016) argues that trust is considered an important factor that influences Brazilian negotiators.

##### 4.4. Keep Transparency

Fair and honest criteria provokes in the counterpart respect and sense of justice and fairness. It has been said that trust attracts trust, and respect, respect. If one wants to be respected, one has to show respect first.

#### 4.5. Conflict Is Part of the Human Nature

A conflict resolution plan should involve a *Mediator*, i.e. a third party inside or outside the group that helps parties to find a solution. Mediators have.

#### 4.6. Recognize and Avoid the Attribution Error

Fritz Heider (1958), devised a theory in which parties tend to ascribe their success to internal or dispositional factors, such as in the following example: - *I succeeded in the exam because I am intelligent*. On the other hand, when they fail, tend to ascribe their failure to adverse circumstances, or situational factors. For instance, in the example above. - *I failed the exam because the exam was very difficult*. This phenomenon is known as the Fundamental Attribution error. The implication is that the perception of failure maybe pointed to one country, when in reality was the person who did it wrong. In other words, it is easier to criticize the local circumstances, instead of criticizing oneself. Kalat (2011) argued that the fundamental attribution errors are possibly influenced by the culture (p. 468). In other words, the individuals from the different cultures may perceive the same event according to their interpretation of the reality, based on their culture that may be distinct from another culture.

#### 4.7. Do Not Generalize People. Instead, Personalize the Way You Talk to Them

Dealing with people by the title, or job position, or rank, may be the first step to the generation to stereotypes. Instead of calling "boss" – it is evident that the referred person is the superior, why not calling name (first or last, depending on the country).

#### 4.8. Expatriates Should Not Blame the Country They Are Living

Instead, should be grateful for the unique opportunity of doing something different and valuable overseas. The fact that different cultures can be a source of learning should be taken into consideration. However, if a person tends to be ethnocentric, i.e., this person thinks that his or her culture is superior to any other, then most likely will not tolerate "inferior" cultures. This person exhibits signals of arrogance in speech, body language, and in his or her acts. However, this person does not realize that *others* can quickly assess this observable behavior. In cultures collectivistic such as Brazil (Hofstede & Hofstede, 2005), where the group is important, not the person, signs of *show-off* are not tolerated. The group tends to segregate people who behave as if he or she was more important than the rest of the others.

#### 4.9. Attack the Solution and the Future, Not the Problem, The Past

Fisher & Ury (1981) argue that one should be "soft on the people and hard on the problem" (p. 12), implicating in preserving the relationship. Brazilians tend to preserve the relationship. Unfortunately, it is quite common in meetings, to attack the problem and the person who did it, focusing energy in the problem and in the past. It is counterproductive. One should focus the energy on the solution and the future. In meetings, for instance, it is helpful not to criticize what someone did wrong, but what can be done to repair it now and in the future, how to avoid repeating this situation. The same reasoning applies to people. Instead of exposing one person in front of the others, it is reasonable to talk in separate to this person not attacking the person, but the problem.

#### 4.10. Alliances Should Not Be Circumstantial, Rather be Ruled Primarily by Convergent Interests

Chrysler learned this lesson in the past. The alliance with the German Daimler did not prosper because both did not align their common interests first, but solely on circumstances (Clark, 2012). In the present case, however, the interests are complementary and interdependent. The outcome is success, as described before.

Finally, future research is encouraged regarding the evolution of the alliance between FIAT and Chrysler, now Fiat Chrysler Automobiles (FCA) in longitudinal studies, for instance. It is also recommended that further research be conducted on how North Americans and Italians expatriates working in FCA Brazil perceive the Brazilian context, regarding FCA workplace environment. Future expatriate candidates would be benefitted by previous knowledge before accepting or not the job position overseas.

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