



TEACHING NOTE

Carlos Ghosn as CEO of Nissan and Renault: Can He Rework the 'Nissan Magic'?

Synopsis of the Case

Carlos Ghosn (Ghosn) was known as the 'Turnaround Artist' for successfully turning the troubled Japanese company Nissan around. In spite of being an outsider and lacking an in depth understanding of the work culture of the Japanese company, Ghosn was able to bring in a sense of urgency in operations into the company. Under his leadership Nissan, was able to reduce its debt totaling \$19 billion to near zero. In 2002, Louis Schweitzer, the then CEO of Renault announced that Ghosn would become the CEO of both Nissan and Renault. But critics felt that it would be difficult to manage both the French company Renault and the Japanese company Nissan due to the diverse cultural differences. It was also observed that Nissan might revert back to its old work culture in the absence of strong leadership.

Teaching Objectives

The case study offers scope to discuss:

1. The issues that need to be considered by an outside change agent to effectively bring about change in an organization
2. The importance of effective leadership during a change process
3. The strategies used by Ghosn to bring about change at Nissan
4. How the culture of Nissan was affecting the company's ability to achieve profitability
5. The challenges that Ghosn will face as the CEO of both Nissan and Renault

Assignment Questions

1. What are the different management practices that are unique to Japanese organizations?
2. Do the management practices followed by Japanese organizations enable a company to remain competitive in a changing global economic environment?
3. What were the reasons behind the problems at Nissan? Was it wise to appoint an outsider as the CEO of Nissan?
4. What steps did Ghosn initiate to bring about change in the organization?
5. Why did Renault decide to enter into an alliance with a troubled company like Nissan? How did the alliance benefit both the companies?
6. What problems might Ghosn face by heading two diverse cultures at Renault and Nissan?

This teaching note was written by Vara Vasanthi under the direction of Souvik Dhar, IBSCDC. It is only an illustrative orchestration of the case study 'Carlos Ghosn as CEO of Nissan and Renault: Can He Rework the 'Nissan Magic'?'. It is never meant to limit the learning outcomes.

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Teaching Plan

The discussion of the case can be initiated by focusing on the management practices that are followed by Japanese organizations. Besides, how these management practices have affected the competitive edge of Japanese companies with reference to Nissan could also form part of the discussion. The problems at Nissan that necessitated change can be taken up for discussion. The justification behind the appointment of a CEO from outside the organization can also be discussed. The strategies adopted by Carlos Ghosn, which were against the management practices followed in Japan, and the consequences of those strategies could also trigger a discussion. The challenges Ghosn may have to face while dealing with diverse cultures at Renault and Nissan can also be discussed.

Analysis

1) What are the different management practices that are unique to Japanese organizations?

HR practices in Japanese organizations are in strong contrast to the practices followed in European or US organizations. A majority of the HR practices have emerged as a result of Japan's defeat in World War II. The destruction caused by the war on Japan resulted in an economy, which included aggressive forms of government intervention. Such an economy favored a system where no company went bankrupt and no worker lost his job. Such beliefs later led to the evolution of practices like permanent employment and seniority based promotion. The most prominent feature of Japanese management is that of *shushin koyo* or lifetime employment. The core employees of the organization are assured of lifetime employment to ensure that employees are loyal and hard working. In exchange for their loyalty, job security and benefits such as home loans, insurance, bonus and pensions are provided to the employees. Lifetime employment practices also provide companies with a strong incentive to spend on training and development of the employees as they are bound to continue for a longer period of time. Japanese also follow the practice of *nenko-joretsu* or seniority-based promotion in which career progression is highly predictable and regulated. Another important feature of Japanese management is *keiretsu* or interfirm network system. The system involves cross-ownership among different companies in each other's equity, which creates linkages between companies, which work to serve each other and supply products and services to each other. The system is based on informal relationships among companies, who respond to each other's needs and achieve results through collaboration. As a result, it eliminates the need for formal partnerships, which limit the scope of an alliance due to certain rigidities. Such practices have enabled the Japanese economy to achieve the high growth rate that it has enjoyed through the 1960s to 1980s.

2) Do the management practices followed by Japanese organizations enable a company to remain competitive in a changing global economic environment?

The Japanese practices, however, have come under scrutiny over the past few years after the 'bubble economy' burst in the late 1980s. The country has been facing a stagnating economy since the late 1980s although signs of growth had started to emerge in the early 2000s. In the background of such a sluggish growth of the economy, management practices followed by Japanese organizations need to be reviewed and fine-tuned to allow companies to compete better in the global arena. Experts feel that Japan has stretched the lifetime employment or *shushin koyo* practice too far. Certain situations necessitate the need for layoffs, which can help a company, sustain itself in the event of an economic downturn and effectively face international competition. The permanent employment practice burdens organizations with excess employees thereby reducing an organization's competitiveness. The seniority-based promotion is also being questioned, as the system does not encourage innovation and risk-taking. The basic premise behind the system is that

with the passage of time employees will gain extensive knowledge about the job and develop skills, which will contribute to the growth of the company. But with changing industry standards and the emergence of new technologies, such a system does not ensure that the right candidates will be assigned the right job. The knowledge and skills possessed by employees has surpassed the skills required to adapt to the changing technologies. The *nenko-joretsu* or seniority based promotion system in Japan awards promotion to those individuals who do not fail at tasks. Employees who are willing to take risks on the other are not rewarded appropriately. Such a system does not provide enough incentive for employees to experiment with new ideas, which can be the backbone for any company to endure the challenges it might face in the future. The interfirm network system or *keiretsu* has also created problems for Japanese organizations. The system affects the long-term growth strategy of a company due to the cross-shareholding and preferential trading among member corporations. As a result companies do not have to face any pressure from shareholders, as a majority of the stock is owned by friendly companies. Due to the lack of such pressure, companies are not entirely motivated to perform better. The system instead created a kind of competition whereby companies had far too many product lines and excessive employees. In addition to this, there are other practices like consensus-based decision-making, shared responsibility and sectionalism, which has resulted in reduced accountability among employees. There are many other similar practices, which hinder Japan's ability to compete effectively in the future. Experts feel that old practices need not be entirely done away with, but modified to allow Japanese companies to compete better.

3) What were the reasons behind the problems at Nissan? Was it wise to appoint an outsider as the CEO of Nissan?

One of the examples of how Japanese practices have led to the downfall of a company is Nissan. Nissan had been facing problems throughout the 1990s, with low brand recognition for its cars, mounting debts and falling market share. Nissan had losses amounting to \$5.5 billion and its market share had dropped from 6.6% in 1991 to 4.9% in the late 1990s. The company did not invest in creating a formidable product portfolio and instead spent its capital on making equity purchases of other companies like its suppliers. The main problem at Nissan was a lack of urgency required to address the problems plaguing the company. Compartmentalized departments led to each department holding the other responsible for the problems of the company. Everyone felt that the other department would take action and solve problems. Instead of trying to solve the problems employees were living with them. In addition to this, the company lacked effective leadership to address the problems and come out with suitable solutions. Leadership and management styles are quite different from those followed in Europe and in the US. Japanese are polite, reserved and never participate in the decision-making process. Sectionalism among the employees and the departments did not allow cross-functional teams to be formed. When Carlos Ghosn took over the reins of Nissan, he was not aware of the diverse culture at the company. In fact, several critics questioned the logic behind appointing an outsider as the CEO of the company. Critics felt that since Japanese management culture is different, a person who does not understand it might do the company more harm than good. But since the culture of the company had itself become a threat to the company, the choice of an outsider seemed logical. Ghosn himself in the early days did not feel the need to understand the management culture in Japan. But an incident that took place on Ghosn's first day at the office (refer to page number 2, para 2 of the case study) made him realize how diverse the culture was and how careful he has to be to bring about change in the organization. During his tenure at Michelin, Ghosn adopted strict cost cutting strategies, but the culture at Nissan was so diverse that change needed to be implemented with care. Ghosn, therefore, first tried to bring in a sense of urgency into the company instead of straight away imposing change.

4) What steps did Ghosn initiate to bring about change in the organization?

To effectively bring about change in the organization, Ghosn had to first make employees understand the need for the turnaround. By bringing in a sense of urgency into the company, Ghosn was able to make employees perceive the flaws in the culture of the organization. To address the problem of sectionalism, Ghosn explained to employees the importance of having cross-functional teams and how they benefited the company. Once employees became part of cross-functional teams, they understood the working of the other departments and owned up responsibility for things that went wrong. In addition to this, employees were encouraged to participate in the decision-making process. Suggestions were invited from not only the employees of the company but also ex-employees, suppliers and dealers. As Japanese were known to be reticent, Ghosn wanted employees to suggest ideas. By doing so, Ghosn emphasized on the need for individuality of the employees. He disliked using impersonal modes like e-mails and encouraged employees to indulge in face-to-face communication. The cross-functional teams were asked to devise plans, which would effectively address the crisis that the company was facing which emerged in the form of Nissan Revival Plan (NRP). The first phase of NRP was to cut costs and improve profits. Employees were encouraged to work harder, as Ghosn himself exhibited extreme devotion towards the revival of company whose problems were in no way his doing. Ghosn based his management style on two basic attributes -- value and motivation. **He maintained transparency at every stage of execution of NRP. The traditional practice of *keiretsu* was incurring heavy costs to the company, to counter which he reduced the number of suppliers from 1145 to 600 and encouraged new suppliers to supply at low prices. Other practices like that of lifetime employment was modified. Around 21,000 jobs were cut through retirements, pre-retirements and golden handshakes. The seniority-based promotion system was replaced with a performance-based and merit-based incentive system to encourage employees to perform better. Some of the subsidiaries were divested and few of the plants of the company were closed to reduce debt. Employees were also encouraged to find all possible means to reduce expenses. The cross-cultural merger between a French company Renault and a Japanese company Nissan also posed problems. Employees knew the advantages of the platforms provided by Renault but were reluctant to use them. To ensure that there are no cultural clashes between the two companies, Ghosn encouraged employees to respect the differences between cultures and adopted a performance-driven management. Regular meetings were conducted to overcome the resistance among employees of Renault and Nissan. English was made the common language to ensure that the Japanese and French employees understood each other. The second phase of the NRP was implemented in 2001, which resulted in increased sales and no debts. The company reported a 10.2% increase in revenues and an 84% increase in operating profits.**

5) Why did Renault decide to enter into an alliance with a troubled company like Nissan? How did the alliance benefit both the companies?

Renault had been facing problems since the early 1980s and had accumulated debt of nearly \$9 billion. The then CEO Louis Schweitzer believed that the company could be saved only if it was privatized. By 1998, the company's Scenic model became very successful in the European market and in 1998 alone the company earned profits of \$1.4 billion. Although the company became the number one automaker in Europe it had negligible presence in Asian and North American markets. In addition to this, the company also faced problems in the European markets where the demand for environment-friendly cars was on the rise. These cars were costly to manufacture at the price customers were willing to pay. Renault, therefore, decided to expand into developing markets of Asia and Nissan seemed a good opportunity to make the expansion possible. The alliance benefited both the companies equally. The turnaround initiated by Ghosn helped Nissan achieve profitability and Renault benefited in the form of cost savings, as it did not have to spend capital on constructing new plants. Renault was able to use the common buildings and platforms and also increase its purchasing power by procuring components through the combined Renault-Nissan purchasing organization. By sharing the platform used for manufacturing Nissan's Micra model with Renault's Modus, Renault was able to save \$500 million every year. In addition to benefiting from the synergies of each other, the individual identities of each of the companies were preserved thus avoiding any culture clashes.

6) What problems might Ghosn face by heading two diverse cultures at Renault and Nissan?

The two companies have been able to avoid culture clashes but doubts abound as to the sustenance of the individual identity of the two companies. In 2002, Louis Schweitzer announced that Ghosn would become the CEO of both Renault and Nissan. This led to speculations that Ghosn might not be able to handle the reins at both the companies. Although Ghosn had been successful in turning Nissan around it still experienced some problems in terms of quality defects in its cars. The company slipped from the sixth position in 2003 to the 11th position in 2004 in the overall quality ranking survey done by J.D.Power Associates. It appeared as though in his haste to turn the company around, Ghosn had overlooked a few critical aspects. The shortage of steel supplies further aggravated the problem as the company posted \$58.5 million in losses in 2004. Although Ghosn was able to address the quality problems and argued that the losses incurred in 2004 were far less than the savings achieved, critics felt that he might be under too much pressure if he is made the CEO of both Renault and Nissan. They believed that the culture at both the companies was too diverse and managing the diverse cultures might be too taxing for Ghosn. It was observed that Ghosn might not be able to focus on Nissan resulting in Nissan losing the sense of urgency generated by Ghosn and slip back into its old habits. In addition to this, several of the senior members at Renault were set to retire soon. Critics felt that Ghosn would not be able to understand the culture of the company in the absence of some of the more experienced older executives of the company. In the background of such changes, the ability of Ghosn to manage two diverse cultures was questioned. Ghosn, however, assured that the major attributes for effective leadership are 'Value, Transparency and Performance' and by incorporating them into their management style any CEO could be successful.

Conclusion

Whether Ghosn will be able to successfully head both the companies as CEO remains to be seen, but he has demonstrated his ability to successfully bring about change at Nissan in a diverse culture like that of Japan. The culture at Renault is also equally diverse and by understanding the nuances of each culture Ghosn can successfully integrate the operations of the two companies and help make use of the synergies of each other to succeed in the global arena.