

# Global leadership of carlos ghosn at nissan management essay



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The presented case study is about a challenging turnaround of the Japanese car manufacturing company Nissan. In 1999 Nissan was incurring losses in seven of the prior eight years, which led to an alliance with the French car manufacturer Renault, and the hiring of a new CEO. Carlos Ghosn, being the first non Japanese CEO, had to face a huge culture clash (French-Japanese) so that he could be able to redefine the company's structure to ultimately enhance its performance in a maximum period of two years. Although he intensively addressed cultural issues, taking under consideration the specifications about Japanese culture norms, he also incurred few risky decisions that could have worked against the process, risking the employee's engagement process.

Starting this analysis with the Renault alliance, it is clear that Nissan needed a partner to help improve its finance and management skills. Nevertheless, it can be seen that both car manufacturers complemented each other with this deal. Renault had penetrated the European market, while Nissan was more experienced in Japan and US & Canada (Millikin & Fu, 2002). In the short term Nissan took advantage of this scenario, maintaining its credit rating

with its suppliers and being financially able to keep investing in R&D and new product development, something seen by Ghosn as essential.

With the arrival of a new CEO, it is never clear what is going to happen for sure. When they first start they are often tended to initiate restructuring processes in the company, focusing too much in short term objectives by reducing costs to turnaround the firm. With that, they are usually just addressing issues around short term financial results, which may seem to resolve the problems, but 3, 4, 5 years after, the firm will be back to the same starting point again, since it didn't made a plan for linking the short term objectives with a long term strategy progress. This happens because the world is always evolving and changing, and so the firm should prepare for it along the way, pursuing a long term strategy.

With the new CEO being the first foreigner leading the firm, it is more than natural that some differences would arise especially at a cultural level, since Japanese have very particular social and professional norms.

There were some specific national cultural differences that were pronounced between Nissan organization and Ghosn, but not in a way that made it too difficult to move forward. In the other hand, the Japanese basis of operational efficiency was aligned towards consciousness and cooperation, crucial in any company worldwide. 3

First, Japanese professionals tended to avoid mistakes at all costs in order to promote their career growth (Millikin & Fu, 2002). This type of mind set had to be faced with a change in the way employees individually perceived their tasks, because it was working against Nissan, since decisions were taking too

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long to be made. Further analysis will show why Ghosn implemented a strategy that would engage the employees in a way that they would have such a great sense of belonging to what was being done, inspiring them to achieve high levels of motivation and confidence when performing their functions at Nissan.

Strictly related to the decision making process previously mentioned, the second culture clash that can be acknowledged as a difference towards Ghosn is responsibility and accountability. Due to the Japanese culture of protecting career advancement, there were common situations of unclear responsibility and accountability allocation, which goes against trust and reliability principles. Ghosn found very important to account every single employee for its own actions, research reports and recommendations, which in turn made Nissan's employees more accurate and concerned about their performance. Because they are being closely monitored, having to respond and face the consequences of their own actions and not being "hidden" among a larger group of peers where everyone is responsible, but in the end no one is accountable.

The two final major national cultures presented below represent the causes why Ghosn also faced some inevitable resistance to change upon his arrival at Nissan.

Starting with the Japanese concept of seniority which frames the determining factors of how a Japanese employee moves up the career ladder (age, education level and length of service to an organization), it is clear that this concept went against the new CEO principles, whose defended that

promotions should be allocated accordingly to the level of employee's practical skills and performance contribution. This culture change created a paradox between seniority and incentives concept, because by giving promotion incentives to the ones who better perform and contribute to the development of the company, it is in turn naturally occupying the new position that a longer-service employee waited for so long. Even though it is better if the best performers have positions with more responsibility, it inevitably generates various unproductive actions (intrinsic risk associated), in this case some problems regarding lack of cooperation. This lack of cooperation can be seen as an important resource in helping the young 4 managers develop their professional experience. It can also act as an important form of feedback based on how well Ghosn faced this test of authority. (Ford & Ford, 2009)

The lifelong employment represents the second Japanese culture characteristic that caused some resistance to change. Nowadays this reality is changing as the world gets more flat and companies become each time more internationally ruled. As the term reflects, the Japanese were accustomed towards the notion of job security for the duration of one's life, (aligned with the seniority term mentioned previously), which means that when Ghosn actually fired 21. 000 employees (closing five factories) it was a huge let down, even countrywide, since he was criticized by the media, industry analysts and also the government.

Employees may resist to the unknown (avoiding uncertainty) because they don't know what to expect or just because they don't understand what is

happening and why it is happening (Dent & Goldberg, 1999). That is why communication plays an important role in directly influencing everyone to share a common vision for the company.

Even though the headcount reduction was not only based in firing employees, but also in pre retirement programs, retirements and selling non-core businesses, it still represented a considerable risk in terms of the in progress culture restructuring. This firing measure could have delayed the evolution of the decision making process because Nissan's employees could have started to feel their job was also at risk, starting to avoid making risky decisions to avoid giving reasons for being fired. Nevertheless, it had to be done in order to achieve better results.

Although Ghosn was very criticized with the measures he undertook, the fact that the government offered subsidies and programs to help affected workers may have helped in stabilizing the harmony around the foreigner CEO (gaijin).

Regarding the entire Japanese national culture alignment I think that it cannot be seen as a hindrance to Ghosn since he actually took advantage of the best that the Japanese culture could give to Nissan, building on the strengths of both cultures. " Many collectivistic societal cultures, such as that in Japan, may result in an advantage in workforce organization, quality control of products and service, and establishment of good relationships among contractees, suppliers and customers." (Li, 2000)

The culture engagement was what brought alignment to the company helping Ghosn to achieve what he proposed to, with the Japanese culture always as a basis and then with 5

some incremental attitudes towards incentives and decision making capabilities, enhancing the overall performance of the process.

Going now more in depth into the organizational culture issues, it can be understood that it was all about engaging, giving direction, and motivating the employees.

At this time there was a gap between the strategy implementation and the follow up afterwards, which is not common given the country's national culture. This happened because Nissan's operations were not synchronized with the top management while top management strategies were not passed through the operational departments. This meant that the middle and lower managers had no precise idea where the company was moving towards. On the other perspective, top management wasn't getting functional information about the customers and the way its overall strategy was being executed.

The following excerpt clearly demonstrates the importance of such interconnection: " The leadership challenge is to give coherent direction to how resources are allocated, and by doing so, align the bottom-up processes with top-down objectives." (Bower, 2007)

As Ghosn realized this misalignment he implemented a very good program to turnaround this structural problem by creating cross-functional teams

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(CFTs) with in-house line managers. The CFTs were created to take action in a wide range of the management divisions including restructuring. What is relevant to highlight is that these groups started being the connection point between strategy development and operations, since they had to prepare recommendations to the firm's top managers based on accurate analyzed data gathered. The managers were only used to focus in their specific areas, narrowing their knowledge and view of the firm business, but with Ghosn's changes they could actually take part on the rebuilding of Nissan's strategy, being so much closer to the top management. There is nothing more motivating than understanding why and what you are doing, and this is why motivation always plays such a crucial role, especially when they felt a sense of responsibility and belonging for turning Nissan around.

There is no doubt about how good and effective the CFTs program was. In my opinion, even without Yamaichi going bankrupt at the time, with everyone seeing the government not bailing them out of the crisis as everyone expected, I'm sure the program would have had the same success. Such success was definitely not going to be 6

within the exact same time frame as it actually happened, because the sense of urgency that Nissan's employees started to have acted as a huge boost towards their efforts in overcoming the situation.

As previously mentioned during the analysis, the turning point was the cultural alignment across Nissan's new structure, key to the development of the processes that would lead to a new strategy. With that, all the rest would come right after like it happened with the motivation, communication, sense



of belonging and trust, because “ When you get a clear strategy and communicate your priorities, it’s a pleasure working in Japan. The Japanese are so organized and know how to make the best of things. They respect leadership.” (Middleton, 2002)

An important measure undertaken by Ghosn that enabled Nissan to regain billions was by redirecting the investment with the keiretsu partnership to invest in debt servicing and new product development.

In my opinion, the reduction of the number of suppliers and the alliance with Renault enabled Nissan to achieve better economies of scale and scope because unit prices were reduced by ordering more quantity from the same supplier and also due to reductions in the transportation costs. That might have been the reason why they were able to match the same prices as Renaults’ suppliers.

This new resource allocation plus the reduction of costs with suppliers enabled Nissan to be substantially more efficient in its cost structure.

Continuing in this cost reduction line of thought, it was very enlightening when Ghosn specifically stated that any measure that would have a negative impact in product quality and reliability was not at all a good measure. I’m stating this idea because when a company tries to revive its situation, quite often arms the product quality to increase earnings per unit. This is what indirectly happened recently to Toyota by focusing too much in the short term financial improvement (objective of increasing market share), a brand mainly known for its quality and reliable cars.

Ghosn also changed Nissan's hiring decisions, being specifically looking for motivated outside managers to continue the process and hoping to create animosity among Nissan's employees.

I naturally think that Ghosn performed very well at Nissan, even considering he made some risky decisions directly regarding the Japanese culture, but he was also able to 7

take advantage of the luck and timing of the change process, which enable him to do it all in a very short and unexpected period of time (less than two years).

After successfully turning Nissan back to profitability and setting up new measurable financial objectives for a profitable growth, it was normal if his capacity to keep on moving forward so optimistically would be questioned by outsiders.

Even if a new CEO steps in, he already has the learning book right in front of him. What matters most is to understand this particular and different culture and take the best out of it. The most difficult part of getting the employees to accept and participate in the change of their management process and being willing to change their own mindsets and embrace new ideas, to better address key customer focus strategies, was already done.

In my opinion, it really is possible to keep on going. Even if objectives above doable are set, it is a matter of choosing the right incentives to keep the company engaged, coordinated, and motivated into performing optimally and towards improvement.

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## **Exhibits:**

### **Exhibit 1: Geert Hofstede Cultural Dimensions**

Power Distance Index (PDI); Individualism (IDV); Masculinity (MAS); Long-Term Orientation (LTO); Uncertainty Avoidance Index (UAI)

(Hofstede, 2003) 8

### **Exhibit 2: Trompenaars' four diversity culture**

Relationship between employees- diffuse relationship to organic whole to which one is bonded

Attitude to authority: status is ascribed to parent figures who are close and all powerful

Ways of thinking and learning- Family: intuitive, holistic, lateral and error correcting

Attitudes to people- as family members

Managing change- “ Father” changes course

(Trompenaars)