

LEADING CHANGE—CARLOS GHOSN AT RENAULT AND NISSAN

"There is no business executive in the world I would rather see at the helm of Renault. Carlos has a golden touch. First at Michelin, then at Nissan—everywhere he has been he has turned disaster into success. He is very strong, very forceful, and very positive."

"Look, I cannot deny his past successes. But really, what has he done? He has relied almost exclusively on slash-and-burn techniques to cut costs and return these companies to profitability. But how long can that last? He has not brought any new ideas to the running of business: just cut costs. He is now returning to a profitable Renault. I'm unsure of what he can do now."

"I think you both are missing the point. Ghosn's past has been impressive, no doubt about it. But why is he trying to run two companies at the same time? Does he believe too much his own press? The way it is now, he cannot focus properly on either Nissan or Renault."

Three French executives offering contrasting reflections on Carlos Ghosn upon his return to Renault in April 2005.

Whatever qualms some executives may have felt about Carlos Ghosn (name is pronounced to rhyme with "phone"), senior management at France-based Renault harbored no such misgivings.²⁵ In April 2005, chairman Louis Schweitzer announced that Ghosn would return to Paris to assume control of Renault. Over the past five and a half years, Ghosn had engineered a remarkable turnaround at Nissan Motors, headquartered in the Ginza district of Tokyo. He had moved from Paris to Japan as part of the 1999 Renault–Nissan alliance. Ghosn's return to Paris, however, would not remove him from oversight of Nissan. He vowed to serve as a dual CEO—leading both Renault and Nissan, dividing his time evenly between the two.

Ghosn's career involved a number of remarkable leadership opportunities: Michelin Brazil, Michelin North America, Renault, Nissan, and now the Renault–Nissan alliance. But no story is more dramatic or exemplary of his approach to change management than his tenure at Nissan.

Nissan Motor Company

As part of a 74-firm Japanese *zaibatsu*—a powerful, interconnected industrial combination that included Hitachi, Nippon Mining, and Nissan Chemical—Nissan leveraged its considerable assets into becoming Japan's number two automaker (behind Toyota).²⁶ Nissan began exporting their Datsun cars to the United States in 1958 and 17 years later became the top-selling import in the U.S. market. Their sporty Datsun 240Z, known as the Z car, gained an especially loyal following based on its reputation as "the ultimate thrill machine, an unbeatable combination of rakish lines, raw horsepower and affordability that young Japanese and American guys found impossible to resist."

A number of management missteps kicked off a debilitating and long-lasting decline starting in the 1980s. Executives changed the company's brand name in

the United States from the popular Datsun to the completely unfamiliar Nissan. Additionally, they allowed their popular Z car to drift and decline with little infusion of innovative technology. Less obvious but even more troubling was Nissan's inability to find flexibility in its relationship with suppliers. Their cost of parts ranged from 15 percent to 20 percent above domestic competitors. Aggressive competition from Honda in the United States forced Nissan to take a \$1,000 discount on their cars.

Sales declined, but costs did not. Despite several announced restructuring plans, Nissan executives achieved little real improvement. "Powerful trade unions, a societal taboo against layoffs and institutional inertia stalled any real changes." After the company borrowed money from the government-owned Japan Development Bank to stay afloat, executives decided to court potential partners. Talks with both DaimlerChrysler and Ford proved fruitless. France-based Renault agreed to an alliance. As a precondition of the alliance, Nissan executives agreed that Renault's second-in-command, Carlos Ghosn, would come to Japan as COO under CEO Yoshikazu Hanawa. The agreement was announced on April 15, 1999—and the Ghosn era at Nissan began.

Carlos Ghosn

Ghosn was born in Brazil in 1952 to a French mother and Lebanese father. He moved to Lebanon at the age of six to attend a French Jesuit school. He received his college education in Paris, first at the Ecole Polytechnique and then at the Ecole des Mines de Paris. Representatives from Michelin, a privately held French tire company, approached Ghosn in March 1978 while he was still a student. They were looking for French-educated engineers who could speak Portuguese (Ghosn's first language) to help them build a market in Brazil. Ghosn accepted their offer and worked his way through several manufacturing positions in France, South America, and the United States before joining Renault.

Ghosn at Renault

In October 1996, Ghosn joined Renault when CEO Louis Schweitzer offered him the number two position (with potential succession to the top position). Ghosn had already developed a philosophy of change leadership at Michelin based on three premises:

- Assume nothing (find answers within the company).
- Work fast.
- Earn trust and respect with strong results.

At Renault, his formal assignment was to run engineering, manufacturing, and purchasing. However, Ghosn's main responsibility was to cut costs.

Renault Ghosn's early analysis of Renault's problems led him to conclude that the company culture emphasized narrow, functionally based thinking at the expense of a larger strategic view:

The company was organized into completely separate departments, like silos. The heads of the departments often turned them into baronies or fiefdoms. This was an enormous problem, because I felt the road to recovery

lay in implementing cross-functionality. And advocating cross-functionality is tantamount to challenging certain practices that belong to certain functions. But I believed that cross-functionality was fundamental to our success ... We had to break down some high walls and reorganize the company so that everyone worked together.

Relying on cross-functional teams, Ghosn came up with a plan to reduce costs by \$4 billion in three years.

His plan, which included closing Renault's plant in Vilvoorde, Belgium, with its 3,500 jobs, earned him the lasting nickname: "le cost killer." Ghosn claimed to have no problem with his reputation:

Businesses have always tried to reduce costs ... I don't see how one can manage a business without keeping one eye glued to expenses. It's a fantasy to think otherwise. ... There have been very few successful extravagant captains of industry.

Renault returned to profitability in 1997.

Within the company, Ghosn earned a reputation as a tough, demanding boss who set "brutally high standards." At the same time, executives considered him a consensus builder with a "knack for getting straight to the heart of tough problems and ... an ability to motivate others by setting ambitious but realistic targets." Ghosn avoided personal confrontation. "To my knowledge," he said, reflecting on his entry into the Renault executive suite, "there were no personal conflicts, because by definition I'm not a confrontational man. I try to manage pressure where I find it. I don't make scenes or attack people. I'm firm, but not confrontational."

Renault-Nissan Alliance Throughout the 1990s, Renault sought a partnership with another carmaker in order to expand its market reach. Early attempts had been disastrous. The company proved unable to close a potential deal for Volvo. Their purchase of U.S.-based AMC cost Renault billions of dollars before selling that unit off to Chrysler. Schweitzer and Ghosn, however, remained convinced that the company needed a partner to help it break out of the confining European market (85 percent of all company sales were in Europe) and seek robust sales in Asia and North America.

After Nissan's merger talks with DaimlerChrysler fell through, Ghosn pursued serious negotiations with the Japanese carmaker. As the companies engaged in talks, a difference in style and culture—Renault's highly legalistic style clashed with Nissan's preference for broad-based discussion—threatened to undermine potential agreement. Ghosn proposed cross-company teams to look at all opportunities for synergistic effort, creating 11 teams of members from similar jobs in the two companies. Once the companies approved the alliance, these teams allowed Ghosn to have a head start on what needed to be done at Nissan.

The 1999 alliance called for Renault to acquire a 36.8-percent stake in Nissan. "We are not merging," noted Renault's CEO Louis Schweitzer, "we are creating a binational company." At the time, Nissan had \$19.9 billion in debt and

losses of \$250 million for the year. The company had posted losses seven out of the previous eight years. Their domestic market share had sunk from 34 percent in 1974 to under 19 percent in 1999, their global market share from 7 percent to under 5 percent.

Ghosn at Nissan

Upon his arrival in Japan, Ghosn announced that his goal was not to advance the interests of Renault but rather "to do everything in my power to bring Nissan back to profitability at the earliest date possible and revive it as a highly attractive company." He realized the delicate position in which he found himself:

In corporate turnarounds, particularly those related to mergers or alliances, success is not simply a matter of making fundamental changes to a company's organization and operations. You also have to protect the company's identity and the self-esteem of its people. Those two goals—making changes and safeguarding identity—can easily come into conflict; pursuing them both entails a difficult and sometimes precarious balancing act. That was particularly true in this case. I was, after all, an outsider—non-Nissan, non-Japanese—and was initially met with skepticism by the company's managers and employees. I knew that if I tried to dictate changes from above, the effort would backfire, undermining morale and productivity. But if I was too passive, the company would simply continue its downward spiral.

The challenge, he said, was to save the business without losing the company.

While he was not the first Westerner to take the reins of a Japanese auto company (an American had led Mazda after Ford purchased the company), the local press still wondered how a Westerner would fit in and be able to adjust. Ghosn held no such concerns:

By focusing on specific business objectives, people don't have time to worry about cultural differences or politicking (which is obviously a very dangerous thing in an alliance or merger). This focus on results instead of politics gives you a much greater opportunity to create a success in an alliance or merger if the turnaround works. Realistically, though, it can jeopardize the whole merger or alliance if it doesn't work.

He believed that by focusing on performance, he could bypass concerns for cultural differences.

By inclination, Ghosn avoided making sweeping changes in the makeup of his executive committee. He said he would make personnel changes only after giving people a "reasonable time" to change. "I do it, but only when necessary. I consider it a waste. It is more of a challenge to me to change people from within. It is more long-lasting and beneficial—more powerful—to change people than to change persons." Within two years of his arrival, however, Ghosn did remove a number of key executives for failure to meet performance targets. Accountability, he repeated over and over, *must* start at the top.

Ghosn insisted on consistency between the stated beliefs of top executives and their actions:

Top management is highly visible. What we think, what we say, and what we do must be the same. We have to be impeccable in ensuring that our words correspond to our actions. If there are discrepancies between what we profess and how we behave, that will spell disaster. Included in this is our accountability. We must be committed to the responsibilities we've agreed to. When we don't deliver, we have to face the consequences. The Japanese culture is a very proud culture. Our workers and managers want to succeed. For that matter, so do the unions inside Nissan. They want to be proud of their company and their management. They need management to manage. And good management involves accountability.

Leaders, in his view, must do what they say and say what they do.

Early Diagnosis

Between April and late June 1999, Ghosn toured Nissan plants, subsidiaries, and dealerships in Japan, the United States, Europe, and Taiwan. He had learned from his experience at Michelin to start change without any preconceived ideas:

This is extremely important in management. You must start with a clean sheet of paper because the worst thing that you can have is prefabricated solutions ... you have to start with a zero base of thinking, cleaning everything out of your mind.

Performance numbers told him a great deal about Nissan but not the underlying causes of their problems. "You have to go out in the field to see what's going on." Ghosn engaged in a process he called "deep listening," speaking to over 5,000 people:

I asked people what they thought was going right, what they thought was going wrong, and what they would suggest to make things better. I was trying to arrive at an analysis that wouldn't be static but would identify what we could do to improve the company's performance. It was a period of intensive, active listening. I took notes. I accumulated documents that contained very precise assessments of the different situations we had to deal with, and I drew up my own personal summaries of what I learned. In the course of those three months, I must have met more than a thousand people.

Ghosn's diagnostic tour built a good deal of hope and high expectations.

Almost immediately, Ghosn announced three changes based on decisions he had arrived at on his own:

1. The "official language" of Nissan would become English and all top management meetings would be held in English. Executives who did not learn English immediately would have to leave the company.

2. The Japanese press would be invited to attend Nissan shareholder meetings as a way of making Nissan's current problems and future plans transparent to the public.
3. The position of regional president for Europe and North America was replaced with four cross-functional management teams.

By early July, Ghosn reached some conclusions about Nissan. Perhaps the most surprising was the lack of urgency among Nissan executives: "For a company that has been losing money for seven years out of eight, there is not enough of a sense of urgency. People should be banging their heads on the walls everywhere." Increasing a sense of urgency was on his mind when he announced his diagnosis to the press and, more importantly, to employees within the company. In an "all-hands" presentation carried across the company via closed-circuit television, Ghosn listed strengths and weaknesses:

The fact that he spoke directly to employees was especially important to Ghosn:

Now, it's impossible to resurrect a failing company without first diagnosing its problems and then making sure everyone in the enterprise knows the results of your diagnosis. If there's a reticence about sharing the results, there can be no shared sense of urgency ... You have to identify the problem and circulate your diagnosis. When we pointed out in public that some of Nissan's products were not all that attractive, we got a lot of criticism ... But it was this very statement, the frank admission that some of the products in our line weren't appealing, that allowed us to straighten things out, even if what we said may have had a short-term negative effect.

Ghosn was enacting what he considered to be his primary role: "The only power that a CEO has is to motivate. The rest is nonsense."

Cross-Functional Teams

To enrich his diagnosis and specify action plans, Ghosn returned to cross-functional teams:

In my experience, executives in a company rarely reach across boundaries. Typically, engineers prefer solving problems with other engineers, salespeople like to work with fellow salespeople, and Americans feel more comfortable with other Americans. The trouble is that people working in functional or regional teams tend not to ask themselves as many hard questions as they should. By contrast, working together in cross-functional teams helps managers to think in new ways and challenge existing practices. The teams also provide a mechanism for explaining the necessity for change and for projecting difficult messages across the entire company.

Ghosn pulled together nine cross-functional teams to examine all aspects of the business operation: from business development to manufacturing and logistics to supplier relationships to organizational structure. Each had ten members, all from middle management. Teams could also create subteams to help them

collect data. In total, the effort involved about 500 people. Ghosn gave the teams three months to review the company's operations and make recommendations.

Only three explicit rules governed the activities of the teams. First: "Nothing is off limits to discuss and explore. Teams are not to be hindered by traditions or avoid sensitive corporate issues." Second: "Teams had no decision-making power. That was left in the hands of the executive committee." And third: "Only one issue is non negotiable: the return to profit."

Ghosn was tough and demanding on team members. When the purchasing team, for example, came back with a plan to reduce costs by 10 percent over three years, Ghosn's response devastated them. "Ghosn rejected our recommendations outright," recalled a team member. "He told us they were not aggressive enough. He told us to come back with recommendations that will yield 20 percent savings over the next three years." Far from being discouraged, the group went back to work. After what was recalled as "a wrenching two weeks of hard work and tough negotiations," the group met Ghosn's expectations with recommendations that, in retrospect, seemed obvious.

"Mr. Ghosn is always challenging us to make higher commitments and targets," said an executive. "We [constantly] talk about challenge and stretch." Added another executive, "I have never worked for anyone who is so demanding."

Nissan Revival Plan

With the recommendations from the nine cross-functional teams Ghosn and the executive committee pulled together what became known as the Nissan Revival Plan (NRP). In October 1999, Ghosn announced that plan to the press, to the employees, and to the public. He started his presentation by saying, "The key facts and figures about Nissan point to a reality: Nissan is in bad shape." The highlights of his action plan included:

- Reduce operating costs by \$10 billion.
- Cut the number of parts and material suppliers in half.
- Create new product investment and rollout, including launch of 22 new models by 2002—capital investment increased from 3.5 percent in 1999 to 5.5 percent in 2002.
- Reduce global head count by 21,000.
- Reduce number of vehicle assembly plants in Japan from seven to four.
- Reduce number of manufacturing platforms in Japan from 24 to 15.

"The combination of growth and cost reduction will allow Nissan to achieve a consolidated operating profit of 4.5 percent or more of sales by FY 2002." Revival would depend on more than cost cutting, he emphasized. "While cost cutting will be the most dramatic and visible part of the plan, we cannot save our way to success."

In the question-and-answer period that followed his presentation, a reporter asked if Ghosn was prepared to take responsibility for the company's performance. If Nissan is not profitable in 2000, Ghosn responded, he and the entire executive committee would resign. Committee members had made that agreement privately but had not expected Ghosn to make it public. In hindsight, Ghosn thought it was an important statement. "To say Nissan will be profitable

or I'll quit ... this struck a chord. [Fellow] executive committee members were obviously surprised when they heard of my remark."

The NRP contained several significant departures from traditional Japanese approaches to management. Nissan's relationship with suppliers, for example, represented the *keiretsu* system that linked large manufacturers, like Nissan, to its suppliers often through cross held stock. "The *keiretsu* was like a big family," noted a reporter. "In the 1980s it was considered one of the key components of the success of Japanese manufacturing, as the cozy relationships ensured that manufacturers were delivered high quality parts, manufactured to specification, as they were needed." With suppliers now placing Nissan at a considerable cost disadvantage, Ghosn targeted the system. The number of suppliers would be cut in half, and they would be expected to cut costs by 20 percent by 2003.

Additionally, all purchasing would be centralized. Said Ghosn, "Purchasing represents 60 percent of our total costs, or a minimum of 58 percent of our net sales. Today, Nissan buys parts and materials on a regional basis, or even in certain areas on a country basis. This will stop immediately." From that point onward, purchasing would be centralized and globalized.

Traditional human resource policies would also be changed. Said Ghosn:

Like other Japanese companies, Nissan paid and promoted its employees based on their tenure and age. The longer employees stuck around, the more power and money they received, regardless of their actual performance. Inevitably, that practice bred a certain degree of complacency, which undermined Nissan's competitiveness.

Nissan's seniority system would be abandoned, along with their approach to pay:

In the traditional Japanese compensation system, managers receive no share options, and hardly any incentives are built into the manager's pay packet ... We changed all that. High performers today can expect cash incentives that amount to more than a third of the annual pay packages, on top of which employees receive company stock options.

The revival plan sent shock waves not just through the company but through the entire nation. Japan's stock market reacted by dropping Nissan's price a full 20 percent. Ghosn was not alarmed:

To be able to make changes, it is necessary to do some hard things. If you do those things, it does not mean that you do not value people. In my opinion, the reverse is true. People who do not tell the truth do not respect people. My concept of respect for people starts with telling the truth and establishing the facts of a situation.

Telling the truth and establishing the facts of a situation—those were to be the hallmarks of Ghosn's approach.

Results and More Plans

Nissan achieved the results promised in the NRP a full year ahead of time. Ghosn became president of Nissan in 2000 and CEO in 2001. At that time, he announced a new plan, named NISSAN 180:

Through NRP we transformed a struggling company into a good company; through NISSAN 180, we will transform a good company into a great company. The achievement of NISSAN 180 will rely on four pillars: more revenue, less costs, more quality and speed and a maximized alliance with Renault.

Once again, Nissan made good on its promises. "The story of Nissan's revival is now complete."