

Nissan's need for leadership and change



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Case Summary

The case point of departure is Nissan's troubled financial position and loss of credentials in 1999. As a Japanese company Nissan had built impressive manufacturing platform for its 43 car models. However due to poor business decisions in the past the company profitability suffered, hence the need for a new leadership. Carlos Ghosn stepped in at 1999 promising to turn the company around in two years.

The case describes the challenges that he dealt with in restructuring the company, building trust through transparency in operations and promoting new type of leadership styles at Nissan. There are internal and external factors that affected the Nissan performance prior to Carlos Ghosn arrival as COO.

- The internal factors refer to the current management style that focused on short-term performance and technology development and neglected the customer satisfaction and service. The management showed ignorance to designer trends and customer preferences, which had weakened the Nissan brand image.
- The external factors refer to the devaluation of the yen in relation to the US\$. The economic conditions were not in a favor for Nissan as the government support to the industry seemed to evaporate. The rating agencies: Moody and Standard & Poor threaten to lower the Nissan investment rating from “ investment grade” to “ junk” if Nissan did not acquire support from another car company.

The exam requirement is about evaluating the Carlos Ghosn approach in turning Nissan around in relation to the following aspects: 4

Question 1 – Resistance to change

Was resistance inevitable? What were the underlying causes of the resistance?

With Carlos Ghosn becoming the new COO the managers and the employees probably had mixed feelings about what his intentions were in relation to their job security. Known as the “ Le Cost Killer” Ghosn did not hesitate to challenge the current organizational culture and internal processes.

The core of the resistance at Nissan was the COO Brazilian ethnicity with Lebanese heritage and cultural differences of approaching the problems. It is well known that the Japanese management culture is masculine with large power distance and obedience to the higher ups (Hofstede). Ghosn had shown a proactive management style at Renault by improving cost-efficiencies and due to the good management record previously, he was headhunted and become a COO of Nissan. It is logical to assume that the new COO should be someone who knows the local culture and customs, but in this case Ghosn was probably aware of the fact that despite of his shortage of knowledge about it, he had an advantage to have worked on four continents and overcome cultural differences.

Previously in 1991 Nissan had been successful by producing good quality cars, but the company distanced itself from the customers’ needs of “ stylish, innovative cars”. The company stall and later the disruptive management style which was short-term market share oriented, instead of

long-term profitability oriented, contributed to the Nissan need of strategic change. The keiretsu investments in supplier's equity and real-estate had created a false security net. The keiretsu tradition is wide spread in Japan and in that sense Nissan's manager's believed that the investments equal to loyalty and cooperation within the suppliers family. It could be assumed that despite the higher purchasing costs the Nissan managers did not terminate the unprofitable relationships due to vertically-integrated long-term interdependencies. The managers involved in the negotiations and decision making probably had been afraid of losing their jobs and status quo if the plant closes down and discontinue the supplier's relationship.

In order to overcome the challenges Ghosn implemented the Nissan Revival Plan. In the plan he set strategic targets to be reached by 2001. His plan was to reduce cost by closing down unprofitable plants, terminating keiretsu agreements, developing new cars and improving the Nissan image. One of the reasons why Ghosn was careful about the Japanese culture was the agreement that Hanawa made with Renault before the strategic alliance took place. The agreement stated clearly that the new COO has to stay sensitive and in respect to the Japanese culture. Without the cross-functional teams the resistance of implementing the change would have been too strong for Ghosn to execute its plan. The CFTs were members of key business operations and with their sub-teams they reported back to the supervisors. Ghosn put and emphasis on accountability and responsibility by eliminating positions that did not have direct influence on the company performance. The resistance was inevitable due to Ghosn management style, however in the process of restructuring he managed to convince the managers that the

new strategic approach of decentralization will benefit Nissan, respectively the employees on the long run.

Question 2 – Organizational culture

In your opinion how did different parts of the Nissan organization feel about Ghosn and why? Was Ghosn successful in enlisting their support?

The paradigm of the delayed decision-making process and the informal meetings in order to achieve consensus as well as aligning the decision making process must have caused tensions with the Ghosn arrival. However when he assembled the CFTs, he restructured the organization by flattening the decision making process. Within the organizational restructuring Ghosn implemented the matrix structure, which required change in the leadership styles within Nissan, as well as change in the working process. Five factories were closed and 21, 000 jobs within management, manufacturing and dealer net were reduced in the process. As a gaijin Ghosn had to prove to the media, the investors and the stakeholders that his NRP requires the Nissan employees' full cooperation and trust. The performance based incentive system in terms of cash and stock options was unknown in the Japanese culture before. Also the seniority reward system had been removed and replaced with KPI (key performance indicators). This caused insecurity within the workers and lack of cooperation, especially among the older managers who probably had expected their rightful rewards. There must have been strong resistance within the different parts of the organization due to Ghosn " carrot and the stick" way to put things in perspective. By dissolving unprofitable production and demanding responsibility from the managers he

showed determination and also concern about the Nissan organizational culture. In the process he enlisted the organizational parts on his side by letting the managers to be involved in the restructuring as well.

Ghosn successfully executed the NRP as the case describes, Nissan had the best financial performance in history. He also managed to reduce the purchasing costs by 20%, the supplier base and the keiretsu influence.

Question 3 – National culture

How pronounced have cultural differences been between Ghosn and the organization? Was culture a helper or hinder for Ghosn?

As described in the text under “ Addressing national cultural issues” career advancement can only be achieved by Nennkou – Jyoretu, where the senior manager had the power, and the responsibility of the decision-making.

Although the managers had control over the operations, the team-members were hindered of contributing in the decision-making, hence the slow development process. The fear of “ loosing face and failure” disrupted the value chain at Nissan and when Ghosn came on board, he had to make some restructuring changes and to adjust the power distance. Japan is known for high employment security country and employees take pride in their work. However, Ghosn faced a challenge discovering that every team believed that their department is not responsible for Nissan problems and therefore unaware of the fact that the company is close to bankruptcy. The formal and informal decision making was not efficient at Nissan as the managers did not follow-up on their orders. There was too much focus on the functional structure and cost per unit. 7

Instead the managers should have focused on the customer satisfaction and meeting the investors' demands for improving the earnings and the stock value.

Ghosn listed five urgent problems that Nissan was facing and despite the cultural differences he believed that diversity was a strength rather than weakness. He communicated the 3 managerial principals to the employees: transparency, execution and communication. With his open management style he turned down barriers of power and empowered the middle management by establishing the cross-functional teams.

Despite the major cultural differences between Ghosn and the organization it worked well in the end due to Ghosn leadership skills of letting the employees to contribute to the changes by involving them in the decision management – the initiation process and the implementation phase.

Question 4 – Luck and timing

Would Ghosn and his cross-functional team been able to make the same changes a few years earlier?

There are some pros and cons in answering this question. As mentioned in the text the government practice of bailing out troubled companies did not appear in the case of the bankrupt financial house Yamaichi. This event played a psychological role for the Nissan employees and Ghosn used it cleverly to steer his new strategy.

Carlos Ghosn has a background as VP at Renault. The management skills and resources acquired at Renault most evidently helped him to execute the strategy changes at Nissan. This raises the question whether he could be

capable to execute such a management Excellency at Nissan without the management experience at Renault, probably not. A few years earlier Ghosn would not have had the support from Hanawa.

The cross-functional teams worked well due to the internal and external economic conditions. They were with the sole purpose to drive change and transform Nissan from a consensus culture, where those with different opinion did not have to chance 8

to pledge their point of view to a consensus culture with roots to the western organizational culture style.

In 1999 Nissan had probably reached the lowest point in financial performance and brand equity. Few years earlier the situation was bad, but not worse in the financial sense. 9

Additional question – Other aspects of the evaluation

Renault – Nissan alliance

The CEO Hanawa gained an alliance with Renault who took 36, 8% equity stake in Nissan. Hanawa negotiated agreement as follows:

- Nissan retains its own name
- The Nissan CEO would continue to be selected by Nissan board of directors
- Nissan would take the principal responsibility to implement the revival plan

Benefits

- Economy of scale

- New markets
- Shared distribution
- Sharing technology and know-how
- Developing new technology based on the shared experience
- Being able to react timely to the market needs
- Benefits for the both companies
- By selecting the most committed suppliers, the number of the suppliers can be reduced, hence gaining advantage of controlling the suppliers for price negotiation
- Sharing the same platform in production
- To secure smooth transition in the alliance
- Cooperation comity secured the implementation of the decisions taken during the transition period
- The managers acted upon the transition decisions, become better to give feedback and follow through
- New ideas of synergies merged in the aftermath