

The global leadership of carlos ghosn at nissan



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SUMMARY

In 1999, after incurring losses in seven of the prior eight years, Nissan entered a partnership with Renault. At the request of the Nissan president Hanawa, Carlos Ghosn was appointed COO of Nissan. His mission was to turn around the financial situation and re-establish confidence of the suppliers and financiers. Carlos Ghosn promised to resign if Nissan did not show a profit after two years, but only after eighteen months under his leadership Nissan began to operate profitably.

EVALUATION

A decisive factor to the successful turnaround of Nissan was that Carlos Ghosn's was the right man for the job, since he was able to do things the right way and with the right approach.

I think his approach was successful because he managed resistance to change, adapted strategy to the organizational culture and hereby enlisted different parts of the organization, used the best from the national cultures and last but not least the timing was right combined with a great stroke of luck.

RESISTANCE TO CHANGE

People do not resist change as such¹, which I think manifest itself in the Nissan case. The bankruptcy of the major financial house in Japan, Yamaichi, which was not bailed out by the government, made the Nissan employees realize, that in relation to the financial situation, Nissan was in desperately need for a change. Therefore I believe that the resistance in Nissan was

caused by some of the consequences the change may bring and not the change in itself.

Some of the underlying causes of the resistance are fear of the unknown, fear of poor outcomes and fear of taking the full responsibility.

Was resistance inevitable?

I believe that the resistance was inevitable, since there will always exist some form of resistance caused by fear of the unknown or fear of poor outcomes. It might not be easy for everyone to fulfill the basic human needs such as food, shelter and so forth for themselves and their family without their job, wherefore fear of losing their job is a vital cause of resistance.

Though I think the resistance can be drastically reduced by fast communication. 141182-1710 3

Underlying causes of the resistance

Until the arrival of Carlos Ghosn, promotion has always been based on seniority and education, which are the traditional determinants of moving up the career ladder in Japan. Carlos Ghosn changed the determinants of the well-known employee advancement system so a promotion was no longer limited to age, length of service or educational level but also based on abilities to perform challenging or demanding tasks. In my opinion this gave rise to a fear of the unknown since the new determinants was so different from what the Japanese employees was used to and furthermore the transparency of who gets promoted and why was no longer as clear as before. Previously everyone was sure to get promoted once in a while, given

the fact that they get older and the rise of length in service. This is no longer the case.

The resistance against the new promotion system, where younger leaders could get promoted over older was expressed by lack of cooperation. In my opinion the resistance is caused by the fundamental hierarchical structure which is so embedded in the Japanese society, where age and length of service is vital to the rank in the hierarchy, that it was hard for the employee not to have some form of resistance if a younger colleague gets promoted instead of yourself, because a situation like that is so unknown in Japan.

Another huge change after the arrival of Carlos Ghosn was the reorganization and the underlying effects. Beside from more responsibility, the employees were encouraged risk-taking behavior and personal accountability, and were disciplined much more strongly for inaccurate or poor data than misjudgment. I believe that the employees find it a bit scary to take the full responsibility since they are used to the consensus principle where no individual can be identified for originating a faulty position since the decision maker has agreed to the consensus.

A further underlying cause of resistance was the fear of a poor outcome. Since the change was needed to re-establish the financial situation the employees knew that Carlos has to look very critical at all costs, hereunder labor costs, and cut off all unnecessary cost. I believe that all employees have their concern about whether their job is considered value adding enough or whether their position would be cut out and the employee hereby loses his job. 141182-1710 4

I believe Carlos Ghosn handled the situation very well by using two of the most effective ways to address resistance, namely involvement and communication. 2

When he first came to Nissan Carlos Ghosn made a great honor out of having a non arrogant approach and walked around the entire company to shake hands with every employee. I think the fact that he appeared trustworthy, that he did not come with a new strategy on the first day but took his time and that he had long discussions with managers about their ideas for turning Nissan around, addressed the fear of poor outcomes. With his approach he managed to engage the employees and elicit ideas from managers by involving them in the change process.

Besides from involving the employees Carlos Ghosn also created a matrix organization for higher level staff in order to improve transparency and communication. By putting more focus into communication I believe that the resistance caused by fear of the unknown is reduced, since the employees could get answers to their concerns and explanations on “ how, why, who, what and where” questions regarding the change.

ORGANIZATIONAL CULTURE

Before the strategic alliance, Renault had made a commitment to remain sensitive to Nissan’s culture at all times, which also was expressed in the approach Carlos Ghosn’s had to the company. I think his accommodating and respectful behavior toward the organizational culture and every employee regardless job position is the reason why he was quickly very well-liked.

Enlisting the support of the employees

To enlist support from the employees, I think a shared vision and a clear strategy is key success factors. 3 One of the fundamental problems when Carlos Ghosn arrived at Nissan was the lack of vision from management. By a restructuring in the organization and the grouping of Cross Functional Teams, I believe that the explaining and communication sharing, hereunder common vision, across the entire company was improved.

Next step was the formulation of the new strategy. When formulating a strategy it is very important to choose a strategy that is compatible with the organizational culture. 4 It is my opinion that Carlos Ghosn succeeds with the adaption of strategy into organizational structure, by letting the employees in the CFT's create the strategy themselves, or at least be a big part of the strategy creation. In order to achieve an effective strategy execution you need 141182-1710 5

to adapt the culture to the selected strategy. 5 By reaching to conclusions of plant closures and employee reductions, I think that the CFT's managed to adapt the culture to the selected strategy.

Overall Carlos Ghosn experienced a willingness of the Nissan employees at all levels to change their mindset and embrace new ideas.

In my opinion Carlos succeeded in enlisting different parts of the organization, because he created and communicated a shared vision and included many of the employees in the new strategy and the underlying process. The employees in the Cross Functional Teams and sub-teams were very fond of becoming more influence, which created engagement,

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motivation and confidence among the employees. Furthermore I think that the employees also supported the leadership of Carlos Ghosn, because the results showed off rapidly, which made the employees feel safe about the company and strengthen Carlos Ghosn's credibility.

NATIONAL CULTURE

Instead of seeing cultural differences, between Japanese and himself, as obstacles Carlos Ghosn's had a positive approach to the cultural differences. He believed that cultural conflicts, if paced and channeled correctly, could provide opportunity for rapid innovation. I think this approach is vital for the success of turning Nissan around, since it showed respect which is a keyword in Japan. Furthermore I do not believe, that imposing a different culture on the employees from day one would have lead to anything else but resistance.

Pronounced cultural differences

A cultural difference was the Kairetsu investments, where Nissan put retained earnings into equity of other companies and real-estate investments under the assumption that it would foster loyalty and cooperation between members of the Kairetsu. Unfortunately the investments were not reflected in the purchasing costs. Additionally, the Asian financial crisis worsened the Kairetsu investments with the devaluation of the yen. I find the Kairetsu investments a pronounced cultural difference since the European style of fostering cooperation is quite different. Here, manufacturers use their size and other strengths to obtain lowest price with little regard for supplier financial viability. The approach adds more

cooperation to the balance, primarily because the revised split of responsibilities makes this unavoidable. 141182-1710 6

Carlos Ghosn managed to break away from the traditional Keiretsu investments without losing the customer-supplier relationship with the former Keiretsu partners and hereby I believe he kept the best from the two cultures.

Another pronounced cultural difference, in my opinion, is the employee advancement system. In Japan promotions are usually based on age, length of service, or educational level, where in Europe promotions are more depended on skills and abilities to perform the required tasks. Carlos Ghosn changed the advancement system so a promotion no longer solely depends on age, educational level and number of years of service to the organization but also on skills and abilities to perform the required tasks. The new promotion system caused some problems regarding lack of cooperation, but Carlos Ghosn just viewed the cultural differences as a growth opportunity for the young managers.

A third pronounced cultural difference was the consensus based society system. The Japanese thought that the key elements to maintain operational efficiency and group harmony were conscientiousness and cooperation. As opposed to Japans collectivism Carlos Ghosn was an advocate of individualism. 6 Even though Carlos Ghosn encouraged risk-taking behavior and personal accountability he did not exclude the consensus principle entirely. He used the consensus principle in the Cross Functional Teams even though the teams had no decision making power and excluded the principle

it in the decision making process were the consensus principle previously had resulted in delays. I hereby believe he managed to keep the best from both cultures by using the principle in another relation.

Was culture a helper or a hindrance?

Whether culture was a helper or a hindrance is dependent on the approach to the cultures and the understanding of a hindrance. In my opinion a hindrance is an obstacle that will put a stop to the process. Surely Carlos Ghosn did meet some unwillingness regarding the promotion system, but I do not think it was a hindrance since Carlos Ghosn's approach to the challenge was to make the best out of the situation. In my opinion his very positive approach to the cultural differences and focus on using the best from the two cultures made culture a helping factor in the changing process instead of a hindrance. 141182-1710 7

LUCK AND TIMING

It is my opinion that Carlos Ghosn and his Cross Functional Teams' success in turning Nissan around were helped along with the right timing and a great stroke of luck.

In 1999 Nissan's Keiretsu investments became catastrophic due to the devaluation of the yen as a result of the Asian financial crisis. I believe it was a combination of the financial crisis and the announcement that Nissan's credit rating went from "investment grade" to "junk" from both Moody's and Standard and Poor's, that forced Nissan into searching for a strategic partner.

Almost at the same time Renault was searching for a partner that could strengthen their global position in order to keep up with the increased competition after the merger of Daimler and Chrysler. On the basis of the above-mentioned situation for both companies, I do not believe the timing could have been more perfect for the alliance between Renault and Nissan.

Besides from timing Carlos Ghosn was also hit by a great stroke of luck. Previously large troubled companies would always be bailed out by the Japanese government, wherefore employees did not worry about corporate problems. In my opinion the bankruptcy of the major financial house, Yamaichi, caused a greater motivation among the employees in Nissan, since they suddenly had to worry about corporate problems.

I believe that Carlos Ghosn and his Cross Functional Teams would have been able to make the same changes a few years earlier even though it might have been more challenging. If they would have made the same changes a few years earlier some of the challenges would have been finding a strategic partner and convincing the employees about the importance of corporate problems. Because the changes were some years before 1999, the financial situation would not be as critical, since we have not reached the Asian financial crisis. Therefore Nissan would not be in such a rush, as in 1999, to find a new strategic partner, which is one of the reasons why I think it is possible. The other challenge was to convince the employees about the importance of corporate problems, since they at that time would not have the Yamaichi example to relate to. I think it would be possible but take longer time to create the motivation behind the realization of the importance of corporate problems. 141182-1710 8

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2 Class 5, slide18

3 Class 3, slide 25

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6 Class 7, slide 18