

Challenges that
ghosn faced among
others resistance to
change



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Summary

In 1999 Renault and Nissan formed an alliance, as both companies could benefit from each other. Renault needed a partner that could enhance their global position and Nissan had been looking for a strategic partner because they needed financial support after their credit rating was announced to be lowered to “junk” status, mainly due to the Asian financial crisis. The alliance should also contribute to new management ideas for Nissan to turnaround their seven out of eight year deficit. Carlos Ghosn was the guy to help Nissan to do this.

The challenges that Ghosn faced were among others resistance to change, Japanese culture and communication problems. Ghosn promised that if he hadn't changed the deficit to a profit within two years, he would step down from his job at Nissan. He managed to turnaround Nissan in just eighteen months.

Evaluation of Carlos Ghosn approach

The evaluation of Ghosn approach to the turnaround of Nissan is addressing the following aspects. At the end of the paper the actual evaluation will be stated.

Resistance to change

When strategic changes are going to be implemented in companies, resistance to change almost always appears, and Nissan were no exception. The resistance in Nissan occurred because the Japanese culture is bureaucratic and focuses on social harmony. But organizational culture also caused some resistance from the employees. With that said I don't think that <https://assignbuster.com/challenges-that-ghosn-faced-among-others-resistance-to-change/>

the employees were that resistant. It sounds like the employees knew that the situation was serious, and they didn't want to lose their job. As stated later in the paper, the mindset of the employees changed and that the changes happened very fast. Some of the main causes of resistance are unawareness of what and why things are changing and lack of communication from the leader to the employees (Ford 2009). The first thing Ghosn embraced is exactly those things, and thereby avoided resistance concerning those causes. Tina Nielsen Strategy Execution 48-hour exam 050684-1216 CM-J41 Oktober 29th 2010 Page | 4

Reasons for resistance

Despite of the things Ghosn do to avoid resistance, there is some resistance from the employees. The causes for resistance are seen below:

No guaranty of lifetime employment

Promotion based on performance instead of seniority and education
(Nenkou-Jyoretu philosophy)

Ghosn encouraged risk-taking

Matrix structure

The changes for the employees were thus large, as their whole business mindset had to change. The causes are described in the following:

Lifetime employment was security for the employees as they knew that they would never lose the job. The Japanese government would bail the company out if they were in financial trouble. This, though, weren't the case for the

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major financial house, Yamaichi, which went bankrupt and not saved by the government just before Ghosn came to Japan (case: C551). This changed the employees' mindset so they got a sense of urgency of getting Nissan to perform well again or else they could lose their job.

A big resistance from the employees was the promotion of younger leaders over older, longer-serving employees. The Nennkou-Jyoretu philosophy did no longer exist, as Ghosn wanted to promote risk-taking and personal accountability and responsibility. This was done by introducing performance based incentive systems, which included cash incentives and stock options for achievements directly linked to successful operating profit and revenue (case: C553). The change of the promotion system would cause some resistance from the employees that were up for a promotion, but didn't get it because of the new system. This could create a dis-motivating problem that Nissan has to consider and exterminate.

The reason for changing the promotion system was to encourage risk taking. The Nemawashi philosophy destroyed the effectiveness of decision making in Nissan and other Japanese companies. These informal meetings before information meetings were Tina Nielsen Strategy Execution 48-hour exams
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held to protect the individual from making bad decisions, and in the previous promotion system, the only thing preventing the employee of a career advancement was failure and mistakes. This Ghosn changed as he wanted the employees to think, take responsibility and be accountable for what they

did. Every report that the employees handed in had to be accurate and the employees were held accountable for what was stated in the report.

Ghosn changed the organizational structure to a matrix structure. This meant that every employee will have two bosses; a functional and a regional. The often fatal weakness of this structure is the discussions among employees from different departments about resource allocation (Kaplan&Norton 2006), and thereby cause resistance to the change.

It was not only the employees that were resistance to change. Business analysts and the media both criticized Ghosn for going against the Japanese culture by firing people that not met targets, this also led to a nickname: "the foreigner" (case: C552). The government responded to this change of business culture by offering subsidies and programs for the affected employees, probably because they saw the rationale of not bailing companies out of their crisis, just because they didn't manage their company well.

Organizational culture

To turn Nissan's deficit to a profit, the corporate culture had to change. The Japanese culture had a big impact on how the corporate culture was, but some of the problems at Nissan were not normally seen in other Japanese companies. On top of the problems Ghosn states (see case: C549), there are some other organizational problems. These problems were:

Follow-up on decision was not effective

Top management had created tunnel vision regarding market share instead of profit
€ created unprofitable products

Communication problems through the layers

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Top management did not follow up effectively on decisions, which made it difficult to know which decisions were successful and which were bad. The consequence is that Nissan doesn't learn of their mistakes and thereby cannot use the lessons learned from bad decisions or the experience from good decisions to future decision making.

Top management focused on market share instead of profit, which created unprofitable products as listed in the case: "... only four out of 43 models turned a profit." (Case: C546). The reason for this focus was the maintenance of company size and staff. This corporate problem stems from the long-standing partnership between the government and major businesses to ensure lifelong employment. As there was no guarantee of being bailed out by the government, Nissan's strategic focus has to change to regard profit instead of market share.

The communication problem at Nissan concerns no shared vision or strategy throughout the company. Staff doesn't know what the top management is doing and top management doesn't know what the other managers and employees are doing. This may lead to a company that doesn't move in the same direction as the employees don't know the direction they should work. This problem stems from the national culture problem that groups don't talk to each other, and only worry about how their own department is doing.

What Ghosn did to enlist support

To handle the above problems Ghosn made three principles that transcended all cultures in the firm. These were:

1. Transparency
2. Execution 95%, strategy 5%
3. Communication

These principles were used to give employees structure and give guidance on what to keep in mind when managing the company in the future.

Ghosn was surprised how fast the employees at every level adapted to the new management process. But he also saw the cultural problem as a challenge and he Tina Nielsen Strategy Execution 48-hour exam 050684-1216 CM-J41 Oktober 29th 2010 Page | 7

stated that it was important to respect the employees' culture. This led to the following initiatives:

The first thing Ghosn did was to ensure that the people that accompanied him from Renault had the same respect and attitude for Nissan and the Japanese culture as him.

He initiated long discussions with several hundred managers in order to get an insight on the day-to-day operations. He turned the resistance into feedback and used the conversations with managers as a resource to find the optimal solutions (Ford 2009).

After these discussions he developed a program which encouraged the employees at Nissan to contribute recommendations for the company. This replaced outside hiring and Ghosn hoped this induced motivation. This program called Cross-Functional-Teams (CFT) consisted of 10 members from different departments. The groups also contributed to better insight across the different departments, and moved away from the imploded relationships in the company (Krackhardt 2000). It also gave the employees a better insight of the company as a whole. The groups developed a new corporate culture from the best elements of the Japanese culture (case: C551). Working in these groups also helped the managers to think in new ways and share ideas across departments.

Ghosn created a matrix structure so every employee had two bosses; this improved the transparency and communication between the departments and also the awareness of both functional and regional problems.

Ghosn disciplined employees strongly for inaccurate and poor data; he wanted employees to take responsibility. This was to stimulate risk taking and personal accountability. Ghosn created a system of “ if you contribute there will be opportunity and reward” (case: C553)

These initiatives and the fact that Japanese respect leadership helped Ghosn to incorporate his new management process in the corporate culture. Tina Nielsen Strategy Execution 48-hour exam 050684-1216 CM-J41 Oktober 29th 2010 Page | 8

National culture

The Japanese culture is very incorporated in every company in Japan as so in Nissan, and it is hard not to affect Ghosn. The national culture has challenged Ghosn both on the personnel side and the financial side. The following are listing some of the Japanese culture's impact on Nissan:

The keiretsu philosophy f € tying up capital of \$4 billion

Cultural consensus of group harmony creates efficiency f € no awareness of what is going on outside own group (Imploded relationship; Krackhardt 2000)

Finger pointing f € no one accepted responsibility. Blamed everyone but themselves.

Acceptance rather than responsibility because culture protects career advancement

Nemawashi f € informal meetings before information meetingsf € no individual to blame

Hampered risk-taking and slowed decision making at all levels. Routine, details and concepts with no sense of urgency slowed decision making and created no risk taking

As Ghosn states: “ The Japanese are so organized and know how to make the best of things. They respect leadership.” (Case: C550)

Ghosn had a very open mind when entering the job, for instance he didn't want to learn much about the Japan before he came, because he didn't

wanted to get any preconceived ideas (case: C546). Ghosn had also worked at four different continents and spoke five different languages, which indicates that he has an open mind to cultural differences and that he is used to work in different cultures. You can say that Ghosn is multicultural.

This helped Ghosn to reduce the difference between his culture and Nissan's culture, and thereby didn't induce deep cultural differences. Tina Nielsen
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Culture as a helper or hindrance

Culture was both a helper and a hindrance for Ghosn. The hindrance consisted of how deep Japanese culture where incorporated in Nissan, such as no responsibility, accountability and risk taking from employees and the keiretsu philosophy.

The respect for leadership was a big helper for Ghosn, as the employees at every level where willing to change their mind and embrace new ideas. Ghosn himself was very surprised that the acceptance of change happened that quickly.

The way Ghosn embraced the cultural difference was: "... by accepting and building on strengths of the different cultures, all employees, including Ghosn himself, would be given a chance to grow personally through the consideration of different perspectives." (case: C550). This way Ghosn made culture into an opportunity and not a hindrance for managing Nissan.

Luck and timing

One of the most powerful impacts on strategy execution is the capital market (Bower&Gilbert 2007). One of the reasons that Nissan needed help was the Asian financial crisis, where the devaluation of the yen/USD had a big impact on Nissan's keiretsu investments. This meant that Nissan should find a new partner in the automobile industry to avoid a credit rating as "junk". They also needed new capital and new ideas.

The financial house, Yamaichi, went bankrupt at the same time Ghosn arrived to Japan, and where not helped by the government. This sent a message to Nissan's employees that they should not be sure of having a job if Nissan proceed with their operations as usually. Ghosn also took advantage of the situation by using the Yamaichi example any time possible.

Renault looked for a partner, as they wanted to exploit the Japanese and the North American market to enhance their global position. Another reason was to reduce their dependency of the European market. In May 1998 Renault merged with Daimler&Crysler, which led to a sense of urgency of finding a partner to compete more

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globally. If Renault didn't alliance with Nissan, Ghosn would never have been COO of Nissan.

Another thing is that Ghosn came to Renault in 1996, if the alliance were made before that, Ghosn would not have been the leader of the changes. If the alliance were made in the beginning of his career at Renault it is not sure that Ghosn would have got the job.

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All these events have resulted in the success of Nissan turning their deficit to a profit. If these events were not happening at the same time, it is not certain that the success Ghosn experienced would have happened.

I don't think that Ghosn could have had the same success a few years earlier, as the Yamaichi bankruptcy changed Nissan's employees' mindset referring to their job security. Renault would probably not have been looking for an alliance partner (and Ghosn would not have been in Nissan), if they hadn't got the need of a global position on the world market, which they urgently got in 1998 after the merger with Daimler&Chrysler.

The conclusion is that both luck and timing of many elements affects the success of changes.

Evaluation

My opinion of Carlos Ghosn's approach to turning Nissan around is that it was the right way to do it. Ghosn knew that he had to respect the national culture, and he knew that he had to lead the employees being heard. The latter is often a reason why resistance occurs, because it is the employees that know the day-to-day operations and know what can be done (Ford 2009).

A key initiative he imposes was the CFT, which should enforce communication and motivation: " He (red. Ghosn) felt that if the employees could accomplish the revival by their own hands, the confidence in the company as a whole and motivation would again flourish." (Case: C550) Tina

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This was very clever as the CFT accepted the firing of the 21,000 employees. This was accepted by the employees because if the CFT agreed on that, then it must be right, or else they wouldn't have fired people. If it was Ghosn alone that made the decision, employees may not have been accepting that as fast, and resistance would have appeared.

The way Ghosn approached the Japanese culture was with humility and respect, this was necessary in a country where culture is as important as in Japan.

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