The Global Leadership of Carlos Ghosn at Nissan*  

Overview  

In 1991 Nissan was one of the most successful car companies in the world. The Japanese company produced four of the top ten cars in the world and was well known for its advanced engineering and technology, plant productivity and quality management. Over the next eight years, Nissan’s management employed a conservative strategy harvesting the success of proven designs and investing retained earnings into the equity of other companies to foster loyalty and cooperation between members of Nissan’s value chain in its keiretsu. This conservative strategy may have been viable if it had produced significant cost savings, which it did not, or if the Asian financial crisis had not occurred or the Japanese economy had not been mired in a recession. Unfortunately, with the convergence of several challenges, Nissan found itself in February, 1999 on the edge of insolvency with Standard & Poor’s threatening to downgrade Nissan’s credit rating to junk status if it could not secure financial support from another automobile company.

In March, 1999 Nissan found an alliance partner in Renault who was willing to assume a 36.8% stake in Nissan while allowing the company to retain its company name, continue to have Nissan’s CEO selected by the Nissan Board of Directors, and allow Nissan to take the principal responsibility to implement a revival plan. The alliance was viewed as beneficial to both partners since it provided Nissan with the required financing and allowed each to expand its global reach through its partner’s operations. Nissan also benefited from the opportunity to gain a fresh perspective from its new partner. To help orchestrate the turnaround at Nissan the President and Chief Executive Officer of Nissan, Yoshikazu Hanawa, asked the CEO of Renault to send Carlos Ghosn to Nissan to be in charge of all internal administration and operations activities.

Ghosn had extensive experience managing larger operations under adverse conditions. At Michelin’s Brazilian subsidiary, Ghosn managed operations under runaway inflation and he headed the company’s North American operations under the pressures of a recession. In 1996 Ghosn joined Renault where he led a turnaround initiative focused on increasing margins and improving cost efficiencies. He was so successful in this role he earned the name “Le Cost-Killer.”

When Ghosn went to Nissan he knew he would have to overcome Japanese cultural obstacles, such as 1) a focus on consensus decision-making, 2) a promotion and rewards system based on seniority rather than merit, 3) a bureaucratic corporate culture that led to ineffective strategy implementation, 4) a lack of vision from management, 5) ignoring the voice of Nissan’s customers, 6) communication problems between levels of management, and 7) a lack of urgency to implement change.

*Portions of this TN represent the thinking, analysis, and work of the case researchers; we very much appreciate their contributions to how this case can be used successfully in a classroom setting.
In addressing these challenges facing Nissan, Ghosn employed a management style that embraced the cultural differences between the Japanese and himself and built on the strengths of the different cultures to help individuals grow personally and consider different perspectives. Ghosn’s style was predicated on three principles: transparency, execution is 95% of the job, and a clearly communicated company direction and priorities.

One of the earliest initiatives Ghosn launched was to form nine cross-functional teams that were charged with reviewing the company’s operations for three months and offering recommendations to turn Nissan around. Ghosn was also the first manager to walk around the entire company and meet every employee in person. Nissan employees responded favorably to these changes and Ghosn was surprised by how quickly employees accepted and participated in the change of their management processes.

Within six months the cross-functional teams began producing results in Ghosn’s main focus areas of developing new automobiles and markets, improving Nissan’s brand image, reinvesting in research and development, and reducing costs. While Nissan was making solid progress on its turnaround, several stakeholder groups were questioning Ghosn’s methods and were concerned with his decisions to significantly reduce Nissan’s workforce, replace Nissan’s seniority-based reward system with a meritocracy, and fire managers who did not meet performance goals. Despite this opposition, Ghosn led Nissan to a remarkable recovery ahead of schedule. The company turned a profit after eighteen months of his leadership and had identified new initiatives to help Nissan continue its momentum. However, the challenge was not over for Ghosn. As a result of his success, Renault slated him to succeed their Chief Executive Officer in 2005. Thus, Ghosn would have to determine how to select and prepare a successor that would ensure continued improvement at Nissan.

**Suggestions for Using the Case**

This case affords students a valuable opportunity to appreciate a relatively broad range of strategy implementation and execution issues covered in Chapters 11, 12 and 13 and should be positioned in the early or middle part of your strategy execution module. The case offers an excellent overview of the turnaround at Nissan and the role Carlos Ghosn played in the turnaround and provides insight into why Ghosn was selected to work with Nissan, the national and company related cultural challenges he faced, how he overcame these challenges, and why the turnaround was a success. Specific learning objectives you can use the case to demonstrate include:

- The impact of organizational and national culture on strategy formulation and implementation
- The value of a strong strategic leader
- The challenge of cross-cultural leadership
- Effective change management that involves building a supportive coalition
- The importance of institutionalizing change through continued development efforts
- The need for succession planning.

At the end of the case comes the announcement that Carlos Ghosn is the designated successor as the Renault Chief Executive Officer when Louis Schweitzer retires in three years. This highlights the process of succession planning. What are the criteria for selecting his successor? What are the key attributes that he/she must have? What should be the process of selection and grooming? Should one person be selected and designated as soon as
possible to be groomed by Ghosn as his own replacement over the three-year period or should several candidates be groomed simultaneously, with final selection made at the end of the process?

The Carlos Ghosn case can be used for a written assignment or an oral presentation, but is probably best suited for an oral presentation as this will allow you to help students appreciate the intricacies of strategy implementation in your question and answer section at the end of the presentation. Our recommended assignment question that could be used for either an oral presentation or written assignment is as follows:

Carlos Ghosn, Nissan’s Chief Operating Officer, has employed you to develop a plan to ensure the continued success of Nissan’s turnaround initiative when he returns to Renault as the company’s Chief Executive Officer when Louis Schweitzer retires in three years. As part of the plan Ghosn would like you to critique Nissan’s change management efforts to date, identifying the primary obstacles that have been overcome, the key policies and operating practices underlying the implementation of the program, and the main challenges Nissan currently faces. Ghosn would also like you to offer recommendations regarding the process he should use in identifying his successor. In addressing this issue you will need to identify the attributes that the successor should have, whether the successor be designated immediately and allowed to work with Ghosn to ensure continuity, or whether several well-qualified executives should be identified and allowed to compete over the near future to see how they perform. In considering how Ghosn’s successor should be chosen, be sure to clearly identify the pros and cons of each approach.

Assignment Questions

1. What internal and external elements were impacting Nissan’s performance prior to the Global Alliance agreement with Renault in 1999? What effect did the Japanese culture have on Nissan’s performance? Was it a facilitator of success or an impediment to success? How does the keiretsu system work and why has it become a problem for Nissan?

2. How was the alliance between Nissan and Renault structured? What were the factors that made this alliance attractive to both partners? How important were the three concessions that Hanawa was able to gain from Renault? What were the consequences of these concessions?

3. Why was Carlos Ghosn put in the role of Chief Operating Officer at Nissan? Was he well prepared for the role? What were the key challenges he faced immediately upon assuming the role of COO? What specific problems did he identify?

4. How would you characterize Nissan’s corporate culture as of 1999? What were its key elements? Is Nissan a strong culture company in the sense that the culture is deeply ingrained? Why or why not? What impact did the Japanese national culture have on Nissan’s corporate culture?

5. What are the key policies and operating practices underlying implementation and execution of Ghosn’s turnaround plan at Nissan? How important were Ghosn’s “three overriding principles” in facilitating Ghosn’s plan? What role did cross-functional teams play?
6. How would various parts of the Nissan organization have felt about Carlos Ghosn, and why? How did he go about enlisting their support? How did he resolve resistance? What was the role of his direct staff? Of middle managers? How did his own management philosophy and style contribute to making the necessary changes occur?

7. How successful were Ghosn’s turnaround efforts? What accounts for the success that Carlos Ghosn had in turning Nissan around? How did he do it? What 3 or 4 things provide the best explanation?

8. What grade would you give Carlos Ghosn for the job he has done in crafting the turnaround plan at Nissan? What is it that you like or dislike about his plan? Which elements were the most consistent with the Japanese culture? Which were the least consistent? How were key elements received by employees? What about by external stakeholders? Why were employees willing to accept elements of the turnaround plan that were inconsistent with their corporate and national culture?

9. What key challenges do Carlos Ghosn and Nissan face in the near future? What are the key elements of the Nissan 180 Plan and Quality 3-3-3? What needs to be done to ensure that the CFT process becomes a part of the evolving culture of Nissan and to maintain the momentum the CFTs have created?

10. How should Ghosn proceed in identifying a successor to take control of Nissan when he returns to Renault in 2005? What attributes should the successor have? Should the successor be designated immediately and allowed to work with Ghosn to ensure continuity or should several well-qualified executives be identified and allowed to compete over the near future to see how they perform? What are the pros and cons of each approach?

**Teaching Outline and Analysis**

1. **What internal and external elements were impacting Nissan’s performance prior to the Global Alliance agreement with Renault in 1999?** What effect did the Japanese culture have on Nissan’s performance? Was it a facilitator of success or an impediment to success? How does the keiretsu system work and why has it become a problem for Nissan?

The Nissan Motor Company had been incurring losses for seven of the prior eight years before the Global Alliance agreement in 1999, resulting in approximately $22 billion in debt. Three major internal problems plagued Nissan:

- Management’s tendency to emphasize short-term market share growth, rather than profitability or long-term strategic success.
- Nissan would not reinvest in new product designs or models, relying instead on the previous success of proven designs.
- Nissan tended to put retained earnings into equity of other companies, often suppliers, and into real estate investments as part of the Japanese business custom of keiretsu investing.

External issues that complicated Nissan’s internal problems included the increasing global competition in the automotive industry, the decade long recession in Japan, and
the Asian financial crisis. While students should be able to appreciate the influence of increasing global competition quite easily, it is worthwhile to expand on the impact of the other external factors. Students are unlikely to realize that the Japanese economic recession of the 1990s is now considered one of the most disastrous events in modern economic history; the average GDP growth during this decade was from 1.5-1.7%. Many students are also likely to underestimate the enormity of the Asian financial crisis which included the Asian economic, currency, and inflation crises of 1997-8. During this period, exchange rates, asset prices, and economic activity plunged into turmoil. The case highlights the inflation of the yen from 100 to 90 yen = $1. As a result, both Moody’s and Standard & Poor’s announced in February, 1999 that if Nissan could not get any financial support from another automobile company, then each of them would lower Nissan’s credit rating to “junk” status from “investment grade.”

In addition to internal and external factors, Japanese culture, in general, impeded Nissan’s success. Several of the cultural beliefs and their consequences are listed below:

- **Conscientiousness and cooperation were the key elements to maintaining efficiency and group harmony.** This paradigm often resulted in delays to the decision-making process in an effort to achieve consensus. It also hampered risk-taking.

- **Professionals should avoid making mistakes at all costs to protect their career growth; informal meetings may occur prior to decision-making to ensure that all parties agree.** As a result, group-think occurs, and rules and conformity replace process. This paradigm led to finger pointing between different departments when Nissan’s poor performance became known.

- **Promotions are based on seniority and education, unless poor performance is demonstrated.** This paradigm allowed accountability at lower levels to become diffused.

- **According to Japanese business tradition, large troubled employers would be bailed out by the government of Japan.** This paradigm led to a lack of employee concern for the potential bankruptcy of Nissan.

Overall, this mindset contributed to a certain degree of complacency with market position and internal systems at Nissan, undermining the company’s competitiveness.

Sometimes referred to as a “horizontal” keiretsu, this Japanese business custom consists of a conglomeration of separate businesses linked together by cross-shareholdings in one another to form a robust corporate structure, highly resistant to take-over bids or drastic losses. The keiretsu was believed to foster loyalty and cooperation between the members of the value chain. Although the custom in itself is not usually problematic – students should note here that Toyota continued to do very well during this same period – Nissan had tied up over $4 billion in the stock shares of hundreds of different companies as part of this keiretsu philosophy. One would expect that these investments would profit Nissan through preferred customer status and the ability to receive the best possible prices from keiretsu members. However, as seen in their purchasing costs, Nissan did not see any sort of loyalty payoff, since these costs remained between 20-25% higher than Renault’s.

2. **How was the alliance between Nissan and Renault structured? What were the factors that made this alliance attractive to both partners? How important were
the three concessions that Hanawa was able to gain from Renault? What were the consequences of these concessions?

The strategic alliance between Nissan and Renault was structured as a collaborative partnership, where the two companies joined forces to achieve mutually beneficial strategic outcomes. Students should note the difference between a strategic alliance and an acquisition. A strategic alliance is a cooperative agreement between firms that goes beyond normal company-to-company dealings but falls short of merger or full joint venture partnership with formal ownership ties. (Some strategic alliances, however, do involve arrangements whereby one or more allies have minority ownership in certain of the other alliance members.) Since Renault only assumed a 36.8% stake in Nissan, the latter was able to maintain majority ownership and control over the company.

For Nissan, there were three factors that made the alliance especially attractive including:

- Renault could provide financing to improve Nissan’s position.
- Renault could also provide a fresh managerial perspective that could provide the catalyst for a turnaround.
- Nissan was seeking to expand into other regions where it had less of a presence such as Latin American where Nissan lacked market share and distribution facilities.

From Renault’s perspective the agreement was attractive because:

- Renault was seeking to diversify its revenue. In 1997 85% of Renault’s revenue was earned in Europe and 32.8% came from the French market. Renault also had a significant position in Latin America, but lacked a significant presence in Asia and the U.S.
- Nissan had experience with, and a presence in, both Asia (Nissan had the second largest market share) and North America.
- The merger of Daimler-Benz and Chrysler in May, 1998 enhanced Renault’s need for a partner that would help it compete on a global scale.

In negotiating the collaborative agreement Hanawa was able to secure three important concessions from Renault including:

- Nissan would retain its company name.
- The Nissan CEO would continue to be selected by the Nissan Board of Directors.
- Nissan would take the principal responsibility of implementing a revival plan.

These concessions were important because they maintained Nissan’s chances of once again becoming an independent market leader. To regain its market leader position, Nissan would need to develop its own capabilities and retain strategic control over the development of distinctive competencies and the building of a competitive advantage. Though Nissan could rely on Renault to lessen its inefficiencies, the Japanese manufacturer did not want to become overly dependent upon its new partner in the long run and these concessions allowed Nissan to maintain its independence.
3. **Why was Carlos Ghosn put in the role of Chief Operating Officer at Nissan? Was he well prepared for the role? What were the key challenges he faced immediately upon assuming the role of COO? What specific problems did he identify?**

When the cooperative agreement commenced, Carlos Ghosn was serving as the Executive Vice President of Advanced Research & Development, Manufacturing, and Purchasing for Renault. Noting Ghosn’s ability to turn around companies, Hanawa requested that Renault CEO, Louis Schweitzer, send Ghosn to Nissan to be in charge of all internal administration and operations activities.

Ghosn had previously served as COO of Michelin’s Brazilian subsidiary, where he learned to manage large operations under adverse conditions such as runaway inflation rates in Brazil at that time. Similarly, as head of Michelin North America, Ghosn had also worked in the midst of a recession while putting together a merger with Uniroyal Goodrich. And finally, he had led the turnaround initiative at Renault in the aftermath of its failed merger with Volvo. Ghosn seemed to fit the task perfectly since he was successful at numerous corporate turnarounds, could work in adverse economic conditions, and exhibited global leadership.

Like all new CEOs assuming a post in a new company, Ghosn had to overcome significant challenges associated with the new organization, its culture, and its internal operations. However, Ghosn also had to effectively deal with these internal difficulties within the setting of a national culture that was contributing to the company’s problems and which labeled him as an outsider. Key challenges Ghosn faced included:

- Overcoming a Japanese culture that valued seniority over performance, consensus over conflict, status quo over innovation, and gave employees a false belief that the government would not allow Nissan to go into bankruptcy (resulting in a lack of urgency over Nissan’s performance problem).
- Internally Ghosn had to contend with ineffective implementation, top management with tunnel vision regarding its strategic focus on regaining market share, and communication problems between the layers of the organization.

Ghosn realized that Nissan’s fundamental problem was the lack of vision from management and the persistent problem of ignoring the voice of Nissan’s customers. Furthermore, he identified the following problems at Nissan:

- Lack of a clear profit orientation.
- Insufficient focus on customers and too much focus on competitors.
- Lack of a sense of urgency.
- No shared vision or common long-term plan.
- Lack of cross-functional, cross-border, and cross-cultural lines of work.

4. **How would you characterize Nissan’s corporate culture as of 1999? What were its key elements? Is Nissan a strong culture company in the sense that the culture is deeply ingrained? Why or why not? What impact did the**
Japanese national culture have on Nissan’s corporate culture?

As of 1999, Nissan’s corporate culture could best be characterized as unhealthy. Students should recognize that the distinctive characteristic of an unhealthy corporate culture is the presence of counterproductive cultural traits that adversely impact the work climate and company performance. Part of Nissan’s culture was one of suboptimization with employees focused only on each individual’s own department with little regard for or understanding of the whole. Nissan also demonstrated a change-resistant attitude with a number of undesirable behaviors – avoiding risks, not making bold proposals to pursue emerging opportunities, a lax approach to both product innovation and continuous improvement in performing value chain activities, and following rather than leading market change. More specifically, the case highlights the key negative elements of Nissan’s corporate culture. These consist of the following:

- Once decisions were made, the follow-up implementation was often not effective.
- Top management focused on regaining market share instead of restoring margin per unit sold. They were concerned more with company size and number of employees (immediate visible prestige accompanies these factors) rather than the best interests of consumers and investors.
- Communication was lacking between the layers of the organization.

Students may feel that due to these flaws Nissan had a weak corporate culture; however, “unhealthy” does not necessarily imply “weak” when the degree to which the culture is ingrained is considered. Nissan had an entrenched corporate culture heavily dominated by Japanese traditional management style. Japanese national culture itself was not a proponent of risk-taking, holistic corporate thinking, or drastic change. Also, the tradition of promotion based on seniority fostered one of the negative elements above. Although promotions were performance based – in that if an employee did something to damage the company, he/she would not be promoted regardless of seniority – positive performance did not appear to affect the system. Thus, management did not have the proper motivation to focus on increasing shareholder wealth. On the other hand, Nissan unfortunately strayed from a couple of positive Japanese cultural behaviors: follow-up after the decision-making period was usually prompt in other Japanese companies, especially since a consensus had already been reached. Also, Japanese business culture did not promote the communication problems seen at Nissan. Nissan seemed to be allowing cultural influence to affect the company in the worst possible way, by adopting the unproductive aspects of the Japanese national culture and creating its own unhealthy corporate culture.

5. What are the key policies and operating practices underlying implementation and execution of Ghosn’s turnaround plan at Nissan? How important were Ghosn’s “three overriding principles” in facilitating Ghosn’s plan? What role did cross-functional teams play?

Students will notice how Ghosn was keenly aware of the importance of culture in the work environment. He felt that by accepting and building on the strengths of different cultures, all employees, including Ghosn himself, would be given a chance to grow personally through the consideration of different perspectives. Ghosn knew that if the turnaround was to be successful at Nissan, he would have to work with the cultures
present, and all employees would have to adapt to cultural change gradually and openly. While he could not rely solely on the authority of his position to enforce reforms, Ghosn did need to help the employees structure their efforts to achieve these reforms. He began by introducing his new employees to three overriding principles that transcended all cultures:

- **Transparency** – an organization can only be effective if followers believe that what the leaders think, say, and do are all the same thing.
- **Execution** is 95% of the job. Strategy is only 5% — organizational prosperity is tied directly to measurably improving quality, cost, and customer satisfaction.
- **Communication of company direction and priorities** – this is the only way to get truly unified effort and buy-in. It works even when the company is facing layoffs.

The overriding principles were the key to helping him achieve the necessary reforms, since they were clearly outlined, logical, and not directly counter to the cultural norms to which his employees had grown accustomed. These principles were clearly articulated and consistently implemented. This gave the employees reason to trust Ghosn since they could view him as a leader who kept his promises. Further by implementing these principles with a culturally sensitive approach and holding all employees to these principles regardless of their national origin, employees were less likely to be threatened by the changes Goshn was implementing.

In addition to these principles, Ghosn leveraged the enthusiasm of the Nissan employees by developing internal cross-functional teams (CFTs) to help assist in the reform, instead of hiring outside consultants. Part of his interest in doing this in-house was to address the motivation and horizontal communication issues that he encountered throughout the organization. Ghosn felt that if employees could accomplish goals themselves, confidence in Nissan and personal motivation would be strengthened. Through the CFTs he was allowing the company to develop a new corporate culture from the best elements of Japanese national culture and increasing employee buy-in to the changes since they were internally developed.

6. **How would various parts of the Nissan organization have felt about Carlos Ghosn, and why? How did he go about enlisting their support? How did he resolve resistance? What was the role of his direct staff? Of middle managers? How did his own management philosophy and style contribute to making the necessary changes occur?**

Ghosn’s style was not without its critics. For example, his performance-based incentive system contradicted the traditional seniority-based systems and resulted in some older workers failing to cooperate with younger workers who were promoted over them. Additionally, Ghosn’s decision to close five factories and cut 21,000 jobs led to public outcry and some media outlets to label him a gaijin, or a foreigner. His decision to fire managers who did not meet performance targets, regardless of the circumstances, led some industry analysts to characterize Ghosn as reckless.

Had Carlos Ghosn not employed the principles and techniques that he did in formulating and implementing Nissan’s turnaround strategy, employees would probably have met him with resentment and open resistance. To form a favorable foundation
among the employees, Ghosn enlisted support and quelled resistance by exerting good leadership:

- He was the first manager to walk around the company and meet all people in the plant. This action gave employees a sense of importance and demonstrated his concern for people at all corporate levels. Ghosn was using a technique called “managing by walking around,” which allowed him to stay informed about how well the strategy execution process was progressing.

- His public vow to leave if the goal was not reached in three years showed his personal commitment to the success of Nissan. He built a reputation for commitment and senses of urgency. This newfound sense of urgency was also encouraged by external events. At about the same time as Ghosn’s arrival in Japan, by stroke of luck, Yamaichi, the major financial house in Japan, went bankrupt and was not bailed out by the Japanese government. Ghosn used this example to motivate his employees, warning them that the same fate could happen to Nissan. He could now keep the organization focused on operating excellence.

- Ghosn also worked longer hours than everyone else to earn respect. This practice was in keeping with Japanese national culture and allowed him to further serve as a role model.

When Ghosn first arrived at Nissan, he initiated long discussions with several hundred managers in order to explore their ideas for turning Nissan around. These discussions began to address the communication problems between the vertical layers of the company and also sent a signal to other executives that they needed to be making similar efforts to communicate with the various levels of managers. The interviews inspired Ghosn to create nine CFTs in the first month. The CFTs involved the direct staff, honoring their seniority and position, yet keeping them from becoming resisters by giving them a sense of responsibility and ownership about Nissan’s success. The CFTs used a system reporting to two managers, who were drawn from the executive committee. By having two managers instead of one, a single function’s perspective would not dominate.

Members of the CFTs were drawn from the company’s middle management. These managers would now have to see beyond their functional or regional boundaries and think in innovative ways. By involving the next levels of middle management in developing the solutions, rather than dictating them from above, Ghosn generated mid-level excitement for his leadership and identified the cream of the crop for future grooming.

Above all, students should understand that Ghosn maintained a respect for Nissan and Japanese culture. This was part of the agreement between Renault and Hanawa before the alliance even occurred. By working with the people, this management philosophy allowed him to ease Nissan into a smooth transition. More specifically, Ghosn’s style focused on the basic tenets of his overriding principles – merit-based promotion, developing short-term wins, and communicating – which were consistent and easily visible to all those involved in the organization. He was essentially practicing Total Quality Management, a concept that was very familiar to the Japanese. It is a philosophy of managing a set of business practices that emphasizes continuous improvement in all phases of operations (kaizen), 100 percent accuracy in performing tasks, involvement and empowerment of employees at all levels, team-based work design, benchmarking, and total customer satisfaction.
7. How successful were Ghosn’s turnaround efforts? What accounts for the success that Carlos Ghosn had in turning Nissan around? How did he do it? What 3 or 4 things provide the best explanation?

Students should be able to easily identify the success of Ghosn’s turnaround efforts, since it is clearly stated that Nissan achieve their NRP one year ahead of schedule and returned to profitability within eighteen months under his leadership. Also, the table in Appendix 1 lists the results of the NRP program:

- From seven out of eight years of operating losses to profitability within the first 12 months. Since 1999, Nissan has shown four consecutive semi-annual operating profits, and the year 2001 was marked by the best-ever, full-year earnings at Nissan. The current operating margin is 7.9%, over 3% greater than committed to in the NRP.
- Net automotive debt is the lowest it has been in 24 years (down from $10.5 billion to $4.35 billion).
- The company developed eight new car models to be launched by late 2002/early 2003, including the award winning, revamped Altima, and the new 350Z.
- Supplier costs were reduced by 20%, as per the NRP, mainly through sourcing and other strategies to minimize exchange rate issues, as well as the reduction of the number of parts suppliers by 40% and the number of service providers by 60%.
- Five plants have been closed, according to the NRP.
- Headcount was reduced by 21,000, according to the NRP, mainly through natural turnover, retirements, pre-retirement programs, and by selling off non-core businesses to other companies.
- The number of car models that were profitable increased to 18 of 36 models from 4 of 36 models.

Carlos Ghosn’s leadership abilities, philosophies, strategies, and experience account for his success in turning Nissan around. After six months of planning, he fervently stressed implementation and planning efforts and employed a leadership style that was firm regarding productivity enhancing improvements but flexible in retaining key elements of Japanese culture and Nissan's corporate identity. More specifically, Ghosn executed several crucial decisions:

- Five factories were closed and 21,000 jobs were reduced in manufacturing, management, and the dealer network to reduce redundancies and increase worker efficiency. Managers were also fired who did not meet targets regardless of the circumstances.
- Nissan broke away from the Japanese cultural norm of keiretsu investments, although they maintained good customer-supplier relationships with their former partners. As a result of their exit and Ghosn’s emphasis on reduced purchasing costs, Nissan began to substantially lower its cost after the keiretsu investments were sold.
Ghosn reorganized the way that Nissan operated. The organization was restructured toward permanent cross-functional departments, which each serviced one product line. All unnecessary positions were eliminated. Employees were disciplined much more strongly for inaccurate or poor data than misjudgment, thereby stimulating risk-taking behavior and personal accountability. Product quality, reliability, and customer service were stressed.

A performance-based incentive system was implemented. These incentives included cash incentives and stock options for achievements that could be linked directly to successful operating profits and revenue. Promotions were also tied to this new system.

8. **What grade would you give Carlos Ghosn for the job he has done in crafting the turnaround plan at Nissan? What is it that you like or dislike in his plan? Which elements were the most consistent with the Japanese culture? Which were the least consistent? How were key elements received by employees? What about by external stakeholders? Why were employees willing to accept elements of the turnaround plan that were inconsistent with their corporate and national culture?**

Most students will be inclined to give Ghosn an A+ based on his improvement of the profitability of the company, reduction of the redundancies in the workforce, freeing up cash from keiretsu partnerships, efficiently reorganizing the structure of the departments, encouraging worker autonomy, and positively altering the reward system. However, his plan does not include one crucial element — an exit strategy.

Students need to understand that a plan is not completely accomplished once the immediate goals have been achieved; someone must take over and, at least, maintain the progress of the company, once the previous leader is gone. Thus, Ghosn should receive a high grade for his leadership but not an A+. A grade of “incomplete” may be appropriate until his selection of a successor is accomplished. This exit strategy could consist of hands-on training, a handbook of procedures, previous performance guidelines, or personal recommendations.

Not all of Nissan’s stakeholders favorably viewed Ghosn’s leadership. Some of his most vocal critics pointed out instances in which he took actions that were inconsistent with Japanese culture. For example, the media was critical of the plant closings and layoffs he initiated, industry experts found fault with this performance-based system that led to the firing of several key executives, and some employees did not agree with the advancement of high performing, younger managers over more senior employees. Ghosn did not seem to pay attention to the media when he was openly criticized and labeled a gaijin, but he might have tried to smooth over relations, especially since one of his goals was to work within cultural restraints, and by laying off employees he was violating the tradition of lifelong employment. Further, in terminating these employees Ghosn did not make any provisions for the former Nissan employees. Instead, he relied on the Japanese government to offer subsidies and help the affected workers.

According to the elements of Japanese national culture defined in the case, students will note that Ghosn utilized the cooperative nature of the people to help execute the NRP. The CFTs would also have not worked without the cooperation of the members on each
respective team, along with the executive management’s. Another important cultural element that the NRP required from its participants was consensus. Once management adopted the plan and the CFTs began to champion change, consensus from the other employees about its importance and feasibility was crucial to move the plan forward. Students will probably find it much easier to point out how the plan was not in accordance with traditional culture. The establishment of the CFTs caused cross-functional thought and enhanced responsibility, which was not common since most Japanese employees only worked within a specific department. Ghosn also encouraged innovative thinking, and the Japanese were not traditionally known as risk-takers. As mentioned earlier, by laying off thousands of workers, the lifelong employment expectation was shattered. Ghosn even fired the Vice President of Sales and Marketing, which was practically unheard of, which led to his restructuring of the traditional seniority-based reward system. Ghosn’s plan rewarded employees based on performance, allowing younger employees and ones with less education to have equal opportunities to advance and excel. A very obvious break with the cultural norm was the dissolution of the keiretsu partnerships.

Key elements of Ghosn’s plan were received positively and, for the most part, enthusiastically by employees. Students can list how the employees liked Ghosn’s organization, their new ability to give input and take risks, the chance to be promoted for good work, etc. Employees were able to accept elements of the turnaround plan that were inconsistent with culture because many of the benefits of the new plan were personal, and personal benefits sometimes supersede cultural boundaries. Also, the NRP plan was based on philosophies that were extremely logical and transcended culture, so the employees could not have really argued with what was working for the betterment of themselves and their employer.

9. What key challenges do Carlos Ghosn and Nissan face in the near future? What are the key elements of the Nissan 180 Plan and Quality 3-3-3? What needs to be done to ensure that the CFT process becomes a part of the evolving culture of Nissan and to maintain the momentum the CFTs have created?

Carlos Ghosn and Nissan face the challenge of successfully achieving their new goals, namely the Nissan 180 Plan and Quality 3-3-3, by April 1, 2005 just as Ghosn leaves Nissan to replace Louis Schweitzer as CEO of Renault. “Nissan 180” would help the company transition out of the previous Nissan Revival Plan program. The one in “Nissan 180” represents an additional 1,000,000 car sales for Nissan worldwide; the eight, an 8% operating profitability with no changes in accounting standards; and the zero represents zero automotive debt. In addition, the plan called for an increase of global market share from 4.7% presently to 6.1%, a further reduction of purchasing cost by 15%, and a significant increase in customer satisfaction and sales satisfaction ratings. The “Quality 3-3-3” initiative is customer focused on three categories of quality: product attractiveness; product initial quality and reliability; and sales and service quality.

Students should also realize that attempts to achieve the new goals will occur simultaneously with a search for Ghosn’s successor. This decision is critical for Nissan, because Ghosn’s replacement will have to finish implementing the plans and maintain
the momentum Ghosn initiated to allow Nissan to continue toward its profitable growth and customer focus.

In order to ensure the permanence of the CFTs, the interest and dedication of middle managers must be maintained. To accomplish this team members should be identified who have the requisite knowledge and skills, and who are willing to upgrade or expand their individual abilities as needed, and who will put forth the effort to mold their individual efforts and work products to create organizational ability. This will allow the CFTs to evolve into a true competence and company capability. To maintain their enthusiasm managers must continue to see the impact that their individual departments had on Nissan as a whole. To further solidify employees’ dedication to the CFT’s team performance, measures should be tied to the company’s overall performance. This will align the interests of individuals and their teams with the company’s goals.

10. **How should Ghosn proceed in identifying a successor to take control of Nissan when he returns to Renault in 2005? What attributes should the successor have? Should the successor be designated immediately and allowed to work with Ghosn to ensure continuity or should several well-qualified executives be identified and allowed to compete over the near future to see how they perform? What are the pros and cons of each approach?**

Students may have opposing views on how Ghosn should proceed in selecting a successor to take control of Nissan. Some will feel that he should personally groom a chosen replacement, while others might feel that he should allow candidates to compete for the position. A few students may even take a mid-ground position in which they believe that simultaneous grooming should occur, with the best then selected. The pros and cons of each approach are as follows:

- **Chose a single employee who will be personally groomed by Ghosn.**
  
  **Pros:** This individual will receive extensive one-on-one training and be able to apprentice with Ghosn. This individual will directly experience and learn the skill set of an accomplished leader. Close contact with Ghosn will allow the apprentice to gain personal knowledge and off-the-record opinions of a very successful leader and may allow for a smoother transition
  
  **Cons:** It may be difficult to objectively choose a single candidate and the choice may be seen as biased. It is possible that the candidate may not fulfill their potential and Nissan may be left with a weak leader who would be hard to replace since they would be viewed as Ghosn’s chosen candidate.

- **Allow a fairly large group of well-qualified candidates to compete for the position.**
  
  **Pros:** This will provide a greater pool of candidates and will allow Ghosn to compare the candidates on specific criteria. The broader selection pool may allow a previously unconsidered candidate to rise to the top.
  
  **Cons:** The candidates will not be able to spend time with Ghosn and benefit from his personal experience. Further, the process is likely to be time consuming if a number of candidates are considered.
Allow a select group of candidates to work with Ghosn, and then allow Ghosn to select a successor from this group.

**Pros:** Each candidate can be given some time to work with Ghosn, allowing them to gain some direct insight from him. Further, Ghosn can develop a fairly detailed personal impression of each candidate and the direct competition among a small group of candidates is likely to garner maximum performance from each candidate.

**Cons:** The individuals who are not chosen may harbor resentment for the chosen leader. Further there is still some possibility that some individuals may see some bias in who is included in the select group. While each member of the select group will get some time with Ghosn, they will not receive the full benefit of his tutelage.

Regardless of the method chosen, the successor should possess attributes very similar to Ghosn’s. He/she should be considerate of the entrenched culture of Nissan, should be able to foster communication between all layers of the organization, be willing to actively monitor progress, apply constructive pressure on the organization, outline the major goals and keep employees focused on them, and lead the development of stronger core competencies and competitive capabilities. However, the successor should be even more innovative than Ghosn in some ways: since the immediate urgency of business failure has been abated, employees may begin to revert to the old way of doing things. The new leader needs to have outstanding motivational skills so that Nissan will continue to move forward. Students may also want to discuss the possibility of the next leader being Japanese or hired within the company. Possible benefits of a native Japanese President would include knowing the culture to a greater degree, being able to communicate flawlessly, and receiving additional support, since ex-patriots were sometimes referred to as gaijin, or foreigner. Also, if the new candidate came from within the company, he/she would possibly illustrate the results of excellent performance, be familiar with the condition of Nissan before the implementation of the NRP, and already have specific ideas about how to continuously improve the company.

Overall, we would favor a process that selected a few internal candidates and allowed them to compete within a well defined and publicized set of criteria. This method would be consistent with Ghosn’s current management style and the culture he has worked to develop in the company. In establishing the necessary criteria it may even be helpful to allow one, or several, cross-functional teams to have input into the process. This would not only help reduce perceptions of bias, it would make the choice of successor an inclusive process that could further energize the organization.

**Epilogue**

There was nothing new to report on what has happened at Nissan since the case was written and this TN went to press. However, you can check our periodically updated case epilogues at the password-protected Instructor Center (www.mhhe.com/thompson) for the latest information. The online epilogues are updated whenever we become aware of pertinent breaking news about the company and/or developments relating to the specific issues contained in the case.