Turnaround at Nissan

In 1999, Nissan was in a state of serious decline and had lost money in all but one of the previous eight years. Only Renault's willingness to assume part of Nissan's debt saved the Japanese company from going bankrupt. As part of the deal, the French automaker appointed Carlos Ghosn to become Nissan's chief operating officer. However, there was widespread skepticism that the alliance between Renault and Nissan could succeed, or that someone who was not Japanese could provide effective leadership at Nissan.

During the three months prior to assuming the position of COO at Nissan, Ghosn met with hundreds of people, including employees, union officials, suppliers, and customers, to learn more about the company and its strengths and weaknesses. From these meetings and earlier experiences with turnaround assignments, Ghosn understood that major changes would not be successful if they were dictated by him and the experts he brought with him from Renault. Soon after assuming his new position at Nissan in June 1999, Ghosn created nine cross-functional teams and gave them responsibility for determining what needed to be done to revive the company. Such teams had never been used before at Nissan, and it was unusual in a Japanese company to involve a broad cross-section of managers in determining major changes.

The cross-functional teams examined different aspects of company operations to identify problems and recommend solutions to Ghosn and the executive committee. Several interrelated problems were identified, and they were mostly consistent with Ghosn's initial impressions. The poor financial performance at Nissan was a joint result of declining sales and excessive costs, and weak management was the primary reason for the failure to resolve these problems. Management lacked a coherent strategy, a strong profit orientation, and a clear focus on customers. There was little cooperation across functions, and there was no urgency about the need for major change.

One reason for excessive costs at Nissan was that only half of the available capacity in the company's factories was being used; production capacity was sufficient to build almost a million more cars a year than the company could sell. To reduce costs, Ghosn decided to close five factories in Japan and eliminate more than 21,000 jobs, which was 14 percent of Nissan's global workforce. To simplify production operations at the remaining factories and make them more efficient, Ghosn planned to reduce the number of car platforms by half and the number of powertrain combinations by a third. Plant closings can undermine relations with employees, and Ghosn took steps to ensure that employees knew why they were necessary and who would be affected. In general, he understood that most employees prefer to learn what would happen to them and prepare for it, rather than remaining in a state of uncertainty and anxiety. Ghosn attempted to minimize adverse effects on employees by selling subsidiaries and using natural attrition, early retirements, and opportunities for part-time work at other company facilities.

Purchasing costs represent 60 percent of the operating costs for an automaker, and Nissan was paying much more than necessary for the parts and supplies used to build its cars. After comparing expenses at Nissan and Renault, Ghosn discovered that Nissan's purchasing costs were 25 percent higher. One reason was the practice of purchasing small orders from many suppliers instead of larger orders from a smaller number of global sources. It would be necessary to reduce the number of suppliers, even though this action was unprecedented in a country where supplier relationships were considered sacrosanct. Higher purchasing costs were also a result of overly exacting specifications imposed on suppliers by Nissan engineers. The engineers who worked with the cross-functional team on purchasing initially defended their specifications, but when they finally realized that they were wrong, the team was able to achieve greater savings than expected. Excessive purchasing costs are not the type of problem that can be solved quickly, but after three years of persistent effort it was possible to achieve Ghosn's goal of a 20 percent reduction.

Years of declining sales at Nissan were caused by a lack of customer appeal for most of the company's cars. When Ghosn made a detailed analysis of sales data, he discovered that only 4 of the 43 different Nissan models had sufficient sales to be profitable. Final decisions about the design of new models were made by the head of engineering. Designers were taking orders from engineers who focused completely on performance, and there was little effort to determine what types of cars customers really wanted. To increase the customer appeal of Nissan vehicles, Ghosn hired the innovative designer Shiro Nakamura, who became another key leader in the turnaround effort. The designers would now have more authority over design decisions, and Ghosn encouraged them to be innovative rather than merely copying competitors. For the first time in over a decade, Nissan began coming up with cars that excited customers both in Japan and abroad. Ghosn planned to introduce 12 new models over a three-year period, but the time necessary to bring a new model into production meant that few would be available until 2002.

Another reason for declining sales was Nissan's weak distribution network. In Japan strong brand loyalty is reinforced by efforts to maintain close relationships with customers, and it is essential for the dealerships to be managed by people who can build customer loyalty and convert it into repeat sales. In 1999, many Nissan dealerships in Japan were subsidiaries managed by Nissan executives nearing retirement, and they viewed their role more in social terms than as an entrepreneur responsible for helping the company to increase market share and profits. Ghosn reduced the number of company-owned dealerships (10 percent were closed or sold), and he took steps to improve management at the remaining dealerships.

Saving Nissan would also require major changes in human resource practices, such as guaranteed lifetime employment and pay and promotion based on seniority. Transforming these strongly embedded aspects of the company culture without engendering resentment and demoralizing employees was perhaps the most difficult challenge. The changes would primarily affect nonunionized employees at Nissan, including the managers. A merit pay plan was established, and instead of being rewarded for seniority, employees were now expected to earn their promotions and salary increases through effective performance. Areas of accountability were sharply defined so that performance could be measured in relation to specific goals. New bonuses provided employees an opportunity to earn up to a third of their annual salary for effective performance, and hundreds of upper-level managers could also earn stock options. These and other changes in human resource practices would make it possible for Ghosn to gradually replace weak middle- and upper-level managers with more competent successors.

In October 1999, Ghosn announced the plan for revitalizing Nissan. He had been careful to avoid any earlier leaks about individual changes that would be criticized without understanding why they were necessary and how they fit into the overall plan. The announcement included a pledge that Ghosn and the executive committee would resign if Nissan failed to show a profit by the end of 2000. It was an impressive demonstration of his sincerity and commitment, and it made what he was asking of others seem more acceptable. Fortunately, the primary objectives of the change were all achieved on schedule, and by 2001 earnings were at a record high for the company. That year Ghosn was appointed as the chief executive officer at Nissan, and in 2005, he would become the CEO of Renault as well.

Note: *This case is based on information in Ghosn and Ries (2005) and Taylor (2002).*