Developing a model for business restructuring in the international automobile industry, Lessons from Nissan’s experience

A dissertation submitted in part fulfilment of the requirements for the degree of Master of Science (MSc.) in International Business awarded by The University of Wales, Cardiff, United Kingdom.

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STATEMENT 1
This dissertation is being submitted in partial fulfilment of the requirements for the degree of:

MSc. In International Business

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STATEMENT 2
This dissertation is the result of my own independent work and investigation, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references. A bibliography is appended.

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I hereby give consent for my dissertation, if accepted, to be available for photocopying and for inter-library loan, and for the title and summary to be made available to outside organisations.

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Charles-Henri DURU

Portobello College

October 2007
Summary

Since the end of the Second World War, the car industry has been booming. The automobile sector is a very important part of the world economy, a change in the automobile market share on the world stock market could have huge implications in the world economy. The topic is based on the Work of a Franco-Japanese team of 17 members, sent by Renault to help Nissan at refunding their debt and initiate a restructuring of management. The propositions from Carlos Ghosn, the leader of the team, were drastic, especially for the Japanese market. The team decides to reduce the numbers of suppliers by 50% and terminate around 20,000 employees. Critics deemed the task impossible however the team managed to reduce the deficit of Nissan, restructure the Japanese company, and re-launch the enterprise into the world market. The success factor of the implementation of the Nissan Revival Plan resides in the use of Cross-Functional Teams. The analysis of the reorganisation of Nissan, coupled with a review of the literature about change management and strategic change management, permit the elaboration of a theoretical model of reorganisational task groups (RTGs) adaptable to any industry in the world.
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Chapter I ➔ Method and methodology

1.1. Formal justification for the chosen research topic

The title of the research topic is: “Developing a model for business restructuring in the international automobile industry, Lessons from Nissan’s experience”.

The choice of the topic is based on 3 aspects. The first one is about the durability of the subject. Because it’s a subject of actuality and few academic papers and books were written about the restructuring of Nissan, the subject has an interest due to the fact that it is so recent. Moreover, the realization that the dissertation could lead; is the creation of a lesson about restructuring management applicable to the car industry. The second aspect is the creation of an innovative system. The main core of the research topic is to create a model based on the restructuring of Nissan. At the end of the dissertation, a new model of restructuring will be created, and would be able to be applied to any car manufacturer facing the same situation as Nissan. The last point is about the informal links and processes in the organization. As mentioned above, restructuring a Japanese car manufacturer with the termination of employees and the reduction of suppliers is not the typical method of use in Japan. These 3 aspects are based on the work realized By Marshall & Rossman (1989), to justify in a formal manner the choice of the research topic.

1.2. Areas of the management / international business literature that inspire the choice of the topic

The core part of the subject is based on change management. The areas of literature used in the dissertation will be change management, strategic change management, and reorganisation.
1.3. The specific parameters of the problem, process or issue at the heart of the topic

The specific parameters at the heart of the research topic are the mix of each sector of the company (Marketing, Supply, Human Resource…), in order to create a model which will permit the future companies or researchers to adapt a strategy on each sector and taking into consideration what are the different methods available to face the problems of the company. The second part of the research topic, after referencing each crucial sector of the company to include in the model, is to use the experience of Nissan in order to provide a framework for other organisations facing similar types of situations. This is the real core of the research topic. Another issue is to link each factors of the model of restructuring management to the relevant literature. It is essential to the heart of the topic to link it correctly, in order to create an academic and relevant research paper.

1.4. An indication of the specific value added to the current literature in the research.

The value that will be hopefully added to the current literature in the research topic is the creation of a model of restructuring management, applicable to all automobile companies around the world, based on the experience of Nissan.

The model of reorganisation of Nissan and the cross-functional teams will be validated academically.

The last objective is to create a dissertation which could be used as a good introduction to a doctorate work, where the application of the model could be, after some adaptations, used in order to restructure, any kind of company in the world, even a country. This idea was suggested by Carlos Ghosn when he was speaking about the country of his origins, Lebanon.

More explanations about this idea are mentioned below, in the section titled “suitability of the researcher for the research”.

9
1.5. Description and justification of the methodology

The methodology implicated in the realization of the research topic is the Gantt Chart (appendix 1). First of all, there was a focus on the literature review, as mentioned above. The research was continued by reading the books of Carlos Ghosn about the restructuring of Nissan. After the realization of the readings, an elaboration of an “In-Depth interview” took place, which is mentioned below. Of course, the help of professional lecturers was asked, in order to give the researcher some advice about the structure of the interview. In a second time, the interview was completed and all the required data were gathered to finish the elaboration of the model of restructuring. Next, the steps of the grounded case study mentioned below were followed, in order to organize the dissertation. This methodology is based on the research from Maylor and Blackmon (2005), about how to write a dissertation based on a qualitative research with the utilization of tools such as a “grounded case study”. An explanation in more detail will be given in the section “description and justification of the methods” about the choice of the researcher, to the reasons why a quantitative road map for the methodology is not applicable in this research process.

1.6. Description and justification of the methods

The first part of the research topic was, after the completion of the literature review, a grounded case study. Many researchers in business and management have found the procedure for grounded case study research, presented by Kathleen Eisenhardt (1989), helpful. The grounded theory is used, according to Maylor and Blackmon (2005), when the researcher has not started with a particular theory or conceptual model, and when he is examining a phenomenon that no one else has studied before. The grounded theory helps the researcher to capture both theoretical and empirical insights in such situations (Maylor and Blackmon, 2005). Eisenhardt (1989) presents a road map for using a research approach to build theories from actual case studies. This road map is adapted for quantitative or qualitative approaches. The steps she suggested are as follows:

1. Getting started – problem definition
2. Selecting Cases – theoretical sampling
3. Crafting instruments and protocols – preparing multiple data collection methods
4. Entering the field – collecting data
5. *Analyzing data* – within-case analysis followed by cross-case analysis

6. *Shaping hypotheses* – building evidence and explanation

7. *Enfolding literature* – comparing findings with the literature


Source: Maylor and Blackmon, 2005, adapted from Eisenhardt, 1989

In the 3rd part of the road map from the grounded case study, there is an “In-Depth interview”. The rationale of this interview, after the completion of the literature review and the reading of the books from Carlos Ghosn, is to gather more information and details about the restructuring of Nissan, to provide a detailed model of restructuring management adapted to the automobile industry.

The advantages of in-depth interviews are that the respondents feel more comfortable with discussing sensitive topics and it became possible to handle very complex topics, such as the creation of a model of restructuring management. The “In-Depth interview” was conducted using different methods. The first step was to send an electronic mail message; in order to let the company know which information the researcher was looking for. The second step was to contact the company via a phone call, to gather more information related to the elaboration of the dissertation.

The other method, that was used in order to collect data, was the analysis of texts and documents like the annual report of Nissan or the different books from Carlos Ghosn about the restructuring of Nissan.

The focus was only on the utilization of tools for qualitative research. No mention about the use of tools to direct quantitative research is evoked, simply because they will be irrelevant for the dissertation, such as an electronic mail questionnaire, sent to 100 companies. The purpose of the research topic was to follow a grounded case study in order to create a new model, that’s why there was no use of any quantitative tools or methods to gather information.

### 1.7. Data inputs required for the purposes of the research process proposed

Firstly, the different sources of “primary data” used in the research process will be presented. The first core primary data was the In-Depth interview, with Mr Inoshita and Mr Morel. The second primary data was the study of different surveys, on the Nissan Company, in order to
create a draft to the model of restructuring. The third primary data source, involved in the process of research, was the grounded case study. Upon completion of the interviews it was then necessary to select and analyze each sector within Nissan to support the draft of the model, and finally validate the model with the literature review.

Secondly, the different sources of “secondary data” used in the research topic will be presented. The first, and the most important one for the core part of the topic, was the literature review. There was a real need to pay important attention to this part. During the completion of the grounded case study, as mentioned above, a model based on empirical evidence was created. To validate this model, a source of evidence was needed. The literature review furnished this source of proof, approved the model, and created a well referenced academic model, based on a real case study. Another source of secondary data was the different reports from Nissan, especially the financial figures, to show the position of the company before the restructuring process within the company, and finally the re-launching of Nissan on the world automobile economy. The books of Carlos Ghosn were utilised as a source of secondary data as well, because they provided some point to some areas of the research topic not mentioned above and gave an interpretation of the reorganisation of Nissan. Of course, all the other resources of secondary data, such as the very effective software “Lexis-Nexis®”, or the different economic journals or magazine around the world were used in the research.

1.8. Suitability of the researcher for the research

We could mention the degree of suitability of the researcher for the research. The first point was the capacity to contact somebody in Renault in France. The second point was the interest that the researcher has in the restructuring of Nissan. It was particularly interesting that in three years, a firm who had huge problems, using an unsuitable method of restructuring for the Japanese culture, could solve the problems and create an increase in the productivity of the enterprise. The last point was the possibility to extend the research to a doctorate in the future. The model that was drawn could be used, of course with adaptations and further studies, to a country, to the restructuring of a government and solve the problems of the budget deficit for the nation.
Chapter II ➔ Change management, a literature review

2.1. Introduction

Any company (multinationals, small, large, etc.) needs to perpetually initiate operational restoration in order to rehabilitate the parts of the firm that are obsolete (Mellahi, Frynas and Finlay, 2005).

Due to the implicit instability in the business world today, firms often find themselves facing the need to undertake strategic renewal in order to pursue a change strategy and, or, to adjust to changing environmental factors. Where environmental change is slow and small, organizational change is likely to be in small, incremental steps (Stacey, 1996). The changes that the organization needs to undertake are likely to be larger, where the environmental changes are larger or because it wishes to change its strategy significantly. Such changes are transformational (Stacey, 1996).

Change in multinationals is more complex than that in single-country firms. The more complex the environment within which change takes place, the more difficult it is to design and implement a coherent change (Mellahi, Frynas and Finlay, 2005). Multinational firms operate across several countries, which creates a complex and sometimes chaotic mix of management practices influenced by different national cultures and institutions. In addition, some subsidiaries are more aware of the competitive nature of the business environment and its dynamics, and as a result are less resistant to change (Mellahi, Frynas and Finlay, 2005).

Further, people’s attitudes towards change are also affected by a set of culture-specific factors, such as taken-for-granted behaviour, norms, and values, which adds another layer of complexity to change management in multinational firms (Mellahi, Frynas and Finlay, 2005). The different behaviours and attitudes of employees and management at the subsidiary level towards change increase the potential for conflict between the centre and subsidiaries, and may hinder the success of the change strategy (Andrews and Chompusri, 2001).
2.2. The drivers of change

There are obviously two main reasons of change in the firm. They could be macroeconomics, external to the company, or microeconomics, internal to the company.

Tichy (1983) identified four main triggers for change:

- **Environment.** Shifts in the economy, competitive pressures and legislative changes can all lead to demands for major strategic change.
- **Business relationships.** New alliances, acquisitions, partnerships and other significant developments may require substantial changes in the organisation structure in order to take advantage of new synergies, value chain linkages or core competencies.
- **Technology.** Shifts here can have a substantial impact on the content of the work and even the survival of companies.
- **People.** New entrants to organisations may have different educational or cultural backgrounds or expectations that require change. This is especially important when the leadership of the organisation changes.

Source: Tichy, (1983)

Tichy suggests that change is not only inevitable in such circumstances but can be managed to produce effective results.

Kanter, Stein and Jick (1992) identified three causes of change, similar as in the Tichy’s classification:

- **Environment.** Changes in the environment compared with the situation in the organisation can lead to demands for strategic change.
- **Life cycle differences.** Changes in one division or part of an organisation as it moves onto a phase of its life cycle that is different from another division may necessitate change.
- **Political power** change inside the organisation. Individuals, groups and other stakeholders may struggle for power to make decisions or enjoy the benefits associated with the organisation. For example, a shift in strategy from being production-oriented to customer-oriented would be accompanied by a shift in the power balance between those two functions.

Source: Kanter, Stein and Jick, (1992)
Some other researchers, such as Johnson and Scholes (2002) suggested that a PESTEL analysis of the company could give more information about the macroeconomics elements that influence the company to lead its change.

<table>
<thead>
<tr>
<th>PESTEL framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political</strong></td>
</tr>
<tr>
<td>• Government stability</td>
</tr>
<tr>
<td>• Taxation policy</td>
</tr>
<tr>
<td>• Foreign trade regulations</td>
</tr>
<tr>
<td>• Social welfare policies</td>
</tr>
<tr>
<td><strong>Economic factors</strong></td>
</tr>
<tr>
<td>• Business cycles</td>
</tr>
<tr>
<td>• GNP trends</td>
</tr>
<tr>
<td>• Interest rates</td>
</tr>
<tr>
<td>• Money supply</td>
</tr>
<tr>
<td>• Inflation</td>
</tr>
<tr>
<td>• Unemployment</td>
</tr>
<tr>
<td>• Disposable income</td>
</tr>
<tr>
<td><strong>Socio-cultural factors</strong></td>
</tr>
<tr>
<td>• Population demographics</td>
</tr>
<tr>
<td>• Income distribution</td>
</tr>
<tr>
<td>• Social mobility</td>
</tr>
<tr>
<td>• Lifestyle changes</td>
</tr>
<tr>
<td>• Attitudes to work and leisure</td>
</tr>
<tr>
<td>• Consumerism</td>
</tr>
<tr>
<td>• Levels of education</td>
</tr>
<tr>
<td><strong>Technological</strong></td>
</tr>
<tr>
<td>• Government spending on research</td>
</tr>
<tr>
<td>• Government and industry focus on technological effort</td>
</tr>
<tr>
<td>• New discoveries/development</td>
</tr>
<tr>
<td>• Speed of technology transfer</td>
</tr>
<tr>
<td>• Rates of obsolescence</td>
</tr>
<tr>
<td><strong>Environmental</strong></td>
</tr>
<tr>
<td>• Environmental protection laws</td>
</tr>
<tr>
<td>• Waste disposal</td>
</tr>
<tr>
<td>• Energy consumption</td>
</tr>
<tr>
<td><strong>Legal</strong></td>
</tr>
<tr>
<td>• Monopolies legislation</td>
</tr>
<tr>
<td>• Employment law</td>
</tr>
<tr>
<td>• Health and safety</td>
</tr>
<tr>
<td>• Product safety</td>
</tr>
</tbody>
</table>

Source: Adapted from Johnson and Scholes, 2002
Porter’s 5 forces could also be used to identify the different sources of competitors in an industry or a sector listed in the model below.

![Diagram of Porter's 5 Forces]

Source: Adapted from Porter, 1980

There is, of course other methods and different models to find the factors that are affecting the company to change. All the models and findings from researchers listed earlier are not exhaustive, however, they propose a good start to understand the reasons of change in the firm.
2.3. The types of strategic change

According to Balogun and Hope Hailey (1999) there is four types of change, and these have implications for how change might be managed.

<table>
<thead>
<tr>
<th>Types of change</th>
<th>Scope of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>Evolution</td>
</tr>
<tr>
<td>Big Bang</td>
<td>Revolution</td>
</tr>
<tr>
<td>Transformation</td>
<td>Adaptation</td>
</tr>
<tr>
<td>Realignment</td>
<td>Reconstruction</td>
</tr>
</tbody>
</table>

Source: adapted from Balogun and Hope Hailey, 1999

- **Adaptation** is change which can be accommodated within the current paradigm and occurs incrementally. It is the most common form of change in organisations (Mellahi, Frynas and Finlay, 2005).

- **Reconstruction** is the type of change which may be rapid and could involve a good deal of upheaval in an organization, but which does not fundamentally change the paradigm (Mellahi, Frynas and Finlay, 2005).

- **Evolution** is a change in strategy which requires paradigm change, but over time. It may be that managers anticipate the need for transformational change. They may then be in a position of planned evolutionary change. Another way in which evolution can be explained is by conceiving of organisations as ‘learning systems’, continually adjusting their strategies as their environment changes (Mellahi, Frynas and Finlay, 2005).

- **Revolution** is change which requires rapid and major strategic and paradigm change, perhaps in situations where such drift has resulted in circumstances where pressures for change are extreme (Mellahi, Frynas and Finlay, 2005).
2.4. The importance of the context

There is no one right ‘formula’ for the management of change. The success of any attempt at managing change will also be dependent on the wider context in which that change is taking place (Johnson and Scholes, 2002).

Balogun and Hope Hailey (1999) build on this point to highlight a number of important contextual features that need to be taken into account in designing change programmes. One of these is the *scope* of change required and this has been discussed before, in the section on types of change.

<table>
<thead>
<tr>
<th>Contextual features</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time</td>
<td>How quickly change is needed</td>
</tr>
<tr>
<td>Scope</td>
<td>What degree of change is needed</td>
</tr>
<tr>
<td>Preservation</td>
<td>What organisational resources and characteristics need to be maintained</td>
</tr>
<tr>
<td>Diversity</td>
<td>How homogeneous are the staff groups and divisions within the organisation</td>
</tr>
<tr>
<td>Capability</td>
<td>What is the managerial and personal capacity to implement change</td>
</tr>
<tr>
<td>Capacity</td>
<td>What is the degree of change resource available</td>
</tr>
<tr>
<td>Readiness</td>
<td>How ready for change is the workforce</td>
</tr>
<tr>
<td>Power</td>
<td>What power does the change leader have to impose change</td>
</tr>
</tbody>
</table>

Source: adapted from Johnson and Scholes, 2002
2.5. Organizational culture

Many aspects of the culture of the organisation work to shape and guide strategy, and its influence can result in strategic drift (Johnson and Scholes, 2002). To understand the cultural context for change, Johnson and Scholes (2002) propose a model called the ‘cultural web’.

Source: Adapted from Johnson and Scholes, 2002

The concept of the cultural web is a representation of the taken-for-granted assumptions, or paradigm, of an organization and the physical manifestations of organizational culture. Culture can be analysed by observing the way in which the organizations actually behave (routines, rituals, stories, etc.).
• *The Routine* ways that members of the organisation behave towards each other, and towards those outside the organisation, make up ‘the way we do things around here’. At its best, this lubricates the working of the organisation, and may provide a distinctive and beneficial organisational competence. However, it can also represent a taken-for-grantedness about how things should happen which is extremely difficult to change and protects the core assumptions in the paradigm (Johnson and Scholes, 2002).

• *The Rituals* of organisational life are the special events through which the organisation emphasises what is particularly important and reinforces ‘the way we do things around here’. Examples of ritual are given in the table below.

<table>
<thead>
<tr>
<th>Types of ritual</th>
<th>Role</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rites of passage</strong></td>
<td>Consolidate and promote social roles and interaction</td>
<td>Induction programmes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Training programmes</td>
</tr>
<tr>
<td><strong>Rites of enhancement</strong></td>
<td>Recognise effort benefiting organisation</td>
<td>Awards ceremonies</td>
</tr>
<tr>
<td></td>
<td>Similarly motivate others</td>
<td>Promotions</td>
</tr>
<tr>
<td><strong>Rites of renewal</strong></td>
<td>Reassure that something is being done</td>
<td>Appointment of consultants</td>
</tr>
<tr>
<td></td>
<td>Focus attention on issues</td>
<td>Project teams</td>
</tr>
<tr>
<td><strong>Rites of integration</strong></td>
<td>Encourage shared commitment</td>
<td>Christmas parties</td>
</tr>
<tr>
<td></td>
<td>Reassert rightness of norms</td>
<td></td>
</tr>
<tr>
<td><strong>Rites of conflict reduction</strong></td>
<td>Reduce conflict and aggression</td>
<td>Negotiating committees</td>
</tr>
<tr>
<td><strong>Rites of degradation</strong></td>
<td>Publicity acknowledge problems</td>
<td>Firing top executives</td>
</tr>
<tr>
<td></td>
<td>Dissolve/weaken social or political roles</td>
<td>Demotion or ‘passing over’</td>
</tr>
<tr>
<td><strong>Rites of sense making</strong></td>
<td>Sharing of interpretations and sense making</td>
<td>Rumours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Surveys to evaluate new practices</td>
</tr>
<tr>
<td><strong>Rites of challenge</strong></td>
<td>‘Throwing down the gauntlet’</td>
<td>New CEO’s different behaviour</td>
</tr>
<tr>
<td><strong>Rites of counter-challenge</strong></td>
<td>Resistance to new ways of doing things</td>
<td>Grumbling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Working to rule</td>
</tr>
</tbody>
</table>

Source: adapted from Johnson and Scholes, 2002
• The stories told by members of the organisation to each other, to outsiders, to new recruits and so on, embed the present in its organisational history and also flag important events and personalities. They typically have to do with successes, disasters, heroes, villains and mavericks that deviate from the norm (Johnson and Scholes, 2002).

• Symbols such as logos, offices, cars and titles, or the type of language and terminology commonly used, become a shorthand representation of the nature of the organisation. Although symbols are shown separately in the cultural web, it should be remembered that many elements of the web are symbolic, in the sense that they convey messages beyond their functional purpose (Johnson and Scholes, 2002).

• Power structures are also likely to be associated with the key assumptions. The paradigm is, in some respects, the ‘formula for success’, which is taken for granted and likely to have grown up over years. The most powerful groupings within the organisation are likely to be closely associated with this set of core assumptions and beliefs (Johnson and Scholes, 2002).

• The control systems, measurements and reward systems emphasise what it is important to monitor in the organisation. (Johnson and Scholes, 2002).

• Organisational structure is likely to reflect power structures and, again, delineate important relationships and emphasise what is important in the organisation (Johnson and Scholes, 2002).

• The paradigm of the organisation encapsulates and reinforces the behaviours observed in the other elements of the cultural web (Johnson and Scholes, 2002).

The cultural web is, then, a useful concept for understanding the underlying assumptions linked to political, symbolic and structural aspects of an organisation.
2.6. *Forcefield analysis*

A forcefield analysis provides an initial view of change problems that need to be tackled, by identifying forces for and against change. An example of a forcefield analysis is given below.

<table>
<thead>
<tr>
<th>Forcefield analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pushing</strong></td>
</tr>
<tr>
<td>- High-quality service</td>
</tr>
<tr>
<td>- Ethos of hard work</td>
</tr>
<tr>
<td>- Flexibility</td>
</tr>
<tr>
<td>- Devolved services</td>
</tr>
<tr>
<td><strong>Resisting</strong></td>
</tr>
<tr>
<td>- Workload/overload</td>
</tr>
<tr>
<td>- Firefighting</td>
</tr>
<tr>
<td>- Departmentalism</td>
</tr>
<tr>
<td>- Departmental barons</td>
</tr>
<tr>
<td>- Formality of management</td>
</tr>
<tr>
<td>- Stories of ‘the good old days’</td>
</tr>
<tr>
<td>- Blame culture</td>
</tr>
<tr>
<td>- Deference</td>
</tr>
</tbody>
</table>

Source: Adapted from Johnson and Scholes, 2002

What typically emerges from such an exercise in diagnosing a change situation is that the routines, control systems, structures, symbols and power or dependency relationships can be both important blockages and facilitators to change (Johnson and Scholes, 2002).
2.7. Styles of managing change

Whoever is in the position of managing change will need to consider the style of management they adopt. This is likely to be more or less appropriate according to organisational context (Johnson and Scholes, 2002). The table below summarizes the different styles of managing strategic change.

<table>
<thead>
<tr>
<th>Style</th>
<th>Means/context</th>
<th>benefits</th>
<th>problems</th>
<th>Circumstances of effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education and</strong></td>
<td>Group briefings assume internalisation of strategic logic and trust of top</td>
<td>Overcoming lack of (or mis)information</td>
<td>Time consuming</td>
<td>Direction or progress may be unclear</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>management</td>
<td></td>
<td></td>
<td>Incremental change or long-time horizontal transformational change</td>
</tr>
<tr>
<td><strong>Collaboration/</strong></td>
<td>Involvement in setting the strategy agenda and/or resolving strategic issues</td>
<td>Increasing ownership of a decision or process may improve quality of decisions</td>
<td>Time consuming</td>
<td>Solutions/outcome within existing paradigm</td>
</tr>
<tr>
<td><strong>Participation</strong></td>
<td>by taskforces or groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Intervention</strong></td>
<td>Change agent retains co-ordination/control: delegates elements of change</td>
<td>Process is guided/controlled but involvement takes place</td>
<td>Risk of perceived manipulation</td>
<td>Incremental or non-crisis transformational change</td>
</tr>
<tr>
<td><strong>Direction</strong></td>
<td>Use of authority to set direction and means of change</td>
<td>Clarity and speed</td>
<td>Risk of lack of acceptance and ill-conceived strategy</td>
<td>Transformational change</td>
</tr>
<tr>
<td><strong>Coercion/edict</strong></td>
<td>Explicit use of power through edict</td>
<td>May be successful in crises or state of confusion</td>
<td>Least successful unless crisis</td>
<td>Crisis, rapid transformational change or change in established autocratic cultures</td>
</tr>
</tbody>
</table>

Source: adapted from Johnson and Scholes, 2002
Education and communication involve the explanation of the reasons for and means of strategic change. It might be appropriate if there is a problem in managing change based on misinformation or lack of information. However, there are problems here. If large numbers of people are involved in the change, managers may try to communicate by mass briefings. But they are likely to find this ineffective. (Johnson and Scholes, 2002).

Collaboration or participation in the change process is the involvement of those who will be affected by strategic change in the identification of strategic issues, the setting of the strategic agenda, the strategic decision-making process or the planning of strategic change. This can be helpful in increasing ownership of a decision or change process, and in increasing commitment to it. It may entail the setting up of project teams or taskforces. The outcome may be of higher quality than decisions taken without such an approach. However, there is the inevitable risk that solutions will be found from within the existing paradigm. Anyone who sets up such a progress, therefore, may need to retain the ability to intervene in the process (Johnson and Scholes, 2002).

Intervention is the co-ordination of and authority over processes of change by a change agent who delegates elements of the change process. An advantage here is that it involves members of the organization not only in originating ideas, but also in the partial implementation of solutions. This involvement is likely to give rise to greater commitment to the change (Johnson and Scholes, 2002).

Direction involves the use of personal managerial authority to establish a clear future strategy and how change will occur. It is essentially top-down management of strategic change. It may be associated with a clear vision or strategic intent developed by someone seen as a leader in the organisation (Johnson and Scholes, 2002).

Coercion is the most extreme form of directive style, involving the imposition of change or the issuing of edicts about change. This is the explicit use of power and may be necessary if the organisation is facing a crisis, for example (Johnson and Scholes, 2002).

There are some overall observations that can be made about the appropriateness of these different styles (Johnson and Scholes, 2002):

- Styles of managing change are not mutually exclusive in a change programme.
- Different stages in the change process may require different styles of managing
change.

- The evidence is that participative styles are most appropriate for incremental change within organisations, but that is where transformational change is required, directive approaches may be more appropriate (Dunphy and Stace, 1993).
- Different styles suit different personality types.
- It also needs to be remembered that managing change will very likely involve a team of managers, not just an individual.

### 2.8. Roles in managing change

When it comes to discussing strategic change, there is too often an overemphasis on individuals at the top of an organisation. Certainly ‘strategic leaders’ are important, but when different organisational contexts, types of change and change processes found in organisations are taken into account, it is useful to think of a change agency more broadly. A ‘change agent’ is the individual or group that effects strategic change in an organisation. For example, the creator of a strategy may, or may not, also be the change agent; and it may be that a middle manager is also the change agent in a particular context. Some strategic leaders may need to rely on others to take a lead in effecting the organisation or perhaps from outside, such as consultants, who have a whole team working on a project, together with managers from within the organisation. So the change agency does not necessarily correspond to one individual (Johnson and Scholes, 2002).

#### 2.8.1. Strategic leadership

The management of change is often directly linked to the role of a strategic leader. Leadership is the process of influencing an organisation (or group within an organisation) in its efforts towards achieving a goal (Yukl, 1998). Within this definition, a leader is not necessarily someone at the top of an organisation, but rather someone who is in a position to influence the change process. However, the ‘strategic leaders’ who are typically written about are top managers. They are often categorised in two ways.

- Charismatic leaders, who are mainly concerned with building a vision for the organisation and energising people to achieve it, and are therefore usually associated
with managing change. The evidence suggests that these leaders have a particularly beneficial impact on performance when the people that work for them see the organisation facing uncertainty (Waldman, Ramirez, House and Puranam, 2001).

- Instrumental or transactional leaders (Kets de Vries, 1994) who focus more on designing systems and controlling the organisation’s activities, and are more likely to be associated with improving the current situation.

Leadership literature often suggests that successful leaders have particular personal characteristics or traits. These include visionary capacity, being good at team building and team playing, a capacity for self-analysis and self-learning, mental agility and the ability to cope with complexity; self-direction and self-confidence; and charismatic leaders in particular are good at expressing complex ideas simply, creating commitment and channelling people’s energy (Kets de Vries, 1994). Peters and Waterman (1982) argue that the most successful strategic leaders are ‘masters of two ends of the spectrum’. By this they mean that such people are able to be both charismatic and instrumental, which may entail coping with potentially conflicting ways of managing.

It is a challenging task, demanding the abilities to cope with ambiguity, to demonstrate flexibility, insight and sensitivity to strategic context, relating to others and managing change whilst achieving current performance.

Actually the evidence is that strategic leaders adopt different approaches to manage strategy and change. This is shown in the table on the next page.
## Strategic leadership approaches

<table>
<thead>
<tr>
<th>Focus of attention</th>
<th>Strategy</th>
<th>Human assets</th>
<th>Expertise</th>
<th>Control</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic analysis and strategy formulation</td>
<td>Developing people</td>
<td>Disseminating expertise as source of competitive advantage</td>
<td>Setting procedures and measures of control</td>
<td>Continual change</td>
<td></td>
</tr>
</tbody>
</table>

| Indicative behaviour | Scanning markets, technological changes etc. | Getting the right people; creating a coherent culture | Cultivating and improving area of expertise through systems and procedures | Monitoring performance against controls to ensure uniform, predictable performance | Communicating and motivating through speeches, meeting, etc. |

| Role of other managers | Day-to-day operations | Strategy development devolved | Immersion in and management of expertise area | Ensure uniform performance against control measures | Change agents; openness to change |

| Implications for managing change | Delegated | Recruiting/developing people capable of managing strategy locally | Change in the line with expertise approach | Change carefully monitored and controlled | Change central to the approach |

Source: Adapted from Farkas and Wetlaufer, 1996

In some respects this evidence suggests the adoption of different approaches which correspond to the different change management styles discussed previously. The approaches form a focus on personal responsibility in the search for future opportunities and the development of the overall strategy (the strategy approach); a focus on developing people who can take responsibility for strategy at the market interface (the human assets approach); a
focus on a particular area of expertise that will be a source of competitive advantage; the
development, communication and monitoring of a set of controls to ensure uniform
organisational behaviour and standards; and on strategic change and the continual reinvention
of the organisation. A distinctive focus on strategic change is certainly one of these
approaches, but only one. Faced with the need for change, each of the approaches would have
implications for how change might be managed by such strategic leaders (Johnson and
Scholes, 2002).

2.8.2. Middle managers

A top-down approach to managing strategy and strategic change sees middle managers as
implementers of strategy. Their role is to put into effect the direction established by top
management by making sure that resources are allocated and controlled appropriately,
monitoring performance and behaviour of staff and, where necessary, explaining the strategy
to those reporting to them; those who take such an approach often tend to view middle
managers not as facilitators of the strategy, but as blockages to its success (Johnson and
Scholes, 2002). This is sometimes seen as one reason for reducing the numbers and layers of
management, so as to speed up communication between top management and organisational
members, and to reduce potential blockages and filters.

However, there is evidence that middle managers can and do provide a real benefit in both the
development and the implementation of strategy (Floyd and Wooldridge, 1996). In the
context of managing strategic change it is important to emphasise four important roles they
play.

- The first is the systematic role of implementation and control; this does reflect the idea
  of top-town change in which they are a monitor of that change (Johnson and Scholes,
  2002).
- The second is the reinterpretation and adjustment of strategic responses as events
  unfold which is a vital role they are uniquely qualified for because they are in day-to-
  day contracts with such aspects of the organisation (Johnson and Scholes, 2002).
- They are the crucial bridge between top management and members of the organisation
  at lower levels. Again, because they are in touch with the day- to-day routines of the
  organisation which can so easily become blockages to change and the climate for
change that can help or hinder change, they are in a position to translate change initiatives into a locally relevant forms or messages (Johnson and Scholes, 2002).

- They are also in a position to advise more senior management on what is likely to be the organisational blockages and requirements for change (Johnson and Scholes, 2002).

Middle managers may therefore contribute substantially either to galvanising commitment to strategy and the change process, or to blocking it. Such involvement could help to achieve a positive role of commitment (Johnson and Scholes, 2002). Lack of commitment can result in serious blockages and resistance. The involvement of middle management in strategy development, the planning of and implementation of strategic change programmes and feedback on strategic change can therefore be very important (Johnson and Scholes, 2002).

2.8.3. Outsiders

Whilst existing managers have important roles to play, there is a good deal of evidence that ‘outsiders’ are important in the change process (Johnson and Scholes, 2002).

- A new chief executive from outside the organisation may be introduced into a business to effect change. He or she brings a fresh perspective on the organisation, not bound by the constraints of the past, or the everyday routines and ways of doing things which can prevent strategic change. Hybrid new chief executives seem to be especially successful. There are chief executives who are not part of the mainline culture of the organisation, but who have experience and visible success from within the same industry or even the same company. For example, they might have been a successful change agent with a competitor or some other part of a conglomerate (Johnson and Scholes, 2002).

- The introduction or arrival of new management from outside the organisation can also increase the diversity of ideas, views and assumptions which can help break down cultural barriers to change; and they may help increase the experience of and capability for change. The success of introducing outsiders in middle and senior executive positions is, however, likely to depend on how much explicit visible backing they have from the chief executive. Without such backing they are likely to be seen as lacking authority and influence. With such backing, however, they can help galvanise
• Consultants are often used in change processes. This may be to help formulate the strategy or to plan the change process. However, consultants are increasingly used as facilitators of change processes; for example, in a co-ordinating capacity, as facilitators of project teams working on change, or of strategy workshops used to develop strategy and plan the means of strategic change. The value of consultants is twofold: first, they too do not inherit the cultural baggage of the organisation and can therefore bring a dispassionate view to the process; and second, they signal symbolically the importance of the change process, not least because their fees may be of a very high order. For example, a consultancy project undertaken by some of the major strategy consultancy firms might involve large numbers of consultants on a worldwide basis and fees running into millions of pounds (Johnson and Scholes, 2002).

• It should also be remembered that there are likely to be key influencers of change external to an organisation within its stakeholder network and organisational field. Governments, investors, suppliers and business analysts all have the potential to act as change agents on organisations (Johnson and Scholes, 2002).
2.9. Turnaround, Managing rapid strategy reconstruction

Strategic change can be of different types, as explained above. Whilst many change programmes require cultural change and need to be transformational, there are circumstances where the emphasis has to be on rapid reconstruction where, in its absence, a business could face closure, enter terminal decline or be taken over. This is commonly referred to as a turnaround strategy, where the emphasis is on speed of change and rapid cost reduction and revenue generation. Managers need to be able to prioritise the things that give quick and significant improvements. Some of the main elements of turnaround strategies are as follows (Johnson and Scholes, 2007):

- **Crisis stabilization.** The aim is to regain control over the deteriorating position. There is likely to be a short-term focus on cost reduction and revenue increase. These typically involve some steps identified in the table below (Johnson and Scholes, 2007).

<table>
<thead>
<tr>
<th>Increasing revenue</th>
<th>Reducing costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ensure marketing mix tailored to key market segments</td>
<td>Reduce labour costs and reduce costs of senior management</td>
</tr>
<tr>
<td>Review pricing strategy to maximize revenue</td>
<td>Focus on productivity improvement</td>
</tr>
<tr>
<td>Focus organizational activities on needs of target market sector customers</td>
<td>Reduce marketing costs not focused on target market</td>
</tr>
<tr>
<td>Exploit additional opportunities for revenue creation related to target market</td>
<td>Tighten financial controls</td>
</tr>
<tr>
<td>Invest funds from reduction of costs in new growth areas</td>
<td>Tighten control on cash expenses</td>
</tr>
<tr>
<td></td>
<td>Establish competitive bidding for suppliers; defer creditor payments; speed up debtor payments</td>
</tr>
<tr>
<td></td>
<td>Reduce inventory</td>
</tr>
<tr>
<td></td>
<td>Eliminate non-profitable products/services</td>
</tr>
</tbody>
</table>

Source: Adapted from Johnson and Scholes, 2002
The most successful turnaround strategies focus more on reducing direct operational costs and on productivity gains, whereas less effective approaches pay more attention to the reduction of overheads (Johnson and Scholes, 2007).

However, too often turnarounds are seen as no more than cost-cutting exercises. But other elements of turnaround strategies are important as well (Johnson and Scholes, 2007).

- **Management changes.** Changes in management are usually required, especially at the top level. This usually includes the introduction of a new chairman or chief executive, as well as changes in the board (Johnson and Scholes, 2007).

- **Gaining stakeholder support.** It is likely that, as decline has occurred, there has been less and less good quality of information to key stakeholders. In a turnaround situation, the bank or key shareholders groups, as well as employees are kept clearly informed of the situation and its improvements. (Johnson and Scholes, 2007).

- **Clarifying the target market** in order to generate cash and grow profits and focusing revenue generating activities on the key market segments. There is also evidence that a successful turnaround strategy involves getting much closer to customers and improving the flow of marketing information, especially to senior levels of management (Johnson and Scholes, 2007).

- **Re-focusing.** Clarifying the target market is also likely to provide the opportunity to discontinue products and services that are either not targeted on those markets, eating up management time for little return or not making sufficient financial contribution (Johnson and Scholes, 2007).

- **Financial restructuring.** This typically involves changing the existing capital structure, raising additional finance or renegotiating agreements with creditors, especially banks (Johnson and Scholes, 2007).

- **Prioritisation of critical improvement areas.** All of this requires the ability of management to prioritise those things that give quick and significant improvements (Johnson and Scholes, 2007).
2.10. Communicating and monitoring change

Managers faced with effecting change typically underestimate substantially the extent to which members of the organisation understand the need for change. Some important points to emphasise according to Johnson and Scholes (2007) are as follows.

- It is argued that effective communication may be the single most important factor in overcoming resistance to change (Nadler and Tushman, 1989). In particular open communication that builds trusts is important in times of change.

- The importance of clarity of vision and strategy therefore needs to be emphasised again. The reasons for a change in strategic direction may be complex, and the strategy itself may therefore embrace complex ideas. However, to be effective it is important that the strategic purpose of the change is clear (Johnson and Scholes, 2007).

- There are choices of media by which to communicate the strategy and the elements of the strategic change programme (Mintzberg, 1983). Choices of media richness vary from face-to-face, one-to-one communication through to routine bulletins on notice boards and circulars sent round the organisation. The extent to which these different forms of media are likely to be effective depends on the extent to which the nature of the change is routine or complex. To communicate a highly complex set of changes, it would be inappropriate to use standardised bulletins and circulars with no chance of any feedback or interaction. In situations of strategic change, members of the organisation not involved in the development of the strategy may see the effects of change as non-routine even when senior executives regard them as routine. So communication which provides interaction and involvement is likely to be desirable (Johnson and Scholes, 2007).

- The involvement of members of the organisation in the strategy development process or the planning of strategic change is also, in itself, a means of communication and can be very effective. Those who are involved might be used to cascade information about the change programme into the organisation, in effect becoming part of the change agency process themselves (Johnson and Scholes, 2007).

- Communication needs to be seen as a two-way process. Feedback on communication is important, particularly if the changes to be introduced are difficult to understand or threatening or if it is critically important to get the changes right. It is rare that changes
are seen in the appropriate light and can be put into effect at lower levels in the organisation. In addition, the purpose of the changes may be misunderstood or misconstrued at such levels (Johnson and Scholes, 2007).

- Emotional aspects of communication are especially important for the change agent since emotions can so readily induce negative or positive responses. Researchers in the field suggest that it is important to use appropriate messages, symbols and language (words such as ‘danger’ or ‘risk’) to describe the negative situation that needs changing and positive language associated with pleasure and process to describe the desired future (Johnson and Scholes, 2007).

- Executives are used to monitoring the performance for all sorts of organisational activities. Yet too often change programmes, whilst fundamental to the future of the organisation, are not subject to the same monitoring. Some researchers have noted that in change programmes the observed such monitoring is of key importance (Johnson and Scholes, 2007).

Source: adapted from Lengel and Daft, 1988
2.11. Limits and problems occurring to change management

“The most general lesson to be learned from the more successful cases is that the change process goes through a series of phases that, in total, usually requires a considerable length of time. Skipping steps creates only the illusion of speed and never produces a satisfying result. A second very general lesson is that critical mistakes in any of the phases can have a devastating impact, slowing momentum and negating hard won gains. Perhaps because we have relatively little experience in renewing organizations, even very capable people often make at least one big error.” (Kotter, 1995)

Kotter demonstrated through his study that if one of these steps is not achieved, it could lead to a failure in the change of the firm. This model was launched in 1995, but a recent article in the Harvard Business Review in 2007, stated that his work on leading change a decade later remains definitive. Kotter’s model is adapted below (Kotter, 1995).

<table>
<thead>
<tr>
<th></th>
<th>EIGHT STEPS TO TRANSFORMING YOUR ORGANIZATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Establishing a Sense of Urgency</td>
</tr>
<tr>
<td></td>
<td>• Examining market and competitive realities</td>
</tr>
<tr>
<td></td>
<td>• Identifying and discussing crises, potential crises, or major opportunities</td>
</tr>
<tr>
<td>2</td>
<td>Forming a Powerful Guiding Coalition</td>
</tr>
<tr>
<td></td>
<td>• Assembling a group with enough power to lead the change effort</td>
</tr>
<tr>
<td></td>
<td>• Encouraging the group to work together as a team</td>
</tr>
<tr>
<td>3</td>
<td>Creating a Vision</td>
</tr>
<tr>
<td></td>
<td>• Creating a vision to help direct the change effort</td>
</tr>
<tr>
<td></td>
<td>• Developing strategies for achieving that vision</td>
</tr>
<tr>
<td>4</td>
<td>Communicating the Vision</td>
</tr>
<tr>
<td></td>
<td>• Using every vehicle possible to communicate the new vision and strategies</td>
</tr>
<tr>
<td></td>
<td>• Teaching new behaviours by the example of the guiding coalition</td>
</tr>
<tr>
<td>5</td>
<td>Empowering Others to Act on the Vision</td>
</tr>
<tr>
<td></td>
<td>• Getting rid of obstacles to change</td>
</tr>
<tr>
<td></td>
<td>• Changing systems or structures that seriously undermine the vision</td>
</tr>
<tr>
<td></td>
<td>• Encouraging risk taking and non-traditional ideas, activities, and actions</td>
</tr>
<tr>
<td>6</td>
<td>Planning for and Creating Short-Term Wins</td>
</tr>
<tr>
<td></td>
<td>• Planning for visible performance improvements</td>
</tr>
<tr>
<td></td>
<td>• Creating those improvements</td>
</tr>
<tr>
<td></td>
<td>• Recognizing and rewarding employees involved in the improvements</td>
</tr>
<tr>
<td>7</td>
<td>Consolidating Improvements and Producing Still More Change</td>
</tr>
<tr>
<td></td>
<td>• Using increased credibility to change systems, structures, and policies that don’t fit the vision</td>
</tr>
<tr>
<td></td>
<td>• Hiring, promoting, and developing employees who can implement the vision</td>
</tr>
<tr>
<td></td>
<td>• Reinvigorating the process with new projects, themes, and change agents</td>
</tr>
<tr>
<td>8</td>
<td>Institutionalizing New Approaches</td>
</tr>
<tr>
<td></td>
<td>• Articulating the connections between the new behaviours and corporate success</td>
</tr>
<tr>
<td></td>
<td>• Developing the means to ensure leadership development and succession</td>
</tr>
</tbody>
</table>
3.1. The origins of Nissan

Founded in 1933, Nissan was one of the first Japanese companies to manufacture automobiles. In 1936 the Japanese government designated Nissan and Toyota the national car manufacturers. Between 1936 and 1945 Nissan’s output went almost exclusively to the war effort. Having recovered from the devastation suffered during World War II, Nissan began to grow in the late 1950s. By the early 1970s it had captured 33% of the domestic market share, placing it just behind Toyota. From that peak, Nissan’s market position had progressively declined. Among oft-cited reasons were its highly bureaucratic organization and a divisive culture beset by company politics (Egawa and Yoshino, 2006). In the marketplace it faced determined rivals Toyota and Honda. In 1986 a sudden appreciation of the yen in the wake of the Plaza Accord dealt the company a devastating blow that resulted in an operating loss (Egawa and Yoshino, 2006).

![Chart](image)

Source: Nissan Motors Ltd., 1999

Nissan’s fortunes turned around in 1987 as demand for cars, particularly luxury cars, suddenly exploded with Japan’s entry into the bubble economy. Nissan management launched an aggressive expansion plan to achieve 1.5 million unit sales in Japan, almost twice the sales level for 1986. During the following several years the company invested ¥500 billion, roughly $4.5 billion, to strengthen its domestic distribution network and ¥200 billion, about $1.8
billion, in manufacturing facilities (some of its investment plans were later cancelled). Money was easily available as Japan’s leading banks were willing to supply the needed funds. Nissan’s debt tripled from ¥1.3 trillion ($11.8 billion) in March 1987 to ¥3.6 trillion ($32.7 billion) in March 1992 (Egawa and Yoshino, 2006).

![NET INDEBTEDNESS EXCLUDING SALES FINANCE](image)

Source: Nissan Motors Ltd., 1999

Alarmed by the coincidence of proliferation of debt and serious recession in the Japanese economy, Yutaka Kume in early 1992, the last year of his tenure as President, initiated the first of three restructuring plans that called for:

- changing design and engineering practices to increase productivity 10% per year over a three-year period,
- reducing capacity through plant closings,
- cutting the number of parts by 30% and increasing common parts across models (savings were to be shared with suppliers),
- rationalizing the number of models, and
- Lengthening the model change cycle.

Even with these efforts, performance continued to deteriorate. In the year ended March 1993 Nissan registered a loss on the recurring profit (similar to profit before tax) for the first time since it went public in 1951 (Egawa and Yoshino, 2006).
Yoshifumi Tsuji succeeded Kume in June 1992. In an interview with a journalist in 1993 the new President diagnosed Nissan’s problems as:

- lack of discipline and of determination to follow through,
- weak accountability,
- weak distribution,
- dominant engineering culture,
- absence of customer orientation, and
- A culture that emphasized consensus and compromise.

To address these problems Tsuji announced in February 1993 another plan that called for reducing total expenses by ¥200 billion yen, roughly $2 billion, over three years. The plan also called for closing a major plant, eliminating 5,000 employees through attrition, reducing more than 2,000 different grades and types of models by 35%, and cutting the number of parts by 40%. The goals of the plan, to generate a profit for fiscal year 1993 and achieve an operating margin of 3% by 1995, were not met (Egawa and Yoshino, 2006).

Continuing disappointing results in 1995 led Tsuji to announce another restructuring plan that projected savings of ¥40 billion from a 10% across-the-board reduction in expenses and the elimination of additional 6,000 – 7,000 employees (Egawa and Yoshino, 2006).

Yoshikazu Hanawa succeeded Tsuji as president in June 1996. In Financial Year 1996, Nissan recorded meager profits of ¥78 billion (1.2% of sales), helped by strong, largely U.S. demand and a weak yen (Egawa and Yoshino, 2006).
Nissan still have huge problems with model proliferation and underinvestment in new product development (Egawa and Yoshino, 2006). With its cars being sold at heavy discounts, the company reported for fiscal year 1998 a ¥14 billion net loss (Egawa and Yoshino, 2006). In May 1998 Hanawa announced yet another restructuring plan that called for:

- reorganizing Nissan’s U.S. businesses,
- consolidating the company’s sales organization in Japan,
- reducing debt by ¥1 trillion,
- further reducing cost and improving productivity, and
- creating a leaner, more responsive organization.

On the day of the announcement, Nissan’s stock price fell 12%, the broader index by 3% (Egawa and Yoshino, 2006).
3.2. Nissan around the world

Source: Nissan Motor Ltd., 2007
3.3. Carlos Ghosn

In March 1999 Renault CEO Louis Schweizer recruited Carlos Ghosn, his executive vice president (EVP), to turn around Nissan. Born in Brazil, the son of a Lebanese businessman and French mother, Ghosn was educated in Lebanon and France. After graduating from Ecole Polytechnique with an engineering degree and Ecole des Mines de Paris, he had joined Michelin. At the age of 30 he was sent back to Brazil to turn around Michelin’s Brazilian operations. Four years later he was promoted to head of U.S. operations, in which capacity he oversaw the challenging integration of the Goodrich-Uniroyal acquisition. Recruited in 1996 by CEO Louis Schweizer as EVP of Renault, he played a central role in Renault’s successful turnaround, earning the nickname “Le cost killer” (Egawa and Yoshino, 2006).

3.4. Nissan and the strategic alliance with Renault in 1999

Slowing growth, excess capacity, and growing R&D expenditures, particularly for environment friendly technology, prompted intensifying competition and consolidation in the global auto industry throughout the 1990s (Egawa and Yoshino, 2006). The general belief that to survive as a global player necessitated annual sales of at least four million cars led to a series of mergers, acquisitions, and alliances (Egawa and Yoshino, 2006).

Nissan’s financial condition deteriorated rapidly at this time. Its two main banks, full with huge, non-performing loans, could no longer rescue Nissan. Hanawa then began in 1997 to look for a foreign partner. He hoped that Nissan, despite its financial condition, would still be an attractive partner to a major auto company with global ambition. Following abortive negotiations with Ford and Daimler Chrysler, Nissan entered into a partnership with Renault on March 27, 1999. Renault injected ¥585.7 billion to purchase 1,464 million newly issued shares of Nissan, representing 36.8% ownership. Renault further agreed to purchase a bond with warrants issued by Nissan for ¥216 billion, which would allow Renault to purchase additional 540 million shares to obtain 44.4% ownership. Renault’s was the largest investment in a Japanese company by a foreign firm (Egawa and Yoshino, 2006).

Renault viewed its investment in Nissan as an opportunity to gain immediate access to two key markets, North America and Asia, including Japan. But the investment also incurred enormous risk. Although the combined company would be the world’s fourth-largest
carmaker, the investment community reacted less than enthusiastically. One analyst scoffed that there was no future for the “combination of losers” (Egawa and Yoshino, 2006).

3.5. The Problems occurring to Nissan

Insights gained from speaking with several hundred employees at all levels during his tour of the company’s facilities led Ghosn to diagnose Nissan’s problems in terms of what was lacking:

- profit orientation
- customer focus (the company was excessively focused on competitors)
- a cross-functional, cross-border orientation
- a sense of urgency
- and a shared vision and long-term strategy

Source: Ghosn, 2002

He called these the five problems. According to him, Nissan suffered from a “culture of blame.” “If the company did poorly,” he observed, “it was always someone else’s fault. Sales blamed product planning, product planning blamed engineering, and engineering blamed finance. Tokyo blamed Europe, and Europe blamed Tokyo” (Ghosn, 2002). One of the root causes of this problem was the fact that managers usually did not have well-defined areas of responsibility and accountability. At the shareholders’ meeting a new board of directors was formed and Ghosn was voted COO. The number of directors on the board was reduced from 43 individuals to nine (Egawa and Yoshino, 2006). The new board, which was also to serve as the executive committee, included Ghosn and two executives representing Renault. Hanawa remained president and CEO. Eighteen senior executives, including four of six executive vice presidents, resigned, reducing the average age of senior executives from 58 to 54 (Egawa and Yoshino, 2006).
Chapter IV ➔ The Case Study of Nissan Restructuring

4.1. The Nissan Revival Plan (NRP), 1999-2002

When Carlos Ghosn arrived at Nissan during the summer 1999, established business practices were wreaking huge damage on the company. Nissan was strapped for cash, which prevented it from making the needed investments in its aging product line (Ghosn, 2002). Its Japanese and European entry-level car, the March (or the Micra in Europe), for example, was nearly nine years old. The competition, by contrast, debuted new products every five years. Toyota's entry-level car at the time was less than two years old (Ghosn, 2002). The March body curves were redesigned over the years, but essentially, Nissan were competing for 25% of the Japanese market and a similar share of the European market with an ageing product (Ghosn, 2002).

4.1.1. Cutting Purchasing Costs

The day after Carlos Ghosn announced the NRP, he stated, “Nissan is determined to reduce its purchasing costs by 20%. To achieve it, we are going to cut the number of suppliers by 50% and concentrate our purchases on those that are competitive.”

Note: R&D (research and development), SG&A (sales, general and administrative)

Source: Nissan Motors Ltd., 1999
The plan started with steel, by far the largest single component of total purchasing cost (Yoshino and Egawa (b), 2006). The suppliers were major Japanese companies with which the company had dealt for decades. Ghosn wanted to reduce the number from five to three to improve Nissan’s bargaining power. In the process, Nissan reduced significantly the amount purchased from NKK, the second-largest steel manufacturer in Japan and a long-time supplier to Nissan (Yoshino and Egawa (b), 2006). The decision was controversial as the company not only belonged to the same banking keiretsu group, but had also collaborated closely in technical areas. Engineers from the two companies had forged close working relationships such as engaging in joint research and development and NKK, as was typical of major Japanese suppliers, provided extensive service and support (Yoshino Egawa (b), 2006).

To implement the new purchasing recommendations, the 3-3-3 program was created, which targeted a 20% reduction in purchasing costs over three years through close collaboration among three groups, Engineering, and Purchasing, and suppliers in three major markets, Japan and Asia, the Americas, and Europe, the Middle East, and Africa (Yoshino Egawa (b), 2006).

The 3-3-3 Program mandated a thorough review of engineering and manufacturing practices, standards, and design priorities. According to the recommendations of the cross-functional teams, Nissan cars were over-engineered because the engineers deemed quality of the utmost importance and cost considerations secondary (Yoshino and Egawa (b), 2006). When examining the engineering specifications, it was often found out that Nissan’s specifications were stricter than those of the competitors with no discernable performance differences. At the same time the reorganisation had to satisfy the two absolute requirements given by the Executive Committee, that is, “we offer the most value for a price to customers and we would not trade off cost and quality” (Yoshino Egawa (b), 2006).

In May 2000 the company stopped all development work for one month in the new vehicle engineering division and all engineers worked exclusively on 3-3-3 related activities. The ideas proposed and implemented through the 3-3-3 program accounted for more than 40% of the total cost reduction objective (Yoshino Egawa (b), 2006).

While the 3-3-3 team was implementing internal changes, Nissan changed its purchasing process entirely. Each of its 1,200 suppliers was rigorously evaluated. Purchase orders that had been placed with the keiretsu companies almost automatically in the past were put out to competitive bid (Yoshino Egawa (b), 2006).
Approximately 30% of parts and supplies were identified as globally integrated sourcing parts and sourced centrally and jointly with Renault to benefit from volume discounts. Suppliers were asked to submit proposals to become members of a “panel” of approved Nissan suppliers (Yoshino and Egawa (b), 2006). A number of former keiretsu suppliers were not selected. Panel members were invited to submit competitive bids and purchasing decisions were made jointly by the Purchasing, Manufacturing, and Engineering departments. Nissan’s move encouraged many of its Japanese suppliers to seek foreign partners to enhance their global capability (Yoshino Egawa (b), 2006).

In April 2001, the Renault Nissan Purchasing Organization was established in Paris to better leverage the global purchasing power of the two companies. The objective was to increase the percentage of globally integrated sourcing parts from 30% to 70% (Yoshino Egawa (b), 2006).

4.1.2. Unwinding Keiretsu

Nissan actually had plenty of capital. The problem was it was locked up in non-core financial and real-estate investments, particularly in keiretsu partnerships (Ghosn, 2002).

The keiretsu system is one of the enduring features of the Japanese business landscape. Under this system, manufacturing companies maintain equity stakes in partner companies. This, normally promotes loyalty and cooperation. When the company is large, the portfolio can run to billions of dollars. In June 1999 Nissan had approximately $4 billion invested in equity stakes in 67 keiretsu companies and hundreds of others (Yoshino and Egawa (b), 2006). Most of the so called Keiretsu companies were Nissan suppliers in which Nissan’s shareholdings typically ran between 15% and 30% (Yoshino and Egawa (b), 2006). Moreover, Nissan was in most cases the dominant customer and senior management positions were often held by retired Nissan executives.

The problem was that the majority of these shareholdings were not sufficient for Nissan to have any managerial leverage on the companies, even though the sums involved were often important. Ghosn directed that Nissan consider selling its stakes in all but four critical companies and put the proceeds to more productive use (Yoshino and Egawa (b), 2006). The result was a reduction of the number of consolidated affiliates from 67 to 25 in less than three years, generating ¥100 billion (or $830 million) in savings (Yoshino Egawa (b), 2006).
Nissan had, as commonly practiced in Japan, maintained cross-shareholding relationships with some 1,400 companies including its main banks and other corporations with which it had some historical relationships. By early 2002 the company had sold all these shares and raised approximately ¥300 billion ($2.5 billion). It also raised ¥200 billion ($1.7 billion) from sales of real estate holdings (Yoshino Egawa (b), 2006).

Despite widespread fears that the sell-offs would damage Nissan’s relationships with suppliers, those relationships became stronger than ever. It turns out that the partners make a clear distinction between Nissan as customer and Nissan as shareholder (Ghosn, 2002). In fact, they seem to have benefited from Nissan’s disinvestments. They have not only delivered the price reductions that Nissan has demanded but also have improved their profitability. Indeed, all Nissan's suppliers posted increased profits in 2000 (Ghosn, 2002).

4.1.3. Plant Closings

The 30% capacity reduction in Japan over the three years stipulated in the NRP required closing five plants with more than 4,000 employees (Yoshino and Egawa (b), 2006). Production was to be consolidated with that of other plants and employees transferred. The plant closings were projected to produce ¥30 billion, about $250 million, in savings.

![MANUFACTURING CAPACITY IN JAPAN 1999/2002](image)

Source: Nissan Motors Ltd., 1999
The keys factors of these plant closures were transparency and communication (Yoshino and Egawa (b), 2006). A lot of time was spent meeting with the workers, often in small groups and with the union leaders closely. Three plants were closed by March 2001, the other two one year later (Yoshino Egawa (b), 2006).

4.1.4. Rebuilding the Sales Organisation

A decade of poor performance coupled with the lack of exciting product offerings had demoralized Nissan’s sales organization throughout the world, but particularly in Japan and the United States (Yoshino and Egawa (b), 2006). Nissan had to discount more than $1,000 compared to Toyota and Honda, to move its cars. In 1999 70% of Nissan dealers in Japan were reportedly losing money and turnover among sales people was quite high. Nissan’s dealer organization was fragmented (Yoshino and Egawa (b), 2006). Moreover, whereas most Toyota dealerships were owned by local entrepreneurs, more than half of Nissan dealerships were controlled by the company (Yoshino and Egawa (b), 2006). This number increased in the 1990s as many locally owned dealerships were taken over as their performance deteriorated.

To thwart this situation, Ghosn took aggressive steps to consolidate smaller, inefficient dealerships in Japan into large ones. He announced a major investment plan that was to finance the remodelling of most existing dealerships and the modernization of Nissan’s system to ensure that relevant customer input was fed back quickly to those responsible for
designing and engineering new models (Yoshino and Egawa (b), 2006). Ghosn also integrated back-office operations on a regional basis and gave dealers, just as he did Nissan executives, annual commitments and targets. He also monitored their performance much more closely than before (Yoshino and Egawa (b), 2006). Ultimately, however, success was to be determined by the attractiveness of the new models to be introduced over the next several years.

4.1.5. Creating a Global Organisation

Determined to impart a clear sense of accountability to the Nissan organization, Ghosn appointed six program directors. Each was responsible for one or more platforms classified by the size and nature of the products (light commercial vehicles, SUVs, and so forth). The program directors were given clear profit responsibility for each model under their management (Yoshino and Egawa (b), 2006). Its extensive international presence notwithstanding, at old Nissan major decisions had been made in Japan with little input from key international markets, notably the United States and Europe. Each region was run autonomously, resulting in considerable duplication of effort and investment (Yoshino and Egawa (b), 2006).

To remedy these problems Ghosn created Global Nissan (GNX), an umbrella organization that was to ensure that all relevant input from the regions, programs, and functions be taken into account in making major decisions (Yoshino and Egawa (b), 2006). To further integrate global operations, Nissan created four regional Management Committees. Nissan’s new global approach was also reflected in its banking relationships. Previously, the company and its subsidiaries had maintained relationships with nearly 300 banks globally. Centralizing the treasury functions yielded savings of approximately ¥11 billion, nearly $100 million (Yoshino and Egawa (b), 2006).

4.1.6. Personnel issues

Nissan's problems weren't just financial. The most fundamental challenge were cultural. Like other Japanese companies, Nissan paid and promoted its employees based on their tenure and age (Yoshino and Egawa (b), 2006). The longer employees were working in Nissan, the more power and money they received, regardless of their actual performance. Inevitably, that
practice raised a certain degree of complacency, which undermined Nissan's competitiveness (Yoshino and Egawa (b), 2006).

It's only logical and full of common sense, then, to build a company's reward and incentive systems around performance, irrespective of age, gender, or nationality. So Nissan decided to cancel the seniority rule. Of course, that didn't mean Nissan systematically started selecting the youngest candidates for promotion (Yoshino and Egawa (b), 2006). In fact, the senior vice presidents that Ghosn nominated over the past two years, all had long records of service, though they were usually not the most senior candidates. Nissan looked at people's performance records, and if the highest performer was also the most senior, it was perfect. However, if the second or third or even the fifth most senior had the best track record, the company did not hesitate to pass over those with longer service (Yoshino and Egawa (b), 2006).

As expected when changing long-standing practices, the Ghosn team had some problems. When a Japanese company nominates a younger person to a job in Japan, for example, this person sometimes suffers for being younger. In some cases, older people may not be willing to cooperate with him as fully as they might. Of course, it's also true that an experience like that can be a good test of the quality of leadership a manager brings to the job (Yoshino and Egawa (b), 2006).

Nissan also reorganized the compensation system to put the focus on performance. In the traditional Japanese compensation system, managers receive no share options, and hardly any incentives are built into the manager's pay packet (Yoshino and Egawa (b), 2006). If a company's average pay raise is, for example, 5%, then good performers can expect a 6% or 7% raise, and poor performers get 3% or 3.5% (Yoshino and Egawa (b), 2006). The system extends to the upper reaches of management, which means that the people whose decisions have the greatest impact on the company have little incentive to motivate them and to achieve their goals (Yoshino and Egawa (b), 2006).

The Ghosn team changed the system. Managers who met their targets now are awarded extra bonuses. High performers could receive cash incentives equal to about a third of their total annual compensation (Yoshino and Egawa (b), 2006). Typically, commitment and targets comprised two or three specific and mostly quantitatively defined goals. Ghosn, with the help of the Executive Committee, offered stock options to several hundred key managers. Ghosn communicated the goals directly in a personal letter to each participant (Yoshino and Egawa (b), 2006).
Another cultural problem Ghosn had to address was the organization's inability to accept responsibility. Nissan had a culture of blame. If the company did poorly, it was always “someone else's” fault. Sales blamed product planning, product planning blamed engineering, and engineering blamed finance. Tokyo blamed Europe, and Europe blamed Tokyo (Ghosn, 2002). One of the original causes of this problem was the fact that managers usually did not have well defined areas of responsibility. Indeed, a whole cadre of senior managers, the Japanese "advisers" or "coordinators," had no operating responsibilities (Yoshino and Egawa (b), 2006). The adviser, a familiar figure in foreign subsidiaries of Japanese companies, originally served as a consultant helping in the application of innovative Japanese management practices. That role, however, became redundant as familiarity with Japanese practices spread. So at Nissan, The restructuring team eliminated the position and put all the advisers into positions with direct operational responsibilities (Yoshino and Egawa (b), 2006). Ghosn also redefined the roles of the other Nissan managers, as well as those of the Renault people he had brought with him. All of them now have line responsibilities, and everyone can see exactly what their contributions to Nissan are. “When something goes wrong, people now take responsibility for fixing it” (Ghosn, 2002).

4.1.7. Strengthening Collaboration with Renault

Renault CEO Louis Schweitzer stated that the alliance with Nissan would generate potential synergy of roughly $3 billion by 2005. But even as they pursued every opportunity for synergy, the top managements at both companies were diligent about respecting their distinct identities (Yoshino and Egawa (b), 2006). The Global Alliance Committee, chaired by Schweizer and including Nissan chairman Hanawa, five senior executives, and, of course, Ghosn, met monthly to decide key issues. Eleven cross-company teams (CCTs) were established to develop proposals for joint projects that might yield synergies (Yoshino and Egawa (b), 2006). These included product planning, power trains, vehicle engineering, purchasing, manufacturing, logistics, and key regions such as Mexico and South America. In just three years the alliance had made considerable progress. Purchasing was among the first areas to produce immediate results (Yoshino and Egawa (b), 2006). By the summer of 2002 Nissan and Renault were purchasing more than 30% of components from common suppliers. To facilitate joint purchasing the partners established a 50-50 owned purchasing organization charged with defining a joint purchasing strategy and identifying, screening, and negotiating
with global suppliers (Yoshino and Egawa (b), 2006). Buying was left to the companies’ respective purchasing organizations. A target of 60% combined purchases was expected to be achieved within two years. Even for components purchased independently the companies compared prices (Yoshino and Egawa (b), 2006).

Another example of synergy was Renault’s successful entry into Mexico, which leveraged Nissan’s strong presence in that market. Nissan benefited by virtue of its Mexican plants’ excess capacity. Nissan, likewise, leveraged Renault’s strength to introduce a limited line of vehicles in Brazil (Yoshino and Egawa (b), 2006). Back-office operations of Nissan dealers in Europe were integrated with those of Renault and Renault’s manufacturing benefited from Nissan’s input. Efforts to develop common platforms yielded a compact car introduced in Europe and Japan in March 2002 (Yoshino and Egawa (b), 2006).

In early 2002 Renault increased its stake in Nissan from 36.8% to 44.4% and Nissan acquired 15% of Renault. Some financial analysts questioned the move, particularly for Nissan, which still carried heavy debt and faced substantial capital investment requirements. Senior management of the two companies justified the move as part of the original agreement and yet another way to solidify the relationship (Yoshino and Egawa (b), 2006). Also in 2002 the partners established in the Netherlands Renault-Nissan BV, a jointly owned (50:50) company, which replaced the Global Alliance Committee. The GAC members became directors in the new company (Yoshino and Egawa (b), 2006).

4.1.8. New Product Development

The ultimate goal was the growth of the company. To succeed, Nissan would introduce 28 new models by 2004, or in three years. Ghosn reminded the organization that there was no problem in an auto company that good products could not solve. The company introduced a basic change in its approach to product development. Greater voices in product decisions were accorded regional organizations, particularly the United States and Europe. The design group, to come up with more exciting cars, in a move that elevated its status in the organization hired from Isuzu as managing director internationally known auto designer Shiro Nakamura (Yoshino and Egawa (b), 2006).

Meanwhile, capital investment increased from 3.5% in 1999 to 5.5% in 2002. Nissan announced its entry into the full-size pickup and full size SUV segments in the United States (Yoshino and Egawa (b), 2006). To produce these vehicles, it invested more than $930
million in a new plant in Canton, Mississippi. It also invested several hundred million dollars
to expand engine and vehicle production capacity in Smyrna and Decherd, Tennessee and
$300 million to produce Nissan cars at a Renault plant in Brazil (Yoshino and Egawa (b),
2006).

4.2. The model of the Cross-Functional Teams (CFT)

All these changes were dramatic ones. They went against the origins not only of Nissan's
long-standing operating practices but also of some of the behavioural norms of the Japanese
society. Ghosn knew that if he had tried simply to impose the changes from the top, he would
have failed. Instead, he decided to use as the centre-piece of the turnaround effort a set of
cross-functional teams (CFTs). He has used CFTs in his previous turnarounds (in Michelin
North-America) and has found them a powerful tool for getting line managers to see beyond
the functional or regional boundaries that define their direct responsibilities (Ghosn , 2002).

4.2.1. A global dimension to management

According to Ghosn 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 reconsider
themselves and their goals as importantly as they should (Ghosn , 2002).

4.2.2. The nine CFT’s on the Key drivers

Working together in cross-functional team’s 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. Within a month of
Ghosn arrival, he has put together nine CFTs (Ghosn , 2002). Their areas of responsibility
ranged from research and development to organizational structure to product complexity.
Together, they addressed all the key drivers of Nissan's performance (Ghosn , 2002). (See the
two tables "Nissan's Cross-Functional Teams" for a detailed description of the teams, their
areas of responsibility, and the principal changes they instigated.)
### Nissan's Cross-Functional Teams 1/2

<table>
<thead>
<tr>
<th>Team</th>
<th>Business Development</th>
<th>Purchasing</th>
<th>Manufacturing &amp; Logistic</th>
<th>Research &amp; Development</th>
<th>Sales &amp; Marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CFT Leaders</strong></td>
<td>Executive VP of overseas sales &amp; marketing Executive VP of product planning</td>
<td>Executive VP of purchasing Executive VP of engineering</td>
<td>Executive VP of manufacturing Executive VP of product planning</td>
<td>Executive VP of purchasing Executive VP of engineering</td>
<td>Executive VP of overseas sales &amp; marketing Executive VP of domestic sales &amp; marketing</td>
</tr>
<tr>
<td><strong>CFT Pilot</strong></td>
<td>General manager of product planning</td>
<td>General manager of purchasing</td>
<td>Deputy general manager of manufacturing</td>
<td>General manager of engineering</td>
<td>Manager of overseas sales &amp; marketing</td>
</tr>
<tr>
<td><strong>Functions Represented</strong></td>
<td>Product planning Engineering Manufacturing Sales &amp; marketing</td>
<td>Purchasing Engineering Manufacturing Finance</td>
<td>Manufacturing Logistics Product planning Human resources</td>
<td>Engineering Purchasing Design</td>
<td>Sales &amp; marketing Purchasing</td>
</tr>
<tr>
<td><strong>Team Review Focus</strong></td>
<td>Profitable growth New product opportunities Brand identity Product development lead time</td>
<td>Supplier relationships Product specifications and standards</td>
<td>Manufacturing efficiency and cost effectiveness</td>
<td>R&amp;D capacity</td>
<td>Advertising structure Distribution structure Dealer organization Incentives</td>
</tr>
<tr>
<td><strong>Objectives Based on Review</strong></td>
<td>Launch 22 new models by 2002 Introduce a minicar model by 2002 in Japan</td>
<td>Cut number of suppliers in half Reduce costs by 20% over three years</td>
<td>Close three assembly plants in Japan Close two powertrain plants in Japan Improve capacity utilization in Japan from 53% in 1999 to 82% in 2002</td>
<td>Move to a globally integrated organization Increase output efficiency by 20% per project</td>
<td>Move to a single global advertising agency Reduce SG&amp;A costs by 20% Reduce distribution subsidiaries by 20% in Japan Close 10% of retail outlets in Japan Create prefecture business centers or common back offices</td>
</tr>
</tbody>
</table>

Source: adapted from Ghosn, 2002
<table>
<thead>
<tr>
<th>Team</th>
<th>General &amp; Administrative</th>
<th>Finance &amp; Cost</th>
<th>Phaseout of Products &amp; Parts Complexity Management</th>
<th>Organization</th>
</tr>
</thead>
</table>
| CFT Leaders | Executive VP of finance (CFO)  
Senior VP of finance (DCFO) | Executive VP of finance (CFO)  
Senior VP of finance (DCFO) | Executive VP of domestic sales & marketing  
Executive VP of product planning | Executive VP of finance (CFO)  
Executive VP of manufacturing |
| CFT Pilot | Manager of finance  
Deputy general manager of finance | Manager of product planning | Manager of human resources | |
| Functions Represented | Sales & marketing  
Manufacturing  
Finance  
Human resources | Finance  
Sales & marketing | Product planning  
Sales & marketing  
Manufacturing  
Engineering  
Finance  
Purchasing | Product planning  
Sales & marketing  
Manufacturing  
Engineering  
Finance  
Purchasing |
| Team Review Focus | Fixed overhead costs  
Shareholdings and other noncore assets  
Financial planning structure  
Working capital | Manufacturing efficiency and cost effectiveness | Organizational structure  
Employee incentive and pay packages | |
| Objectives Based on Review | Reduce SG&A costs by 20%  
Reduce global head count by 21,000 | Dispose of noncore assets  
Cut automotive debt in half to $5.8 billion net  
Reduce inventories | Reduce number of plants in Japan from seven to four by 2002  
Reduce number of platforms in Japan from 24 to 15 by 2002  
Reduce by 50% the variation in parts (due to differences in engines or destination, for example) for each model | Create a worldwide corporate headquarters  
Create regional management committees  
Empower program directors  
Implement performance-oriented compensation and bonus packages, including stock options |

Source: adapted from Ghosn, 2002
Each team was given three months to review the company's operations and to come up with recommendations for returning Nissan to profitability and for uncovering opportunities for future growth (Ghosn, 2002). The teams reported to Nissan's nine-member executive committee. And though the CFTs had no decision-making power that was retained by the executive committee and Carlos Ghosn they had access to all aspects of the company's operations. They didn’t have any limit; Ghosn gave them a free hand. The CFTs consisted of approximately ten members, all drawn from the ranks of the company's middle managers, that is, people with line responsibilities (Ghosn, 2002). Limiting the members to ten ensured that the teams' discussions would move forward at a reasonable pace. Because the situation was quite urgent, Nissan could not afford to spend time in long debates.

4.2.3. The sub-teams

But the restructuring team also recognized that a team of ten people would be too few to cover in any depth all the issues facing it. To solve that problem, each CFT formed a set of sub-teams, consisting of CFT members and other managers selected by the CFT (Ghosn, 2002). The sub-teams, also limited to ten members, focused on particular issues faced by the broader teams. For instance, the manufacturing team had four sub-teams, which reviewed capacity, productivity, fixed costs, and investments. All together, some 500 people worked in the CFTs and sub-teams (Ghosn, 2002).

4.2.4. The CFT’s leaders

To give CFTs authority within the organization, Ghosn appointed to each team two "leaders" from the executive committee. These leaders served as the team sponsors, who would smooth the way for the team as it conducted its work and remove any institutional obstacles. “Why two leaders rather than one? Having two such senior voices made it less likely that the team would focus its efforts too narrowly” (Ghosn, 2002).

For instance, Nissan decided that Nobuo Okubo, Nissan's executive vice president for research and development, and Itaru Koeda, the executive vice president of purchasing, would
lead the purchasing team. Their voices would balance each other, so that no single function's perspective would dominate (Ghosn, 2002).

But it was also important that the CFT process didn’t look like a corporate-imposed blaming exercise. The team leaders, therefore, took a back seat in the actual operation of the CFTs and attended a few of the meetings. The ten regular members of each CFT carried the real work, and one of them acted as the team's "pilot," taking responsibility for driving the agenda and discussions (Ghosn, 2002).

The pilots were selected by the executive committee, and the leaders and pilots together selected the rest of the team. Typically, the pilots were managers who had frontline experience with Nissan's operating problems and credibility with the rank and file. Ghosn took a personal interest in their selection because it gave him a chance to have a close look at the next generation of Nissan leaders (Ghosn, 2002).
4.2.5. The results of the CFT

The result of the CFTs' three-month review was a detailed project for the reorganization, the Nissan Revival Plan, which Ghosn released to the public in October 1999 (Ghosn, 2002). This plan, developed by Nissan's own executives, included the major changes to Nissan's business practices described earlier and targeted the following commitments:

2. Reach 4.5 percent operating margin on sales by 31 March, 2003.
3. Reduce net automotive debt from ¥1,400 billion to ¥700 billion.

The table below summarize the key figures from the Nissan’s commitments. It is notable that Nissan achieved two main commitments one year after the program and all the commitments one year in advance on the schedule.

<table>
<thead>
<tr>
<th>Financial year (ended in March)</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating margin</td>
<td>1.4 percent</td>
<td>4.8 percent</td>
<td>7.9 percent</td>
</tr>
<tr>
<td>Net debt (¥ billion)</td>
<td>1,349</td>
<td>953</td>
<td>432</td>
</tr>
<tr>
<td>Net income (¥ billion)</td>
<td>(684)</td>
<td>331</td>
<td>372</td>
</tr>
</tbody>
</table>

Source: Renault 2002, Annual Report
4.2.6. Summary about the CFT

“Turning around a company in Nissan's state is a bit like Formula One racing. To take the highest-speed trajectory, you have to brake and accelerate, brake and accelerate all the time” (Ghosn, 2002). The revival plan, therefore, was as much about future growth (accelerating) as it was about cutting costs (braking). According to Ghosn, the team couldn't say, "There will be a time for cost reduction and then a time for growth", they had to do both at once.

The CFTs have remained an integral part of Nissan's management structure. Ghosn still meets with the pilots at least once a month, and at least once a year; he receives briefings from the full teams. Nissan has even added a tenth team covering investment costs and efficiency. Ghosn (2002) himself said “The teams' mission today is two-fold. First, they serve as watchdogs for the ongoing implementation of the revival plan. Second, they look for new ways to improve performance. In short, they are my way of making sure that Nissan stays awake and fit.”
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Chapter V ➔ Reporting of findings

5.1. Introduction

In this chapter, a report of the findings resulting from two phone-call interviews will be summarized. The two interviewees are Mr Aurélien Morel, responsible of communication in Renault S.A. France and Mr Toshitake Inoshita, executive staff in the alliance Renault-Nissan b.v.

5.2. Presentation of findings

In this section, each point of the Nissan Revival Plan (NRP) will be discussed with Mr Morel and Mr Inoshita.

5.2.1. Cutting purchasing costs

Regarding the implementation of the reduction in purchasing costs, Mr. Inoshita recalled some of the most important points. The first point was the scale of reductions planned that were asked from the executive committee. Otani who was one of the CFTs responsible for purchasing, said that after about an hour and half of discussions, the executive committee rejected directly their propositions, they told them to make recommendations more “aggressive.” They only proposed about 10% of savings over the next 3 years, where the committee asked for 20%. According to Mr Inoshita, 10% represented already a significant number for that time. But he also mentioned that afterwards, that the recommendations made by the CFT were not that radical. They were in fact quite obvious, but Nissan didn’t pay enough attention to cost reductions in the past.

The most difficult part during this cost rationalisation phase was the savings that had to be made in the engineering department. Mr Morel and Mr Inoshita, both argue that the engineering department was and is still a very large and extremely powerful department around Nissan. (Mr Morel also mentioned that it is the same in Renault). But the directives from the committee were clear “there would be no sacred cows” mentioned Mr Inoshita. One
of the difficulties encountered during the process was that a few of the employees from the purchasing department didn’t want to take part to the change plan recalled Mr Inoshita. They had to negotiate with the engineering department during 2 weeks, but they succeeded to implement the recommendations from the committee. Mr Morel pointed out that it was possible because the CFT leader from that time had a personal network in the engineering department. Otherwise it would have been harder to negotiate. Mr Inoshita also mentioned that the problem with the engineers at Nissan was their focus solely on the quality, and not paying enough attention to the costs and capacity to deliver on time.

5.2.2. Unwinding Keiretsu

Mr Inoshita and Mr Morel mentioned a couple of issues concerning the dismantling of the keiretsu. As they recalled, the objective was to reduce to 25 consolidated affiliates from 67 within 3 years. The task was made possible because the leader in charge of the project has, as mentioned in the previous section, very good negotiating skills. Mr Inoshita mentioned that the issue was not only to shrink the number of affiliates, but also to change drastically the relationship that Nissan had with their partners. He said that they had to eradicate the mentality of dependence that rules their relationships. But interestingly, Mr Morel suggested that since the change happened, the remaining partners are more disciplined. He also outlined that presently the executive committee of the alliance sent them their annual commitments and goals.. Mr Inoshita also pointed out that the affiliates are not used anymore as a “nursing home” for the retired executives from Nissan.

5.2.3. Plant closing

Regarding plant closures, Inoshita outlined that a particular time in negotiating with the union was taken. However, he also mentioned that during the two years of the closing procedure, the team in charge of it had to face a lot of tension. But Mr Morel mentioned that the Japanese employees were “model employees” because until the last day of work in each of the closing plants, they remained committed to the organisation right until the actual closure and never contemplated the use of strikes or work stoppages. He contrasted this situation to that of Renault closing a factory in Belgium where serious strikes occurred.
5.2.4. Rebuilding the sales organisation

Mr Morel and Mr Inoshita didn’t provide a lot of information on this point. They mentioned that one of the good points was the “Car of the Year Award” that the Altima received in 2002 and also the come-back of the Z sports car in The American and Japanese market during the same year. These 2 points, according to their opinions, were important motivational factors. The other point mentioned by them was the fact that every retailer had to stop offering discounts on each car, even if Nissan had to suffer a drop in sales volume, because the idea of the committee was to create a new brand image and maximizing the profit on each car, instead of having huge sales without making money.

5.2.5. Creating a global organisation

Mr Inoshita explained the creation of a global organisation. He said that one of the issues was to succeed to make every region work in harmony together. Especially to use all information gathered locally on a global scale. He mentioned that the decision to centralize all the decisions in Japan but with taking into account each regional recommendation was hard to organize due to the ingrained decentralised structure that existed but was successfully implemented, according to the deadlines.

5.2.6. Personnel issues

On this part, Mr Morel and Mr Inoshita provided some important information. Mr Inoshita recalled an issue that the team in charge of the change in the personnel system had to manage. Even if the decision had to be objective for the company, the team had serious troubles in succeeding to formulate a recommendation without taking into account their functional perspective. It was a “tricky” process where the team had to negotiate between the employees and managers in a quite conservative way, and the committee with revolutionary objectives. The key success factor was to build consensus inside of the company before reaching the committee. Mr Inoshita also mentioned the fact that each decision the team had to take, and later on implement, will remain with their tenure within Nissan. Another issue mentioned was the fact that, like in every company, each person has their own problem and each solution had to be “customized” in a way. Mr Inoshita mentioned the first-line supervisors and the huge
amount of work that they succeeded to achieve for the plant change management in a short period of time. He said that it was also due to their long experience inside of the company (many of them had more than 30 years of work in Nissan). Another point was to manage the complementary coordination between each department.

Mr Inoshita also recognised that the revision of the remuneration and reward system was important to the company and gave some kind of motivation, especially to the younger middle managers to achieve their goals, to be recognized inside of the company.

5.2.7. Strengthening collaboration with Renault

The alliance with Renault was clearly explored with 11 cross-company teams prior to the official joining of these two organizations. Mr Inoshita and Mr Morel reaffirmed the main points outlined in the case study such as product planning, vehicle engineering and manufacturing.

5.2.8. New product development

Mr Inoshita firstly outlined the situation before the change process was undertaken in Nissan in order to give a clearer understanding of the issues regarding the new product development. He stated that Nissan was aware of the fact that its product line was getting old and needed to be changed or redesigned, but the financial situation of Nissan didn’t permit them to do it. He stated that the decision was made on the consideration of the cost, but since the alliance, the decisions are made on the return on investment.

5.2.9. The Cross-Functional Teams (CFT)

Because of the wide aspect of the CFT, Mr Inoshita and Mr Morel decided to present the main points of the First CFT, which was the biggest one, with 8 sub-teams and involving 70 people worldwide. They mentioned that the ideas sprouting from the teams weren’t the problem. The problem was to be able to propose ideas with financial data to support them, recalled Inoshita. They had to be very disciplined and organised. Another issue that they had to face was the time. It was to manage the “sense of urgency.” Of course, the extreme difficulty of managing
“aggressive” propositions with a time and a budget constraint was more than a challenge said Mr Inoshita. Mr Inoshita also noted that it was one of the first times where the urgency was really taken into account in the company. Mr Morel and Mr Inoshita also mentioned, to show how exhausting it was to manage it, that one of the leaders of the CFTs felt dizzy during one of the meetings and had to go to hospital for a few days. They both recalled that the pressure was high but that certainly without it, it wouldn’t have been so successful within the CFT. Another point raised by them was that every meeting of the CFT was confidential until the launch of the plan. It was done in order to prevent any leaks of information. It also permits the committee to control the proposition of the CFT before deciding which one to implement. Both Mr Inoshita and Mr Morel stated that it was definitively due to the CFT that Nissan has been saved.

5.2.10. Ghosn’s Leadership

Mr Inoshita and Mr Morel mentioned the way of managing people from Carlos Ghosn was a key factor in the revival plan for Nissan. One of the aspects of his leadership recalled by them is his ability to work into a respectable multi-cultural environment. Ghosn also got this ability to make every complex situation much simpler and to give a direct message, without ambiguity. Also he believes in communicating directly to the people. When the NRP was announced, it was transmitted live by video throughout the whole company. The two interviewees also mentioned that Ghosn often goes to the people directly related to the customers such as the sales representatives or the technicians. After listening carefully (which they recalled as being one of his great skill) to them he asks questions and is taking it seriously. He asks a lot from all his employees and prefers to deal with the problems as soon as possible. Ghosn himself said “The most important lesson is that as long as we show clear goals and strategy, empower people, watch the results carefully, and keep an eye on the reality, we can produce amazing results. The Japanese people are a pleasure to work with. Once they understand and share a vision, they are excellent and highly committed implementers.” Mr Inoshita and Mr Morel said that Ghosn is a man motivated by challenges, and he then instigates challenges for his co-workers.
Finally, when Mr Inoshita and Mr Morel were asked about the factors in the restructuring of Nissan, they gave some of the key reasons that are listed below:

- Slashed purchasing costs;
- Reduced capacity and improved productivity leading to greatly enhanced manufacturing efficiency;
- Thoroughly revamped domestic sales system which reduced sales and administrative costs, and increased efficiency;
- Worldwide staffing changed in accordance with needs;
- Non-core assets sold;
- Increased R&D efficiency;
- New Nissan model line gaining global market share
Chapter VI  

Discussion of findings and case study

In this chapter, the findings and the case study will be analysed and discussed in the context of the literature review, previously outlined in chapter II. To simplify the structure of the discussion, the main highlights of the case study and findings will be followed.

Balogun and Hope Hailey (1999) outlined a model with different types of change in a company. From our analysis and interviews conducted in previous sections we can classify the restructuring of Nissan as being what Balogun et al outlined as revolutionary change due to the wide reaching scope of the change program and the short time in which it was implemented.

6.1. Cutting purchasing costs

Johnson and Scholes (2007) mentioned that cutting costs are important during a turnaround. The case study of Nissan and the comments of Mr Inoshita and Mr Morel concerning the importance of the savings that had to be realized within 3 years. However, as recalled by Andrews and Champursi (2001), some conflicts could happen between different services or regions. Nissan had to deal with this situation between the Engineering Department and the other department. Yulk (1998), Kets de Vries (1994) and Peter and Waterman (1982) all mentioned the importance of having good negotiation skills to manage change. Mr Inoshita confirmed this point with the importance of the negotiating skills and the utilisation of relationships of one of the leaders to succeed the turnaround. According to the suggestions from Johnson and Scholes (2002, 2007) and the previous point explained by Mr Inoshita, it is arguable that Nissan should have made more research such as, for example, using a cultural web or a forcefield analysis, to enlighten the difficulties encountered by the team in charge of restructuring the company. This would certainly have made the implementation and the discussion between departments easier, because they would have known the major difficulties that they would have to encounter.
6.2. **Unwinding keiretsu**

Johnson and Scholes (2002, 2007), supported by Kotter (1995), provide enough information to validate the need that Nissan had to reduce its number of consolidated affiliates in a short period of time. Nevertheless, Mr Inoshita mentioned with Mr Morel an issue concerning the type of new relationships founded with the partners of Nissan after the reorganisation. This is supported by the work of Farkas and Wetlaufer (1996) and also of Johnson and Scholes (2002, 2007). Yet, the researcher didn’t focus on the kind of new relationships coming from the restructuring especially the fact recalled by Mr Morel sending annual commitments and goals yearly to the partners.

6.3. **Plant closing**

Johnson and Scholes (2002) suggest a reduction in the labour cost, in order to create more savings and also to increase the productivity in the company. Again, the literature follows the Nissan Revival Plan. The theory from Yulk (1998), Kets de Vries (1994) and Peter and Waterman (1982) is also used to validate the fact evoked Mr Inoshita about the negotiating skills from the leader of the reorganisation. Mr Morel suggested an interesting point that could be a subject of further research. Mr Morel mentioned that the Japanese employees were “model employees” because until the last day of work in each of the closing plants, they remained committed to the organisation right until the actual closure and never contemplated the use of strikes or work stoppages. He contrasted this situation to that of Renault closing a factory in Belgium where serious strikes occurred. However empirical evidence (e.g. Renault’s plant closing in Belgium) suggests that it is not often the case therefore further research is required to fully explore this statement.

6.4. **Rebuilding the sales organisation**

Kotter (1995), Johnson and Scholes (2002) and Mellahi, Frynas and Finlay (2005) all suggest that a company, when reorganising, should focus on sales and marketing, in order to increase the incomes and the knowledge of the market and its customers. This is taken into consideration when Mr Morel and Mr Inoshita mentioned that one of the positive points was the “Car of the Year Award” that the Altima received in 2002 and also the come-back of the Z
sports car in The American and Japanese market during the same year. The other point mentioned by Mr Inoshita and Mr Morel, supported by the literature, was the fact that every retailer had to stop giving discounts on car sales, even if Nissan had to lose sales, because the idea of the committee was to create a new brand image and maximizing the profit on each car, instead of having huge sales without making money.

6.5. Creating a global organisation

Mr Inoshita explained the creation of a global organisation. He said that one of the issues was to succeed to make every region work together. Especially to use all information gathered locally on a global scale. This statement follows the approaches of change presented by Johnson and Scholes (2002) and Stacey (1996). Mr Inoshita mentioned the fact to centralize all the decisions in Japan but with taking into account each regional recommendation was hard to organise due to the long habits of each other but was successfully implemented, according to the deadlines. Again, Andrews and Champursi (2001) stressed the difficulty to organise different styles of management in different regions and services.

6.6. Personnel Issues

On this part, Mr Morel and Mr Inoshita provided some important insights. Mr Inoshita recalled an issue that the team in charge of the change in the personnel issues had to manage. The team had serious troubles to succeed to formulate a recommendation without taking into account their functional perspective. It was a “tricky” process where the team had to negotiate between the employees and managers in a fairly conservative manner, and the committee with revolutionary objectives. The key success factor was to build consensus inside of the company before reaching the committee. Kotter (1995) and Farkas and Wetlaufer (1996) provide enough explanations through their studies to support the importance of consensus inside of change management, especially with the middle managers.

Mr Inoshita also evoked the first-line supervisors and the huge amount of work that they succeeded in achieving for the plant change management in a short period of time. He said that it was also due to their long experience inside of the company (many of them had more than 30 years of work in Nissan). Kotter (1995) and Farkas and Wetlaufer (1996), with their work on strategic leadership approaches, also mentioned the importance and the role of the
middle managers into the change process. The changes regarding the reward and promotion system approved by the work of Stacey (1996), Kotter (1995) and Lynch (2000) on the importance of reorganising all the systems which are an obstacle to the process of the reorganisation (in this case the lack of motivation, and commitment of the employees and managers).

6.7. Strengthening collaboration with Renault

In the context of the alliance with Renault, empirical evidence from the economy of scale provided by centralizing purchasing and production (same plant to produce different cars) validate the benefits of strengthening collaboration between the two companies.

6.8. New product development

Johnson and Scholes (2002) provide a framework for organisational turnarounds which mention the need to invest in Research and Development (R&D) to create more revenues for the company. This confirms the beliefs of Mr Inoshita. Kotter (1995) and Stacey (1996) also insist on the need to focus on value-added factors for the company during change management.

6.9. Cross-functional team (CFT)

One issue that they had to face was a time constraint. It was to manage the “sense of urgency.” Kotter (1995) explain that this is the first step of a change management. Farkas and Wetlaufer (1996) mentioned the importance of implicating the employees into the change process. Johnson and Scholes (2002) through the work of Stacey (1996), followed by Dunphy and Stace (1993), also emphasise the need to give responsibilities to middle managers and outsiders during a turnaround (in the case of Nissan, the outsider is Carlos Ghosn). There is evidence that middle managers can and do provide a real benefit in both the development and the implementation of strategy (Floyd and Wooldridge, 1996).

Both Mr Inoshita and Mr Morel stated that it was definitively due to the CFT that Nissan had been saved.
6.10. Ghosn’s leadership

Mr Inoshita and Mr Morel mentioned the way of managing people from Carlos Ghosn was a key factor in the rescue of Nissan. One of the aspects of his leadership recalled by them is his ability to work into a respective multi-cultural environment. Ghosn also got this ability to make every complex situation much simpler and to give a direct message, without ambiguity. Those two points are described in the literature by Peters and Waterman (1982) and Kets de Vries, (1994). Also he believes in communicating directly to the people. When the NRP was announced, it was transmitted live by video in the whole company. The two interviewees also mentioned that Ghosn often goes to the people directly related to the customers such as the sales representatives or the technicians. After listening carefully (which they recalled as being one of his great skill) to them he ask questions and is taking it seriously. This is related to the choice of media explained by Lengel and Daft (1988).
Chapter VII ➔ Conclusions, recommendations and limitations

7.1. Conclusions and recommendations

It is reasonable to argue that Ghosn followed the eight points of Kotter (1995) during the restructuring of Nissan, taking each of the points into account. However, one may argue that implementation of the turnaround was not without problems.

Globally the restructuring of Nissan was a success for the company and ratifying the relaunch of Nissan as a healthy company in the automobile industry. The restructuring of Nissan, based on a high implication of middle managers and multiple task-teams with a tight timing (3 months) was well communicated and globally well implemented.

One problem was the lack of analysis of the company at a cultural level and also at a ‘managerial relationships’ level, but fortunately for Ghosn, he was very well surrounded by highly skilled people in negotiations. Otherwise it would have been harder to reorganise the company.

The lessons that could be learned through the analysis of the restructuring of Nissan are, firstly, to pay more attention at analysing the internal factors of the organisation such as the culture of the organisation or the cross-department communication. This first step should be done before any elaboration of a reorganisation plan; this is a crucial factor of success. When you can understand your employees and their behaviours in the company, it will be easier to prepare a negotiation with them when implementing the restructuring in the enterprise.

Secondly, a full check up of the organisation should be done, internally and externally, and an identification of the problems occurring to the company should be carried out. There are different choices to conduct research of the issues. One of them, used in the reorganisation of Nissan, is implicating the employees inside of cross-functional teams. This tool was particularly successful in the case of reorganising Nissan and a model of more generalized cross-functional teams are adaptable to any kind of company which is proposed in the following pages. The teams could be used to analyse the company but also to implement the change in the company and, when the reorganisation is ended; the teams could than assume the role of the control system.
Thirdly, a particular focus on the customers should be made in the reorganised company because they are the key success factor in the changing short term and long term perspective of the company. Even if Nissan was successful during the restructuring and later on another plan, it appears that in February 2007, Nissan had to face a loss of 16.6% on its profits in the past year. It is principally due to the lack of sales in North America, where the competitors are launching more new products (Toyota) and then satisfy the demand of the market. Nissan failed to launch any new product adapted to the demand during a period of 12 to 15 months.

It is important to bear in mind that the globalisation phenomenon has an impact on every company in the world. Even the best one could make a mistake, such as not considering the principal target of any business, the customers. The final advice is to constantly keep the organization up-to-date with relevant information and products, as well as observing the different moves of the competitors. Companies need to adapt their style and scope of change management to suit the situation that exists. To answer this last point, a model is proposed on the next page, to help the organisations at adapting their change management to their company and its environment.
# Reorganisation Task Groups (RTGs)

<table>
<thead>
<tr>
<th>Team</th>
<th>Department I</th>
<th>Department II</th>
<th>Department III</th>
<th>Department IV</th>
<th>Department V</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RTG Leaders</strong></td>
<td>Executive Vice President of Department I</td>
<td>Executive Vice President of Department II</td>
<td>Executive Vice President of Department III</td>
<td>Executive Vice President of Department IV</td>
<td>Executive Vice President of Department V</td>
</tr>
<tr>
<td></td>
<td>Executive Vice President of Department I’’</td>
<td>Executive Vice President of Department II’’</td>
<td>Executive Vice President of Department III’’</td>
<td>Executive Vice President of Department IV’’</td>
<td>Executive Vice President of Department V’’</td>
</tr>
<tr>
<td><strong>RTG Pilot</strong></td>
<td>General manager of Department I</td>
<td>General manager of Department II</td>
<td>General manager of Department III</td>
<td>General manager of Department IV</td>
<td>General manager of Department V</td>
</tr>
<tr>
<td><strong>Functions Represented</strong></td>
<td>Department I’’</td>
<td>Department II’’</td>
<td>Department III’’</td>
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<tr>
<td></td>
<td>Function A</td>
<td>Function B</td>
<td>Function etc.</td>
<td>Function A</td>
<td>Function B</td>
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<td></td>
<td>Function A</td>
<td>Function B</td>
<td>Function etc.</td>
<td>Function A</td>
<td>Function B</td>
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<td></td>
<td>Functions of Department I’’</td>
<td>Functions of Department II’’</td>
<td>Functions of Department III’’</td>
<td>Functions of Department IV’’</td>
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<td>Focus 3</td>
<td>Focus 5</td>
<td>Focus 7</td>
<td>Focus 9</td>
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<td>Focus 4, etc.</td>
<td>Focus 6, etc.</td>
<td>Focus 8, etc.</td>
<td>Focus 10, etc.</td>
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<tr>
<td><strong>Objectives Based on Review</strong></td>
<td>Mission 1</td>
<td>Mission 3</td>
<td>Mission 5</td>
<td>Mission 7</td>
<td>Mission 9</td>
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<tr>
<td></td>
<td>Mission 2</td>
<td>Mission 4</td>
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7.1.1. Reorganisational Task Groups (RTGs)

An explanation concerning the model created on the previous page is given below. The explanations concern only the department I, because it is the same explanation for all the other departments.

- Department I: one RTG should be created in every department of the company (marketing, sales, finance, etc.), in order to analyse the situation and to identify the problems occurring to the organisation and then the RTG will be in charge of formulating different foci and missions to implement the reorganisational plan.

- Executive Vice President of Department I and I’’: or equivalent should be the leader of the team with the executive vice president of Department I’’. The ‘’ means that the other leader should be related to the first department. An example will be for Department I, being marketing, where the first leader will be the vice president of the marketing department, and the other leader will be the vice president of sales or product planning, because these two functions are highly related in the company.

- General manager of department I: should be the pilot of the RTG I. The tasks will be to manage the different propositions emerging from the analysis of the company, and at the same time, proposing the most relevant findings, and/or solutions to the executive presidents.

- Department I, function A, B, etc.: each function of the department should be listed and taken into consideration during the identification of the problems in the organisation and especially during the formulation of the missions to solve this problem. It is the same explanation for the department I’’. At this stage, there is also a possibility to identify other resources of functions coming from less related departments, such as finance for example, which is present in every department of the company. This is the meaning of * in the functions of department I.
o Foci 1, 2, etc.: the focus represents each specific area of function or department which have problems and need to be solved with a different mission. An example could be the supplier relationships as a focus for the function supply in the purchasing department. Focus * represent any kind of focus related to more than one function or department. As mentioned before, efficiency and cost effectiveness could be a good example of a focus which arises from the financial department but which impacts on every department and every function.

o Mission 1, 2, etc.: The missions represent the objectives that should be done in order to ensure the fulfilment of the focus previously defined. In other words, it is what the company should do to solve its problems. An example could be a line of products which are getting old, as a problem. The mission could be to launch new products on the market by a certain deadline, or to change some major component, or to redesign the product to fulfil the needs of the customers. Mission # represents, again, any kind of mission related between different services. With the same example, the manufacturing department should produce new products and the Research and Development department should design a new product. It is the same task which has repercussions on different departments.

Globally, the model of RTGs is inspired by the cross-functional teams used by Ghosn during the restructuring of Nissan. Because the CFTs were successful in Nissan’s case, and the literature validated the use of them, it is reasonable to propose this model as a more general approach of restructuring in enterprises, such as the car manufacturing industry. There is also the possibility to populate this model with different ‘sub-teams’ to analyse more deeply the organisation and its needs. The sub-teams model could be an adaptation on a smaller scale of the RTGs.

The model only focuses on a creation of a task group in charge or analysing an organisation and later on, to formulate solutions and implement them. However, it does not take in consideration the ‘whole picture’ of restructuring management; in any situation, it is the top management which has the power to implement the propositions or not. The RTGs are only a tool, to help at analysing problems, formulating solutions and implementing them.
7.2. Limitations

This study was conducted with a qualitative framework. However, to validate entirely academically the models proposed such as the cross-functional team, a quantitative study would be required, and will also permit the generalisation of each factor mentioned in the model. Another point is the limitation of the data provided by the company and the interviewees, which didn’t permit the researcher to analyse more deeply the change of Nissan and to permit him to create a more general framework of the automobile industry restructuring process.

This dissertation could be used as an introduction to a quantitative analysis of the reorganisation of companies in the world, especially from the beginning of the 21st century. The model of the RTGs proposed in the chapter VII is only a general adaptation of a model utilised in Nissan during its restructuring. However, even if the CFTs and the NRP were validated academically and proved their pertinence through the facts (Appendix 2), the RTGs model is not totally academically validated, and will need a quantitative study to be accepted, or not, by the literature and the enterprises around the world.

As mentioned previously, the RTGs are only a tool for the organisation. The decisions and propositions depend entirely on the people and the managers of the company, and their implication and commitment to the reorganisation of the enterprise. This tool could help a company, but will not “solve the equation without the human element”.

The author believes that, after some further adaptation, this model could be validated by the enterprises, and certainly for a country, as Mr Carlos Ghosn proposed. This statement leaves different possibilities of researchers in reorganisational management around the world.
April 23, 2003
Speech by Carlos Ghosn on "NISSAN 180 UPDATE"

Nissan Motor Co., Ltd.

I. Introduction
Good afternoon, ladies and gentlemen.

Nissan continues to build momentum… and the force behind our progress is now called NISSAN 180, carried by the high motivation of all our employees.

"Momentum" implies moving swiftly from one situation to another… at a growing speed. The numbers tell the story, so here's how our momentum appears.

- Three years ago, in fiscal year 1999, before Nissan's revival process began, revenues were 5.98 trillion yen. For fiscal year 2002, revenues are 6.85 trillion yen.
- Three years ago, our operating profit was 83 billion yen. Today we're reporting 737 billion yen.
- Three years ago, Nissan's operating margin was 1.4%. Now it's 10.8%.
- At the beginning of 1999, before the Alliance with Renault, Nissan's net automotive debt was a staggering 2.1 trillion yen. Today, the debt is gone.

The bottom line? Nissan's revival is a reality. Three years ago, our business was in accelerated decline. Today, we're not only back in the global race – we're among the pacesetters.

I will review our business performance and give you key preliminary figures for fiscal year 02. After I present our outlook for the new fiscal year, we will hand out presentation materials and I will respond to your questions. Please keep in mind that the figures I give today are still subject to minor adjustments before we disclose final figures on May 21 after our board of directors meeting. We have already filed this presentation with the Tokyo Stock Exchange.
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II. Review of FY02

We are beginning the crucial second year of NISSAN 180, our three-year plan aimed to establish sustainable, profitable growth. As you know, the plan has three main commitments: 1 million additional sales worldwide by the end of fiscal year 04, measured between October 2004 and September 2005 and compared to fiscal year 01… an 8% operating margin… and zero net automotive debt -- both at constant accounting standards.

Let’s begin with the “1” – with a review of fiscal year 02 sales volumes. Overall, we sold 2,771,000 vehicles worldwide in the past year, up 174,000 units, an increase of 6.7% from fiscal year 01 in a very difficult environment. Our full-year sales are 2.4% below the forecast we made at the interim financial announcement last October and eight-tenths of a percent...
below the initial forecast made in May 2002. The deficit is mainly due to shortfalls in U.S.
and European sales, particularly in the second half.

Fiscal year 2002 marked the biggest product year in Nissan history, with 12 all-new models
representing 21 regional product events. Sales and market share have grown in each region
except Europe.

Looking at our volumes by region, in **Japan** we sold 102,000 additional cars in a tough
market where the total industry volume increased eight-tenths of a percent. Nissan sales have
increased 14.3%, to 816,000 units. Excluding minicars, sales were 768,000, up 7.7%. Our
sales increase was driven by the six new models we introduced – namely, Moco, Elgrand,
Fairlady Z, Cube, Skyline Coupe and Teana. Each model met or exceeded its sales target.

Our strategy in the entry-level segments has proven successful. The March made the most
significant volume contribution, setting record sales of 158,000 units – the highest annual
volume of any Nissan model sold in Japan for the past 12 years. The March has been among
the Top 10 best-selling cars every month since its launch in March 2002. Our new Cube is
also doing well, joining the March on the best-seller list for the past six months.

For the full year, Nissan’s market share rose to 19%, which is 1.1 percentage points above the
prior year. More significantly, this marks the first time we have increased our annual market
share by more than 1% in 31 years. In addition, the quality of our sales was improved. Sales
were mostly made on the merits of our products themselves and were not inflated by
additional incentives.

Turning to the **United States**, our sales are up 1.0%, to 726,000 units, in a market that was
down 1.9%. In this region, we sell our products in two channels – Nissan and Infiniti.

The Infiniti Division realized its highest sales year since the division began in 1989. With
record sales of 95,000 units, up 35% over the prior year, Infiniti was the fastest-growing
luxury brand in the United States. Contributors included the FX45… the M45… and,
especially, the new G35 Sedan and Coupe, which was in the spotlight after being named
Motor Trend’s Car of the Year. Infiniti incentives were the lowest in the industry’s luxury
segment.

In the Nissan Division, sales were down 2.7%, to 631,000 units. The Altima and 350Z
continue to sell at a strong pace. Altima sales were up 30% over the prior year, at 204,000
units. And the Z is now the best-selling sports car in America, selling 23,000 units in its first
eight months on the market. The Murano and the Maxima were launched during the last
quarter of the fiscal year, so their sales are just now beginning to make a significant
contribution. Stalled results were felt in the entry-level sedan and truck segments, where our
Sentra, Frontier and Xterra compete. Those segments bore the brunt of record levels of
industry incentives … and we continued to resist them. As a consequence, our volumes were
lower than forecasted. Our strategy continues to be based more on optimizing profitability
than maximizing volumes.

In **Europe**, sales continue to be a challenge. The total industry volume was down 2% in fiscal
year 02. Nissan sales dropped 3.8% to 474,000 units… but keep in mind that Europe’s fiscal
year ends in December, so the new Micra sales are not reflected in these figures. We have
been encouraged by the brisk initial sales of our new Micra, which was launched in January,
helping to offset the sluggish sales of Almera and Primera. For the first three months of 2003, total Micra sales in Europe were up 42% compared to the same period in 2002. To meet the growing demand, we have decided to raise Micra production capacity in our Sunderland Plant by 25% to 200,000 units.

Turning to General Overseas Markets, including Mexico and Canada, our sales increased by 12.3% to 755,000 units. We achieved significant volume increases in Mexico, China, Canada and Australia.
- In Mexico, sales in calendar year 2002 increased 11%.
- In China, sales were up 82% over fiscal year 01.
- In Canada, sales were up 12.4% over the prior year. Nissan’s brand power was also given a boost when the Z was recognized as Car of the Year and the Murano was named Truck of the Year. In the Infiniti Division, sales jumped 95%, and Infiniti outperformed all other luxury brands in Canada in year-over-year growth.
- In Australia, sales were up 12.8% over the prior year.

In Brazil, the Frontier became the first Nissan vehicle to be assembled locally at Renault’s Curitiba plant. The April launch was a success, and the Frontier was named Brazil’s Pickup of the Year.

Turning to the next NISSAN 180 commitment – achieving an 8% operating margin – I will review Nissan’s consolidated financial performance over the past fiscal year.

Consolidated revenues came to 6.85 trillion yen, up 10.6% from last year, mainly due to higher volume and mix, including the expansion of the scope of consolidation, primarily as a result of the integration of Diamondmatic -- the former automatic transmission and CVT affiliate of Mitsubishi -- into JATCO. On a consistent basis, the increase was 9.8%. There were no other accounting method changes, but foreign exchange rates produced a negative impact of 87 billion yen.

Nissan’s consolidated operating profit improved by 50.7% from 489.2 billion yen in fiscal year 01 to a record 737 billion yen in fiscal year 02. As a percentage of net sales, the operating profit margin came to 10.8% -- which is the top level in the global automotive industry and is – by far – the highest level in Nissan history.

Analyzing the variance between last year’s 489.2 billion yen operating profit and this year’s 737 billion yen, several factors are considered:

- The effect of foreign exchange rates produced a 35 billion yen negative impact to consolidated operating profits for the full year. The average value of the dollar in fiscal year 02 was 121.98 yen compared to 125.14 yen in fiscal year 01. The average value of the euro was 118.13 yen compared to 108.8 yen in fiscal year 01. The impact from the dollar was minus 33 billion yen, while the euro produced a gain of 19 billion yen, which was more than offset by a 22 billion yen loss coming from the Mexican peso.
- The change in the scope of consolidation produced no impact to operating profits.

- Higher volumes and mix globally contributed 146 billion yen for the full year, coming from all regions.
- Selling expenses increased by 21 billion yen, which includes a reserve of 12 billion yen to cover future service and recall campaigns.
- The sales finance companies contributed an additional 23 billion yen.
- The improvement in purchasing costs was, again, a major contributor to the growth in profitability. The net accounting effect of this year’s effort came to 227 billion yen. Once again, this year’s performance reinforces the competitiveness of Nissan’s supplier base. We continue to track the profitability of 28 suppliers in which at least 20% of their business depends on Nissan. We estimate that 22 have increased their profitability in fiscal year 02. Two are expected to be in the red. The growth and profitability of our company is not only benefiting Nissan. Our partners are benefiting as well.
- Product enrichment and the cost of regulations had a negative impact of 67 billion yen.
- As previously announced, we spent an additional 38 billion yen in R&D related to our growing product development program and necessary additional expenses for new technologies.
- Increased efficiencies in manufacturing and logistics contributed an additional 17 billion yen.
- General and administrative and other expenses increased by 4.2 billion yen. Included in that figure is 8 billion yen in additional expenses due to the startup of our Canton Plant.

By region, profitability in Japan improved once again as we continued to increase the percentage of profitable cars among our total sales. Operating profits came to 395 billion yen, compared to 289.7 billion yen in fiscal year 01. Nissan dealers, including subsidiaries and independents, reflect a positive trend as well. In 2002, 93% of our dealers were profitable, compared to 54% in 1999… and 80% of our dealers increased both share and operating profit.

Profitability in the United States and Canada came to 243 billion yen compared to 158.9 billion yen in fiscal year 01. Despite the small gain in volume, our profitability increased as a result of a major improvement in mix as Infiniti sales were up 35% and incentives were lower in both the Infiniti and Nissan divisions.

Europe also increased its contribution to our profitability in fiscal year 02. We achieved an operating profit of 22 billion yen compared to 3.2 billion yen for fiscal year 01.

In General Overseas Markets, we made an operating profit of 77 billion yen compared to 57.8 billion yen in fiscal year 01.

Finally, inter-regional eliminations came to zero.

Ordinary profit came to 709 billion yen, up from 414.7 billion yen in fiscal year 01.

The last preliminary income statement number I will review is the bottom line net income after tax. Subject to minor changes in our consolidated tax position, which is not closed, we expect to report net income of 495 billion yen, representing an earnings-per-share of 110 yen. The effective consolidated tax rate for the year is expected to be 29%.

In fiscal year 2002, Nissan was the best-performing stock in the global automotive industry. Nissan’s share price has doubled since the start of the Nissan Revival Plan in April 2000, even as the Nikkei stock index has slid 50%. At the next annual general meeting on June 19, shareholders will be asked to approve a dividend of 14 yen per share for fiscal year 02, as announced last October. As a reminder, the annual dividend per share is planned to increase to 19 yen for fiscal year 03 and to 24 yen for fiscal year 04.
Finally, turning to the third component of NISSAN 180 – **eliminating our automotive debt** – it’s gone! Two-point-one trillion yen of debt has been totally wiped out. For the first time in a very long time, we are 8 billion yen cash positive, and it is a good feeling.

Debt elimination is no longer a driver in the management of our business. From now on, Return on Invested Capital will take center stage. ROIC is the ratio between operating profit and automotive fixed assets, net working capital and cash. We have reached an estimated level of 19.5%, which is the top level in our global industry. Our intention is to stay at or above the level of 20%. In terms of operating margin and ROIC, our objective is to remain the most profitable global automaker.

**III. Outlook for FY03**

Fiscal year 2003 is starting with a high level of volatility and uncertainty, but we will not duck our responsibility to try to guide you in the most transparent way possible on Nissan’s performance and expected results. In the context of these exceptional circumstances, I will share with you our forecast for the coming year’s performance.

Our **global sales volume forecast** for the year is 3,040,000, up 9.7% versus fiscal year 02. When we achieve this level, it would be the first time since 1991 that Nissan would have conclusively passed the three-million-unit sales mark. Our product launch schedule and our increased marketing and sales efficiency will support our growth. We will launch 10 all-new products, representing 23 regional product events worldwide.

In **Japan** we forecast a slight decrease in total industry volumes to 5.8 million units. Our sales objective for the year is 867,000 units, an increase of 6.3%.

In the **United States**, we forecast a market of 15.5 million units, a 7% decline from fiscal year 02. Our sales objective is 852,000 units, an increase of 17.3% -- which takes into account the new vehicles coming from our Canton Plant.

In **Europe**, we forecast total industry volumes of 17.9 million units, down 5.8%. Our sales objective is an 11.8% increase from fiscal year 02, to 530,000 units.

For **General Overseas Markets**, including Mexico and Canada, our sales objective is 791,000 units, a 4.8% increase.

As always, the new fiscal year will bring with it **risks and opportunities**. Risks include weaker economic conditions in Japan and further decreases in total industry volume and/or even higher-than-foreseen incentives – particularly, but not exclusively -- in the United States and Europe. On the side of opportunities, we see our greatest potential in the accelerated implementation of all the action plans of NISSAN 180.

In weighing these factors, we are filing the following **forecast** with the Tokyo Stock Exchange, using a foreign exchange rate assumption for the year of 120 yen per dollar and 125 yen per euro.
- Revenues are forecasted to be 7.45 trillion yen, up 8.8%.
- Operating profit is expected to be 820 billion yen, up 11.3% from fiscal year 02, giving an operating margin of 11%.
- Ordinary profit is expected to reach 781 billion yen.
- Net income is forecasted to be stable at 495 billion yen. 2003 will be the first year of normal tax treatment in Japan.
- Capital expenditures will be 420 billion yen.
- ROIC is expected to be 20%.
- Net cash generated by operations is estimated at 100 billion yen even after our investment of 120 billion yen to buy the 50% stake in Dong Feng.

IV. Conclusion

This is a dynamic period in the life of our company.

Next month we plan to announce the start of operation of the joint venture we are establishing with Dong Feng Corporation in China. Through our new company, Dongfeng Motor Company, we plan to launch six models by 2006, all of which will be manufactured locally. The first of those models – the Sunny – was introduced at Auto Shanghai earlier this week. Our expansion in this rapidly developing market is a long-term investment with great potential. By the year 2006, we are targeting sales of 550,000 vehicles in China – specifically, 220,000 passenger vehicles and 330,000 commercial vehicles. It’s clearly a significant growth and profit opportunity.

In the United States, we are ready for the startup of our brand-new plant in Canton, Mississippi. Hiring is complete. Suppliers are on schedule. Quality objectives are being met. Investments are below budget. The first all-new Quest rolls off the line on May 27, with the start of sales in July.

2002 was the “Year of Japan,” and it was successful. 2003 will be the “Year of the United States,” and we will give our best to ensure its success as well. Five of the six new models we will launch in the U.S. market will be built in Canton… and, obviously, the Z Roadster is the sixth. Most importantly, these new models are in high-volume, high-profit segments – the Quest in the million-unit minivan segment… the Titan King Cab and Crew Cab full-size trucks, a two-million-unit segment… and the Pathfinder Armada and Infiniti SUV, in a 750,000-unit segment. Except for the marginal sales of the Quest in 2002, Nissan has had zero sales in all these important segments in 2002, so incremental sales and profits are ours to gain.

In terms of attractive and competitive new products… scale of investments… and manufacturing capability – the Canton Plant and Dongfeng Motor Company are bold expressions of our renewed competitive spirit. In 2003 – Nissan’s 70th anniversary year – our vision for the future has never been clearer. NISSAN 180 is setting a course for sustainable, profitable growth that will enrich people’s lives. And we are running to make it a reality.

Only results will judge our degree of success. What we say will be backed up by what we deliver. Nissan’s revival is a story that is still in development. The story starts with the Nissan Revival Plan. It will end with NISSAN 180. Chapter 1 of NISSAN 180 – fiscal year 2002 – is over. We still have two chapters to go. When you look at the pattern of what we have accomplished so far, it is clear that we will continue to grow, and to grow with significant profit. A lean cost base and our ability to offer attractive products are essential for our competitiveness. We have already removed the burden of massive debt, and we now focus on providing a top level of return on invested capital.
NISSAN 180 is continuing to unfold and – as in life – setbacks are always possible. If any company is prepared to face them, that company should be Nissan. As we turn the page to Chapter 2 of NISSAN 180, we will continue to fine-tune the same tools, the same management practices and the same level of commitment that have brought us this far. Like NRP, NISSAN 180 is not a short-term plan… a quick fix. Both plans were designed to build for the future. We have significantly increased our capital expenditures, investing in assets that will generate tomorrow’s sales and profits. We have done the same in research and development, devoting more resources to product and technology development.

From the beginning, we have said there was no problem at a car company that good products could not solve. So now please turn your attention to the first product to come in fiscal year 2003 in Japan… the new Nissan Presage.

The Presage will be launched in the highly competitive, high-volume minivan segment. Its streamlined silhouette emphasizes its stylish, modern design. Families will appreciate its comfortable, roomy interior. One of the Presage’s most attractive features is its flexible third-row seat. In the former model, 10 steps were required to arrange the rear seat; now even a child could do it with one easy move. Finally, the Presage will be certified as an ultra-low emission vehicle, providing an important environmental benefit. You’ll see more of the Presage when it is launched this summer.

Thank you for your attention and your continuing interest in Nissan. Now we will move to your questions.…

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Bibliography