

Benefits of combining procurement management essay



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Introduction

In the 1990s, Renault needed a partner to help it grow from a relatively small automaker to a major player. Nissan, Japan's second largest car maker, had billions of dollars of debt and its share of the domestic market was in decline. Its president Yoshikazu Hanawa wanted a partner who would give substantial cash injection.

Meanwhile, Yoshikazu Hanawa met Renault director Carlos Ghosn and asked for his help in Japan. Then, Carlos Ghosn announces the Nissan Revival Plan (NRP) in Tokyo. The NRP have planned to restructuring Nissan by several ways, like introduce the performance-based compensation schemes to replace the life-time employment, to collapse keiretsu system, which is reliance on tight customer-supplier networks.

Benefits of combining procurement

Ghosn comment that Nissan's parts procurement costs were 10 percent higher than those of Renault. Ghosn believed that by combining, centralizing and globalizing Renault's and Nissan's parts procurement, these costs could be cut by 20 percent. Due to this reasons, Ghosn established Renault-Nissan Purchasing Organization (RNPO), its remit has grown to include the purchase of logistics, capital goods and electronics, in addition to chassis and powertrain parts.

Odile Desforges – the Chairman and CEO of the RNPO, said the quality of parts bought from traditional Renault suppliers had “ improved drastically.” That has been an important factor in overcoming Nissan engineers' famed reluctance to use those parts because of quality concerns.

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Desforges didn't say how much she hopes to save by the planned consolidation of suppliers. But she pointed out significant cost reductions.

Each time a family of goods is added to RNPO, it saves 0.5 percent on purchasing costs. That reflects the price concessions suppliers are willing to make in return for greater volumes and a potential long-term relationship with a big customer.

In addition, Desforges said purchases through RNPO reduce component procurement costs for a new-car project 5 percent.

“Acting as a single purchasing organisation for both Renault and Nissan, RNPO has accelerated purchasing performance by implementing a global management system within the Alliance,” it said in a statement.

“Focused on purchasing competitiveness through quality, cost and delivery, RNPO is a key competitive advantage for both partners. Going forward, RNPO is now actively supporting the next wave of global investment for the Alliance through such projects as the new plants in India and Morocco.”

Costs of change

There are some cultural differences between Japanese and French. According to Geert Hofstede Cultural dimensions, Japanese are known to be more collectivist, and the contrary can be affirmed about French societies relying heavily on individualistic efforts from employees.

Nissan was previously working and abusing the concept of groupthink, where the decision process evolved around people who thought alike. Then Ghosn

arrives and right away cuts 21, 000 jobs, closes down five factories and terminates most of the relationships with the suppliers within the keiretsu (Harney, 1999), procedures that almost caused a major cultural crisis in Japan thus possibly resulting in the failure of the alliance.

Moreover, in the Japanese culture, a young employee is prohibited from managing a colleague who is older in terms of age as well as seniority. As such, when Ghosn arrived in the company and began restructuring the management process, his new system of promotion was based strictly on performance, no matter what the age of the employee. Consequently, this caused much confusion and frustration among the Japanese workers from Nissan and Ghosn was indirectly forced to implement a new “ system of double hierarchy”, merely a consideration of both cultures working together in the English language (Clerc, 2000). Finally, many ex-employees of Nissan would argue that the company was in desperate need of re-structuring their apparently homogenous culture

Problems of abandon the Keiretsu system

The collapse of the Keiretsu helps Nissan to remain globally competitive as the other Japanese companies; Nissan has been supplied by keiretsu which is long- term purchasing relationship, intense collaboration and the frequent exchange of personnel and technology between companies and select suppliers (Okamura, 2005)

The breakdown of Nissan’s Keiretsu system, were not embraced by everyone. The Prime minister of Japan, Keizo Obuchi, promptly denounced

Ghosn's plan, fearing job losses in the tens of thousands as Nissan cut back parts purchases from inefficient affiliates and suppliers.

The Keiretsu system can protect the firm from market failure and the mitigation of financial risks. The keiretsu alliance of inter-firm agreements also contributes to lowering transaction costs such as co-ordinating costs, risks of broken contracts, searching costs, switching costs and product quality tests in imperfect markets. It has been proven that Japanese automotive chains incur less transaction costs than those in the US. In addition, the endurance of the hierarchical form of keiretsu ties enables the keiretsu car assembler to lower transaction costs through capitalizing on flexibility in its parts suppliers' production management processes and disseminating its corporate identity to suppliers.

Within the keiretsu organization, financial resources below market rates are available to group firms. In return for access to financial, material and human resources, the keiretsu leader obtains its suppliers' organizational transparency and technological development.

At the same time, keiretsu car parts suppliers can also reap various benefits from the vertical corporate arrangements, such as managerial know-how, demand stability and the flow of inter-firm information through "resident engineers."

In reality, financial and equity relations in the vertical keiretsu structure also exert a strong impact on corporate stability. Strong equity control of the car manufacturer over its suppliers in vertical production networks result in a stable and long-term demand for parts supplies. By and large, these unique
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features of the keiretsu organization are expected to yield long-term economic prosperity and reciprocal commitments within the network.

Nissan may exposure risk on supplying, quality control, flow of information and financial stability because it abandons the keiretsu system. The Keiretsu system is commitment for the suppliers and Nissan.

Internet facilitation

The internet change rapidly to increase business globalization, even it abandons the keiretsu system. The collapse of Japanese traditional standard, corporate not required to tie with non-efficiency supplier, customer. The purchasing parts able to sourcing in global to seek lower costs and achieve advanced technology. The globalization and technology are other aspects that would force Japanese companies to open to competition by identifying new customers, increasing the efficiency of orders and researching new markets.

Workforce attrition

The major reason of high cost production is due to keiretsu system, the low efficiency of supplier and high procurement cost. Carlos has cut the cost of supplier already; he should not consider reduce further cost of production. The attrition of people will affect corporate image and people willing to work. He can reconsider to assign people to other countries that Nissan has a plant or not. They can assign to other countries to achieve cost advantage of resources through globalization.

The huge amount of workforce can be an advantage of innovation, which is a long investment. The well planned human resources that assign their work which is experienced. A learning organization established to encourage brainstorming, able to ask and answer the question, problem solving skills, to become innovate than other competitors, produce more product to expand its market share. They are committed and willing to contribute the company.

Moreover, Carlos can consider make shorter working hours and freezing the recruitment for product, instead of lay-off people.

Pfeffer (1994) argues that the difference between successful and unsuccessful companies these days is the way they manage people, advocating a style of management that focuses more on nurturing and involving people. Like Kanter, he argues for the importance of attracting good staff and looking after the workforce well, through strategies such as providing training and aiming for long-term employment contracts where possible.

The competitor - Toyota, their employees are living together from 15 years old, when they are working in Toyota, they have same value of the Toyota products. They can debate and share their ideas in their working place and cooperate smoothly, the degree of conflict is relatively low then other organization, because the employees are cooperate for many years. Toyota also pursues no lay-off policy. It suggested Nissan consider manage their employees as Toyota way.

Hypertherm, Inc. is one company that has a no-layoff policy. The CEO and founder of Hypertherm, Dick Couch, says " this policy isn't intended to be <https://assignbuster.com/benefits-of-combining-procurement-management-essay/>

philanthropic, it's just good business" (Barnes, 2003). He reasons that if his employees are not worrying about losing their jobs in an economic downturn, they can concentrate on the company's mission (Barnes, 2003). Therefore, if employees feel secure about their jobs, they will focus on performing well and accomplishing business goals and objectives.

According to Peggy Laplante of Hypertherm, she and her 510 associates gladly contribute to improving business processes and reducing the firm's manufacturing costs in exchange for that peace of mind (Barnes, 2003). A no-layoff policy ensures that employees feel special and involved, and it makes them want to do a better job knowing that the company cares about them. The policy does not offer a free ride, but it will ensure employees that they will be taken care of if they perform the duties of the job well.

The benefits of job security may be viewed as enhancing a firm's competitiveness in that flexible, loyal, and motivated employees are more potent contributors to a firm's productivity (Allan and Loseby, 2001).

Increased productivity is another pro of the policy directly related to job security that will be discussed later. Couch believes that creating a good business climate, which includes offering good benefits, has a direct impact on business results, and some say the promise of job security is the most important company benefit of all (Barnes, 2003).

Labor unions have had employment security for members as a major goal for many years (Mink, Morrow, Shindell, 1990). The sudden shift of emphasis from income security to job security reflects this concern for many American employees (Dean and Prior, 1986). No layoff policies guarantee employment

and therefore eliminate that particular negotiation barrier between the company and the union. Conflicts between company and the union that represents its employees can result in workforce interruptions and ultimately could cause an employee strike, leading to a loss in revenue.

An employment security policy will contribute to a positive image of the firm and attract superior candidates for employment (Allan and Loseby, 2001). Potential employees should view a no-layoff policy in the same way they view a retirement plan or insurance package. A no-layoff policy is a benefit, and recruiters can use it to obtain an advantage over another company that does not have a job security policy. Many Japanese companies can attest to the competitive recruiting advantage they have had over the last several years due to their no-layoff policies (Allan and Loseby, 2001).

To summarize, natural attrition is challenging Japanese labor traditional – lifetime employment. Carlos may face resistance from employees while bringing about changes in the human resource management due to their strong association with traditional management practices. The downsizing of organization is necessary, but cannot be a huge amount at once. It should be restructuring in a long period. There are many disadvantages of lay-off employees. He should try to following its competitors and reduce the workers need to be fired.

Problems of performance-based compensation scheme

Both Nissan and Mazda were taken over by foreign companies. The new managements that were put in place there were not Japanese and were not beholden to Japanese practices (Ibson, 2001). What they sought to do, when

pushing through their restructuring plans, was very much what they were doing when they restructured at home – in France or America. They laid workers off and, in particular, they operated early retirement programmes. And where they do, take up has been high. Companies have reported over-subscription within days and even within hours, reflecting a fear amongst employees that job cuts were unavoidable and such terms would not be offered a second time (Yomiuri Shimbun, 2001).

Ghosn communicated to all employees that promotions and pay hikes would be based on performance rather than on seniority. He also started offering warrant bonds to the employees who performed well. Further, he announced that good performers would be getting 25% of their pay package as annual cash bonus.

He also announced that “ No one in purchasing, engineering, or administration will receive a pay raise until they show what their contribution is to this cost cutting.”

The performance-based compensation schemes may not fair to elder employees. For instant, in productions team, younger employees may take inspection faster than elder employees and they may get higher salary. The elder employees may contributed to company for many years, they can provide their experience to younger.

It may not fair to elder employees that the scheme based on performance. Their pension may need saving for more years, if they planned to retirement in 55 years old, now they need to keep working to 60 or 65 years old. It is

because their salaries keep decreasing in several years. Moreover, the Japan unemployment rate may increase because of voluntary retirement scheme.

Compare with the scheme, elder may consider about voluntary retirement scheme rather than staying in company to earn under performance pay. But they have not been retirement ages. They want to seek other chances from other companies; they could not find the jobs easily because they are elder.

The performance-based compensation schemes affected the experience transfer from elder to younger. The elder employees are difficult to stay in companies, they may under pay and leave to seek better offer. People are easily to leave and job security in the company is low. The organization learning culture may not sustainable.

In Japan, as in most other countries, firms allot most of the training resources to younger people. This could, of itself, discourage older workers from retraining, and might also make them unproductive workers (Seike, 1994). Employers in Japan seem as preoccupied as employers elsewhere with a traditional view of older persons and feel they cannot hire them because “they lose their vocational ability and flexibility as they grow older” (Wanatabe, 1992).

To overcome these problems, partially life-time employment could be adopted. The elder employees, can work until they want to retirement. Their salaries could not base on performance, like over 50 years old, to provide enough money to let them retirement. Also, the company can offer stock as a part of pensions and salaries, let them committed to company.

Even the employee is underperformance, companies should still provide not less than market rate salaries to employee, let them can pay for basic expenses. The company should provide on job training etc. to improve their performance and earn more incentives. It can increase the job security and retain the employees, it is costly to hire a new employee and training rather than retaining an existing employee.

Resistance of restructuring Nissan

The Prime Minister Obuchi Keizo and other politicians expressed concern about the 21, 000 job cuts planned in NRP and the impact of the keiretsu move on suppliers' employees. The Trade Minister, Takashi Fukaya, stated: "I'm very worried about the affiliated subcontractors. These companies have to study ways to survive on their own, but the government would like to expand as much help as possible" (Wall Street Journal, Oct. 20, 1999).

Keizo Obuchi told reporters that while he understands the need for the restructuring plan, Nissan should take steps to ease the pain for workers and subcontractors.

"We are not in a position to interfere in individual management decisions, but we believe that it is necessary for them to deal as much as they can with the plan's effects on the company's employment situation and subcontractors," he said.

International Trade and Industry Minister Takashi Fukaya told reporters that his ministry asked Nissan on Monday to try to minimize the impact on jobs at Nissan's subcontractors.

Finance Minister Kiichi Miyazawa indicated Tuesday that his ministry is prepared to take taxation measures “ to alleviate the impact” if Nissan’s move causes serious damage to subcontractors and local economies.

Taichi Sakaiya, director general of the Economic Planning economic planning, control and direction of economic activity by a central public authority. In its modern usage, economic planning tends to be pitted against the laissez-faire philosophy which developed in the 18th cent. Agency, expressed concern at the impact of Nissan’s job cut plan on personal spending as well as on the entire economy. Nissan’s personnel cuts “ may be very shocking,” he said.

Chief Cabinet Secretary Mikio Aoki also called on Nissan to take steps to take action; to move in a matter.

“ Restructuring is necessary, but we believe that companies should also shoulder the big responsibilities that are brought about by such a step, such as unemployment problems,” the top government spokesman told a news conference.

Politicians from districts affected by plant closures will inevitably respond. With a general election next year, the government is already muttering about stopping Nissan from sending Japan’s record unemployment any higher. Nobody should underestimate the influence of the ruling Liberal Democratic Party. (The economist, 1999)

Politicians and governor seem to be afraid the restructuring of Nissan may increase the unemployment rate of Japan. The foreigner may only focus on

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cut cost and ignore the traditional culture - the keiretsu and life-time employment. Also, it may influence the political career of those politicians if they cannot handle huge amount of layoff and have economic pressure to Japan.

Ghosn may announced to mass media why implementing the Nissan Restructure Plan. He need provided support information to the media for why actions necessary to be taken. He should told critics of the NRP that Nissan was left with no other choice but to implement the drastic steps stated in the NRP and even explained to the Japanese government officials, politicians, and the media, the need for implementing the NRP. It is because Nissan adopted the life-time employment have problem of over-staffing and keiretsu system that increase the procurement cost for a long time, suffering financial loss.

Ghosn also meet the Prime Minister Obuchi to explain the measure directly and may arrange the restructure plan after the elections, to reduce the negative effect of increasing unemployment and government doing nothing to Nissan restructuring. In addition, if there is a public pressure on restructuring, Ghosn may consider of diversification that relocation the investment to other countries.

The diversification involves establishing multiple firms in different locations (Ian, 2009). Diversification is important in any business as it helps overcome risks associated with the businesses. Investors, governments and big firms should use diversification strategy to manage political risks. Investors should establish investments in different countries (Ian, 2009). They should avoid

investing in a single country. This is because the political environment of the country can affect the business in the country negatively. Diversification helps investors reduce political risks, and its effect. Having multiple businesses in different countries makes it safe for investors to manage political risks. Thus, investors should encourage diversification when investing (Ian, 2009).

Foreigner changed Nissan

There is a long, if inglorious, tradition in Japan of bureaucrats using gaiatsu (foreign pressure) to achieve otherwise unpalatable reforms. As more Japanese companies find that they have neither the corporate structure nor the stomach to cut waste, close factories and sack workers, gaiatsu is moving into business. Nissan is not the only Japanese car maker to turn to foreigners. General Motors has increased its stakes in Isuzu and Suzuki as the core of its strategy to win 10% of the Asian car market. Since Ford raised its stake in Mazda to one-third, it has run the show. Now Fuji Heavy Industries, owner of Subaru, which is affiliated with Nissan, has acknowledged that its offspring needs a foreign ally-possibly GM again (The Economist, 1999)

The Japanese company had invited a foreign chief executive officer to cuts in job and costs. It is unable to make the cuts themselves due to traditional culture, Japanese are collectivism, they need to concern the others and make decision together. When they found the problems, like over-staffing, life-time employment and order expensive parts from one supplier, because they are committed and respect each other, act like as a group. Thus, the keiretsu system is still alive even it is low efficiency and costly.

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The foreign CEO just like a devil, the Japanese invited foreigners to do the dirty work that they could not and would not do themselves. Nowadays, Japanese tended to invited foreigners to restructuring the corporate, they think only a foreigner could have turned the corporate around so quickly.

But, the foreigner changed a Japanese corporate successful or not, the cross culture differences require manage carefully. The foreigner CEO need to respect, committed to the differences culture, otherwise, a negative effect may occur. Carlos Ghosn believed in appreciating the differences between the cultures and minimizing the cultural clashes by bringing in a performance-driven management.

To ensure that the Japanese staff understands what the French managers spoke, English was made the common language in the company. A dictionary of 100 key words used by them management was prepared to solve the differences in the way each work was interpreted by French as well as Japanese. The words included ‘ commitment’, ‘ transparency’, ‘ objectives’, and ‘ targets’ etc.

Conclusion

By 2010, Nissan and Renault would build their cars using the common building blocks, using same platform for different car. Ghosn viewed the alliance as “ managing contradiction between synergy and identity”, and confirmed that while gaining synergies, the individual identity of each brand would be safeguarded.

The other major alliances in the industry, the DaimlerChrysler and the

GM/Fiat had not proved to be very successful because of improper
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management of merged assets, trans-atlantic product development and failed attempt in understanding local market; Ghosn confirmed that Nissan's alliance with Renault would creatively achieve it. At the same time the alliance would avoid merger and would maintain ' a spirit of partnership (Parachkevova, 2004)

The successful of Renault and Nissan, that many of Japanese followed restructuring in similar ways, to hire a foreigner manage the Japanese company. Like Sony, that appoints the first foreign head, to act a devil to cleaning the company.

Mr Ghosn's success at Nissan " has led people here to believe that a dynamic foreigner thinking outside the box really can revive" a Japanese icon the size of Sony, our correspondent says. (BBC News, 2005) (3708 words)