

Executing a highly successful turnaround at nissan management essay



In March 1999, Renault of France and Nissan of Japan signed a partnership deal that would make the combined company the fourth largest automaker in the world. 1 The alliance aimed to “ establish a powerful automotive group and develop synergies while conserving the corporate culture and identity of each brand”, 2 and on paper the two companies complemented each other well. 3 The financial situation at Nissan, however, was in a critical state with debts of over \$20 billion, and the company had incurred losses for seven of the previous eight years. The company suffered from unprofitable models, a keiretsu legacy system where \$4 billion were tied up in cross-holdings, high procurement costs, 4 and established business practices that were “ wrecking huge damage on the company.” 5

1 Ghosn, Carlos, “ Saving the Business without Losing the Company”, Harvard Business Review, Vol. 80, No. 1, Jan. 2002

2 “ Principles and Objectives”, <http://www.renault.com/en/groupe/l-alliance-renault-nissan/>

3 Due to the scope of the examination, the strategic rationale or terms of the alliance will not be considered

4 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

5 Ghosn, Carlos, “ Saving the Business without Losing the Company”, Harvard Business Review, Vol. 80, No. 1, Jan. 2002

6 Ibid

7 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

As part of the alliance agreement, Carlos Ghosn, previously Executive VP at Renault, was appointed Chief Operating Officer (COO) of Nissan and was tasked with turning around the company. Ghosn stated that it was “ quite literally, a do-or-die situation: Either we’d turn the business around or Nissan would cease to exist.” 6 Much to the surprise of his critics, Nissan was profitable after only eighteen months (October 2000), while the company’s results as of early 2002 showed that the turnaround had been a success. In May 2002 Ghosn presented a new “ Nissan 180” plan that aimed to achieve 8% operating profitability, an additional 1, 000, 000 vehicles in sales, and zero automotive debt by April 1, 2005. It was unclear at the time, however, whether the company could maintain momentum and meet the targets. 7

This paper critically assesses Ghosn’s approach to turning Nissan around from 1999 to 2002 and evaluates whether Ghosn succeeded in positioning the company for future competitiveness. Section 2 presents the strategic criteria for evaluating whether Ghosn’s approach was successful. In section 3, Ghosn’s execution of the required turnaround is analysed in more detail. Section 4 considers the implications of the timing of the turnaround. In section 5, two qualifications are highlighted. Finally, an overall evaluation of Ghosn’s approach is presented in section 6. CM-J41 Strategy Execution 48h
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2. Strategic criteria for evaluating Ghosn's approach

To evaluate Ghosn's approach to reviving Nissan, two strategic criteria exist that would constitute a successful execution of the required turnaround if met: restoring Nissan to profitability, and ensuring that Nissan was well-positioned for long-term competitiveness. First, returning Nissan to profitability is a task that can be evaluated by "hard" metrics such as overall profitability margins and number of company models that were profitable. Furthermore, given the financial situation at the company, the speed at which profitability was restored was also crucial for success.

Second, positioning Nissan for sustainable long-term growth must be evaluated by more "soft", often intangible, metrics. There are numerous approaches to formulating and evaluating a strategy (e. g. Tilles 1963, Porter 1980). However, this paper takes the "Nissan 180" plan as "given" and focuses the analysis on the extent to which Nissan was optimally positioned as of May 2002 to execute the strategy going forward. 8 Three criteria are deemed crucial for Nissan to successfully execute the "Nissan 180" plan: First, employee support and management of cultural differences. This includes employee buy-in and a successful alleviation of potential resistance to change, sensitivity to and leveraging of existing corporate and national cultures, and renewed business practices and reward system to drive behaviour. Second, correct organisational structure and core competencies for the future. Third, healthy relations with key stakeholders, primarily employees, customers, suppliers, and the government. 9 Taken together, the tasks and requirements that would need to be met in order to for the turnaround to be deemed successful are listed in Box 2. 1.

8 The underlying assumption is that Nissan aims to maximise shareholder value, but that in order to do so the relations with a large number of stakeholders must be actively maintained and managed.

9 Pogrebnjakov, Nicolai, “ Strategy execution” lecture 8 Powerpoint, Fall 2010; Kaplan, Robert S., and Norton, David P., The Execution Premium, HBS Press, 2008; ; Kaplan, Robert S., and Norton, David P., “ Using the Balanced Scorecard as a Strategic Management System”, Harvard Business Review, Vol. 74, No. 1, January 1996

Box 2. 1 – Criteria that would deem the turnaround a success if fulfilled

1. Restoring Nissan to profitability as quickly as possible
2. Enlisting employee support and managing cultural differences
3. Ensuring correct organisational structure and core competencies for the future
4. Maintaining healthy relations with key stakeholders

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3. Ghosn’s execution of the required turnaround

This section analyses Ghosn’s approach to meeting each of the criteria set out in Box 2. 1 above. Numerous approaches exist to measure and quantify intangible assets, such as scorecard approaches, direct intellectual capital methods, ROA, and market capitalisation measures. 10 Given the limited

information in the case and the scope of the exam, however, the following analysis will be primarily qualitative in nature.

10 “ The four approaches for measuring intangibles”, <http://www.sveiby.com/articles/IntangibleMethods.htm>

11 Pogrebnyakov, Nicolai, “ Strategy execution” lecture 5 Powerpoint, Fall 2010

12 Ghosn, Carlos, “ Saving the Business without Losing the Company”, Harvard Business Review, Vol. 80, No. 1, Jan. 2002

13 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

Criterion 1 – Restoring Nissan to profitability as quickly as possible

Given Nissan’s precarious financial position and its business practices at the time, restoring profitability required complex change, i. e. a large transformation in a short period of time. 11 Ghosn displayed a sense of urgency right from the beginning and was not hesitant in initiating drastic changes. He boldly stated at his appointment that he would step down if Nissan had not returned to profitability within two years, and within the first month he had created nine Cross-Functional Teams (CFTs). 12 The CFTs were put on the “ fast track” and had three months to develop recommendations for turning around the company. Within six months of his appointment, Ghosn had communicated the “ Nissan Revival Plan (NRP), and from October 1999 the company shifted from diagnosing and planning to

executing the turnaround. The NRP included harsh measures such as headcount reductions, plant closures, and increased procurement savings, but also focused on R&D and improving Nissan's brand image.

In March 2002 the NRP had been accomplished, one year ahead of schedule. 13 One could question the planned nature of the strategy formation process, as well as the ostensibly top-down approach to executing the strategy, but in regards to restoring Nissan to profitability the results clearly show that the turnaround was highly successful.

Criterion 2 – Enlisting employee support and managing cultural differences

An extremely important element of not only the turnaround but also of the future organisational performance of Nissan was that employees were supportive of the many changes. Employees do not inevitable resistance change, but rather resist the uncertainties and potential negative effects on their interests (e. g. authority, status, and rewards) that the change CM-J41 Strategy Execution 48h Written Exam 29 October 2010 Page 5 of 9

could entail. 14 Although not explicitly apparent from the literature, the drastic shake-up of established business practices and the large reduction in headcount (14% over three years) at Nissan meant that there was most likely a large degree of uncertainty among employees and some degree of resistance to the changes.

14 Palmer et al., "Managing Organizational Change", McGraw-Hill, 2nd edition, 2009, pages 159-173

15 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

16 Ghosn, Carlos, “ Saving the Business without Losing the Company”, Harvard Business Review, Vol. 80, No. 1, Jan. 2002

17 Ibid

18 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

Ghosn managed the potential resistance to change through three main methods, namely confidence, communication, and engagement. First, he publicly stated several times that Nissan had the right employees to achieve profitability in less than two years, and backed this up by declaring that he was ready to step down if the profitability targets were not met. Second, Ghosn believed that honest communication was the only way to get employee buy-in, even during tough changes. 15 Third, Ghosn actively engaged Nissan employees in the strategy formation process. For example, Ghosn was the first manager to walk around the whole company and meet each employee, and he also held interviews with several hundred managers to receive their input and did not impose decisions in a top-down fashion. Furthermore, through the CFTs, Ghosn “ mobilized Nissan’s own managers... to identify and spearhead the radical changes that had to be made.” 16

Ghosn also had to manage the organisational and national cultural differences and acknowledged that the “ most fundamental challenge [facing the company] was cultural.” 17 Key cultural challenges included

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The keiretsu partnerships

A consensus approach to decision-making and a focus on group harmony

Low-risk tolerance due to fear of making mistakes

A culture of blame rather than responsibility

Promotion and compensation by seniority and educational level

Life-long employment contracts

Competitor-focus rather than a customer-focus

Poor coordination and communication among different departments

Lack of clear profit orientation and a focus on the wrong metrics¹⁸

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Ghosn addressed these issues by unwinding the keiretsu partnerships, ensuring that all managers had clear responsibilities, implementing a reward system that was centred around performance (and not age, gender, or nationality), introducing share options as part of the incentive scheme, and establishing permanent cross-functional (and later cross-company) teams. Nonetheless, Ghosn was careful to maintain the most crucial aspects of the corporate and national culture in order to “ protect the company’s identity and the self-esteem of its people.” ¹⁹ Ghosn was vehemently against leaders who imposed their culture on others, and he was meticulous in screening the

expatriates who were to accompany him to Japan to ensure that all foreign managers would respect Nissan and the Japanese culture. 20

19 Ghosn, Carlos, “ Saving the Business without Losing the Company”, Harvard Business Review, Vol. 80, No. 1, Jan. 2002

20 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

21 Ibid

Due to the quite radical break from established corporate and national business practices, there were mixed opinions regarding Ghosn’s approach to reviving Nissan. Employees with vested interests in the “ old” system, such as male Japanese workers with senior positions, stood to lose the most, while younger, especially female, employees stood to gain. However, the combination of cultural sensitivity, respect, active efforts to engage with employees, and honest communication, meant that Ghosn succeeded in enlisting the support of his employees. Ghosn states that “ Inside Nissan... people recognized that we weren’t trying to take the company over but rather were attempting to restore it to its former glory. We had the trust of employees for a simple reasons: We had shown them respect. Although we were making changes in the way Nissan carried out its business, we were always careful to protect Nissan’s identity and its dignity as a company.” 21

Regarding national culture, many of the organisational practices at Nissan had their roots in Japanese management practices and societal norms.

Despite Ghosn’s multicultural background, the cultural differences between

Ghosn and the Nissan organization were significant and one could therefore argue that culture was a potential hindrance for Ghosn in turning around the company. However, as mentioned above, Ghosn was able to overcome the differences, and he furthermore believed that cultural conflict could be leveraged to provide opportunities for rapid innovation. Cultural differences were therefore not necessarily a hindrance to the revival of Nissan, although it is unclear whether Ghosn succeeded in channelling the cultural conflict towards increased innovation. CM-J41 Strategy Execution 48h Written Exam 29 October 2010 Page 7 of 9

Criterion 3 – Ensuring correct org. structure and core competencies for the future

Besides ensuring a turnaround in the short-term, it was also important to position Nissan for long-term profitability in regards to organisational structure and competencies. As mentioned under criterion 2, Ghosn renewed the organisational structure with, among other things, permanent CFTs and a new type of hierarchy. Regarding core competencies, the NRP included a focus on developing new automobiles and markets, improving Nissan's brand image, reinvestment in R&D, and reducing costs, all of which are positive. In addition, Ghosn made it clear that cycle times, product quality or reliability were not to be comprised during the turnaround. 22

22 “ Milken, John P., and Fu, Dean, “ The Global Leadership of Carlos Ghosn at Nissan”, Thunderbird, 2003

23 Ibid

However, the cost reductions came primarily through layoffs, factory closures, and lower procurement costs. It is unclear what effect this would have on longer-term growth prospects. 21, 000 employees were fired, resulting in the potential loss of significant knowledge and competencies. Furthermore, with increased utilization rates in its factories, Nissan could have trouble increasing short-run production in the future.

Two other points are worth mentioning. In 2002 midcareer hires outnumbered college recruits. Although this could have short-term advantages, it could lead to difficulties in regards to future leaders at the company. Second, Ghosn implemented a matrix organization among its leaders, and it is unknown whether the advantages (e. g. improved transparency and communication) would outweigh the disadvantages (e. g. longer decision-making process and potential power/resource conflicts) of the new structure. 23

Criterion 4 – Maintaining healthy relations with key stakeholders

Under Ghosn's transformation, Nissan became more customer-focused, and was also able to enlist the support of its employees. Regarding suppliers, the keiretsu relationships were dismantled and Nissan was able to achieve lower procurement costs. The move towards more arms-length relationships with the suppliers, however, could have adverse effects in the future, e. g. in regards to loyalty during a crisis or losing out on technical innovations among its suppliers where Nissan could have a first-mover advantage vis-à-vis its competitors. CM-J41 Strategy Execution 48h Written Exam 29 October

Furthermore, it is unclear how Nissan's relationship with the government was affected during the transformation. Given the relatively high level of "corporatism" in Japan, it is important that Nissan maintains a strong relation with the government and collaborates on key decisions, e. g. regarding infrastructure, new factories, and educational programs. 24

24 Danziger, James N., "Understanding the Political World", Pearson Education 2005, 7th edition, chapter 8

4. Implications of the timing of the turnaround

Three elements were conducive to the turnaround at Nissan between 1999 and 2002. First, the fact that Nissan had endured losses for seven of the last eight years and was in a crisis situation meant that the need for change was apparent to stakeholders of the firm. Second, a bankruptcy at Yamaichi (a major financial institution in Japan) in 1999 that did not lead to a bailout by the government increased the sense of urgency among Nissan employees and meant that more drastic restructurings could be carried through in a relatively short period of time. Ghosn openly used the Yamaichi example among employees to motivate and warn them that Nissan could face a similar path. Third, the Japanese government, although concerned with the large layoffs at Nissan, responded by offering subsidies and programs to help the affected workers. All three elements meant that there was an increased understanding and acceptance for the restructurings carried out by Ghosn and his management team. Although the changes may still have been possible a few years earlier, the initiatives would most likely have been met by increased resistance among stakeholders and would have taken more effort to carry out without these three elements of "luck".

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5. Qualifications

There are two main qualifications to the above analysis which will be mentioned briefly. First, it is unclear how many of the changes were driven by Ghosn and how many were actual recommendations from the CTFs. An analysis of the behind-the-scenes decision-making process is outside the scope of this paper, but it would be interesting to analyse the strategy formation process and power relationships that took place among Ghosn and his senior management team. Second, competitors are not taken into account. No benchmarking data is included, so it is not known whether Ghosn's turnaround results and future targets were impressive compared to rivals. Competitor reactions are furthermore not considered.

6. Evaluation

When evaluating Ghosn's approach to turning around Nissan, it is imperative to not only look at the bottom-line results between 1999 and 2002 but also to analyse how well Ghosn positioned Nissan for future competition. Four criteria were identified in section 2 which needed to be fulfilled in order to deem the turnaround a success.

Overall each criterion was met and one can conclude that Ghosn did a remarkable job in turning Nissan around and making the company more competitive. Ghosn was culturally sensitive throughout the process, managed to enlist the support of his employees, renewed the established business practices and reward system, and made the company more

customer focused. Three important issues remain however, regarding Nissan's future competitiveness. First, it is unclear whether the measures to reduce costs were too short-sighted, which could lead to lost competencies and an inability to increase short-run production. Second, the matrix organisation that Ghosn implemented among managers could also potentially lead to inefficiencies in the future. Third, and most importantly, it is unknown to what extent stakeholder relations, especially with suppliers, were damaged during the turnaround.

As of May 2002, it was clear that Ghosn was hugely successful in his transformation of

Nissan, but going forward it is important that Ghosn deals with the three issues mentioned above in order to ensure the future competitiveness of the company.