

**MBA International Management**

**Cross-cultural Management**

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Case Study:

***Nissan – Cross-cultural Management and Leadership in M&A***

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## Introduction

Nissan had been experiencing operating loss and severe competition since 1980s, it further launched aggressive expansion plan which tripled its debt from ¥1.3 trillion in March 1987 to ¥3.6 million in March 1992 which brought the situation even worse. Restructuring plans were initiated by leaders at that time which improved the situation, yet after several years of struggle, Nissan's financial condition deteriorated rapidly due to severe competition and in 1998, the company reported a net loss of 28 billion, it has only used 50% of its plant capacity and had too many suppliers (3000, which was 10 times more than Ford). Also, only 4 out of 43 vehicles were profitable. Moreover lifetime employment and close relations with Kereitsu suppliers anchored Nissan's flexibility and agility.

To rescue the company, Nissan and Renault entered into alliance in 1998, Renault obtained 44.4% ownership of Nissan. Carlos Ghosn was appointed as the COO and later CEO, who played a central role in the company's successful turnaround. He diagnosed that the problem that Nissan had were (1) lack of profit-orientation, (2) lack of customer focus, (3) no co-ordination of work, (4) no shared vision and (5) no sense of urgency. The alliance allowed Renault to exploit new markets in Asian and North America, while saving Nissan's business.

## Japanese culture impacting the change

Japanese culture stems from the foundation beliefs practiced in its religion, which is Shinto and Buddhism. They stressed on harmony within social groupings, between humans and nature.

They are highly *collectivistic*, who put the group goals over individual goals. They believe that relationship is very important, that is why they maintained close relation with the Kereitsu suppliers despite the fact that they are of high cost and sometimes low quality. Moreover, decisions were made by people having similar thoughts since debates and conflicts were seen as offense. In order to avoid accountability, they believe that consensus should be reached in meetings, which prolonged the whole decision process.

On the other hand, Japanese are high in *uncertainty avoidance*, they spent 90% of their effort in developing great plans but only 10% on implementation because their objective was to study well all the macro-economical and environmental factors before taking an important decision in order to avoid risks. Thus they tend to have a long-term oriented thinking. Moreover, in order to avoid uncertainty, they made sure that the quality is well enough which brought up their cost 20% higher than their competitors.

Nissan used to have high hierarchical structure and *power distance* within the organization, in which feedbacks were usually channeled through peers. It was almost impossible for middle managers to contribute a plan for the company's future. In addition, Japanese respect seniority, they used the life-time employment and senior-based reward which did not create any motivation for individuals to work hard.

Japanese society is typically a *masculine* one. Males occupy the important positions (such as managers and directors) in companies and they are not used to collaborate and communicate with females, male employees also would not appreciate to be supervised and managed by a woman. This limits the diversity of the organization, because decisions are based on thoughts from people with similar background.

Japanese communicate in a *high context* manner, this led to the problem that specifications of job descriptions and responsibilities were often ambiguously defined and they tend to blame the others when things were messed

up. Also, Carlos Ghosn discovered that if people don't act, it doesn't mean that they don't agree with you, it means that they don't understand.

## **Turnaround by Carlos Ghosn**

Ghosn was born in Brazil, the son of a Lebanese father and French mother, he was educated in Lebanon and France in engineering. He joined Michelin and was sent back to Brazil in which he played a successful role in turning around organizations with difficult situations. His multi-cultural background and experience made him a rescuer for Nissan.

During his first 2 weeks, Ghosn went to the places where the actual work was done and talked to the workers from different departments. He had found out that people were focused mostly on the technical processes but not on evaluating the costs and the work of employees of different divisions were rarely interrelated. Ghosn promised that he would take all positive aspects of Japanese corporate culture but modify some elements to increase the efficiency of the company.

On October 18, 1999 Ghosn introduced a three-year plan to revive the company which would be directed to recreate the organization and build the basis for future constant growth, these commitments included:

- Nissan will return to net profitability in fiscal year 2000
- Nissan will achieve a minimum operating income to sales margin of 4.5 percent by fiscal year 2002
- Nissan will reduce consolidated net automotive debt to less than ¥700 billion by fiscal year 2002

If any of these were not met, the executive committee had promised to resign. Other measures were also taken, such as reducing purchasing costs by ending the relation with most Kereitsu suppliers, optimizing plant capacity and R&D capability and enhancing design attractiveness.

Ghosn established the language policy, all top management meetings should be hold in English and every Nissan's employee should attend English courses. He also emphasized on the creation of a definition dictionary to support the statement: "What we think, what we say, and what we do must be the same... If there are discrepancies between what we profess and how we behave, that will spell disaster." One of the other important measures was organizing cross-functional teams (CFTs) to generate the ideas to ensure changes in purchasing, R&D and engineering. Each team of 10 people was piloted by the middle-manager and included 2 senior executives as sponsors, the former Renault managers and other employees from different departments. To analyze some issues deeper, the sub-teams of 10 people were set up, the total amount of "the change agents" was counted about 500 employees.

COO lured away Shiro Nakamura, 25-year veteran design chief from Isuzu Motors, who became a new Nissan's head of design. He played the key role in designing the new models and is now still in charge. The company took some measures for the workforce optimization. Ghosn cut the number of employees by increasing part-time jobs, assignment transfers and early retirement programmes.

Ghosn also changed the organization culture, by encouraging open debate and disagreement at work. Employees had to use 5% of their working time for planning and 95% for the implementation phase. Job was demanded to be of the best quality and every number was thoroughly checked. The production-based salary system was replaced by performance-based compensation (35% of the salary).

As a result, the management of Nissan reached their goals 1 year ahead of NRP: return to profit in 2000, minimum operating income to sales margin increase from 1.7 % (1998) to 4.5 % (2000). By the end of fiscal year 2002 the net consolidated automotive debt was zero, the purchasing costs were cut by 20%, 3 assembly plants were closed, capacity utilization was equal to 74%, 22 new models were produced, the total workforce was reduced by 4 000 people.

## **The role of leadership in successful international Merger & Acquisition**

Leadership is perhaps one of the most important aspects of management. This is because leadership is a major factor which contributes immensely to the general well-being of organisations and nations. Two of the most prominent leadership theories are Transformational and Transactional leadership.

### Transformational Leadership:

A transformational leader is a person who stimulates and inspires followers to achieve extraordinary outcomes. He/she pays attention to the concern and developmental needs of individual followers, change followers' awareness of issues by helping them to look at old problems in a new way, and is able to arouse, excite and inspire followers to put out extra effort to achieve group goals.

### Transactional Leadership

Transactional Leadership, also known as managerial leadership, focuses on the role of supervision, organisation, and group performance. Transactional leader promotes compliance of his followers through both rewards and punishments. Unlike Transformational leadership, the objective of transactional approach is not to change the future, but to merely keep things the same. This kind of leaders are more concerned with processes rather than forward-thinking ideas.

## **Main factors that should be implemented by leaders & affects the success or failure the M&A of Companies:**

1. **Due Diligence:** When an M&A is first envisioned, the focus is on whether or not it makes financial sense. In due diligence, legal and accounting experts are retained to identify potential fiscal, regulatory, and tax-related liabilities of the target company.
2. **Strategic drivers & planning:** There are several strategic drivers or reasons why you would want to get involved in an M&A. The strategic drivers and planning approach also addresses a large number of measures of success, including the size of sales, the increase of the market share, the improvement of competitive abilities, and of course the change in profitability after the merger in relation to a period before the M&A.
3. **Talent Management:** There is plenty of evidence that lack of the right talents and skills in a business is actively limiting the firm's ability to grow. To accelerate the full benefits of mergers and acquisitions, an assessment of the workforce to get a clear picture of talent employees and place them in the right position.
4. **Aligning Culture:** The real task of aligning the culture of two companies' centers on a thoughtful and thorough analysis of the people and aligning the two different cultures together.
5. **Evaluation Process:** A continuous evaluation process across the whole stage of the M&A plan, would increase the chances for a successful M&A.

## **Why Renault-Nissan succeeded and DaimlerChrysler failed**

Ghosn's success and Eckrodt's failure can be attributed to their different leadership approaches and their abilities to address the relative and combined effects of national and organizational cultures.

Ghosn was a successful transformational leader, who leveraged the positive aspects of Japanese collectivism and minimized the negative aspects of Japanese collectivism. In contrast, Eckrodt did not find an effective leadership approach to transform, leaving the old Mitsubishi cultures of low assertiveness and performance orientation unchanged. Specifically speaking, Ghosn focused on the implementation of the cross-company teams (CCTs) and cross functional teams (CFTs) which modeled teamwork and focused on bottom-line performance and were the mechanism addressing Nissan's cultural problems, while Eckrodt used few teams and failed to empower the team. He relied on DaimlerChrysler's own managers to plan and execute changes. Besides, Ghosn set a good example to his followers. He was personally involved in the selection of CFT pilots to ensure they had high credibility, while Eckrodt seldom gave interviews with his employees and provides guidance to his followers and was criticized for not having a clear post-merger integration strategy. In Nissan, Ghosn approached the change with complete transparency and fairness, while important information was restricted to top-level managers in Mitsubishi.

In addition, Renault, the mother company, played an important role in the successful alliance of Nissan and Renault. Renault delegated authority and power to Ghosn to conduct change management. As a result, decisions were made quickly and executed effectively. However, decisions in Mitsubishi were not made timely enough since Eckrodt needed approval from headquarters in Germany and did not have a direct reporting line to the DaimlerChrysler's CEO.

In conclusion we should summarize that in mentioned examples leadership plays a fatal role in the success of M&A. Understanding the multicultural aspects help to integrate both two cultures and companies smoothly in order to achieve the business success. There is no "right" or "wrong" culture, there is only "wrong leader". The success of the M&A depends also on the deep analysis of the market and company, followed by a concrete implementation plan for business processes.

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