Chapter 4 Case Study

Fiat Italia: Reverse transfer of compensation policies

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The debate about compensation in multinational companies has been full of examples of how these companies pay local wages in low-income countries. Nevertheless, little attention has been devoted to the transfer of low-pay policies between developed countries in which these firms are located. When in 2009 an Italian flagship company took a significant stake in an American carmaker few people could imagine how much the wage parameters of the 'dominated' company would influence the European firm. Perhaps this reverse transfer of compensation policies was clearly shown when the Italian's management decided to walk out of Italian collective bargaining agreements at the start of 2012 in order to free the company from national wage standards. Apparently, in the name of competitiveness this decision was made in an attempt to import the low pay levels set by the American company's operations. The model of union–management collaboration provided by the United Auto Workers (UAW) in the USA was the inspiration for Italian management. In the spring of 2009 UAW reached a difficult concessionary agreement with these two companies and the US government to avoid the bankruptcy of the American firm. The leaders of the union unanimously agreed to important concesions on compensation and benefits including agreements on overtime, holiday and cost of living pay. The American manufacturer, which had been using a two-tiered wage system for decades, distinguished between workers hired before 2007 and paid $28 an hour and new hires getting $15.78 an hour and reduced benefits. Curiously, the restructuring plan conditions imposed by the US government on American automakers seem now to be becoming an international benchmark of compensation reduction in an industry affected by overcapacity and demand decline. Some union representatives think that in the age of globalization jobs can only be defended by competing on low wages. This poses a difficult alternative to rank and file employees who have to choose between unemployment or worsening working conditions. Recently the Italian firm in question stated that the two-tier wages system is no longer viable and one set of wage rates is necessary which clearly recognizes the participation of the workers in the profit-generation capability of the plant.

Questions

1. How do you think globalization and declining demand are affecting compensation policies?
2. If a highly unionised company terminates collective bargaining agreements, what are the consequences for its employees?

3 What are the main goals of the Italian firm's CEO in your view? Are they importing low-wage policies from a subsidiary? Is he trying to impose a unique pay system across the whole company to reinforce control? Is he simply imitating the HR policies of a hegemonic state such as the USA? Discuss.

4 Using the internet and other resources, research what the consequences of the introduction of a two-tier wages system can be in terms of equity. Why do you think some want to eliminate that system?

5 What compensation policies can companies implement in order to suceed in the global economy? Explain your suggestions.