

Theories and practice of leadership: nissan



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When making major changes in a business, efficiency, adaption and human relations need to be considered and the trade-offs between these that might be affected. Efficiency was improved by closing 5 of the factories in Japan and eliminating 21, 000 jobs to maximize production and reduce wastage. To simplify the production process Ghosn reduced the number of car platforms by 50% and the number of power trains by 33%. Human relations is always a trade-off when job cuts are made, this was counter acted by Ghosn. He used natural attrition whilst selling subsidiaries or offering early retirement or part-time work at other company facilities all of which would help the morale of the employees that left and the ones that remained so they did not feel so guilty and suffer from ' survivor syndrome' (Daniels, 2006).

Reducing purchasing costs by 20% was another way that Nissan improved efficiency; this was achieved by reducing the number of suppliers and making bigger orders. A negative trade off from this was the reduced relationship status with suppliers which is a highly regarded aspect of business in Japan. Engineers were also to blame for making overly specific orders which increased costs unnecessarily as they produced cars to solely improve performance, the trade off was that cars began to be made with customer needs in mind, not performance improvement.

Weak distribution was also to blame for the downfall of Nissan; Ghosn reduced dealerships by 10%. Brand loyalty is high in Japan and determined by good customer relations which was a trade off for the reduction in dealerships; this was handled by improving the management in the remaining dealerships so that they become more entrepreneurial than social roles in the business.

Design was instigated by engineers and not by the designers; this is why only 4 of the 43 cars in production were profitable. Twelve new cars were to be produced by the designers, to meet customer needs. A trade off of this was poor self-esteem for the engineers but equally designers were given freedom to be innovative and feel more valued by the company.

Adaption was improved by correctly identifying the major changes, whilst not dictating them to employees. These plans were all released at once with the explanations behind their needs as to stave of criticism and prejudgments. The trade off for this was in the use of cross functional teams to improve human relations via interaction across departments for them to identify the major changes themselves, therefore then not feeling like they are being dictated to by senior executives.

Human relations were improved (for the company, not the employee) by not giving lifetime job guarantees and not adhering to the seniority system that was in place for pay and promotions which lead to the replacing of weak middle management with competent replacements. The trade offs for implementing this was for poor employee relations to occur but this was managed by a merit pay plan, for performance related pay increases and promotions, with employees capable of earning up to an additional 33% of their wage based on performance and gaining stock options.

To conclude Ghosn tried to weigh up and counter act the trade offs between efficiency, adaption and human relations well with the use of merit plans, extra innovation and better management. However there was not any strong counter action in relation to reducing purchasing costs, this was evident for

the engineers in particular, where as it was obvious how the designers benefited from the changes made.

Effective change is essential to the success and survival of a business as 62% of new businesses fail within 5 years and only 2% survive over 50 years (Nystrom & Starbuck, 1984). With this in mind effective change management is critical to Nissan and Ghosn's success.

Ghosn used planned change which has both driving forces and restraining forces that affect the organisations state of equilibrium during implementation (Thomas, 2010). Features of planned change include; Assumption of a stable/predictable environment which Nissan do have. Required change must be identifiable, Ghosn meet this by introducing cross functional teams to identify the problems and changes needed. To move from one fixed change to another, this was done with the permanent closing of 5 factories and the loss of 21, 000 jobs. Organisational members must be willing to change; Ghosn increased the willingness to change by creating a vision for the company, empowering employees such as the designers and cross functional team to identify the changes needed which meant they would then be more willing to follow the changes through than have them dictated to them. To have the appropriate tools and techniques available, Ghosn had all the tools available, in most instances it was a case of reducing them in terms of factories, workers and suppliers. Where he did not have the correct tools he brought them in such as designer Shiro Nakamura.

Restraining forces of planned change include (Katz & Kahn, 1978) structural inertia, work group inertia, politics and previously unsuccessful efforts.

Ghosn changed structural inertia by implementing the cross functional teams to identify and suggest changes for the problems and allowing them to be more adaptive and innovative than ever before. Work group inertia was changed from the design being engineer led to being designer led and customer focused and not performance focused. Politics was addressed by giving more power to the employees via cross functional teams and via the merit pay system where people earned their promotions and pay rises/bonuses.

Ghosn managed to implement these changes using Lewin's (Lewin, 1947) three step model of change (see appendix 1). In the 'unfreezing' stage of the model, Ghosn had to make sure that employees were ready for change and understood the need for it. This was achieved by using cross functional teams, as the employees would identify the issues and solutions of the company which would lead to higher acceptance for change as the changes were realized and not dictated. Ghosn also offered to step down from his post if the targets were not met which installs confidence, commitment and belief in the employees that the changes are necessary, realistic and achievable.

The 'change' stage of the cycle was used to implement the required changes that Ghosn and the cross functional teams had identified such as the reduction in suppliers, better distribution channels and management, customer focused designs and reduction in production costs.

The 'refreezing' stage of the cycle is Ghosn's weakest part in terms of delivery. Nothing had been outlined specifically to make sure those attitudes,

processes and cultures do not return to how they were before or that similar patterns do not appear again. The incorporation of a vision and plan for the firm can be seen as a retention strategy for changes made, however this area is significantly weaker than previous two stages.

In my opinion Ghosn was right not 'refreeze' the changes, the opening statement points to the need for constant change and transformation for a company to keep up with the changing environments that they work within. This therefore would count as criticism of the theory; as Lewin talks about the tactics for change but does not recognize that change should be constant and never ending, which is not the impression you get in his theory with the 'refreezing' of culture which would represent an end to the change.

Ghosn was very focused on the planned changes that he had in mind for Nissan, which could be seen as reasonable due to the short term nature of the plan. However with every planned change, the external environment can not be predicted with complete assurances. All companies have to deal with strategic drift (Johnson G, Scholes K & Whittington R, 2005) which is when strategies fail to address the strategic position of the organisation, relative to the changing environment. Ghosn had not considered this at all in his plans and therefore had failed to acknowledge the potential importance of emergent change. This could have been critical had there been severe and critical changes to the external environment. For example if the banking crisis that has hit us now had happened ten years ago during implementation, did Ghosn have an alternative plan.

Ghosn managed to implement effective change management techniques through the use of planned change and used Lewin's three step model of change to rectify problems encountered by the restraining forces. Ghosn managed to minimize the resistance to change through the use of cross functional teams, the merit pay system, empowering employees, offering alternatives types of work for some of the people unfortunate enough to lose their jobs and showing his commitment to the challenge by stating he would resign if the goals were not achieved on time.

A trait refers (Yukl, 2002) to a variety of individual attributes, including personality, temperament, needs, motives and values. Skills refer to (Yukl, 2002) the ability to do things in an effective manner and are determined by learning and heredity. The use of good traits and skills will have been used by Ghosn to successfully lead Nissan out of its crisis to meet the goals that he set for the company.

Strategic leadership requires a managerial ability to (Thomas, 2010), anticipate and envision change whilst maintaining flexibility and empowering others to manage strategic change if necessary. Effective strategic leaders (Thomas, 2010) tend to be able to manage operations effectively, sustain a high performance, make better decisions than their competitors, and make courageous and pragmatic decisions. They must also understand how their decisions affect the internal systems and respect the feedback from peers and employees about their decisions and visions.

The three factor taxonomy of skills shows (Yukl, 1994) that it can be broken down into these sections: Technical Skills, Interpersonal Skills and

Conceptual skills. Ghosn shows his technical skills in reducing the amount of power train combinations and car platforms due to his knowledge of the processes required. This shows his strategic leadership in managing operations effectively and sustaining higher performance

Interpersonal skills were shown when dedicating cross functional teams to identifying and eradicating the problems in the business. Changing to the merit pay system from the seniority system also showed his good interpersonal skills as by taking one away but replacing the lose with something better and more productive. This was a courageous decision as these strategies have never been contemplated before in Japanese businesses prior to Ghosn's arrival.

His conceptual skills were proved in his ability to reduce the production costs by as much as 20%, by cutting down on factories, employees, suppliers and dealers and managing to keep a positive spin on these cost cutting initiatives. This showed his ability to make better decisions than his Japanese competitors and therefore be a successful strategic leader.

Ghosn's personality proved to be charismatic as he holds traits of charisma (Conger & Kanungo, 1988) such as being self confident and enthusiastic and willing to take personal risks, such as putting his job and reputation on the line. He challenged the status quo with things such as reducing dealerships and suppliers and introducing cross-functional teams. Ghosn was also innovative and unconventional in relation to how the Japanese operate normally, by instructing designers to produce 12 new cars for construction and changing the whole pay and promotion system in the company.

Ghosn has shown a range of skills and traits that are needed to be a successful strategic leader, such as the interpersonal skills to convince people of a new vision and get them committed to the goals through his own strong beliefs and dedication to them. Empowering people was used to enable them to become more innovative and creative and to be able to identify and solve problems themselves. Ghosn managed to improve production efficiency with his conceptualization skills whilst showing the charisma to be able to challenge the status quo's in a culture that has a naturally high level of uncertainty avoidance.

A transformational leader is (Bass, 1985) someone who identifies the needed change, creates a vision to guide the change through inspiration, and executes the change with the commitment of the followers. An empowering leader is (McLagan, Patricia & Nel, Christo, 1995) someone who gives a clear vision, strategy and enabling tool kit. A change-orientated leader is (Tichy & Devanna, 1990) someone who recognizes the need for change, creates a new vision and then institutionalizes the change.

Ghosn was a transformational leader as he incorporated all of the 4 I's (see appendix 2) into his leadership style (Northouse, 2001). Ghosn managed to gain idealized influence through making a huge commitment to the goals that he set by putting his job on the line. This is a charismatic and confident thing to do that would have firmly set the belief that he was superiorly knowledgeable and capable.

Inspirational motivation was clearly set out by Ghosn as he made his targets clear and bold as he released them all at once, whilst managing to avoid

leakage to minimize criticism without understanding. The merit pay scheme would have also been motivational to employees as they would now know they could get recognition and promotion for other reasons than besides seniority.

Ghosn managed to install intellectual stimulation to his employees through the use of cross functional teams that allowed them to be creative and innovative in their approach compared to their previous roles. He equally gave designers the same freedom to become innovative. Ghosn did also challenge organisation processes with the reduction in suppliers, distributors and the use of power trains and car platforms.

Individualized consideration was also covered by the use of the merit pay system and each employee now has the potential to earn an additional 33% of their salary through bonuses. They can also now gain promotion when it was maybe not possible before under the old system. However he could have done more for the engineers as they gained criticism for overly detailed specifications on orders and having too much influence on designers, nothing was outlined on how they would be picked up after these knockdowns. A mentoring or coaching scheme could have been incorporated to help employees reach their personal goals more effectively to improve on this point this further.

Ghosn was also a change-orientated leader as he did identify and implement changes but it was already obvious that change was needed, which is why Ghosn was brought to Nissan in the first place. Ghosn was equally an empowering leader as he gave his employees responsibility and roles they

had not experienced before but he done so much more for Nissan than just empower employees as he made radical changes himself. These two leadership styles in my opinion are present for Ghosn but are only small parts of his repertoire and the overall picture, which is that they are aspects which feed into being a good transformational leader.

Ghosn incorporates all three of the leadership styles but uses change and empowering leadership as tools to direct his transformational leadership style more effectively and to help achieve intellectual stimulation and individualized consideration.

With Ghosn making so many changes to Nissan, it was inevitable that some of these changes would affect the culture of the company and the issues that are aligned with them.

One of the big cross cultural issues that had to be addressed by Nissan first was the action of reducing the number of suppliers to the company, which was seen as unprecedented in the past. This was because supplier relationships were deemed " sacrosanct". Part of the problem was that Nissan was at the time part of the Keiretsu culture in Japan, this is where a large group of companies work with each other to the perceived benefit of one enough. It was seen as a safety net upon which they all owned shares in each other and kept each other safe. If Nissan were to get out of their current crisis bold moves had to be made in comparison to competitors, so moving away from this culture was essential.

An equally important cross cultural issue that was changed at Nissan was the belief of having a ' job for life' and ' promotion and pay based on seniority'.

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When the merit pay system was brought in, this was to motivate employees to push for their promotions instead of simply waiting for them to happen. With the new procedures of accountability measured against the goals of the company introduced this showed the weak middle/upper management that needed replacing. This would have been a shock to the Japanese as their culture has always been to respect your elders; this was no longer the case with the new system in place.

In Japanese culture there is a high level of uncertainty avoidance, this is when (Yukl, 2002) people fear ambiguous situations and seek security and stability. Ghosn challenged this culture by immediately putting people into cross functional teams to identify the problems with Nissan. Employees will have felt uncomfortable with this new style that had not been experienced before but will have quickly learned the benefits of working with other department managers and understanding the problems they face on a daily basis. This can be attributed as to why the engineers were allowed to dominate the decision making on supply specifications and design for so long, as confrontation was not part of their culture and therefore no one would have questioned their workings.

Another cross cultural issue faced is the performance orientation (Yukl, 2002). Prior to Ghosn and his introduction of performance that could be measured against specific goals, the Japanese were very focused on maintaining relationships as they believed it was brand loyalty that would ensure repeat purchase. This can be linked to the 'sacrosanct' relationships which they had with suppliers and distributors as well as their involvement in the Keiretsu culture that created this behaviour. Ghosn changed this

philosophy of relying on brand loyalty and brought in the need to meet customer requirements which has made them incredibly more goal focused.

The important cultural issues that needed to be changed at Nissan, was the movement away from the reliance of other companies and the relationships built with them to ensure the maximum working efficiency and productivity for themselves. It was equally as vital that employees realized they would not have an easy ride with a guaranteed job and promotion but that they had to work for these things and prove themselves worthy of such rewards; this will have improved efficiency and motivation for the workforce. It was also important for Nissan to move away for a high level of uncertainty avoidance and towards performance orientation, to allow the team to work more effectively and understand each others needs to make a more successful and dynamic team.

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