Nissan’s U-Turn: 1999-2001

Condensed Version of
Redesigning Nissan (A & B)

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The Road to Nissan

In March 1999, when Renault and Nissan announced their alliance, the press releases from both sides stressed the complementarities. Renault’s cash injection of $5.4 billion for an equity stake of over 36 percent in Nissan would reduce the Japanese automaker’s huge debt. Renault would gain access to North American and Asian markets, while Nissan would strengthen its positions in Europe and Latin America. And in terms of capabilities, Renault would learn from Nissan’s engineering and manufacturing expertise, while Nissan benefited from Renault’s marketing and design flair. In theory, it looked like a perfect match, but industry observers and analysts had serious reservations about the deal.

The first hitch was Nissan’s dire situation, having posted losses in six of the previous seven years. In its home market only 4 out of 43 models were profitable. And its debt level was such that in 1998, it had spent $1 billion on interest payments alone, money that should have been reinvested in its aging and rather bland product lineup. For months Nissan’s chairman, Yoshikazu Hanawa, had tried to secure a relationship with a foreign investor, yet other carmakers were afraid to touch it. One Chrysler executive allegedly compared bailing out Nissan to “putting $5 billion into a steel container and throwing it into the ocean.”

Then there was Renault’s credibility as a rescuer. Renault’s botched merger with Volvo in the early 1990s – fuelled by cultural problems – was still fresh in many minds. Also, Renault remained 44 percent state-owned. This led one industry observer to comment that it was like relying on the French civil service to revive the Japanese economy. News of the negotiations provoked a fall in Renault shares and even the most optimistic observers reckoned that the payoff horizon – assuming that the alliance could overcome enormous business and cultural hurdles – would be long term, not short.

The causes of Nissan’s problems were fairly evident. It had too many plants (some running at 50 percent of their nominal capacity), too many car platforms (25 expensive chassis, compared with Volkswagen’s four), too many suppliers (at 3,000, nearly ten times more than Ford), and too many dealers in Japan. Radical surgery seemed the obvious solution. Yet this ran counter to deeply anchored Japanese business practices, such as lifetime employment and close ties with suppliers in interlocking industrial groupings, known as keiretsu. In addition, Renault’s stake in Nissan only gave it power of veto, raising the difficulty of pushing through fundamental changes. The unenviable challenge of trying to make the alliance work fell to Carlos Ghosn, already seen as Louis Schweitzer’s number two at Renault and the main driving force behind Renault’s on-going cost-cutting program.

Ghosn Takes the Wheel

Born in Brazil, of French and Lebanese parents, and trained as an engineer in France, Carlos Ghosn had made his reputation overseeing the restructuring of Michelin’s North American operations. He was then recruited by Louis Schweitzer to revitalize Renault and quickly turned the carmaker’s fortunes around by implementing an aggressive cost-cutting plan. The plan included the explosive closure of the Vilvoorde plant (2,700 jobs) in Belgium and a big reduction in the number of parts suppliers, earning him the nickname “le cost-killer”.

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Ghosn agreed to take up the job on condition that he would have full control, meaning that all the VPs would report directly to him – and that he would not constantly have to report to or seek approval from France. He also insisted on handpicking the 20 or so executives who would accompany him on this mission (see Appendix 1 for a partial list). Commenting on the size of the team he would take to Nissan, Ghosn said: “To make deep changes inside a company you don’t need loads of people, but rather the right catalysts at the right places.” He chose people who were mostly around 40, “experts in their field, very open minded, and coaches, not people who want to play it solo.” Their role would be to serve as facilitators and coaches – there would be no external consultants – but those approached were given less than 48 hours to decide whether they wanted to make the move from France to Japan.

In mid-May, the team members gathered on a three-day crash course aimed at familiarizing them with the host country. Besides giving them a chance to discuss some basic dos and don’ts in Japan, the seminar also allowed Ghosn to pass on some key messages. “We are not missionaries,” he told them. “We are not going there to teach the Japanese [about] the role of women in Japanese business. We are going there to help fix Nissan, that’s all. Any issue that does not contribute to that is of no concern to us.”

In the two months preceding his formal appointment, Ghosn visited research facilities and production plants, gathering input from section managers, engineers, and dealers. In meetings with Nissan section chiefs he asked questions like: “What are the problems in your department? What needs to be done to improve the situation? What does your department contribute to Nissan?” At one Japanese dealership he asked who was the main competitor, only to find out it was the two other Nissan dealers nearby. Turning to a salesperson to ask about the customer’s perspective, Ghosn was told: “They say Nissan’s styling is terrible.” So what did the dealer want from Nissan? “I would like Nissan to make a product that we can sell without any excuse,” he answered, before bowing politely.

Ghosn was officially named Chief Operating Officer on June 25 1999, and was appointed to the Nissan board, along with two Renault colleagues – Patrick Pelata and Thierry Moulonguet – to oversee product development and finance, respectively. At the same time, the board was downsized from 37 members to ten – and not to 25 as previously intimated. Also, Yoshikazu Hanawa assumed a more ambassadorial role as President. But it was Hanawa who had selected the Japanese members of the executive committee. When he had approached Ghosn to see who he wanted on the executive committee, Ghosn had answered: “I don’t know. You choose. You know me so please, you pick them – knowing what you know of me.”

For the first time, the board meeting was held in English. Ghosn’s message was simple but blunt: “Gentleman, we’ve had 10 years of decline, that’s enough,” he said. “There is a place for every single person in this company who wants to give the company a chance for recovery, no matter what age, what gender, what citizenship.”

In the annual shareholder meeting that immediately followed the board meeting, Ghosn broke with tradition by allowing the press to attend. Realizing that the necessary changes would strike at the heart of Japanese society, he concluded that transparency was the only option: “From the outset, we told the media what we were thinking and what we planned to do. It was critical to reassure Japanese public opinion.” After a two-minute speech in Japanese to introduce himself, he told the audience: “I have not come to Japan for Renault, but for Nissan. I will do everything in my power to bring Nissan back to profitability at the earliest date
possible and revive it as a highly attractive company.” xv He weathered the criticisms of disappointed shareholders and pledged change for the coming year. He alluded to likely changes to the supplier network, aimed at reducing high procurement costs, as well as changes to the inefficient dealership network. He also conveyed confidence that Nissan employees would embrace internal company reform: “Given their strong enthusiasm and pride, I am very hopeful that we can put Nissan on the road to recovery and growth.” XVI

### Jump Start

During his first week in charge, Ghosn introduced a number of changes. With a recently accepted board resolution to issue bonds with warrants, Ghosn was able to announce a quasi-stock option incentive plan for its 30 executive officers, including the three new board members from Renault. The plan drew criticism for rewarding the top executives of a loss-ridden company – especially since, in the spring labor talks, union officials had reluctantly agreed, for the first time since the end of World War II, to no increases in base salary.

Ghosn also introduced a new language policy – decreeing that all top-level meetings be conducted in English and that reports be produced in English, backed up by intensive language courses for all Nissan employees, from receptionists to top executives.

Shortly after accepting the Nissan job, Ghosn had stated, “I am not going in with any preconceived ideas.” xvii In line with that promise, he quickly set up nine cross-functional teams (CFTs) to generate ideas and recommendations for change – in critical areas like purchasing, engineering and R&D. The CFTs would be staffed by line managers in their 30s and 40s from different departments, divisions, and countries – so Ghosn asked that 1,500 profiles of Nissan employees be posted in the corporate headquarters for consideration in the CFT formation process. xviii It quickly became obvious to Nissan executives what type of people Ghosn was seeking. As one Nissan veteran put it: “Ghosn [brought] a lot of mavericks with him… He has shown those are the kinds of people he likes.” xix In particular, he took a close personal interest in the selection of the pilots, those who would drive each team’s agenda and discussions – since the reforms proposed by the CFTs would form the backbone of Nissan’s recovery plan (see Appendix 2 for a description of the CFTs)

The CFTs were peppered with former Renault managers familiar with the process and team size was limited to ten members in order to avoid endless debating – but teams could recruit sub-teams to investigate specific issues. Through this cascading effect, the total exerize drew on the efforts of 500 or so people. Each team had two board level sponsors – to give CFTs authority within the organization and to avoid one functional perspective from dominating. xx The teams received three simple guidelines: “One goal: To make proposals in order to develop the business and reduce costs. One deadline: Three months for final official decision-making. One rule: No sacred cows, no taboos, no constraints.” xxvii Ghosn kept repeating, “Only one issue is non-negotiable. The return to profit.” xxviii

Ghosn tried to be clear at all times, noting: “If people don’t know the priority, don’t understand the strategy, don’t know where they’re going, don’t know what is the critical objective, you’re heading for trouble. Confusion is the first sign of trouble. It’s [the leader’s] duty to clarify the environment, to make sure there is the maximum light in the company.” xxv
So, while the CFTs worked on their tasks, Ghosn toured the group telling employees “Nissan has its back to the wall”; reminding them that the company had just lost its position as the country’s second largest carmaker to Honda; stressing that world sales of the brand in the last seven years had fallen by 800,000 units adding up to “nearly the equivalent of Mercedes or Mazda’s worldwide sales, and more than BMW”; and broadcasting to the press that the forthcoming plan represented Nissan’s last hope.\textsuperscript{xxiv} Ghosn also reiterated that success at Nissan would come from its employees. “If the Nissan Revival Plan succeeds, it will have many fathers. If it fails, it will have only one.”\textsuperscript{xxv} But Ghosn did not just speak; he also listened. He surprised workers by strolling up and down the assembly lines and asking questions, not just of senior engineers and managers but also of workers themselves. And he encouraged the use of email, previously little used at Nissan. He even found time, in July, to test-drive 25 models at the company’s purpose-built course in Tochigi Prefecture.\textsuperscript{xxvi}

Ghosn quickly found out that the sense of decline was widely shared inside the company: “From the inside, the burning platform was even more visible. Managers knew how much they were restricted in their budgets, how many resources they needed that were not given to them, and how much they had to accept short-term-oriented decisions that hurt the company long term, in terms of delayed development of certain products.”\textsuperscript{xxvii} His outsider status gave him an advantage when questioning certain practices: “It allows you to challenge in a very decent way what has been done without anybody’s having a second thought about, ‘Hey, where were you when we were doing this?’”\textsuperscript{xxviii}

**Mapping a Route out of Trouble**

On October 18, 1999, the eve of the biennial Tokyo Motor Show, Ghosn prepared to unveil Nissan’s restructuring plan to a packed audience of journalists and analysts – with the speech to be simultaneously broadcast to company employees worldwide. The extended quotes that follow are excerpted from a full text transcript of the speech.

Ghosn got straight to the point. “Nissan is in bad shape,” he asserted, highlighting the extent of the decline by adding: “Nissan has been losing global market share continuously since 1991… Our production has dropped by more than 600,000 cars in [that] period… more than the total annual car sales of the Volvo brand.”\textsuperscript{xxix}

Ghosn then summarized his five point diagnosis of Nissan’s performance problems: 1) Lack of clear profit orientation; 2) Insufficient focus on customers and too much focus on chasing competitors; 3) Lack of cross-functional, cross border, intra-hierarchical lines, work in the company; 4) Lack of a sense of urgency; and 5) No shared vision or common long-term plan.

“As you know,” Ghosn noted, “there is no problem at a car company that good products can’t solve.” And he went on to outline some of the new product opportunities already identified, notably a reincarnation of the celebrated “Z” car. “Product development,” he asserted, “will be at the heart of Nissan’s revival.” But first, the company would need to address its chronic brand deficiency. As a result of Nissan’s tarnished image, Ghosn pointed out, “our cars sell for $1,000 less than totally comparable cars from competitors.” The goal would be to cut that price differential by at least 35 percent over the next three years and eradicate it altogether over the next decade.
Brand-strengthening called for a single worldwide advertising agency to keep the message consistent and to reduce costs. It would also mean injecting zest and consistency into the styling – and Ghosn caused a stir by revealing that he had lured Isuzu’s star designer, Shiro Nakamura, to head up Nissan’s re-enhanced design team. Moreover, R&D spending would be increased from 3.7 percent of net sales in 1998 to 5 percent of sales.

Ghosn also touched upon future changes to Nissan’s traditional HR practices, mentioning the introduction of bonuses and stock-options, as well as performance-based career advancement as of April 2000. “Concretely,” he added, “some of the changes will not be implemented before ensuring that the people in charge have changed their attitude, and that the clear performance indicators for which they are accountable exist.”

Then came the dramatic news that would dominate the press coverage of Ghosn’s presentation. He proposed a three-pronged remedy.

- First, Nissan would slash 20 percent from its purchasing costs: by globalizing purchasing and by halving its number of suppliers – with the promise of increased business for the first suppliers to commit to the required discounts.
- Second, the company would dismantle its sprawling keiretsu supplier network, maintaining its stake in only a handful of the 1,400 companies “strictly on the basis of a cost/benefit analysis” – thus freeing up capital resources for the core business and reducing debt. Ten percent of domestic dealerships would also be cut and the dealership organization revamped.
- Third, with plants “operating at a 53 percent level of capacity utilization” Nissan would be shrinking its current capacity by 30 percent – which would mean closing three auto plants and two engine-transmission plants in Japan. In parallel, the company would rationalize the number of platforms – the backbone of a vehicle – from 24 platforms spread between 7 plants to 15 platforms divided by 4 plants in 2002 and down to 12 by 2004. The factory closures would imply eliminating 21,000 jobs over 3 years, but Ghosn reassured employees that there would be no outright layoffs: transfers or early retirement would be offered to all employees. Significantly, as he announced the breakdown of job cuts by activity, it emerged that R&D would actually increase its headcount by 500.

Ghosn conceded: “The plant closures, however painful they are – and they really are – will guarantee the future [of the remaining plants] by allowing them to be industry leaders.” He rounded off his speech by specifying the commitments of the top management team: first, a return to profit by FY 2000; second, an operating profit of at least 4.5 percent of sales for FY 2002; and third, to cut the debt in half to $6.3 billion by FY 2002. “The top management,” he declared, “will be accountable for delivering the committed performance – all of it.”

In the question and answer session, Ghosn added: “I understand that a lot of people will feel like orphans in this plan. But we have no choice, and the fact that we have no choice is the strength of our plan.” Hanawa concurred: “The plan is tough, perhaps even severe, but then our situation is severe.”
**Difficult Maneuvers**

Although the radical cuts set out in the Nissan Revival Plan were unprecedented in Japan, immediate reactions to the plan were mixed. Predictably, suppliers, dealers and competitors denounced Nissan’s demands as extreme. On the other hand, the typically vociferous Ministry of International Trade and Industry (MITI) tacitly supported Nissan’s move, hoping it would spawn a recovery for Japan’s sagging economy. Even the normally tough labor unions, requested only that no employees be laid off. The union leaders focused instead on negotiating better packages for those who would accept early retirement or transfers. According to one insider: “He painted a picture so bleak that suppliers and unions felt compelled to accept change.”

The day after unveiling the NRP, Ghosn faced about 5,000 auto-parts suppliers and 600 car dealers in two consecutive meetings at a Tokyo hotel. All of the suppliers and dealers had ties to Nissan and were afraid of losing those ties. Ghosn said nothing to reassure them. He made it clear to them and to reporters afterwards that maintaining keiretsu ties was “not an objective…. The question is whether suppliers will commit to 20 percent cost reductions for Nissan in a credible way.” The suppliers were given until January to submit bids for new contracts with Nissan – but with the prospect of also gaining access to business with Renault.

To mark its fresh start, Nissan launched a new advertising campaign, which ran in the main Japanese newspapers during the Tokyo Motor Show. The double-page color ads showed brightly colored eggs, with Nissan cars hatching out, like chicks. The slogan featured the single word “Renaissance” with the letters N, I, S, A, N highlighted in red. The television version starred Ghosn himself.

Before the NRP was unveiled, the speculation had concerned whether Ghosn’s reforms would go far enough. But now, it was more a question of whether Ghosn could deliver on the promise. As former Nissan executives were quick to point out, the company had never before followed through on a restructuring plan. Indeed the slogans in recent annual reports proved it. In 1996, Nissan proclaimed, “We’ve turned the corner!” The following year, it was: “Back on track and shifting up a gear.” Then, in 1998, it announced: “Strategic reform is the message at Nissan”. As one Japanese auto analyst observed: “Raising a target is one thing. Hitting it is another.” Less than two weeks after the announcement, Nissan’s stock had fallen 5 percent.

Just over a week later, Ghosn promised to quit along with the executive committee if Nissan failed to post a profit for the year ending in March 2001. In the weeks that followed he reiterated that pledge on a number of occasions, explaining: “The big risk is that if you announce ambitious results, people will not believe you. They’ll say, ‘He said 100%, but if he gets 50% he’ll be happy.’… Well, we want 100, and we’re going to get 100. If we don’t get it next year, that’s it. We will resign…” It underscored his commitment, but also generated plenty of headlines in the land of the samurai spirit.

Six weeks after announcing the NRP, Ghosn was challenged about on-going losses in Japan. Looking at the numbers for October and November, he saw that market share was indeed sliding and wondered how long this had been going on. On compiling the statistics, it emerged that this was actually a 26-year problem! Having peaked in 1974 at 34 percent, Nissan’s market share in Japan had steadily declined ever since, and now stood at around 17%.

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percent. Though dismayed that this information had not come out earlier, Ghosn used the data to reinforce his message, repeatedly sharing it with journalists who interviewed him. “[People said] you cannot criticize your own company, but… if you don’t look at reality as it is, even being harsh on yourself, you’ll never fix it.”

At around the same time, Ghosn approved the building of a new $930 million assembly plant in central Mississippi to supply the US market which accounted for over a third of Nissan’s sales. The plant was scheduled to start production in mid-2003 with models – new pickup trucks, minivans and sport-utility vehicles – squarely targeted at the American market. Ghosn’s swift decision heralded greater responsiveness to US needs.

Though this investment decision was regarded by some senior executives as premature, Ghosn told them: “People need to know what the prize is, what are they aiming for, what are the benefits or the advantage to them of changing some established tradition. When this is clearly spelled out, people will be motivated to follow… You cannot over communicate about why we’re doing certain things or how we’re going to do it and what is the advantage we’re going to get from this.”

While Ghosn praised the loyalty and enthusiasm inside Nissan, he simultaneously pressed employees for top results. When two managers presented their ideas for a new information system at Nissan, Ghosn challenged them to prove that their solution could not be bettered by outside consultants. He sent them away and demanded a response to his queries within three weeks. Ghosn also made it clear that: “Every number had to be thoroughly checked. I did not accept any report that was less than totally clear and verifiable.”

On the marketing front, Ghosn left Patrick Pelata, in charge of product strategy, to drive the changes outlined in the NRP. Pelata set up a global branding group to look specifically at brand identity. The 25-strong group included all the leaders of marketing and advertising for Japan, Europe and the US, plus one person each from Nissan’s three agencies in those regions. Their objective was to tackle the “patchwork of images in Europe, the United States, and Japan.” Also in line with the NRP, the design team in Japan was removed from the engineering group and placed under the responsibility of Pelata. The following month, he implemented two consecutive organizational overhauls involving extensive personnel reshuffles in the product development group and design division. A group was formed in the design division to discuss and establish a shared design concept for the cars – and that group included several new designers and about 10 percent non-Japanese designers.

On the finance front, Ghosn was ably supported by Thierry Moulonguet, the deputy chief financial officer seconded from Renault. Moulonguet’s first priority was to clean up the accounts, which included making sure there were no surprises left on the books. In particular, he fixed Nissan’s heavily underfunded pension plan and made provisions for the three-year restructuring plan to cover plant closings and golden handshakes for workers taking early retirement. The net result, announced in late November 1999, was a record half-year loss of just over $3 billion – and predictions of full-year losses around double that figure. Yet Moulonguet was unflustered, assuring analysts, “We are clearing the past to pave the way for the future.” and emphasizing that Nissan would meet its goal of net profits in the year to March 2001. Moulonguet then turned his attention to selling off the company’s interests in dozens of associated companies and banks, as well as putting the accounts in line with the demanding International Accounting Standard.
Though expected to disband after rendering their verdicts, Ghosn insisted on keeping the CFTs as an integral part of the management structure to serve as watchdogs for the implementation of the plan and to look for news ways to improve performance—indeed, a tenth team was added to cover investment costs and efficiency.\textsuperscript{xix} The CFT pilots continued to meet with Ghosn at least monthly, serving as relays to the rest of the workforce but also keeping him informed of progress. Two months after the NRP announcement, Ghosn commented: “There is a group in the company who still think this will blow over, though their number grows smaller by the day.”\textsuperscript{1} In fact, internal resistance was further reduced by an agreement, reached in late December 1999, under which employees with home loans and dependents would be paid up to 3 million yen (about half the average annual wage for union workers). “Management has accepted almost 100 per cent of our demands,”\textsuperscript{vii} said the president of the Nissan Workers’ Union.

For all the signs that top management was finally getting to grips with Nissan’s problems, market confidence in the company remained shaky. An initial wave of euphoria had greeted the NRP and pushed the stock past the ¥700 mark. But by the end of 1999, Nissan’s share price had slumped by more than 40% to ¥402, as the market signaled “doubts over the practicality of the plan”.\textsuperscript{ii} Those doubts were further fueled by continuing resistance from parts suppliers—a situation made worse by Ghosn’s failure to attend a Year End party hosted by suppliers. Not realizing its ritual significance of the event, Ghosn missed the event to be with his family in Brazil. It was considered a sign of bad faith, especially “when he’s asking us for so many efforts.”\textsuperscript{viii}

2000: Making Headway

During the 1990s, Nissan managers received bonuses based on production levels rather than profits—so there was little incentive to minimize overproduction. Ghosn insisted that bonus structures be explicitly linked to the operating profit of the company or the subsidiary, with up to 35 percent of salary to be performance related. At internal meetings with managers, Ghosn emphasized that without demonstrated contribution to cost cuts, no one in purchasing, administration or engineering would receive a pay increase.\textsuperscript{iv} He also established and personally headed a review board for all promotion recommendations called the Nomination Advisory Committee. Henceforth, promotions would be based upon performance rather than seniority—and the power of many senior managers began to evaporate as longstanding supplier relationships were severed. These HR changes were crowned in March 2000 by the extension of the stock option plan to managers worldwide, qualifying approximately 500 employees, and overseen by Bernard Long, VP of International Human Resources.

Besides performance-oriented changes to the HR systems, Ghosn himself demanded total commitment from all departments within Nissan—and had now earned the nickname “7-11” because of his long office hours (see Appendix 3 for breakdown of a typical day). On whistlestop tours of factories, he probed managers for explanations of sluggish performance improvements or limited cost cuts. He reprimanded one tongue-tied manager whose results were insufficiently promising with, “This is your responsibility. Brainstorm. Discuss. You will be held accountable for this.”\textsuperscript{v} He was direct in his dealings with employees enthusiastically shaking hands with all those who came to his office, regardless of rank.\textsuperscript{iv} He monitored reactions to his proposed plans by having Nissan intranet messages—from affiliates, dealers and employees—posted in corporate headquarters.\textsuperscript{ivii}
Internally, Ghosn’s efforts were producing divergent reactions. “There is a schism,” said Akira Kaetsu, a senior manager in human resources. “We’ve told those who are resisting the changes that they have one year to change their attitude.” Some were disoriented by the changes and worried that their lifelong career and retirement plans would be upset – or else disagreed with Ghosn’s demanding work expectations. “We attend meetings late into the night, and the next morning, we are requested to come in at 6 a.m. If this goes on for days and days, it just won’t work, unless we get paid more,” complained one employee. Contrasting with the complaints and confusion of some of the more established executives, many of the younger executives, especially those who spoke English, saw unexpected new responsibilities and career opportunities coming their way. According to Thierry Moulonguet, VP Finance: “With Carlos Ghosn the rules of the game are simple and clear. That was perfectly understood by the young generation of Japanese managers. Anyone can send him an email. He reacts in an open and straightforward way.”

In late March 2000, Ghosn decided to eliminate the divisional presidencies in Europe and North America – putting in place instead four management teams including representatives from the major functions who would meet once a month. He viewed regional presidencies as being conducive to crossed communication and unclear leadership. “Each time you have a regional president, you start to have problems of communication and retention of information, either from headquarters to the region or from the region to the headquarters. We don’t want that. This is a killer for the global performance of the company.” According to Ghosn, “This reorganization was one of the few changes I made unilaterally.”

At the same time, Ghosn took the opportunity to make several other changes, including the high profile promotion of two senior VPs, Toshiyuki Shiga and Shiro Tomii, both still in their forties. Also, with purchasing, finance, manufacturing, and R&D already under global management, Ghosn named Shozo Kurihara as chief information officer with global responsibility. Likewise, he established a global marketing team, under Jean-Jacques Le Goff, to complement the existing regional marketing organizations. One of its missions would be to provide Ghosn with better marketing intelligence on how Nissan’s models were faring against the competition. “You laugh,” Ghosn told journalists, “it’s real. We had no substantial analysis, segment by segment, [of] what was going on.” Ghosn also wanted qualitative data: “Is the brand stronger? More attractive? Do people like [the products]? How are they characterized? Is there grace in our design? All of these concerns impact our image, and image is crucial to our overall success.”

In mid-May 2000, Nissan announced its plans to revamp the product lineup with 22 new models over the next three years, ten of them destined for the North American market. Of special significance, after less than a year in office, was the imminent introduction of a full-size truck in the US, a model that dealers had been requesting for ten years prior to Ghosn’s arrival. These launches coincided with the announcement of a $300 million investment to produce Nissan models in Brazil, using much of the existing Renault infrastructure. Ghosn told journalists: “The Nissan Revival Plan is on track and it is now time to grow.” Later, he compared the interplay of investment and cost cutting strategies to car racing: “A Formula One pilot, he’s constantly using the accelerator and the brakes. He uses them at the same time ... to go to the max. We are at the same time accelerating and braking.”

 Barely a week after announcing the new product drive, Ghosn had to announce one of the worst full-year losses ever recorded by a non-financial company, posting a net loss of $6.4
billion. Though massive, this figure was very much expected and there were even some bright spots as Nissan had erased outstanding pension liabilities, adopted new accounting practices and progressed on its plant closures and employee cuts. Also 11 of its 40 models were now profitable in Japan. Industry analysts were reassured by the better-than-expected operating results and Ghosn’s promise that the group would return to a net profit by the following year. The results did not significantly alter the company’s stock price, which had risen some 25 percent since the start of the year.

For all the signs that the restructuring efforts were gathering momentum, the ensuing June shareholder meeting proved a testing affair for Ghosn. He presented both the introduction and the conclusion of the AGM in Japanese, yet his failure to bow on entering the room drew the wrath of one elderly shareholder who called him the “occupying forces” and claimed he wouldn’t want to buy a car from a person so poorly versed in Japanese etiquette. Ghosn retorted evenly: “You’re right. There are many Japanese habits I do not know, but that’s because I have been working very hard and I don’t have time outside Nissan. I will become more Japanese in the months to come.” Another shareholder accused him of turning board meetings into one-man shows. Fortunately, Hanawa stepped in on Ghosn’s behalf: “Carlos talks a lot,” he admitted. “But that is because he is bringing in new methods and this needs a lot of explaining.” At one stage, a journalist asked Ghosn how much time he was spending in communication. For once, he was at a loss for an answer, estimating that there was not even one moment when he thought he was not communicating: “Even in brainstorming sessions, even when we elaborate strategy, you communicate all the time.”

As of September 2000, the management structure within Nissan was modified to clarify accountability for implementing the cost-cutting and growth strategies outlined. Within Japan, a scaled down force of 200 managers and executives worked out of the Tokyo headquarters. Whereas all top management had been permanently housed in Japan prior to Ghosn’s arrival, executives could now expect to spend time there on a project-by-project basis. Some of the senior management tier was dispersed to other global locations, within Europe or the United States.

The following October, Ghosn announced Nissan’s best half year results in a decade, with a consolidated net profit of over $1.5 billion contrasting with a $3 billion loss for the corresponding period the previous year. The workforce had already been cut by 9,000 and purchasing costs had been trimmed by 10 percent – with suppliers noting that formerly risk-averse Nissan managers were suddenly more willing to consider suppliers’ ideas for cost-cutting design changes. “The revival plan is going further, moving faster and reaching deeper than we previously forecast,” said Ghosn.

Though clearly delighted with the speed of improvement, Ghosn was careful to protect the reputation of his predecessors, telling journalists: “The previous management [was] struggling with survival problems, and therefore it did not have enough time to think about long-term vision.” As an outsider, he explained he was much freer to make drastic reforms: “To make radical changes in a company, it is very difficult to do it from the inside, because you have been with the company for years. [The changes] will have to come from the outsider who has some kind of credibility from the beginning. So people will listen to you… Japanese or non-Japanese, I think it is not a question of origin.”
On the back of the company’s encouraging first half profits, Ghosn announced that Nissan would spend $790 million in conjunction with Renault to develop a viable fuel-cell car. The partnership made a lot of sense given the risks involved and the lack of consensus over what type of fuel cell was most promising. A large number of the 1,000 new engineers that Nissan was set to hire would be channeled towards the five-year fuel-cell program.

Meanwhile, with the Detroit Motor Show approaching in January 2001, there was intense pressure on Shiro Nakamura’s design division. Since Nissan had a complete range of customers, finding a distinctive design thread – what US-trained Nakamura called an “uncommon denominator” or “brand DNA” – was proving a real challenge. “We have an incredible number of projects we are doing in a very short time,” he noted. “I’ve never experienced this kind of tough schedule.”

Four new models were due to be unveiled at the show, but the definite star would be the return of the Z-car, an emotional milestone for Nissan, and a joint effort between American and Japanese stylists that could not have been envisaged previously. As Nakamura explained: “Before, design was under engineering. Nissan has eight design studios around the world – 600 people – and not all of them reported to the head of design. Engineers are responsible for manufacturing problems, cost, and so on, so if there’s friction between the two, that can lead to design that is not market-oriented. Now all the studios report to me. It’s much stronger.”

2001: Nissan is Back!

When Ghosn first came in, he had kept the existing executives in place, yet made them “very aware” that there would be consequences if they did not meet their targets. In March 2001, there were several senior casualties including one member of the executive committee and 20 subsidiary presidents in the domestic dealership network. As Ghosn put it: “Accountability has to start from the top. If there is no… felt and clearly mentioned accountability at the top, it is very difficult then to push a company at all levels of the company and to make sure that everybody is committed to the subject.”

On the other hand, there were also many promotions. Among the most notable was the promotion of Shiro Nakamura, now fronting TV ads for the newly redesigned Skyline sedan, from VP of design to SVP (with no change of duties). There was also the rapid promotion of Mamoru Yoshida, who had piloted one of the CFTs, to head the group’s Canadian operations.

In the same week, Ghosn announced plans to resume dividend payments for the first time since 1998. He also granted a generous six percent salary increase for all employees in recognition that the change in Nissan’s fortunes had been the result of a collective effort. After a two-year freeze, the unions had put their demands to Ghosn expecting some negotiation but instead received immediate approval. The decision was so fast and unexpected that it drew widespread attention from the national press. Indeed, Ghosn hit the headlines again the following month when he hired Shuri Fukunaga from J P Morgan to run corporate communications, making her the first woman to head a section at Nissan.

In May 2001, when announcing Nissan’s full year results at a news conference in Tokyo, Ghosn confidently declared, “Nissan is back!” Sales were up 2 percent; the disposal of non-core assets had shrunk debt by nearly half, purchasing costs were down 11 percent; and
domestic capacity utilization rate up to 74 percent. As a result, operating margin had more than tripled from 1.4% to 4.75%, exceeding the stated goal of the NRP a year ahead of schedule.\textsuperscript{lxxxiv} (See Appendix 4 for progress against NRP targets).

Building on this financial recovery, Ghosn outlined Nissan plans to introduce 22 new models over the following three years. He cautioned, however, that Nissan’s turnaround remained fragile, and warned against complacency. “Fiscal year 2000 is only the first step in the right direction,” he said. “We have moved from the emergency room to the recovery room.”\textsuperscript{lxxxv}

Six weeks later, in July 2001, Ghosn revealed that he was setting new targets to roll on from the NRP. Provisionally dubbed the “Post NRP Guide”, the new targets included selling one million additional vehicles worldwide in 2005 and moving Nissan into a “zero debt environment”\textsuperscript{lxxxvi} The biennial Tokyo Motor Show in October 2001 provided a fitting platform for Ghosn to underline Nissan’s achievements and growth intentions. In the same setting, and almost two years to the day since Ghosn had first announced the NRP, Nissan was demonstrating its re-emergence as an automotive leader with 13 new products in the lineup for 2002. While other manufacturers were signaling their concerns about profitability by emphasizing more conservative models, Nissan was promoting flashy new vehicles.\textsuperscript{lxxxvii} The waiting list for the new flagship “Z” sportscar following its unveiling in January 2001 suggested public enthusiasm to come for the new Nissan image.

Also, with eight concept vehicles showcasing its innovation potential, Nissan took the opportunity at the Tokyo Motor Show to unveil its new global identity campaign – the fruit of a joint venture between its three former advertising agencies to service Nissan’s account worldwide. The campaign would center around the theme “shift”, to highlight changes within the company: “This is a bridge between the change in the company and the change in the products and, later, the change in attitude,” explained Patrick Pelata, the VP who led the brand identity team.\textsuperscript{lxxxviii} In Japan, the tag line was “Shift the future”. Although the campaign had been ready for some time, Nissan held off unveiling it until the Tokyo Motor Show: “We don’t feel we can say we’ve changed until we have changed,” explained Pelata. “If we had said in 1999 what we are going to say in 2002, no one would have believed us.”\textsuperscript{lxxxix}

With all the NRP targets apparently within reach, Ghosn evoked his chief concern for continued progress: “My biggest worry is complacency inside Nissan. And it comes very quickly. I’m not talking about people who are consciously complacent. I’m talking about people who are unconsciously complacent. But we are still in the mindset of an underdog and I would look to maintain that as long as I can.”\textsuperscript{xci} Ghosn was adamant: “No system can replace people. A system makes sure there is discipline, productivity. But if people change their perception of the situation, no system can change your company.”\textsuperscript{xeci}

Meanwhile, there were clear signs of a shift in the balance of power between Nissan and Renault. Nissan’s unexpectedly sharp recovery coincided with Renault’s unexpected decline. With Nissan’s market capitalization now about twice that of Renault’s and its profits about three times bigger, it made sense for Nissan to return the favor.\textsuperscript{xcii} In October 2001, Nissan took a 15 percent stake in its French partner, while Renault lifted its share in Nissan to 44.4 percent. The move highlighted Nissan’s confidence in its turnaround.

In December 2001, Ghosn reiterated the elements of the post NRP effort, now dubbed “Plan 180” – this being shorthand for “1” million more units sold by 2005, “8” percent operating
margin, and “zero” debt. Ghosn also planned to announce a new three-year supplier cost reduction target of 15 percent, on top of the existing 20 percent goal that ran through to March 2003. He was setting the platform for phase two of a process designed to make Nissan a benchmark for the industry. As Ghosn saw it: “Top management must prepare the company to compete in the most adverse situation. The difficulty of that is people inside the company may not fully understand working to an artificial reference. If we lower our guard it will be the beginning of the end.”

As 2001 drew to a close, Ghosn himself continued to receive plaudits on a wide range of fronts. *Time Magazine* voted him top CEO in the world ahead of Bill Gates, while *Automotive News* voted him Industry Leader of the Year for the second time in a row. Having salvaged Nissan, Ghosn had become a national hero – and his life story even became the subject of a new comic book series (see Appendix 5 for comic book excerpt).

The company too was winning new admirers. In particular, the completely redesigned Altima, released in April 2001, was being widely tipped by industry observers to win the influential North American Car of the Year award (which it did). This was significant insofar as it was the first of Nissan’s North American launches created under Ghosn’s watch and bearing the imprint of the NRP – and it was competing in the high-volume family sedan market. There were also early indications that Nissan was poaching significant numbers of buyers from other brands and shedding its discount image in Japan. Nissan’s new found standing was also reflected in its stock price, which bounced back from a low of ¥409 at the official start of the NRP in April 2000 up to ¥695 at the end of December 2001. That surge, in excess of 70 percent, was all the more striking against the backdrop of the Nikkei stock average which plunged 45 percent over the same period. (See Appendix 6 for comparison).

**The Road Ahead: 2002 and Beyond**

At the start of February 2002, Nissan confirmed that it would meet all of the NRP targets one year ahead of schedule. Commenting on that achievement, Jed Connelly, Nissan North America’s senior VP of sales and marketing commented: “One thing that Ghosn brought to the party was a clear focus on our priorities and a clear plan by which to execute those priorities. He has not wavered from day one.” Another executive VP and board member, Norio Matsumura, saw Ghosn’s key contribution elsewhere: “His greatest performance is that he was able to restructure people’s mindsets.”

One shareholder drew attention to Ghosn’s outsider status: “Japanese managers couldn’t have done what he has done. They’d have felt too many obligations. They wouldn’t have been able to take bold measures.” And Isuru Nakamura commented: “He is not Japanese, clearly. But he is not Brazilian or French either. He is a leader. If his personality reflected a strong nationality, he might not have been very successful.”

The question, with the crisis now over, was whether the employees would maintain the same sense of purpose. Ghosn remained vigilant: “What I’m focused on now is mainly making sure that full execution of the Nissan Revival Plan continues to take place. At the same time as we’re planning 180 [Nissan’s second phase growth strategy] I don’t want people to be serious about Plan 180 and reduce the intensity in executing the NRP. It requires doing both at the same time.”
Nevertheless, when one eminent journalist suggested that Nissan was about to embark on the toughest part of the turnaround, Ghosn disagreed: “What you had in 2000 was a lot of things that are restructuring. That is not very motivating. What happens next is not easier or more difficult: it is totally different. It is much more motivating.” Ghosn later added: “When the indicators start to show that you are making a lot of improvements, it encourages more and more people to jump in and help the rest of the team achieve more. It’s a kind of nurture circle where performance feeds motivation, and motivation feeds performance.”
Appendix 1
The French Supporting Cast

In addition to Carlos Ghosn, Patrick Pelata and Thierry Moulouguet, whose nominations were effective May 1 1999, a dozen general managers from Renault were officially appointed to Nissan on September 1 1999:

<table>
<thead>
<tr>
<th>Name</th>
<th>New Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bernard Long</td>
<td>VP assigned to International HR</td>
</tr>
<tr>
<td>Philippe Klein</td>
<td>VP Chief of COO Office</td>
</tr>
<tr>
<td>Bernard Rey</td>
<td>VP General Manager of Purchasing Strategy Department</td>
</tr>
<tr>
<td>Claude Contet</td>
<td>General Manager (Assistant to Patrick Pelata, EVP)</td>
</tr>
<tr>
<td>Sylvain Bilaine</td>
<td>Deputy General Manager of Corporate Planning Department</td>
</tr>
<tr>
<td>Nathalie Gigandet</td>
<td>Senior Manager of Product Planning Division Product and Market Strategy Department</td>
</tr>
<tr>
<td>Alain Lehmann</td>
<td>General Manager of Marketing and Sales Planning Department</td>
</tr>
<tr>
<td>Gilles Normand</td>
<td>Deputy General Manager of Americas Operations Division</td>
</tr>
<tr>
<td>Thierry Viadieu</td>
<td>Senior Manager of Manufacturing and Engineering Industrial Division Production Control and Strategy Planning Department</td>
</tr>
<tr>
<td>Marc-Henri Ambroise</td>
<td>Deputy General Manager of Parts Purchasing Department No.2 Manager (additional responsibility) of Parts Purchasing Department No.2 Electric Parts Group</td>
</tr>
<tr>
<td>Philippe Monegier</td>
<td>Deputy General Manager of Finance Department</td>
</tr>
<tr>
<td>Dominique Thormann</td>
<td>Deputy General Manager of Treasury Department</td>
</tr>
</tbody>
</table>

This table shows the areas of responsibility of the nine-cross-functional teams and the main changes they instigated.

<table>
<thead>
<tr>
<th>Cross-Functional Team</th>
<th>Team Review Focus</th>
<th>Objectives Based on Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Business Development</td>
<td>• profitable growth</td>
<td>• launch 22 new models by 2002</td>
</tr>
<tr>
<td></td>
<td>• new product opportunities</td>
<td>• introduce a minicar model by 2002 in Japan</td>
</tr>
<tr>
<td></td>
<td>• brand identity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• product development lead time</td>
<td></td>
</tr>
<tr>
<td>2 Purchasing</td>
<td>• supplier relationships</td>
<td>• cut number of suppliers in half</td>
</tr>
<tr>
<td></td>
<td>• product specifications &amp; standards</td>
<td>• reduce costs by 20% over three years</td>
</tr>
<tr>
<td>3 Manufacturing &amp; Logistics</td>
<td>• manufacturing efficiency &amp; cost effectiveness</td>
<td>• close three assembly plants in Japan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• close two power-train plants in Japan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• improve capacity utilization in Japan from 53% in 1999 to 82% in 2002</td>
</tr>
<tr>
<td>4 Research &amp; Development</td>
<td>• R&amp;D capacity</td>
<td>• move to a globally integrated organization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• increase output efficient by 20% per project</td>
</tr>
<tr>
<td>5 Sales &amp; Marketing</td>
<td>• advertising structure</td>
<td>• move to a single global advertising agency</td>
</tr>
<tr>
<td></td>
<td>• distribution structure</td>
<td>• reduce SG&amp;A costs by 20%</td>
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<tr>
<td></td>
<td>• dealer organization</td>
<td>• reduce distribution subsidiaries by 20% in Japan</td>
</tr>
<tr>
<td></td>
<td>• incentives</td>
<td>• close 10% of retail outlets in Japan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• create prefecture business centers or common back offices</td>
</tr>
<tr>
<td>6 General &amp; Administrative</td>
<td>• fixed overhead costs</td>
<td>• dispose of noncore assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• cut automotive debt in half to $5.8 billion net</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• reduce inventories</td>
</tr>
<tr>
<td>7 Finance &amp; Cost</td>
<td>• shareholdings &amp; other noncore assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• financial planning structure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• working capital</td>
<td></td>
</tr>
<tr>
<td>8 Phaseout of Products &amp; Parts</td>
<td>• manufacturing efficiency &amp; cost effectiveness</td>
<td>• reduce number of plants in Japan from seven to four by 2002</td>
</tr>
<tr>
<td>Complexity Management</td>
<td></td>
<td>• reduce number of platforms in Japan from 24 to 15 by 2002</td>
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<tr>
<td></td>
<td></td>
<td>• reduce by 50% the variation in parts (e.g. due to differences in engines or destination) for each model</td>
</tr>
<tr>
<td>9 Organization</td>
<td>• organizational structure</td>
<td>• create regional management committees</td>
</tr>
<tr>
<td></td>
<td>• employee incentive &amp; pay packages</td>
<td>• empower program directors</td>
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<tr>
<td></td>
<td></td>
<td>• implement performance-oriented compensation &amp; bonus</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• packages, including stock options</td>
</tr>
</tbody>
</table>

Appendix 3

“Seven-Eleven”: A Day in the Life of Carlos Ghosn

6h00: Get up and have breakfast with family.
7h40: Arrive at office in central Tokyo.
8h00: Series of phone calls to US, while the working hours coincide.
8h30: Interview with a magazine journalist.
9h30-11h30: Internal meetings.
12h00: Lunch in management canteen with members of the executive committee.
13h00-15h30: Two more meetings with colleagues.
15h30: Calls to Europe where the work day is just starting.
16h00: Meeting with the unions
18h15: Meeting with visitors.
21h00: Leave the office
21h30: Ghosn dines with his spouse. Children are already in bed.

## Appendix 4

*Getting There: Progress against NRP Commitments*

<table>
<thead>
<tr>
<th>Targets and milestones stated in NRP</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Return to profit by March 2001</td>
<td>♦ Operating margin of 4.5% reported for the half year ending September 2000</td>
</tr>
<tr>
<td>♦ Achieve operating margin of 4.5% by March 2003</td>
<td>♦ Operating margin of 4.75% by March 2001</td>
</tr>
<tr>
<td></td>
<td>♦ Operating margin of 6.2% by September 2001</td>
</tr>
<tr>
<td>♦ Reduce debt by 50% from $12.6 to $6.3 billion by March 2003</td>
<td>Net debt load reduced to:</td>
</tr>
<tr>
<td></td>
<td>♦ $10.6 billion by September 2000</td>
</tr>
<tr>
<td></td>
<td>♦ $7.7 billion by March 2001</td>
</tr>
<tr>
<td></td>
<td>♦ $6.6 billion by September 2001</td>
</tr>
<tr>
<td>♦ Eliminate 21,000 jobs (14% of workforce) by March 2003 (from 148,000 to 127,000)</td>
<td>♦ 6,500 jobs cut by March 2000</td>
</tr>
<tr>
<td></td>
<td>♦ 9,000 jobs cut by September 2000</td>
</tr>
<tr>
<td></td>
<td>♦ 13,800 jobs cut by March 2001</td>
</tr>
<tr>
<td></td>
<td>♦ 19,900 jobs cut by September 2001</td>
</tr>
<tr>
<td>Reduce purchasing costs by:</td>
<td>Reduced by:</td>
</tr>
<tr>
<td>♦ 8% by March 2001</td>
<td>♦ 8% by March 2000</td>
</tr>
<tr>
<td>♦ 14.5% by March 2002</td>
<td>♦ 10% by September 2000</td>
</tr>
<tr>
<td>♦ 20% by March 2003</td>
<td>♦ 11% by March 2001</td>
</tr>
<tr>
<td></td>
<td>♦ 18% by September 2001</td>
</tr>
</tbody>
</table>

*Source: NRP Progress Presentation (October 2001).*
Appendix 5

From “Occupying Force” to Comic Book Hero

Ghosn, pictured above, presenting his plans for a strategic revival at Nissan in 1999. He vows that he and his executive team will resign if profitability is not achieved by March 2001.

Appendix 6

Evolution of Nissan Stock Price against Nikkei Index

Source: Datastream.

References


The quotes that follow are excerpted from a full text transcript of the speech: Ghosn, C. (1999) “We don’t have a choice,” *Automotive News*, November 8: 36-44.


