REUTERS/REBECCA COOK

CAN AN ITALIAN ELVIS MAKE FIAT-CHRYSLER DANCE?

Despite his rock star aura, Sergio Marchionne has his work cut out for him as he tries to meld and revive Fiat and Chrysler

BY LISA JUCCA, DEEPA SEETHARAMAN AND SOYOUNG KIM
GENEVA, SWITZERLAND, MARCH 25

THE DOORS OF THE GENEVA Motor Show have just slid open and immediately throngs of reporters and camera crews scramble to reach Fiat's stand. The Italian carmaker is unveiling the Freemont, one of its first models to borrow from the Chrysler playbook since it took a stake in the Detroit auto giant after its 2009 bankruptcy.

But the media isn't here for the car. They want Sergio.

Sergio Marchionne, who runs both Fiat and Chrysler, has a rock star appeal you don't see anywhere else in the global car industry these days. After two hours, he finally appears, tieless, in a dark turtleneck sweater over a white-and-blue checked shirt.

As always, he's wearing laceless shoes. Laces take too much time.

"Don't look at me," the Italian-Canadian drawls. "Look at the cars and how beautiful they are." Before taking questions, he keeps everyone waiting until the last Fiat brand presentation is over.

"Why is it like that?" asks one of his helpers, after the scrum has cleared. "This doesn't happen with other car CEOs."

Maybe it's because so much is riding on Marchionne. The car boss is trying to bring together two firms that have struggled in their respective markets for the past decade or so. This year he has to refinance billions of dollars of Chrysler debt and take the company public, with an initial public offering expected in the second half of the year. The plan also calls for Fiat to bump up its stake in Chrysler to 51 percent, and get the freshly combined group melded and motivated to lift its vehicle sales by more than 80 percent by 2014.

"This seems a Herculean task, even for a gifted manager such as Sergio Marchionne," says Thierry Huon, who heads the automotive team of Exane BNP Paribas.

It's also a huge gamble. In what's sure to be a landmark in the IPO calendar, watched by trade unions and politicians from Washington to Rome, Marchionne must sell the story of Chrysler and its partnership with Fiat as one of growth -- despite a fragile economic backdrop, scant presence in the world's largest auto market, China, and a truck-heavy vehicle lineup that's ill-suited for surging oil prices.

Investment bankers are licking their lips.

"He's like the Elvis Presley of the industry right now," said one U.S. banker who knows Marchionne well. "Not only because Fiat had been doing better and he's getting a lot of accolades for turning Fiat around. But it looks like he cut himself a great deal on Chrysler so he's looking like the smart guy in the room right now."

He charms the media. He barely sleeps. He's almost always in a slouchy black sweater, rain or shine, though he will occasionally don a tie if he happens to have a meeting in the Vatican or at the Italian Parliament.

If he does revitalise Chrysler, he will be doing something that eluded its two previous owners: Daimler AG, one of the world's most respected auto makers, and Cerberus Capital Management, a deep-pocketed Wall Street private equity group.

THE BOSS

THE SON OF AN ITALIAN "carabiniere" -- a member of the Italian paramilitary police -- Marchionne was born and raised in the impoverished central region of Abruzzi. His family moved to Toronto when he was 14 to escape what his father viewed as the confines of an Italian society obsessed with status over talent. The future finance-wizard started off by studying philosophy in Toronto, but quickly moved to law and accounting.

His background is in finance, not autos, but Marchionne earned kudos for his turnaround skills in 2004/5 when he saved Fiat, Italy's biggest industrial group with a century of history and a 200,000-strong global workforce, from near bankruptcy. The firm escaped a forced marriage with General Motors with $2 billion cash. He took the top job at Chrysler in 2009, hoping to follow in the footsteps of Italian-American businessman Lee Iacocca, the architect of Chrysler's revival in the 1980s. Iacocca had made his name with the pitch: "If you know a

NEW CAR: The new Fiat Freemont car is unveiled during the first media day of the 81st Geneva Car Show at the Palexpo in Geneva March 1, 2011. **REUTERS/VALENTIN FLAURAUD**

SERGIO MARCHIONNE: Marchionne, 58, has been spearheading the unlikely turnarounds of automakers Chrysler Group LLC and Fiat SpA. In addition to readying Chrysler for an initial public offering this year, the chief executive of the two automakers is also laying the groundwork for their eventual merger. He rules with an iron fist and demands the best from his direct reports. "He sees himself as an enlightened sovereign," one former close aide said. **REUTERS/DANIELE LA MONACA**

RICHARD PALMER: Palmer, 44, joined Fiat Auto in December 2006, two years into Marchionne's turnaround of the automaker. He came to Chrysler in June 2009, when Chrysler emerged from bankruptcy. With just $4 billion in cash and a slim product portfolio, Palmer immediately instated cost controls.On the chance to revive Chrysler: "I don't think somebody who does what I do for a living could say no." **REUTERS/REBECCA COOK**

MANY FACES: Fiat Chief Executive Sergio Marchionne poses for photographers with a new Bravo car in Rome January 31, 2007. **REUTERS/CHRIS HELGREN**

better car, buy it."

Known by some of his direct reports in Italy as "il Dottore" and by U.S. ones as "The Boss," Marchionne already runs the executive team with an iron fist, expecting everyone to adhere to his high standards, people who work closely with him say. Marchionne declined to be interviewed for this report, but Fiat and Chrysler made other executives available.

His 48 direct reports at both Chrysler and Fiat keep him updated by pinging one of the six smartphones -- three BlackBerries and three iPhones -- he carries in a black bag. One of the phones is for Fiat, and one for Chrysler, but his spokesman can't say exactly what he uses the others for. Marchionne responds swiftly and succinctly to messages: "Ok--S."

"He has a good mixture of brains and guts," says a senior Fiat source who has known Marchionne since well before he joined the company. "He can motivate people and create loyalty. He is also very tough. You can't make the same mistake twice, but the first time you will be forgiven."

At Chrysler, if you can make a case for what you need, insiders say, Marchionne will make it happen, in contrast to earlier Chrysler leaders who would approve projects but then come up with up only half the funding.

"You can't go to Marchionne and say 'I couldn't get it done' because of some excuse," Chrysler Chief Financial Officer Richard Palmer told Reuters. "You just need

JOHN ELKANN: John Elkann, 34, was appointed chairman of Fiat SpA in April 2010. The grandson of Gianni Agnelli, he is the heir to the Agnelli dynasty which has owned Fiat since it was founded in 1899. He plays a back-seat role to Marchionne in strategic decisions and is seen as a more conciliatory figure.

REUTERS/GIORGIO PEROTTINO

BOB KING: King, 64, took over as president of the UAW in June 2010, a year after Marchionne took the helm of Chrysler and Fiat. Through their health care trust, the UAW owns 63.5 percent of the automaker, which came to near-collapse in mid-2009. Chrysler's IPO will help monetize the UAW's stake. The UAW has been involved in the refinancing discussions, a person familiar with the matter told Reuters.

REUTERS/REBECCA COOK

to get it done."

Among signs of investors' enthusiasm for the man is the combined Fiat group's market value, which doubled from the time Fiat took management control of Chrysler to the end of 2010.

At 12 times its estimated 2012 earnings, Fiat is currently trading at a premium to peers, reflecting the implicit value of the Chrysler stake and high expectations for the Italian group. France's PSA Peugeot Citroen, for instance, only trades at 5 times forecast. If Marchionne succeeds in his goals with Chrysler, investors could see significant returns from a company that literally could not be sold for a dollar just two years ago.

Of course, Marchionne has had his missteps. He can be a combative negotiator who seeks no counsel and can shift his stance fluidly and without warning, according to people who have experienced his negotiating style. These people also say he has grown increasingly isolated from other Fiat executives over the years as he concentrated more and more power in his hands. The only person who's really close to him in the company's top ranks is Fiat Chairman John Elkann, a descendant of the wealthy Agnelli family which owns 30 percent of Fiat.

Marchionne is banking on past success to sell the Fiat/Chrysler integration, and he is piling up project after project to excite the market. At the start of this year he spun off Fiat's truck and tractor business from the group's carmaking activities, he met the first of three U.S. government targets to raise Fiat's stake in Chrysler, and -- with a Chrysler debt of $7 billion to refinance -- he's aired the possibility of an IPO of Ferrari, a Fiat brand. According to one person familiar with his thinking, he believes that the luxury brand is worth some 5 billion euros, more than $7 billion.

"Marchionne knows very well that there is a phase when you can promise and a phase when you must deliver," said a former close aide. "He is a real 'maestro' in managing expectations and is suggesting a range of options to show the company has got many alternatives. But his time is not indefinite." He added that the delivery phase could not be stretched beyond 18 months.

Marchionne has made no secret of his desire to raise Fiat's stake in Chrysler to 51 percent, a goal he has deemed his "Christmas wish." But before that is possible, Chrysler must pay back its U.S. and Canadian government loans per its 2009 bailout deal. A refinancing package is now being considered by Chrysler's board of directors, Palmer told Reuters, adding that the company is still in talks with the U.S. Department of Energy for low-interest loans.

People familiar with the matter say Marchionne's overarching priority is for Fiat to gain majority control of Chrysler as he is loath to invest a single cent until he owns it and can carry out a proper financial integration of the two companies.

Fiat currently owns 25 percent of the U.S. automaker and can increase its holdings to up to 35 percent without spending capital by reaching milestones agreed with Washington and intended to put Chrysler on sounder footing. It would need to buy a further 16 percent to have a majority stake in Chrysler.

"The year 2011 will be like the crossing of the desert," said a second top Fiat source. "Marchionne knows he has got few new models. But this is the year in which he will focus on buying Chrysler."

SHOTGUN WEDDING

FOR CHRYSLER, MARCHIONNE was the last hope.

By late 2008, the No. 3 U.S. automaker was going under and its owner, private equity firm Cerberus Capital Management, courted several possible buyers including Renault, Nissan and General Motors Co with no success. Under Cerberus, Chrysler had churned out some of the most poorly rated vehicles in the industry, including the Chrysler Sebring and the Dodge Caliber, matched by equally lackluster sales.

Inside Chrysler, engineering teams stopped working, and some divisions lost more than 200 people. From 2006 to 2009, the number of Chrysler employees fell 41 percent to a little more than 47,000. Inside the cars, cheap painted plastic had replaced stamped aluminum.

By the time Fiat took over in June 2009, around one third of the people in Chrysler's hometown, Detroit, were living below the poverty line compared with just under 14 percent nationwide. The company had scant goodwill among consumers, almost zero cash and a starved product line: "We had like $4 billion in cash, no product for 12 months," Palmer said of the moment when he started to examine the books as newly appointed CFO. "I was, you know, worried. Not worried like tearing my hair out worried, but you know, there was a long time to get through without any product in the pipeline."

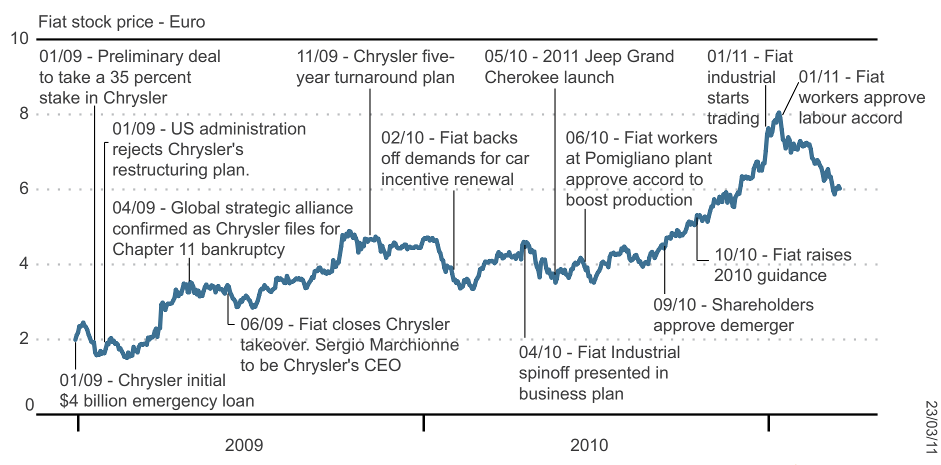
At one point, Cerberus chief Steve Feinberg offered to sell the automaker for one dollar to the U.S. Treasury. The offer was dismissed as a "joke," former autos task force chief Steven Rattner said in his 2010 book "Overhaul."

Marchionne had the kind of clout a dealmaker could only dream of and drove a hard bargain, refusing to put any money down for an initial 20 percent stake in Chrysler and a path to majority control.

The United Auto Workers union now owns a 63.5 percent stake in Chrysler through its affiliated VEBA healthcare trust. The U.S. government owns 9.2 percent of Chrysler and Canada 2.3 percent.

Throughout the discussions Marchionne

Fiat/Chrysler timeline - 2009 to present



Source: Thomson Reuters

Reuters graphic/Vincent Flasseur

"WE REALISED WE WERE GOING TO BE MARGINALISED AND LOOKED AT POSSIBLE SOLUTIONS."

PRIDE OF ITALY: An Italy fan celebrates after the World Cup soccer match between Italy and Australia, in the streets of downtown Frankfurt June 26, 2006. **REUTERS/MIRO KUZMANOVIC**

OLD AND NEW: A model of the former Fiat 500 is displayed in front of the new version at the European Auto Show in Brussels January 15, 2008. **REUTERS/ FRANCOIS LENOIR**

UPHILL TASK: A member of the Italian Fiat 500 car club drives during a rally at the Fossato di Vico village in central Italy July 1, 2007. **REUTERS/ ALESSANDRO BIANCHI**

maintained a combative stance that frustrated his counterparts, keeping U.S. officials wondering until the last moment if the deal would ultimately get done.

The truth is that Fiat needed this deal just as much as Chrysler. The Italian firm's reputation for quality was not high, particularly in the United States where Fiat had been mocked as standing for "Fix It Again Tony" before leaving the market in 1983. It may have avoided bankruptcy, but it was still too small and by 2008, when Lehman Brothers went down, things were looking shaky. At a meeting in Wisconsin in October that year, Marchionne greeted his executives with a slide reading: "The storm is approaching, batten down the hatches."

Backed by the Agnelli family, he wanted a partner that would help Fiat achieve 6 million units in annual sales, which he has said is the volume needed to survive in the increasingly competitive car business. Fiat and Chrysler together sold just over 3.6 million vehicles globally last year, well short of the target and a far cry from the more than 8 million vehicles sold each by Toyota Motor Corp and GM last year.

"We realised we were going to be marginalized and looked at possible solutions," said a person with a major interest in Fiat who, like many others interviewed for this report, spoke on condition of anonymity. "The only real opportunity that came along was Chrysler."

Fiat had little presence in the two largest auto markets, China and the United States. Absorbing Chrysler would immediately cut the combined group's reliance on Italy to 15 percent of its global vehicle sales, from as much as a third. "We're in the U.S. and they're not and they don't know how," Chrysler head of quality Doug Betts said in an interview. "We're poor in Europe; we need their help if we're going to get our cars in. We're poor at small cars, they can help us. We're good at big cars, we can help them."

Nearly two years into their partnership, Fiat and Chrysler operations are drawing closer. About half their supply chain is shared. Executives speak to their trans-Atlantic counterparts several times a week. Last year, Marchionne said the company could build a Maserati SUV on Chrysler's Jeep Grand Cherokee platform. Chrysler is now developing a wider version of Fiat's Alfa Romeo Giulietta on a new platform.

"The relationship is very positive. We brought in our experience and we are sharing technologies. There is good chemistry," said Stefan Ketter, Fiat's determined chief manufacturing officer who is known at Chrysler as 'the Creator.'

Marchionne's revival strategy for both firms now hinges on boosting combined sales to 6.6 million vehicles by 2014 -- a target seen by many as a stretch. But the companies certainly appear stronger together than apart. "In Chrysler, we have found a twin sister," Marchionne told reporters at the Geneva show.

GIVE A 'SHIT'

THE DEAL WAS DONE a week before Marchionne's birthday in June 2009. Immediately, Marchionne furiously redrew Chrysler's product plans. He brought forward launch dates, tossed out some proposed changes and introduced new ones -- only to alter the plans some more.

In mid-2009, during a road trip to Toronto on his holidays, Marchionne found himself examining the cars that dotted the roads. When he returned, he pushed for a more dramatic makeover of the line-up, including a complete interior overhaul and a new name for the Chrysler Sebring, now known as the Chrysler 200.

"You've got to think, 'Can I make it and can we make it at a reasonable cost and can I deliver it in the timeline that the boss just put out in front of us?'" Scott Garberding, senior vice president of manufacturing told Reuters.

Then in January 2010, Chrysler's head of design Ralph Gilles met with Wieden + Kennedy, the advertising agency that conjured up Nike Inc's "Just do it" slogan, to discuss a marketing strategy for Dodge, a vaunted muscle car brand that had wasted away into a cheap macho one.

"They asked me what we needed, and I said we all needed to give a shit," Gilles said. "I said 'I give a shit' so many times at so many meetings, they made posters that just say, 'GIVE A SHIT.'" The agency made 75 posters with that slogan, one of which hangs in Marchionne's fourth-floor office in the "banana wing" of Chrysler's headquarters, where he sits flanked by company's top engineers and product developers. His presence there, rather than in a vast executive suite on the 15th floor, signals a desire to be embedded at the company's operational core. Immediately after the Chrysler deal was done, he raised the bar on expenses: requests for sums "well under" $1 million had to be approved by Palmer; larger requests were routed to the boss.

After the Jeep Grand Cherokee launch in the summer of 2010, he asked to meet with the auto parts suppliers that had quality problems. "It's like walking into the Spanish Inquisition," said Dan Knott, the senior vice president of purchasing and supplier quality, who was at the meetings last year with Betts, the quality chief, and Garberding, the head of manufacturing. "Several of them then went back and changed some of their quality processes immediately."

Marathon weekend meetings, work calls on Christmas Eve, BlackBerries buzzing throughout the night -- the torrent of work was unrelenting. But long-time Chrysler executives were energised by what was happening around them. The focus was now on cars, not costs, and Marchionne was leading the charge.

"There was certainly a cadre of people here who were very hungry to go run a car company in the right way," Garberding said. "He provided a picture for us that I think a lot of us said, 'Yep, that's great, I'm in.'"

TIES FOR THE BANKERS

THE CHANGE FELT IMMEDIATE at Chrysler's sprawling headquarters in Auburn Hills but Wall Street bankers, analysts and rivals still had doubts. "We went to Detroit January 2010 and most people were asking us --'Are you going to be here next year?'" Palmer said. A year later, the questions focused on the planned IPO. "So, from one extreme to the other now."

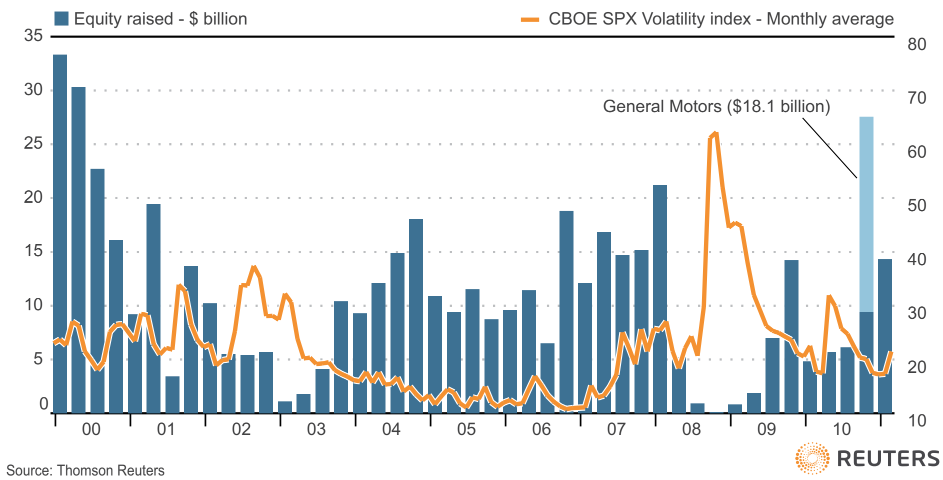
The Chrysler float is a way off, but once the stock trades it could be valued in the $10 billion to $23 billion range, based on average automaker multiples of between 3-5 times estimated 2012 earnings before interest, tax, depreciation and amortization, according to UBS Investment Research analyst Philippe Houchois. GM trades at slightly over three times; Chrysler would likely price at a discount to the larger firm.

Before the IPO, Chrysler is looking to refinance its $7 billion debt with the U.S. and Canadian governments, in a deal that would include term-loans and bonds. Its IPO game plan is widely expected to mirror the path taken by GM, which secured a $5 billion revolving credit facility -- like the credit on a card -- ahead of its record-setting $23.1 billion IPO in November. Similarly, Chrysler is also expected to seek a facility of between $2 billion and $3 billion that will remain undrawn, people familiar with the financing efforts have said.

Chrysler is likely to nominate a group of banks for the credit facility -- which costs banks -- and then give them leadership positions for the term loans, the bonds and

Volatility and IPOs in the US

Is Chrysler set to float just as the market gets more jumpy?



Source: Thomson Reuters

Reuters graphic/Vincent Flasseur

"BANKERS ARE LOOKING TO DO BUSINESS AGAIN WITH CHRYSLER."

the IPO -- which bring in fees. Bankers, setting aside memories of how even senior secured lenders lost out in Chrysler's bankruptcy, are already circling, focused on plum underwriting roles in both the float and the merger. Goldman Sachs and Morgan Stanley, which were among the four major creditors that lost out when Chrysler went under, are now advising the company on refinancing options, people familiar with the matter said.

"There are memories, but people have short memories. I do think that institutions are more wary of Chrysler versus GM, but bankers are looking to do business again with Chrysler," said one investment banker based in New York. The potential fee pool on the float isn't likely to come near the $274 million or so bankers picked up on GM's IPO, but there will be extra fees from underwriting bonds and term-loans, plus it's a high-profile deal.

In the run-up to all this, Chrysler executives have been visited in recent weeks by Wall Street bankers pitching ideas for the debt refinancing and broader IPO strategy. The meetings in February and March prompted a debate among Chrysler executives at its Auburn Hills headquarters, about -- of all things -- whether they should wear ties.

"We said 'Yeah, we should wear ties,' because somebody might think something was weird about us not having ties on," said Betts, Chrysler's head of quality. Marchionne himself used to wear a suit and tie to board meetings in his early days at Fiat but over time started to appear with his tie slightly loosened, then would remove it, roll it and put it on the table. In the end he just wore a jumper -- but he stuck with a tie to meet the Pope.

'ENLIGHTENED SOVEREIGN'

MARCHIONNE DOES NOT usually do deferential -- "he sees himself as an enlightened sovereign," says the former close aide. His combative and competitive stance has alienated many in the auto world and made him prone to public spats. He created a storm in Washington last month, by loudly complaining at a conference that he had received "shyster loans" from the U.S. government when taking control of Chrysler.

But there was at least one other time he wore a tie -- when he spoke in Italy's parliament. This year, Marchionne had to rush to meet Prime Minister Silvio Berlusconi and Italian cabinet members to reassure them Fiat would "keep its heart" in Italy. In February he'd stirred up a ruckus among Italian politicians by flagging the possibility that Fiat might escape Italy's died-in-the-wool unions and move the merged company's headquarters to the United States within two years.

Chairman John Elkann was swift to assert that Fiat would not abandon homebase Turin, and Marchionne duly made an appearance

ALLIES AT THE TOP: Fiat Chairman John Elkann (L) and Chief Executive Officer Sergio Marchionne (R) during the official Fiat investor day in Turin April 21, 2010.
REUTERS/GIORGIO PEROTTINO

in parliament to support him. But people familiar with his strategy say Marchionne is nonetheless keen to make such a move. The idea -- which has not yet been discussed with Fiat's board -- includes keeping Turin as the centre for European operations and creating a possible separate hub in Asia, these people say.

"The location where you establish the legal HQ is where you pay taxes," said the second top Fiat source. "If I pay 70 percent tax in Italy and only 30 percent in the U.S., it's a no brainer where to go."

Of course, such talk is also an important weapon in the complex political mission that Marchionne has taken on, of trying to improve productivity in the eurozone's third-largest economy. Production costs in Italy have risen 25 percent more than in Germany in the last decade.

He first tried to close loss-making Italian car plants, but changed tack when he saw the backlash that followed. Fiat, he promised, would invest 20 billion euros in Italy in exchange for more reliable shifts, a reduction in chronic absenteeism and shorter breaks on the assembly line. He has managed to overcome opposition by Italy's largest engineering union at two plants in Italy, and plans to introduce similar deals at all Italian factories. Their 22,000 employees produce 650,000 cars a year, compared with the 600,000 that are rolled out of Fiat's Polish plant, Tychy, which employs just 6,000 people.

"What Marchionne did in walking out of national labour accords was a healthy shock to the system," said Tito Boeri, economics professor at Italy's Bocconi University. Economists and labour experts believe Marchionne's groundbreaking labour deal could be the basis for similar accords elsewhere in Italy.

WHO NEXT?

WHETHER SUCH PRODUCTIVITY gains will be enough to help make Fiat a real growth story isn't clear. Only after the government loans are repaid can Fiat buy a majority share in Chrysler, and doing it by the end of this year looks a bit of a stretch to analysts, bankers and executives alike. But Marchionne has also said the high interest rates are untenable -- Chrysler's bailout loans from the U.S. and Canadian government carry rates ranging from 7 percent to as high as 20 percent.

A Chrysler IPO would come on the heels of GM's blockbuster stock sale and, hopefully, as the auto market starts to recover from a punishing four-year downturn. If it happens that could make Chrysler's return to Wall Street -- for the first time since 1998 -- the most unlikely success story.

"It is going to be fascinating to watch this so called 'man of industry' endeavour to turn Fiat-Chrysler into a viable business," Bernstein Research analyst Max Warburton said in a March 3 report. "If he succeeds, the upside for investors who keep the faith will be very significant. But the professors and the economists would probably argue that the historic record of auto industry deals and turnarounds is poor."

Chrysler has, after all, claimed high-profile victims before. When German automaker Daimler AG announced its $36 billion deal to acquire Chrysler in 1998, then Daimler CEO Juergen Schrempp called the tie-up a "match made in heaven." By 2007, Daimler had sold 80 percent of Chrysler to Cerberus for $7.4 billion. Cerberus's investment was wiped out in bankruptcy in just two years.

Marchionne's relying heavily on the force of his personality to achieve his goals.

"People see that this is a growth story, which potentially could be an interesting investment," Palmer said, referring to potential Chrysler investors. "The credibility of Marchionne I think is pretty critical to that belief, and the credibility he has is also obviously connected to his successful re-launch of the Fiat organisation in Europe."

Within Fiat headquarters, many executives working for him are extremely loyal, led by Fiat's business development chief Alfredo Altavilla. He was Marchionne's right hand man during the tense negotiations with the U.S. Treasury over taking on Chrysler.

Even so, some insiders complain Marchionne keeps his cards very close to his chest, rarely informs the board of the decisions he is about to take and often keeps his aides in the dark about his schedule or plans until the very last minute. Surprise has its uses, but it's an attitude some of his top executives couldn't take. Luca De Meo, a former Alfa Romeo brand manager once tipped to become head of Fiat Auto, left in 2009 for Volkswagen. Luigi Gubitosi, former chief financial officer, left for telecoms group Wind.

"One of his weakest points is that he (Marchionne) is almost alone at Fiat," said the second top Fiat source. "He has John Elkann backing him and protecting him. But no-one else."

SUCCEEDING SUCCESS

AND PEOPLE ARE WONDERING what plans Marchionne has for the group's future without him. What if something were to happen to him? Can the company survive without him? Can it grow?

"Will Sergio burn out before he gets a team that can be self sustaining? Who's his successor?" said Tom Stallkamp, a former Chrysler executive.

In a lengthy filing with U.S. regulators last month, Chrysler said the loss of Marchionne in particular would be detrimental to its business outlook. The filing also noted that if Marchionne lavished more time and attention on non-Chrysler matters, the automaker could suffer as a result.

Fiat insiders say Marchionne has not yet lined up a clear successor. He is grooming some second and third-tier managers, but this is a slow process that may take several years. A person familiar with Marchionne's thinking said he is focused on developing internal talent at Fiat and Chrysler, rather than scouting for candidates outside.

"I don't know how far we are along on Sergio's scale of being able to operate in the right way," said Doug Betts, Chrysler's quality chief. "The people coming up have the right instincts ingrained and they're going to continue to lead the company in the right direction," he added.

The senior Fiat source who has known Marchionne for many years said: "It is a simple fact that Fiat/Chrysler will need Marchionne for the next three and four years, then we can talk about succession... If he goes, we may have to look for alternatives, also external ones."

When asked about a succession plan during an earnings conference call in January, Marchionne said simply: "I intend to stay here until we get everything done."

Later that week, at a San Francisco industry conference, Marchionne offered a more considered response to questions in the media about his plans for the future.

"As one journal delicately put it -- what happens if I step off a curb and get hit by a bus?" Marchionne told a spellbound audience of dealers, analysts and reporters. "This is an example of the tendency to mythologise chief executives.

"The myth is based on the mistaken image of one great man who resolves all of an organisation's problems by himself."

(Lisa Jucca reported from Turin, Milan and Geneva, Deepa Seetharaman reported from Detroit, Soyoung Kim from New York; Additional reporting by Kevin Krolicki and Bernie Woodall in Detroit and Gavin Jones in Rome; Editing by Sara Ledwith, Claudia Parsons and Jim Impoco)

PONDERING THE FUTURE: Fiat Chief Executive Sergio Marchionne looks on during a news conference in Turin April 20, 2010. **REUTERS/GIORGIO PEROTTINO**

ANALYSIS

WHO'S THE POLITICIAN? Italy's Prime Minister Silvio Berlusconi (R) jokes with Fiat Chief Executive Sergio Marchionne after he signed a contract with a Chinese car company in Rome July 6, 2009. **REUTERS/GIAMPIERO SPOSITO**

MARCHIONNE OFFERS REFORM MODEL TO STAGNANT ITALY

BY GAVIN JONES AND LISA JUCCA
ROME, MARCH 25

SERGIO MARCHIONNE PERFORMED a near-miracle in turning around the fortunes of Italy's flagship industrial company Fiat. Now business leaders and economists hope he can do the same for its hidebound and ailing economy.

With Prime Minister Silvio Berlusconi embroiled in yet another sex scandal and bent more on political survival than policy initiatives, economic reform in Italy seems to have been commandeered by the charismatic Italian-Canadian businessman.

For almost a year Marchionne has been facing down Italy's largest engineering union in a battle that could eventually change labour relations in the euro zone's third largest economy more than any government has done for decades.

He announced the closure of one unproductive car plant in Sicily. He has threatened to stop investing in the others and move output abroad unless factories accept tougher rules on working hours, sick pay and strikes. And he has formed new companies at the local factory level which operate outside employers' confederation Confindustria, so they are not bound by the collective labour rules negotiated between the confederation and the trade unions.

"What is happening at Fiat marks an important turning point in Italy's system of industrial relations," says labour law expert Pietro Ichino. "It is greatly increasing the scope to set factory level deals in contrast to national contracts."

The current system, based largely on blanket, industry-wide agreements, fails to adequately recognise different conditions from company to company and has been one reason for the dramatic loss of competitiveness of Italian industry. In the last 10 years production costs have risen 25 percent more than in Germany.

There is no doubt Italy is in dire need of reform.

Its economic growth consistently lags its euro zone partners and, according to International Monetary Fund data, it was the world's fourth most sluggish economy between 2000 and 2010, ahead of Zimbabwe, Eritrea and Haiti. Real disposable income has been stagnant since 1990 and the average hourly wage, adjusted for the cost of living, is 30-40 percent below that of its three main European peers, Germany, France and Britain. It is the only euro zone country where per capita output is lower now than it was in 2000.

ANGRY WORKER: A Fiat union worker holds a picture of Fiat Chief Executive Sergio Marchionne during a protest outside Fiat Mirafiori car factory in Turin January 14, 2011. **REUTERS/GIORGIO PEROTTINO**

Of course there are many reasons for this state of affairs, but analysts agree that one factor is the rigid and centralised system of industrial relations and an inability to increase productivity in line with its competitors.

This is where Marchionne comes in. Under a best case but far from automatic scenario, his shock therapy for Fiat, which dominates a domestic car industry worth 11 percent of GDP, could pave the way to similar changes in Italy's broader economy.

"HEALTHY SHOCK"

TITO BOERI, ECONOMICS professor at Milan's Bocconi University, says Marchionne has provided "a healthy shock" to worker-union relations, and the Fiat chief is being egged on from the sidelines by his peers in Italian big business.

"We have to reform the collective bargaining system and the Fiat example is a good one to follow," says Confindustria president Emma Marcegaglia.

She has no concerns about Fiat's "opting out" of Confindustria's labour accords with unions which she says should now be superseded by a more flexible approach.

Last June Marchionne won a first workers' referendum in favour of his proposals at the southern plant of Pomigliano, near Naples, and in December the second victory came, narrowly, at the Mirafiori plant in Fiat's historic base of Turin.

Both times he faced down the opposition of Italy's largest engineering union, the hard-line FIOM, and won the backing of more moderate workers' bodies. Referendums are due next in the plants of Cassino, in central Italy, and Melfi in the south.

FIOM has held a string of strikes and negotiations have long ago given way to intense mutual acrimony with management. "Union entrenchment needs to be defeated, destroyed, wiped out," a senior Fiat source told Reuters, asking not to be named so he could speak freely on a sensitive subject.

Unions have historically dominated Italy's labour relations and are widely blamed for rules that over-protect those with permanent jobs in traditional sectors, while excluding women, the young and the growing numbers on temporary contracts.

Italy's employment rate, at just 57 percent, is seven points below the euro zone average and the gap is 12 points among women. In the decade to 2009 productivity per hour worked rose just 3 percent versus a euro zone average of 14 percent.The jury is out on how far Marchionne's crusade at Fiat can change all this.

"What happens next depends on many different factors," said Boeri, "but I do think it is unavoidable that Italy will move towards a system with more emphasis on plant level accords."

However other economists say Marchionne's hard line is no panacea for Italy's ills and doubt his example will be followed.

"Italy's productivity problems don't have much to do with coffee breaks and sick leave," said a top Bank of Italy official who asked not to be named. "They are more about inadequate investment in research, education and infrastructures."

Labour law expert Ichino said he doubted many Italian companies would have the strength to follow in Fiat's footsteps. "I think it is more probable the Marchionne model will be followed by big multinationals that invest in Italy than by Italian companies already operating here."

That is, assuming foreign firms even come to Italy. A study by the German-Italian chamber of commerce last month showed German companies present in Italy find it a less attractive place to do business than France, Spain and Portugal. Italy ranked bottom in nine of 13 key business factors and second last in three, highlighting a progressive decline in areas such as tax conditions and reliability of payments.

UPHILL STRUGGLE

DESPITE HIS VITAL VICTORIES in the factory ballots at the Turin and Naples plants, Marchionne still faces an uphill struggle to convince Italian workers that the future will be better if they follow him.

A study of the poll at Turin's Mirafiori plant conducted by researchers at the European Commission and Cambridge and London universities showed most of those who voted in favour only did so because they feared losing their jobs. The FIOM union says it is not bound by the referendum results and plans more strikes.

"You don't boost competitiveness by slashing workers' rights, that doesn't help the company or Italy," said Angela Montuori, one of hundreds of Fiat workers protesting outside the gates of the Pomigliano plant near Naples.

Marchionne says if he can increase the efficiency of his factories in Italy he will also raise salaries, which are notoriously low by European Union standards, to the levels enjoyed by factory workers in France and Germany. An average factory worker in Italy takes home some 1,300 euros per month, compared with around 2,000 euros in Germany.

Marchionne, who grew up in Canada where his father moved for work, has polarised public opinion almost as much as Berlusconi.

Supporters say his determination and blunt, plain-speaking style, which is strikingly unusual in Italy, is exactly what the country needs. They see parallels with Margaret Thatcher, the former premier who broke British trade union power in the 1980s and opened the way to years of buoyant economic growth.

Critics say he is an arrogant reactionary who is capitalising on recession to roll back basic workers' rights.

Even within the trade union movement, the Fiat boss elicits sharply diverging views.

"The path taken by Marchionne might help him increase his stock options but it's not what this country needs," says FIOM leader Maurizio Landini.

Yet some moderate unionists see him almost as a saviour. "I believe in this man, so far he has kept his promises," says Vincenzo Aragona, a representative of the Fismic union at Mirafiori, where he has worked for over 40 years.

"When he joined Fiat, production had come to a halt, the market was bad, he was the right person at the right time."

His dour approach is worlds away from that of Berlusconi, an extrovert charmer who for 17 years has been espousing the need for a revolution of Italy's economy, but consistently failed to deliver.

"We can't wait any longer, the country needs a government that can govern," says Marcegaglia of Confindustria.

Ichino was equally scathing of government inertia. "It is wasting the chance offered by the Fiat affair to promote a sweeping reform of industrial relations that could make the system less cumbersome and inconclusive," he says.

GERMAN MODEL

GERMANY, THE STRONGEST economy in Europe and the world's second biggest exporter after China, shows the possible macro-economic effects of reforms agreed at the company level. Its current success, with impressive productivity gains and GDP growth, is often attributed to the welfare reforms passed by Gerhard Schroeder's socialist government after German unification, but economists say changes adopted by employers were equally important.

Companies in Eastern Germany said they could not afford the minimum wage decided at the national level and, like Marchionne, walked out of their employers' associations and regional labour accords.

Claus Schnabel, a labour expert and economics professor at Nuremberg's Friedrich-Alexander University, says Fiat's initiatives are similar to those followed in the past by German auto giant Volkswagen and its smaller rival Daimler.

Bocconi University's Boeri said there were parallels between Marchionne's drive and what employers did in Eastern Germany in the 1990s.

"In Germany it was a catalyst for important changes to the collective bargaining system and it is only to be hoped that Marchionne's actions will have the same effect here," he said.

(Additional reporting by Laura Viggiano in Pomigliano; Editing by Claudia Parsons and Sara Ledwith)

ASSEMBLY LINE: Fiat workers assemble cars at an automobile factory in the southern Italian town of Pomigliano January 30, 2009. **REUTERS/STEFANO RENNA/AGNFOTO**

COVER PHOTO: Chrysler Group Chief Executive Officer Sergio Marchionne at a news conference at Chrysler headquarters in Auburn Hills, Michigan December 17, 2009. **REUTERS/REBECCA COOK**

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