

Sergio Marchionne and Change at Fiat

Who is Sergio Marchionne?

Sergio Marchionne holds dual Italian and Canadian citizenship and is proficient in both English and Italian languages. He has earned a bachelor's degree in philosophy, an executive master's degree in business administration, and a doctorate in law. His career began as an accountant at the Deloitte audit firm before taking on roles in the printing, entertainment, and chemical industries. In 2003, he was elected as a board member of the Italian automotive company Fiat, which is active in the automobile industry. Despite his relatively short experience in the automotive sector (4 years), he was appointed as the CEO of the company in 2004. Since 2004, he has overseen transformation projects for both Fiat (the third-largest car manufacturer in Europe) and Chrysler (the third-largest car manufacturer in the United States).

Whether in his office, official meetings, or even at award and reward ceremonies, Sergio Marchionne was known for presenting himself in an informal and straightforward manner. He often preferred simple attire over luxurious suits. He expressed his managerial philosophy by saying, "My role as a CEO is not about making decisions, but setting ambitious goals and assisting our managers in succeeding in achieving them."

His criteria for selecting various activity managers in the company primarily focused on their decision-making spirit, creativity, and their ability to challenge ideas and lead change, without neglecting other criteria. He reiterated the importance of giving managers responsibilities and the freedom to experiment with new ideas, acknowledging that there would be both successes and mistakes, and that tolerance for errors was essential.

Change process at Fiat:

When Sergio Marchionne assumed the position of CEO of Fiat in 2004, he became the fifth CEO to hold that position since 2001. At that time, Fiat was facing losses, had a poor reputation for the quality of its cars, experienced failures with its recent car models, and had strained relationships with labor unions. Sergio Marchionne dedicated the first 50 days of his tenure to visit various departments within the company, listen to the employees, and analyze the company's situation.

During this period, he discovered that the managers were not accustomed to taking responsibility for decision-making. Instead, all matters were typically escalated to the CEO for resolution. In most cases, the managers communicated with each other through intermediaries within

department secretariats, and much of their time was spent either settling immediate problems or avoiding them. The company was heavily influenced by engineers, and engineering was the primary path to becoming a manager. Engineers were the only ones responsible for developing new models, and they would then send the final models to the commercial and marketing managers after setting sales and pricing goals themselves (i.e., the engineers). This process was found to be inefficient and caused significant tensions between different departments.

After taking initial measures to reduce the company's debt, Sergio Marchionne decided to address the administrative problems mentioned earlier. For those he believed were unwilling to let go of the idea of sending all matters to higher authority for decision-making rather than taking on the responsibility themselves, essentially those who were resistant to change, he encouraged them to leave the company. In addition to this, around 2,000 managers were incentivized to take early retirement.

On the flip side, during his visits to the company's departments, Sergio Marchionne identified young and talented managers who often came from roles such as marketing, which was not the conventional path to ascending to positions of power, or from geographic regions like South America, where they were less influenced by the general management. In reality, these managers tended to be more independent and proactive. This attribute played a significant role in his selection of 20 managers who he believed were capable of driving change within the company.

Instead of relying on traditional evaluation methods, Sergio Marchionne personally sought out high-potential managers. In fact, he believed that this personal commitment helped him create a team whose members shared common values. These managers were responsible for the company's change project.

In this regard, Sergio Marchionne said: "When I give them more responsibilities, I ask them to bear the consequences. A manager who doesn't achieve a goal bears the consequences. I understand that failing to achieve a goal can be forgiven, but if I want to build good leaders, explanations and justifications should not be the norm. This has been a characteristic of Fiat's past, and we don't want to see it again."

Sergio Marchionne set an ambitious goal of achieving 2 billion euros (2.6 billion dollars) in 2007, even though he personally acknowledged that the goal was very high. Some considered it unrealistic, but he had the power to compel managers to think differently and challenge established practices. To promote integration and accelerate processes, he simplified the organizational structure by eliminating several hierarchical levels and replaced various committees in different departments with an executive committee that brought together different divisions, including trucks and tractors.

To manage the automotive business, he formed a team of 24 members responsible for ensuring communication between all parts of the company. To encourage idea sharing, he moved managers from one position to another and required members of the executive committee to assume multiple responsibilities within various aspects of the company.

Sergio Marchionne's role in challenging assumptions and reevaluating ideas was a key aspect of his leadership style. He continually questioned why Fiat had waited for four years to build a new model, which led to the identification of processes that could be streamlined. As a result, the Cinquecento car was developed and brought to market in just 18 months in 2006. Marchionne stated, "You start by removing some of the blockages this way, and people soon start catching on to what you're doing and get rid of them."

Challenging assumptions and reevaluating ideas were further reinforced by hiring new managers who were not necessarily from the automotive sector. He also used comparative analysis, not only with competitors but also with companies like Apple. This approach aimed to break free from established norms in the automotive industry and encouraged innovative thinking and faster decision-making processes.

The change did not only affect managers but extended to the workers as well. In many factories, the company suffered from inefficiency and a bleak work environment. Sergio Marchionne mentioned, "The easiest thing for me would be to close two plants and allocate the money to something else. But if we did that, we would have a workforce that is not satisfied... We have opened daycares and shops close to the factories, making it easier for people to balance their professional and domestic commitments. We have refurbished locker rooms and bathrooms. (...) We have done this because we believe our commitment to our employees goes beyond what is stipulated in the employment contract."

By 2006, Fiat had returned to profitability, and in 2007, the company achieved more than 3 billion euros in profits.

Questions

1. What type of change did Sergio Marchionne lead at Fiat? Explain your answer and provide evidence from the case.
2. How would you describe the change approach adopted by Sergio Marchionne? Do you find it appropriate? Justify your answer.
3. What were the motivations and motivational tools used by Sergio Marchionne in executing the change process? Provide evidence from the case. What alternative motivational tools could he have employed?