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Redesigning Nissan (A): Carlos Ghosn Takes Charge

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Saved from the Scrapyard

In March 1999, when Renault and Nissan announced their alliance, the press releases from both sides stressed how well the companies complemented each other. Renault's cash injection of $5.4 billion for an equity stake of over 36 percent in Nissan would reduce the Japanese automaker's mountainous debt. It would also provide Renault with access to two huge markets – North America and Asia – where it was virtually absent. Conversely, Renault's market strengths were in Europe and Latin America where Nissan was weak. Likewise in terms of capabilities, Renault would gain access to Nissan's engineering and manufacturing expertise, while Nissan would benefit from Renault's marketing and design flair. In theory, it looked like a perfect match, but industry observers and analysts had serious reservations about the deal.

The first hitch was Nissan's desperate financial situation; it posted global losses in six of the previous seven years. In its home market only 4 out of 43 models were profitable. And its debts were such that in 1998, it had spent $1 billion on interest payments alone, money that should have been reinvested in its aging and rather bland product lineup. For months Nissan's chairman, Yoshikazu Hanawa, had tried to secure a relationship with a foreign investor, yet other carmakers were afraid to touch it. Bigger companies, with deeper pockets and better partnership records than Renault, had already walked away from talks with Nissan. Ford, which had equity ties with Mazda dating back to 1979, had passed on the deal when it saw the extent of Nissan's problems. DaimlerChrysler was also put off by the figures and expectations of Japanese resistance to change.[1] Indeed, one Chrysler insider compared bailing out Nissan to "putting $5 billion into a steel container and throwing it into the ocean."[2]

Then there was Renault's credibility as a rescuer. Renault's botched merger with Volvo in the early 1990s – fuelled by cultural problems – was still fresh in many minds. Also Renault was closely affiliated with French national pride. A government-controlled enterprise until only five years before, it remained 44 percent state-owned. Culturally speaking, this only complicated matters, leading one industry analyst to comment: "Much has been made of the culture clash between Daimler and Chrylser, [but] it will be nothing compared to Nissan and Renault… At their core, they are both nationalistic and patriotic, and each believes its way is the right way to do things. We will have quite a teething period for the first year or two as they feel each other out. It's a complex thing to work through."[3] "Two mules don't make a race horse," was how the CEO of one European automotive company summed it up.[4]

This pessimism was widely shared. News of the negotiations provoked a fall in Renault's share price and, when the French company disclosed its offer for a stake in Nissan, three separate rating agencies issued reviews of Renault's debt "with negative implications".[5] The *Financial Times* speculated that French taxpayers might be left footing the bill for Renault,

1 Anon. (1999) "Renissant?" *Economist*, March 20: 65-66.
2 Ghosn, C. (2002) "Saving the business without losing the company", *Harvard Business Review*, January: 3-11.
3 Treece, J. B., and Farhi, S. (1999) "Renault goes for broke with Nissan bid," *Automotive News*, March 22: 43.
4 Cited by Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
5 Treece, J. B., and Farhi, S. (1999) "Renault goes for broke with Nissan bid," *Automotive News*, March 22: 43.

whose top managers were perhaps "blinded by the brilliance of their own vision."[6] And even the most optimistic observers reckoned that the payoff horizon – assuming that the alliance could overcome enormous business and cultural hurdles – would be long term, not short.[7]

From the outset, many of Nissan's problems were evident. It had too many plants (some running at 50 percent of their nominal capacity), too many car platforms (25 expensive chassis, compared with Volkswagen's four), too many suppliers (at 3,000, nearly ten times more than Ford), and too many dealers in Japan.[8] Radical surgery seemed the obvious solution. Yet this ran counter to deeply anchored Japanese business practices, such as lifetime employment and close ties with suppliers in interlocking industrial groupings, known as *keiretsu*. In addition, Renault's stake in Nissan only gave it power of veto, raising the difficulty of pushing through fundamental changes. As one investment banker put it: "I would have preferred Renault to take 51 percent even if it meant having to assume Nissan's debt on its balance sheet. That way, Renault could have become the real boss and set some firm direction, rather than having to negotiate."[9]

The unenviable challenge of trying to make the alliance work fell to Carlos Ghosn, already seen as Louis Schweitzer's number two at Renault and the main driving force behind Renault's on-going cost-cutting program. In fact, Schweitzer privately admitted that he would not have signed the deal without Ghosn's agreement to run the alliance.[10]

Ghosn Takes the Wheel

Born in Brazil, of French and Lebanese parents, and trained as an engineer in France, Carlos Ghosn was no stranger to cross cultural challenges. He had held major jobs on four continents and had made his reputation overseeing the restructuring of Michelin's North American operations, including the acquisition and integration of Uniroyal Goodrich. Ghosn was then recruited by Louis Schweitzer to restructure Renault and quickly turned the carmaker's fortunes around by implementing an aggressive cost-cutting plan. The plan included the politically explosive closure of the Vilvoorde plant (2,700 jobs) in Belgium and a big reduction in the number of parts suppliers, earning him the nickname "le cost-killer".

The decision to go was not an easy one. It would mean once again uprooting his wife and four children who had only recently settled into a new house near Paris.[11] Ghosn eventually agreed on condition that he would have full control, meaning that all the VPs would report directly to him – and that he would not constantly have to report to or seek approval from France. He also insisted on handpicking the 20 or so executives who would accompany him on this mission (see Appendix 1 for a partial list). Commenting on the size of the team he proposed to take to Nissan, Ghosn said: "To make deep changes inside a company you don't need loads of

6 Owen, D., Harney, A., and Abrahams, P. (1999) "Marriage faces problems," *Financial Times*, March 29: 26.
7 Treece, J. B., and Farhi, S. (1999) "Renault goes for broke with Nissan bid," *Automotive News*, March 22: 43.
8 Anon. (1999) "Renissant?" *Economist*, March 20: 65-66.
9 Treece, J. B., and Farhi, S. (1999) "Renault and Nissan face clash of cultures," *Automotive News*, March 29: 5.
10 Schweitzer revealed this later in an interview by S. Miller (2001) "Renault steers forward," *Wall Street Journal Europe*, February 15.
11 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.

people, but rather the right catalysts at the right places."[12] He chose people who were mostly around 40, "experts in their field, very open minded, and coaches, not people who want to play it solo."[13] Their role would be to serve as facilitators and coaches – there would be no external consultants – but those approached were given less than 48 hours to decide whether they wanted to make the move from France to Japan. One executive who got the call in April 1999 recalls: "[He invited me to be part of the team] on a Wednesday evening; he wanted my answer by Friday morning."[14]

In mid-May, the team members gathered on a three-day crash course aimed at familiarizing them with the host country – only one of them spoke Japanese. Besides giving them a chance to discuss some basic *dos* and *don'ts* in Japan, the seminar also allowed Ghosn to pass on some key messages. "We are not missionaries," he told them. "We are not going there to teach the Japanese [about] the role of women in Japanese business. We are going there to help fix Nissan, that's all. Any issue that does not contribute to that is of no concern to us."[15]

Independently, Ghosn also sounded out some leading authorities on Japan. They all recommended caution, along the lines: "In Japan, you have to go slowly, you have to be patient. You cannot close plants, you cannot reduce headcount, you cannot do this, you cannot do that."[16] After three dinners, Ghosn concluded that if he continued listening to this advice he may as well pack his bags and head back to France, because there was nothing to be done. So he decided instead: "Let's listen inside the company and try to see what has to be done."[17]

In the two months preceding his formal appointment, Ghosn visited research facilities and production plants, gathering input from section managers, engineers, and dealers. In meetings with Nissan section chiefs he asked questions like: "What are the problems in your department? What needs to be done to improve the situation? What does your department contribute to Nissan?"[18] He was astonished to find that Nissan factory managers could tell him how many minutes it took to build a car, but could not tell him how much it cost.

Similarly, at one Japanese dealership he asked who was the main competitor, only to find out it was the two other Nissan dealers nearby.[19] Turning to a salesperson to ask about the customer's perspective, Ghosn was told: "They say Nissan's styling is terrible." So what did the dealer want from Nissan? "I would like Nissan to make a product that we can sell without any excuse," he answered, before bowing politely.[20]

Ghosn was officially named Chief Operating Officer on June 25 1999, and was appointed to the Nissan board, along with two Renault colleagues – Patrick Pelata and Thierry Moulonguet – to oversee product development and finance, respectively. At the same time, the board was

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12 Farhi, S. (1999) "Ghosn sees fast start at Nissan," *Automotive News*, April 5: 1-2.
13 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
14 Abescat, B., and Pedroletti, B. (1999) "Les gaijin de Nissan," *L'Express*, October 28: 164-166.
15 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
16 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
17 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
18 Harney, A. (1999) "Nissan prepares for 'le cost-killer'," *Financial Times*, June 28: 29.
19 Thornton, E. (1999) "Remaking Nissan," *Business Week*, November 15: 70-74.
20 Harney, A. (1999) "Nissan prepares for 'le cost-killer'," *Financial Times*, June 28: 29.

downsized from 37 members to 10 – and not to 25 as had been earlier intimated.[21] Also, Yoshikazu Hanawa assumed a more ambassadorial role as President. But it was Hanawa who had selected the Japanese members of the executive committee. When he had approached Ghosn to see who he wanted on the executive committee, Ghosn had answered: "I don't know. You choose. You know me so please, you pick them – knowing what you know of me."[22]

For the first time, the board meeting was held in English. Ghosn's message was simple but blunt: "Gentleman, we've had 10 years of decline, that's enough," he said. "There is a place for every single person in this company who wants to give the company a chance for recovery, no matter what age, what gender, what citizenship."[23]

In the annual shareholder meeting that immediately followed the board meeting, Ghosn broke with tradition by allowing the press to attend. Realizing that the necessary changes would strike at the heart of Japanese society, he concluded that transparency was the only option: "From the outset, we told the media what we were thinking and what we planned to do. It was critical to reassure Japanese public opinion."[24] After a two-minute speech in Japanese to introduce himself, he told the audience: "I have not come to Japan for Renault, but for Nissan. I will do everything in my power to bring Nissan back to profitability at the earliest date possible and revive it as a highly attractive company."[25] He weathered the criticisms of disappointed shareholders and pledged change for the coming year. He alluded to likely changes to the supplier network, aimed at reducing high procurement costs, as well as changes to the inefficient dealership network. He also conveyed confidence that Nissan employees would embrace internal company reform: "Given their strong enthusiasm and pride, I am very hopeful that we can put Nissan on the road to recovery and growth."[26]

Jump Start

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

Ghosn immediately introduced a new language policy – decreeing that all top-level meetings be conducted in English and that reports be produced in English. According to one Nissan insider: "Carlos made no secret of it. The old guard was told: You speak English. Learn it

21 Debontride, X. (1999) Carlos Ghosn met en oeuvre à Tokyo une équipe de choc," *Les Echos*, March 29: 12.
22 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
23 Dabkowski , S. (2001) "The father of Nissan's revival ," *The Age*, July 12: 3.
24 Hauter, F. (2001) "Carlos Ghosn: "En situation de crise, la transparence s'impose", Le Figaro Entreprises, July 2: 28-29.
25 Strom, S. (1999) "In a change, Nissan opens annual meeting to press," *New York Times*, June 26: C2.
26 Furuta, A. (1999) "Nissan takes on Renault tinge shakeup," *Nikkei Weekly*, June 28: 6.

immediately if you must or you're out."[27] Ghosn himself was learning Japanese, but used it only on formal occasions, explaining, "I don't want to talk Japanese like a child."[28]

Ghosn backed up the decision with intensive language courses for all Nissan employees, from receptionists to top executives. But beyond those efforts he realized that "some key words were not understood in the same way by different Japanese people or even different French people,"[29] so Ghosn asked a mixed Renault-Nissan team to establish a dictionary of essential terms. The 100 or so entries included clear definitions for terms like "commitment", "authority", "objectives", "transparency", and "targets". An open discussion of these notions would help to help to avoid mixed messages. As Ghosn told his top management team: "What we think, what we say, and what we do must be the same. We have to be impeccable in ensuring that our words correspond to our actions. If there are discrepancies between what we profess and how we behave, that will spell disaster."[30]

Shortly after accepting the Nissan job, Ghosn had stated, "I am not going in with any preconceived ideas."[31] In line with that promise, he quickly set up nine cross-functional teams (CFTs) to generate ideas and recommendations for change. Contrary to convention, these would not be made up exclusively of senior managers, but would draw rather on line managers in their 30s and 40s from different departments and divisions – both Japanese and international. It was an approach Ghosn had successfully used twice before – for the integration of Uniroyal and Michelin and for the Renault turnaround – but it seemed all the more pertinent at Nissan, with its highly compartmentalized culture. From his preliminary contacts with Nissan employees, Ghosn had been amazed at the lack of communication across functions, borders and hierarchical lines: "Country (organizations) were not talking to each other, people were not talking to each other," he noted. "I want to destroy this spirit."[32]

The CFTs focused on different critical areas like purchasing, engineering and R&D. To staff those teams, Ghosn requested that 1,500 profiles of Nissan employees be posted in the corporate headquarters for consideration in the CFT formation process.[33] Ghosn wanted to ensure that selection was based upon talent and demonstrated commitment to Nissan – and it quickly became obvious to Nissan executives what type of people Ghosn was seeking. As one Nissan veteran put it: "Ghosn [brought] a lot of mavericks with him… He has shown those are the kinds of people he likes."[34] In particular, he took a close personal interest in the selection of the pilots, those who would drive each team's agenda and discussions – since the reforms proposed by the CFTs would form the backbone of Nissan's recovery plan (see Appendix 2 for a description of the CFTs).

27 Wickens, M. (2002) "Nissan saviour a comic-book hero," *Toronto Star*, March 16: WH25.
28 Lauer, S. (1999) "Carlos Ghosn à l'épreuve de Nissan," *Le Monde*, October 19: 5.
29 Mayershohn, N. (2002) "Nissan's U-turn to profits," *Chief Executive*, January: 12-16.
30 Emerson, V. (2001) "An interview with Carlos Ghosn," *Journal of World Business*, Spring 2001: 3-11.
31 Woodruff, D. (1999) "Cultural chasm: Renault faces hurdles in bid to turn Nissan around," *Asian Wall Street Journal*, March 31: 1.
32 Burt, T., and Harney, A. (1999) "'Le cost-killer' makes his move," *Financial Times*, November 9: 19.
33 Thornton, E. (1999) "Remaking Nissan," *Business Week*, November 15: 70-74.
34 Miller, S., and Zaun, T. (2002) "Nissan intends to return favor to a French ally," Asian Wall Street Journal, April 5: A1.

The CFTs were peppered with former Renault managers familiar with the process, and team size was limited to ten members in order to avoid endless debating. It was clear, however, that ten people would not be able to review all the operations in their domain, so sub-teams of ten people were created to investigate particular issues. Through this cascading effect, the total exercize drew on the efforts of 500 or so people. Each team had two board level sponsors – to give CFTs authority within the organization and to avoid one functional perspective from dominating.[35] The teams received three simple guidelines: "One goal: To make proposals in order to develop the business and reduce costs. One deadline: Three months for final official decision-making. One rule: No sacred cows, no taboos, no constraints."[36] Ghosn kept repeating, "Only one issue is non-negotiable. The return to profit."[37]

He tried to be clear at all times, noting: "If people don't know the priority, don't understand the strategy, don't know where they're going, don't know what is the critical objective, you're heading for trouble. Confusion is the first sign of trouble. It's [the leader's] duty to clarify the environment, to make sure there is the maximum light in the company."[38]

So, while the CFTs worked on their tasks, Ghosn toured the group telling employees that "Nissan had its back to the wall"; reminding them that the company had just lost its position as the country's second largest carmaker to Honda; stressing that world sales of the brand in the last seven years had fallen by 800,000 units adding up to "nearly the equivalent of Mercedes or Mazda's worldwide sales, and more than BMW"; and broadcasting to the press that the forthcoming plan represented Nissan's last hope.[39] Ghosn was resolute: "If you want to mobilize 130,000 people, in different cultures and different countries you have to be precise, you have to be factual, and you have to base everything you say on hard evidence that people can measure."[40]

He also reiterated that success at Nissan would come from its employees. "If the Nissan Revival Plan succeeds, it will have many fathers. If it fails, it will have only one."[41] But Ghosn did not just speak; he also listened. He surprised workers by strolling up and down the assembly lines and asking questions, not just of senior engineers and managers but also of workers themselves. And he encouraged the use of email, previously little used at Nissan. He also found time, in July, to test-drive 25 models at the company's purpose-built course in Tochigi Prefecture – and to appear on one of Japan's most popular TV shows "News Station" where the Japanese public was finally able to put a face to "le cost-killer".

Ghosn quickly found out that the sense of decline was widely shared inside the company: "From the inside, the burning platform was even more visible. Managers knew how much they were restricted in their budgets, how many resources they needed that were not given to them, and how much they had to accept short-term-oriented decisions that hurt the company

35 Ghosn, C. (2002) "Saving the business without losing the company", *Harvard Business Review*, January: 3-11.
36 Ghosn, C. (1999) "We don't have a choice," (speech transcript) *Automotive News*, November 8: 36-44.
37 Lauer, S. (1999) "Carlos Ghosn à l'épreuve de Nissan," *Le Monde*, October 19 : 5.
38 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
39 Barre, N. (1999) "Faible mobilisation syndicale avant l'annonce d'un plan de redressement sévère," *Les Echos*, October 18 : 17.
40 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
41 Nauman, M. (1999) "Nissan's woes seen as opportunity for new operations chief," *San Jose Mercury News*, July 23.

long term, in terms of delayed development of certain products."[42] His outsider status gave him an advantage when questioning certain practices: "It allows you to challenge in a very decent way what has been done without anybody's having a second thought about, 'Hey, where were you when we were doing this?'"[43]

Ghosn also became aware of the psychological damage wrought by so many years of underperformance: "The biggest challenge when the company has been depressed for a long time is self-confidence. [I had] to help Nissan people believe that they are capable of doing a great job in this industry, that they are capable of rivaling Honda and Toyota in terms of profitability and in terms of growth."[44]

Mapping a Route out of Trouble

On October 18, 1999, the eve of the biennial Tokyo Motor Show, Ghosn prepared to unveil Nissan's restructuring plan to a packed audience of journalists and analysts – with the speech to be simultaneously broadcast to company employees worldwide. There was real excitement as the details of the plan had been kept secret to forestall pre-emptive resistance from Nissan's board, suppliers and labor unions.[45] The extended quotes that follow are excerpted from a full text transcript of the speech.[46]

Ghosn got straight to the point. "Nissan is in bad shape," he asserted, highlighting the extent of the decline by adding: "Nissan has been losing global market share continuously since 1991… Our production has dropped by more than 600,000 cars in [that] period. This drop, for example, represents 25 percent more than the total annual car sales of the Volvo brand."

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

After explaining in some detail how the Nissan Revival Plan (NRP) had been elaborated through broad based and intensive debate in cross-functional teams generating over 2,000 ideas, he outlined the key contents of the plan.

"As you know," he started, "there is no problem at a car company that good products can't solve." He went on to describe some of the new product opportunities they had identified, which would give rise to several revamps and four new models, including the reincarnation of the celebrated "Z" which first established Nissan's US reputation, and the March/Micra subcompact to come out of a new common platform with Renault. "Product development," he asserted, "will be at the heart of Nissan's revival."

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42 Gold, A. R., Hirano, M. and Yokoyama, Y. (2001) "An outsider takes Japan," *The McKinsey Quarterly*, 1: 94-105.
43 Taylor, A. (1999) "The man who vows to change Japan Inc.," *Fortune*, December 20: 73-77.
44 Carlos Ghosn (2002) *Global Leader Series*, Speech at INSEAD, Fontainebleau, France, September 24.
45 Werhfritz, G. (1999) "Can this company be saved?" *Newsweek*, November 1: 60.
46 Ghosn, C. (1999) "We don't have a choice," (speech transcript) *Automotive News*, November 8: 36-44.

But first the company needed to address its brand deficiency. Nissan's tarnished image meant that its models had to be discounted compared to similar models with better reputations: "In the American market, our cars sell for $1,000 less than totally comparable cars from competitors. In Europe, this amount per car is estimated at 700 Euros. In Japan, 40,000 yen per car sold… Our target is to reduce by a minimum of 35 percent in the next three years the price differential induced by the present level of our brand power and to eliminate that differential over the next decade." The plan also called for a single worldwide advertising agency to support coherent global brand management and to reduce costs.

Ghosn continued: "Our styling has not always been an asset. It has to be more attractive and consistent." He then caused quite a stir in the audience by revealing that he had lured from rival automaker, Isuzu Motors, its 25-year veteran design chief, Shiro Nakamura. Starting today as Nissan's head of design, Ghosn explained, "He will be fully empowered along with a re-enhanced styling team, with the mission to bring back to Nissan's car design, the attractiveness and consistency it urgently needs."

Now came the moment to deliver the proposed treatment. Even for the foreign analysts and journalists who had been advocating radical surgery, the measures came as a shock.

First, there would be a two-pronged attack to cut purchasing costs by 20 percent over three years. Ghosn explained: "Today, Nissan buys parts and materials on a regional basis or even on a country basis. This will stop immediately. Purchasing will be centralized and globalized." The other, more controversial measure, involved Nissan halving its number of suppliers "which means that our chosen suppliers, existing or new ones, will significantly increase their business with us." Ghosn expanded on this notion of partnership: "From our side we commit to a significant increase in business for [our suppliers], high market shares, global management and long-term visibility. We'll help those who help us." But then he added a note of urgency: "Speed is of the essence for us. That's why the first suppliers to clearly and credibly commit to the Nissan Revival Plan will be the first ones we sign contracts with. This effort starts now; we will not wait for the beginning of FY 2000 next April."

The second target had to do with Nissan's excess capacity. Nissan had recently announced a domestic assembly capacity of 2 million cars, but based on a "fully loaded two-shift operation",[47] the company's actual capacity was "a minimum of 2.4 million vehicles". On that basis, plants were currently "operating at a 53 percent level of capacity utilization." Ghosn went on: "Taking into account our long-term forecasts, we have decided to reduce by 30percent the current capacity." A shocked gasp went through the audience as the corresponding plant closures were announced: three of the company's seven auto assembly plants in Japan, plus two engine-transmission factories in Japan. "The plant closures, however painful they are – and they really are – will guarantee the future [of the remaining plants] by allowing them to be industry leaders." Ghosn continued: "At the same time, we will take this opportunity to rationalize… the number of Nissan platforms" – going from 24 platforms spread between 7 plants to 15 platforms divided by 4 plants in 2002 and down to 12 by 2004.

47 A fully loaded two shift operation entails an extension of half an hour to the morning shift, one hour to the afternoon shift and six additional shifts a month. This raises capacity levels from 3,660 hours of use per year to 4,400 hours.

The third target had to do with Nissan's shareholdings in close to 1,400 companies. In more than half of them, Nissan's stake exceeded 20 percent. Ghosn explained: "With the exception of four companies, none is considered to be indispensable for the future. This means we will be unwinding most of our shareholdings strictly on the basis of a cost/benefit analysis…. Our objective is to free all capital resources from non-strategic, non-core assets and to invest more in our core business, while at the same time significantly reducing our debt." Ten percent of domestic dealerships would also be cut and the dealership organization revamped.

"Our target is to develop and optimize our R&D capability and capacity," asserted Ghosn. "We will move to a globally integrated organization… in terms of [R&D] strategy, processes, standards and benchmarks… At the same time, we will empower [the regional R&D centers] to take more responsibility for the entire product line offered in their region, whether they developed it or not." Overall, investment in R&D would be increased from 3.7 percent of net sales in 1998 to 5 percent of sales.

Ghosn then revealed far-reaching changes to Nissan's traditional HR practices: "A performance-oriented compensation will be established for management starting in 2000. Bonuses and stock options are currently being studied and will be part of the incentives offered to boost Nissan profitability and growth. Performance-based career advancement will be established at the latest by the end of [April] 2000 to make sure we act in a coherent manner across the company." But he added: "Concretely, some of the changes will not be implemented before ensuring that the people in charge have changed their attitude, and that the clear performance indicators for which they are accountable exist."

As for Nissan's workforce, the currently reported figure of 131,000 employees was revised to 148,000 employees, in keeping with the future consolidation method.[48] Altogether the global payroll would be cut by 21,000 people (14%) by March 2003 – with domestic employment bearing more than three-quarters of the cut – through attrition, the increased use of part time employees, spin-offs, and early retirement programs. Ghosn reassured employees that there would be no outright layoffs: "Transfers will be offered to all direct and semi-direct employees. In order to facilitate the transfers, hiring will be strictly limited and monitored by HR." As he gave the breakdown of the headcount reduction by activity, it emerged that R&D would actually increase its headcount by 500.

Ghosn admitted: "Establishing the plan represents at most five percent of the challenge. Ninety-five percent of the challenge now lies in its execution." He rounded off his speech by specifying the commitments of the top management team: first, a return to profit by FY 2000; second, an operating profit of at least 4.5 percent of sales for FY 2002; and third, to cut the debt in half to $6.3 billion by FY 2002. "The top management," he declared, "will be accountable for delivering the committed performance – all of it."

"I know and I measure how much effort, how much sacrifice and how much pain we will have to endure for the success of the NRP. But believe me, we don't have choice and it will be worth it. We all shared a dream; a dream of a reconstructed and revived company, a dream of a thoughtful and bold Nissan on track to perform profitable growth in a balanced alliance with Renault to create a major global player in the world car industry. This dream today

48 Including all companies in which Nissan had a more than 40 percent shareholding.

becomes a vision with the NRP. This vision will become a reality as long as every single Nissan employee will share it with us."[49]

In the question and answer session, Ghosn added: "I understand that a lot of people will feel like orphans in this plan. But we have no choice, and the fact that we have no choice is the strength of our plan."[50] Hanawa concurred: "The plan is tough, perhaps even severe, but then our situation is severe."[51] He added, "This plan marks a new era for our proud company and we will implement it with indomitable resolve."[52]

When one journalist approached Ghosn for a transcript of the one-hour long NRP speech it emerged that Ghosn had ad libbed most of it with just four scraps of paper in his hands.[53]

Can Nissan Change?

Before the NRP was unveiled, the speculation had concerned whether Ghosn's reforms would go far enough. But now, it was more a question of whether Ghosn could deliver on the promise. As former Nissan executives were quick to point out, the company had never before followed through on a restructuring plan.[54] Indeed the slogans in recent annual reports proved it. In 1996, Nissan proclaimed, "We've turned the corner!" The following year, it was: "Back on track and shifting up a gear." Then, in 1998, it announced: "Strategic reform is the message at Nissan".[55] As one Japanese auto analyst observed: "Raising a target is one thing. Hitting it is another."[56] Another industry specialist commented: "Ghosn is pressing the outer limits of what is doable, both within the company and externally, with the government and Nissan's very tough labor unions."[57]

Ghosn himself remained upbeat, acknowledging that previous plans had never actually borne fruit, but assuring journalists, "this plan *will be* implemented."[58] Ghosn was also very aware that until he had some results to show, his credibility rested entirely on "telling it like it is". As he observed: "Credibility has two legs: the first leg of credibility is performance, but [we have nothing to show at the start]; the second leg of credibility is transparency – what I think, what I say, what I do is the same thing. So we have to be extremely transparent."[59]

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Appendix 1
The French Supporting Cast

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

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

Source: Nissan press release.

Appendix 2

Nissan's Cross-Functional Teams

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

	Cross-Functional Team	Team Review Focus	Objectives Based on Review
1	**Business Development**	▪ profitable growth ▪ new product opportunities ▪ brand identity ▪ product development lead time	▪ launch 22 new models by 2002 ▪ introduce a minicar model by 2002 in Japan
2	**Purchasing**	▪ supplier relationships ▪ product specifications & standards	▪ cut number of suppliers in half ▪ reduce costs by 20% over three years
3	**Manufacturing & Logistics**	▪ manufacturing efficiency & cost effectiveness	▪ close three assembly plants in Japan ▪ close two power-train plants in Japan ▪ improve capacity utilization in Japan from 53% in 1999 to 82% in 2002
4	**Research & Development**	▪ R&D capacity	▪ move to a globally integrated organization ▪ increase output efficient by 20% per project
5	**Sales & Marketing**	▪ advertising structure ▪ distribution structure ▪ dealer organization ▪ incentives	▪ move to a single global advertising agency ▪ reduce SG&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
6	**General & Administrative**	▪ fixed overhead costs	▪ reduce SG&A costs by 20% ▪ reduce global head count by 21,000
7	**Finance & Cost**	▪ shareholdings & other noncore assets ▪ financial planning structure ▪ working capital	▪ dispose of noncore assets ▪ cut automotive debt in half to $5.8 billion net ▪ reduce inventories
8	**Phaseout of Products & Parts Complexity Management**	▪ manufacturing efficiency & cost effectiveness	▪ 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 (e.g. due to differences in engines or destination) for each model
9	**Organization**	▪ organizational structure ▪ employee incentive & pay packages	▪ create regional management committees ▪ empower program directors ▪ implement performance-oriented compensation & bonus ▪ packages, including stock options

Source: Ghosn, C. (2002) "Saving the business without losing the company," Harvard Business Review, January: 37-45.

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