**MBA International Management**

**Cross-cultural Management**

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**Case Study:**

**Nissan – Cross-cultural Management and Leadership in Mergers & Acquisitions**

By

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# Introduction

This paper compares and contrasts the Renault-Nissan and DaimlerChrysler-Mitsubishi merger to consider the relative and combined effects of nation and organization culture on the performance of Nissan and Mitsubishi. It also finds that leadership was major factor impacting on the success of the turnaround efforts of these two organisations.

Substantial evidence indicates that culture is important to organization performance. First, a strong organizational culture can reduce an organization’s cost by coordinating employee effort (Burt, 1999) and lead to competitive advantage (Kotter & Heskett, 1992). Second, Organizational culture is important to organizational change, which is a frequent necessity in modern organizations. Jones, Jimmieson and Griffiths (2005) attribute high change failure rates to change resistance cultures. Hackney and McBride (1995) find that a lack of attention to organizational culture is often cited as an important reason for change failure. Third, organizational culture is also of particular importance during mergers and acquisitions, with the inability to extract expected value being attributed to cultural factors (Cartwright & Cooper, 1993).

The link between organizational culture and organizational performance has significant implications for organizational leadership, who plan an important role in management of organization culture through role modelling and the implementation of human resource management practices, which are the levers by which culture is changed (Schein, 2004). It is also important to Human Resource Management (henceforth referred to as HRM) practitioners because HRM is influenced by organizational culture (McAfee, Glassman & Honeycutt, 2002; Pudelko, 2005; Schneider, 2006) and can influence organizational culture (Ulrich & Brockbank, 2005).

The Japanese automotive industry provides an opportunity to study relationship between national and organization culture and performance in the Confucian Asian culture. Nissan and Mitsubishi required international bailouts by Renault and DaimlerChrysler, respectively. Carlos Ghosn was successful in changing Nissan’s organizational culture which had a positive impact on organizational performance, but Rolf Eckrodt was unsuccessful in changing Mitsubishi’s organizational culture, and the organization failed to turn around its deteriorating performance. Naturally, it becomes necessary to answer the following questions:

* What were the relative and combined effects of national and organizational cultures on the performance of Nissan and Mitsubishi?
* Why was Carlos Ghosn’s transformation of Nissan successful while Rolf Eckrodt’s efforts were unsuccessful?

To answer the above questions, the following points need to be explored:

* The role that culture plays in organizational performance, in general and in Japanese context
* Nissan and Mitsubishi’s problems and the role that the Japanese national culture played in creating HRM practices and an organizational culture that had an impact on organizational performance.
* Comparison and contrasts of the changes that Ghosn and Eckrodt implemented at Nissan and Mitsubishi, respectively.

# Nissan and Mitsubishi

In 1999, Nissan was number two in global and Japanese automobile industry, with 140,000 salaried employees, but it had failed to produce a profit for eight years, had a 26-year decline in market share and was near bankruptcy. Nissans financial situation was critical, with continuing losses resulting in approximately $22 billion in debt. A takeover by Renault in 1999 put Carlos Ghosn in the position of chief operating office. While it looked as though Nissan’s problems were financial, Ghosn proposed that Nissan’s most fundamental problem was cultural and announced Nissan’s Revival Plan in October 1999.

In 1995, Mitsubishi accounted for 11.4% of Japan’s automobile market; however, in 2000, Mitsubishi’s share declined to 8% and it lost $750 million on sales of $31 billion. Consequently, in 2000, Mitsubishi sold 37.3% stake to DaimlerChrysler, which was just less than the 37.5% stake owned by Mitsubishi’s keiretsu network (affiliated organisations that are characterized by close and long term relationships). Rolf Eckrodt was appointed chief executive office in 2002 to lead a turnaround.

Ghosn achieved a successful turnaround at Nissan. In particular, Nissan halted its erosion of market share in 2001 and launched a small car that became third on the list of best-selling cars at the end of 2002. Eckrodt on the other hand, was less successful. DaimlerChrysler-Mitsubishi continued to accumulate losses. For the fiscal year 2003-2004, Mitsubishi lost between $650 and $946 million. Eckrodt stepped down as the chairman and CEO of Mitsubishi and retired in 2004. DaimlerChrysler sold its stock in Mitsubishi in 2005 to the previous owners i.e. the Japanese keiretsu.

# How National Culture Impacted on the Performance of Nissan and Mitsubishi

This section demonstrates how the Japanese collectivism contributed to an organizational culture that led to no profit orientation, a poor sense of urgency and diffused accountability that resulted in poor performance at Nissan and Mitsubishi.

1. **Avoiding Accountability Through Government And Keiretsu Partnerships:**

The Japanese government has a tradition of bailing out large troubled employers that led to a lack of accountability, no profit focus and no sense of urgency at both Nissan and Mitsubishi. Due to a poor sense of urgency, management and employees failed to address Nissan’s problems and struggled to implement their goals. There was poor planning due to complacency and lack of accountability.

1. **Avoiding Accountability Through HRM Practices:**

The Japanese have cultural values of Collectivism, which influences organisational HRM practices of recruitment, performance management, appraisal and dismissal at Nissan and Mitsubishi. Promotion based on seniority resulted in a poor connection between performance and promotion. This also resulted in the most knowledgeable and experienced personnel to be in the position of power and hence, responsible and accountable. The sense of accountability and responsibility was defused at the lowest levels.

1. **Avoiding Accountability Through an Absence of Debate:**

Due to the cultural standard of Saving Face, there was a feeling within the employees that they could not criticise their own products. Hence, debates were not conducted and no one raised objections because Nissan and Mitsubishi employees would vote opinions prior to meetings to test proposals, selecting those that were most popular and aligning positions with the actual decision maker so that no one individual could be identified later for originating a faulty proposal. Employees also used informal meetings and agreements to avoid failure.

The following figure summarizes the content mentioned above:

Government & Keiretsu Bailouts

HRM Practices

1. Hierarchical subordination
2. Consensus
3. Absence of debate
4. No accountability
5. No sense of urgency
6. No profit orientation

Japanese Cultural Value of Collectivism

**Fig 1.** How National Culture Influenced Organizational Culture at Nissan and Mitsubishi

# Leadership and Change at Nissan and Mitsubishi

Understand the similarities and differences between Carlos Ghosn and Rolf Eckrodt is quite essential because structural and HRM changes were not sufficient to create change. It was the leadership behaviour that was pivotal to the success and failure of the two cross-cultural managers.

1. **Introduction of Cost-Cutting Measures:**

To achieve cost reduction, both the cross-cultural manger turned their attention to supplier because the suppliers, due to the Keiretsu system, had increased the cost of purchasing through inefficient coordination and cost controls. In both the organisations, underutilization of factories was problematic.

Nissan closed five factories that had 50% utilization and reduced its production capacity. This was a taboo in Japanese culture because factories support the people who live around them.

Similarly, Mitsubishi was successful in initiating a program to reduce material costs by 15% by 2003 by closing a factory, reducing the number of platforms by 50%, dumping inefficient suppliers and selling assets. By the end of 2003, the work force was also reduced by 16% and research and development spending was doubled.

1. **Both Leaders Changed HRM Practices:**

Rewards were allocated to break with the Japanese cultural traditions based on collectivism and address accountability issues at Nissan and Mitsubishi that contributed to no sense of urgency or profit orientation. Performance based incentive system or cash incentives could amount to more than a third of annual pay packages which benefited the organization’s bottom because variable pay linked to company performance does not add to fixed costs. Incentives were allocated to the managers at the beginning of the year along with the criteria and rewards. Most of the criteria were quantitative so there were no debates about whether the targets were achieved and there was transparency, accountability and fairness.

Nissan challenged the cultural standard of guarantees of lifelong employment by reducing workforce by 14%. Shiro Nakamura was appointed to manage the change within the company because he had experience of working outside the company and in other countries. He was Japanese, hence, was accepted by the employees.

Eckrodt reduced Mitsubishi’s workforce by 14% over a period of 3 years. He also replaced five top Japanese executives with Germans. Four of these new German executives were under 40 years old. This shocked Mitsubishi’s employees because it was untraditional to appoint young people to senior post.

In contrast to Ghosn, Eckrodt exhibited change however did not gain commitment to the change because he was insensitive to the cultural context.

1. **Ghosn’s and Eckrodt’s Different Approaches to Implementing Teams:**

Ghosn concentrated on the implementation of temporary and permanent cross-company teams (CCTs) and cross-functional teams (CFTs) as the most important intervention of change. Modelled teamwork and focus on the bottom-line performance were the main mechanism of addressing Nissan’s cultural problem of accountability, no sense of urgency and hence, no profit orientation. A committee was built to promote joint strategy. This included the CEO of Renault and Nissan and five vice presidents of each organisation that met on monthly basis. To add to this, 11 CCTs and managers from different levels overcame the hierarchical and divisional structure enhancing communication and collaboration. CFTs were setup to drive change and establish a sense of ownership and responsibility for turning Nissan around. This meant that employees were fully engaged in the change process and hence there was a lot of knowledge transfer and sharing beyond functions and regional boundaries.

In contrast, Eckrodt utilised few teams and failed to empower them. DaimlerChrysler relied on its own managers to plan and drive changes. When several small cross-company teams of line managers were established, delegation of the responsibility of execution of these projects was unclear. Mitsubishi managers were treated as junior partners and Japanese executives were not involved in the top management decisions.

The need for quick results led to incomplete cross-functional projects. Also participation and communication was restricted in projects like these. Since many German managers were only on short-term contracts to Japan, they were perceived as temporary guests rather than committed to the Mitsubishi organization and also were perceived as opportunistic. This led to overall a very negative image of DaimlerChrysler managers in the minds of Mitsubishi managers.

1. **Difference in Leader Authenticity:**

Ghosn’s and Eckrodt’s behaviour indicates that they differed on the four factors of authentic leadership i.e. self-awareness, ethical/moral conduct, balanced processing and transparency.

Walumbwa et al. (2008) proposed that self-aware leaders accurately describe how other see them and understand how their actions impact in others. Ghosn demonstrated he was aware how his action would impact on Nissan’s employees. He had a very clear understanding from the beginning that Nissan had to be changed from the inside. He understood that Nissan employees would see him as an outsider as he was non-Japanese and non-Nissan and that is why he involved employees in the revival of the company. The involvement of Nissan employees in the change process leveraged the positive aspects of Japanese collectivism and held employees individually responsible. This resulted in a high performance orientation that is consistent with national Japanese cultural practices. Ghosn displayed high degree of balanced processing which resulted in him being perceived as friendly, open and eager to learn. A high level of transparency instilled that all the problems, concerns and results would be openly discussed which allowed the entire organisation to know what everyone else was doing, addressing the concern of accountability. Ghosn built trust through ethical/moral conduct. There was a follow through on the initiatives he introduced.

On the other hand, Eckrodt misread the Japanese response to his change process. He falsely assumed that Mitsubishi managers were committed to the changes he was trying to make because culturally Japanese managers’ “yes” meant “I heard you” rather than “I agree”. Concentration of power in the hands of German managers alienated Mitsubishi employees. Looking into the aspect of balanced processing, Eckrodt failed to gather information that would have alerted him about the fact that Mitsubishi managers were not committed to his changes and in turn neglected important information such as management and employee passive resistance hence, undermining the structural change. Eckrodt failed to create transparency within the organisation and hence, failed to gain trust of the Japanese management and employees. This demoted integration with Mitsubishi. In contrast to Ghosn, Eckrodt spoke of accountability however he failed to be accountable or hold Mitsubishi managers, both German and Japanese, accountable. Eckrodt role modelled Mitsubishi’s old cultural values which had led to its many problems and did not gain trust of the followers.

Ethical/Moral Conduct

Transparency

Balanced Processing

Leader Self Awareness

Leader sensitivity to cultural context

Follower trust

Leader fit with cultural context

Follower identification with new values (cultural change)

**Fig 2.** The Impact of Leadership on Organizational Culture Change

# Conclusion

This case provides support to convergence proposition that a fit between national culture and organizational culture is unnecessary for high performance. Nissan and Mitsubishi demonstrated that organization culture can become independent of national culture, supporting Hofstede’s (1993) proposition that while societal culture changes slowly, the organizational culture may be deliberately changed.

Leadership must be adapted to the cultural context, it also argues that authentic leadership is valuable in all cultures and there should be convergence towards “best practice” leadership in all national culture context. Culture change is the matter of heart and the leader’s behaviour is the most effective instrument of change. Ghosn demonstrated commitment to the integration of Renault and Nissan through self-awareness, balanced processing, transparency and ethical/moral conduct.

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