TOYOTA VS. NISSAN – A CONTRAST IN CULTURE, CORPORATE GOVERNANCE, OPERATIONAL STRATEGY, AND FINANCIAL PERFORMANCE

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ABSTRACT

Toyota Motor Corporation and Nissan Motor Corporation were established in 1937 and 1933 respectively. They have been facing the same global challenges as well as the same politico-economic changes domestically and globally. They have similar business resources such as work force, capital, products, technology, and information. How, then, can there be such major differences in their overall business performance? This case highlights the role of corporate culture, leadership, business creed, and corporate governance in the operational strategy and financial performance of the two corporations. It also addresses recent successes and challenges that Renault-Nissan alliance faces in the future.

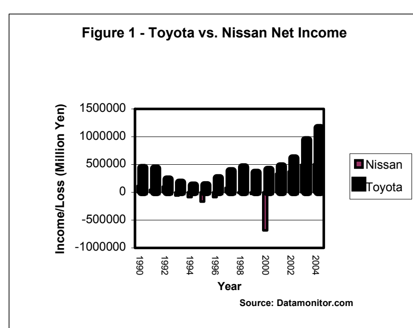
Keywords: Toyota, Nissan, Culture, Leadership, Governance, Strategy, Alliance

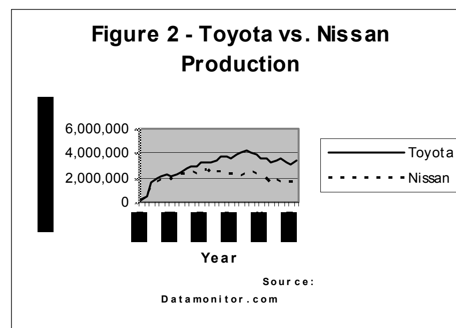
Introduction

The automobile industry was born in France and emerged as a modern industry through the assembly line mass production of Model-T (1913) by Henry Ford who established the Ford Motor Company in 1903. William Durant established the General Motors in 1908, and Chrysler was founded in 1925. Nissan and Toyota were established in 1933 and 1937 respectively. The two major Japanese automakers have been in the same industry, facing the same global forces as well the same as the same politico-economic challenges domestically and globally. Although they have had similar business resources such as work force, capital, products, technology, and information, major differences in their financial performance began to emerge in the 1980s. Toyota had a healthy growth in its market share, revenue, and profit from early 1970s, but

Nissan did not fair well in the 1980s. Nissan's performance turned for the worst in the 1990s, and it incurred seven years of annual losses in eight years of operation from 1992 to 1999 (Figure 1). Its automobile production declined significantly in the 1990s; its domestic market share declined from 18.6% in 1989 to 13.3% in 1999; and its global market share declined from 6.6% in 1991 to a low of 4.9% in 1998. Toyota widened the gap in total number of automobile production in the early 1980s and by the end of 2000 it was producing two million more cars annually than Nissan (Figure 2).

The purpose of this paper is to discuss factors that contributed to the gap in the performance of the two automakers before Nissan's alliance with Renault. It is argued the performance of the two firms can be related to their business creed, leaders, corporate culture, corporate governance, operational strategies, and consequently their corporate competitive strategies. We will learn how culture, leadership, and corporate governance play significant roles in gaining and sustaining competitive advantage for the two corporations. Furthermore, the recent successes and challenges that Renault Nissan alliance faces in the future will be addressed.





Corporate Governance and Business Structure

The corporate structure and governance of Toyota and Nissan can be better understood in light of general corporate development of the Japanese industrial Zaibatsu and Keiretsu. Since early 1600s, the mercantile dynasties of Mitsui, Mistsubishi, Yasuda, and Sumitomo had partial control of commerce in selected commodities such as silk, cotton, smelting, copper mining, and coal mining. These families established complicated rules that governed all aspects of their families' business. The decision-making was shared by a Patriarch and a Family Council which served as a quasi-parliamentary function. Although these dynasties were in partial control of important products, they did not have access to large sources of capital to extend their control beyond a few commodities at best. The first significant expansion beyond traditional businesses by these families occurred in connection with Meiji government's mass privatization program of 1880 (Morck and Nakamura, 2004). Due to extensive debt it had accumulated during prior decades of modernization, Meiji government sold many industrial factories such as steel, cement, coal, metals, machines, ships, and textile to deal with its fiscal problems. Although there was no clear rule for allocation of state-owned factories, each of the four main families ended up with some assets in key industries like mining, ship building, machinery, and textile and so on. Furthermore, the Meiji government introduced the institutions of capital markets into the economy by allowing public bond trading in 1870s and start of Tokyo and Osaka Stock Exchange in 1878. As a result of these significant developments, leading merchant families took

the opportunity and acquired privatized operations from government and paid for it by issuing stock. Many historians consider this era as the beginning of the Japanese Zaibatsu. “The Zaibatsu groups, with family-controlled firms at the apex, embarked on building pyramidal group of subsidiary businesses. Firms at different levels of pyramid were either directly controlled subsidiary of the apex firm or an indirect subsidiary. The goal was to cross-hold enough shares of firms within the pyramid such that their total control still remained directly or indirectly with the apex firm. In general, Zaibatsu can be characterized as a publicly traded family-controlled pyramidal business structure with vast land holdings and substantial monopoly in many industries with financing from equity markets. In later years, large Zaibatsu groups added banks to their pyramids, usually very close to the apex firm, for financing of their expansions. In 1937, Japanese military government *de facto* nationalized all major corporations, subordinating them to central planning under Temporary Funds Adjustment Law (TFAL) (Morck and Nakamura, 2004)”. The TFAL created a planning agency, called “*Kikakuin”,* to centralize economic planning and administration. *Kikakuin* required all boards to obtain government approval before important decisions like changing their articles of incorporation or issuing debt or equity. Furthermore, the government decrees abolished boards’ rights to set dividends or to appoint managers, reassigning these powers to *Kikakuin*. These activities were undertaken amid much condemnation of Zaibatsu families and corporate shareholders for their self-interest, risk aversion, and unpatriotic appetite for profit. Following the World War II, General MacArthur, the commander of General Headquarters of Allied Forces (GHQ), took steps to “democratize” the Japanese economy by confiscating stocks of Zaibatsu families and selling them in the equity market. Furthermore, GHQ unwound the inter-corporate stakes among top Zaibatsu firms and purged 1500 top executives, ranging from auditors to chairmen in 405 firms affiliated with them. GHQ used two criteria to determine which companies to purge: the level of industrial concentration of the Zaibatsu that a firm belonged; and the capitalization of individual firms. As a result of these policies, Nissan Motor Corporation, which was a member of the Nissan Zaibatsu with capitalization of 120 million yen, lost all of its top executives. Toyota Motor Company was affiliated with the Mitsui Zaibatsu, but not as a direct subsidiary. Toyota retained all its executives since it had a capitalization of 97 million yen, which was just less than 100 million yen cutoff point.

As a result of GHQ’s policies, the equity ownership of Japanese major corporations was widely held by individual investors and financial investment firms. However, following the end of US occupation in 1952, a market for corporate control quickly took off as Japanese firms undertook hostile takeovers of each other and corporate raiders extracted greenmail from unwilling target firms. Japanese managers, dissatisfied with the job insecurity of Anglo-American system of corporate governance, began purchasing stock in each other firms to head off raiders. The major banks were soon organizing inter-corporate equity placements, and the current *Keirestu* system emerged in the 1950s mainly as a defensive measure against hostile takeovers. The post war Keiretsu formed in two waves. The first wave involved the re-assembly of member firms of the old Mitsui, Mitsubishi, Nissan, and Sumitomo Zaibatsus. The second wave, in the 1960s, was the creation of financial Keiretsu by major banks of Sakura, Fuji, Sanwa, and Dai Ichi. Currently, Japanese Keiretsu can be classified into two groups called horizontal and vertical Keiretsus. The horizontal or “financial” Keiretsu groups are composed of large industrial, commercial, and financial firms, centered on a main bank and resembling a widely diversified firm. These groups have several characteristic features including crossholding of equity shares,

mutually-shared officers and directors, financing of affiliated companies by main bank, and extensive intra-group business transactions. The vertical Keiretsu groups, on the other hand, are industry centered and composed of affiliated firms that are supplier and/or customers of other firms in the group. The lead firm in a vertical Keiretsu may also be a member of the parent horizontal group and provides linkage between the horizontal and the smaller vertical Keiretsu firms.

By 1937, Aikawa Yoshisuke had built Nissan into the third largest diversified Zaibatsu with more than 77 holding companies including machinery, automobile, metal, and chemical as its major businesses. Aikawa's main strategy for expansion was to purchase promising firms, develop them as fully-owned subsidiaries, and then take them public through IPOs. In creating spin-offs, or *Bunshin Kaisha*, Nissan's role's in Japan's development was very much like venture capital firms in the United States with exception that Nissan and its founder Aikawa always retained control over the spin-offs through the pyramidal business structure. Due to rapid expansion, Nissan's shares became widely held by investors and Aikawa and his relatives share fell from 19.2% in 1929 to only 4.5% in 1937. Although a significant portion of Nissan's shares were held by institutional shareholders or individual investors, Aikawa had little fear of losing control because he was a highly skilled executive whose expertise was essential to Nissan's operation. After GHQ dissolved Nissan's principal shareholders (Manchuria Investment Securities, K.K. Nissan, and the Gisei Kai), it reissued Nissan's stock for public sale. Banks and insurance companies purchased a large portion of Nissan's stock and Industrial Bank of Japan (6.1%) followed by Dai-Ichi Mutual Life (5.4%), the Swiss Credit Bank (5.3), and Fuji Bank (4.8%) became Nissan's largest shareholders by 1984. Nissan's heavy reliance on long term loans from late 1940s to 1980s resulted in more interference from banks in matters such as investment decisions and the selection of new presidents. Consequently, Postwar Nissan experienced numerous changes in management and ownership, and had to endure external interferences in its operation. By 1970s, Nissan Motor Company emerged as a large automaker in a horizontal Keiretsu consisting of many firms from different industries.

Post-war Toyota, with its top management and executives intact, evolved into an apex firm of a vertical Keiretsu. It owned controlling blocks in the range of fifteen to thirty percent in each of its most important part suppliers. Toyota experienced some financial difficulties in the late 1940s, but the executives at Toyota had much less interference by banks due to management policy of "Defending One's Castle" and not borrowing long term. In fact, Toyota had paid off all of its loans by 1977 and has been debt free to present day. Toyota never exhibited the characteristics of a classical Zaibatsu, but the Toyoda family always provided guiding principles for all matters of corporate governance. Nikkei Business Journal observed that the strength of Toyota's culture is based upon a tradition of: 1) crisis management with awareness that Toyota's position is not safe and its leadership in the auto industry should not be taken for granted, 2) a blood-sealed community management and keeping things within the family, 3) a foreign-object-eating management of taking in whatever that is good, 4) a rational monomaniac management of people by involving everyone, and 5) Retaining and constant training and efficient use of people and resources.

Brief History of Toyota

Sakichi Toyoda (1867-1930), a famous loom inventor, provided his eldest son Kiichiro Toyoda (1894-1952) the idea and the initial funds to experiment with the manufacturing of automobiles. Sakichi became interested in automobiles during his four-month trip to the United States in 1910. Another important stimulus was the great Kanto earthquake of 1923 that reduced Tokyo to rubble and destroyed train and streetcar networks. As an emergency measure, the Tokyo Municipal Government imported 800 chassis of Ford Model-T trucks, mounted bodies on them, and used them as buses nicknamed *"Entaro"*. Sakichi regretted the fact that the motor vehicles used for Tokyo's reconstruction had to be imports. He said: *"Japan, too, must build outstanding motor vehicles. And no matter what, we must build them ourselves"* (Toyota Motor Publication,1985). Kiichiro, a mechanical engineer trained at the University of Tokyo, was reluctant to enter into automobile manufacturing business in Japan due to the fact that Ford and GM were so dominant in the Japanese market that even the largest Zaibatsus in Japan did not risk an investment in the automobile industry. However, Sakichi's repeated request obligated Kiichiro to carry out his father's wishes. Toyota launched its first small car, the SA Model, in 1947 and entered the industrial vehicle field in 1958 with the launch of the Model LA Forklift. Toyota began export to the US in 1959. The Toyota Production Systems (TPS) based on Just-in-time, Kanban, and Kaizen were developed in the 1950s and became a major factor in operational efficiency and high quality for Toyota and its suppliers.

Toyota's Guiding Principles and Culture

On October 30, 1935 on the 6th anniversary of Sakichi's death, the employees assembled before a bust of his image and heard the Toyota Percepts read for the first time. The men who drafted these principles had been close to Sakichi during his lifetime, and the principles represented a summary of his philosophy. These words still live in the corporate principles of all the companies within the Toyota Group. They are:

Be contributive to the development and welfare of the country by working together, regardless of position, in faithfully fulfilling your duties.
Be ahead of the times through endless creativity, inquisitiveness and pursuit of improvement.
Be practical and avoid frivolity.
Be kind and generous; strive to create a warm, homelike atmosphere.
Be reverent, and show gratitude for things great and small in thought and deed.

The culture of Toyota manifests itself based on above percepts through its guiding principles and its core values. Toyota sees itself not just as another private, profit-making enterprise. There is a constant awareness that as a business, the company has a responsibility to society, to its employees, and to future generations. Toyota's motto of *"Enrich Society through Building Cars"* is a prime indication of their dedication of service to society. The guiding principles of Toyota (Toyota Motor Publication, 1985) as April 1997 read as follows:
Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.
Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.

Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.
Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.
Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.
Pursue growth in harmony with the global community through innovative management
Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.
Toyota puts its values into practice through effective use of management tools like Kaizen and PDCA (plan-do-check-act); business related systems of efficient production system, policy deployment system, and cost control system. Toyota also has an elaborate employee participation and empowerment related system that uses creative suggestion program and quality improvement system using quality control circles. It also deploys its values through company-wide committees like customer satisfaction committee, cost control committee, safety and health committee, and contribution to society committee, to name a few.

Brief History of Nissan

In 1933, Aikawa Yoshisuke (1880-1967) initiated the development of the Japanese car industry by merging the automobile components department of Tabata Casting with a small automobile producer and repair shop factory owned by DAT Motors. The name DATSON (son of DAT) came about when the firm introduced a new car. The name was changed from DATSON to DATSUN because of unfavorable connotation of SON which means "damage" or "loss" in Japanese. The name "Nissan" originated in the 1930s as an abbreviation for Nippon Sangyo (Japan Industries) used in the Tokyo stock market. Nippon Sangyo grew to more than seventy-four companies by the end of World War II. Among the largest of companies in the new "Zaibatsu" were Hitachi, Nissan Motor Company, Nissan Chemical, and Nippon Mining.

Aikawa's strategy was to produce small cars and trucks that did not compete directly with larger American imports. Aikawa had worked in the United States and established relationship with several American engineers and businessmen. His familiarity and fondness of the American system of mass production of automobiles greatly influenced his decisions throughout his reign at Nissan. In the mid 1930's he hired American engineers and imported designs and entire truck factories from the United States. Nissan did extremely well in its early years and became the second largest automaker in Japan by the eve of World War II. After the war it declined initially, but grew rapidly again and by end of 1960s was exporting over 300,000 vehicles, or 26% of its total production. Nissan's domestic market share grew to a high of 33.7% by 1972, but declined to 25.6% by 1985. When Japan's economy boomed in 1987, Nissan doubled its production capacity and strengthened its sales network. As a result of rapid expansion, Nissan's debt rose to $19.4 billion by 1998. When the Japanese economy went into recession in the early 1990s, Nissan found itself in a debt trap. Nissan's productivity and financial problems turned for the worst in the 1990s, and in 1993 it recorded its first loss since going public in 1951. The efforts of restructuring of the 1990s did not improve Nissan's financial performance and by 1998 it had incurred losses for seven years of the prior eight years. Ultimately, to avoid bankruptcy, Nissan was forced to enter into alliance with French Renault in March 1999.

Nissan's Culture

Aikawa Yoshisuke, the founder of Nissan, was an entrepreneur who was more interested in building an empire than producing automobiles (Cusumano,1985). Aikawa did not leave a business philosophy or guiding principles to shape the culture of Nissan. Nissan's productivity suffered tremendously in the 1950s due to management and union conflicts. In 1953, demands of leftist union of Nissan forced management to use lockout techniques to bring the situation under control, but it was faced with 100-day general strike by the union. Consequently, tremendous energy and attention of top management was focused inwardly instead of looking outward to detect changing market and customer needs.

Another factor that contributed to weak a corporate culture or lack of direction was the discontinuity of top management after World War II. Nissan had seven presidents from 1933 to 1951, most of them holding position for three or four years. So many top executives came and went under Aikawa's direction or during the occupation that it gave Nissan a reputation for unstable management and contributed to the shortage of skilled managers after the war. Extraordinary growth of 1970s exerted more tension on the culture of Nissan. With growth came multiple layers of management together with its inefficiencies in chain of command. Most often, issues and problems did not reach to the attention of the top management and growth brought specialization and departmentalization that resulted in parochial decision making. The personnel department developed an elaborate system of employee evaluation with complex rules and regulations which burdened employees with unnecessary politics and power play that significantly reduced their ability to work hard. The "Nissanitis", to their deterrent, were very complacent with an attitude that "Nissan Will Never Sink or Go Under" due to the tremendous size of its Keiretsu. The cultural inefficiencies came to fore when President of Nissan Yutaka Kume in a 1990 speech said:

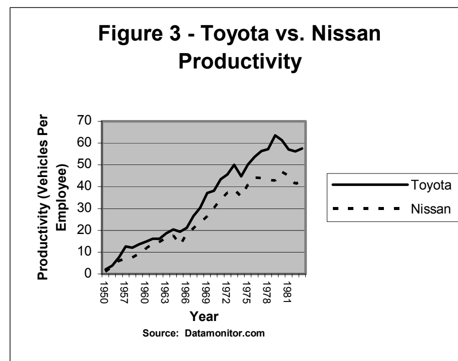
"The most challenging task I faced when I became president five years ago was to reform the corporate culture. I consider it the most formidable challenge I faced because Nissan's business performance suffered not only because of the external conditions which existed not only for Nissan, but also for a whole set of other companies. I decided that the major reasons for that suffering or business predicament lay within Nissan itself." (Kotter and Rothbard, 1993)

Manufacturing Technology and Operational Efficiency

Toyota and Nissan mastered the American truck manufacturing techniques during the 1930s and 1940s and subsequently learned small car technology from the European automakers in the 1960s. By then, they had surpassed American automakers in terms of the productivity; and the quality, performance, and price of their small cars were competitive with European automakers. Their success in manufacturing technology took decades and it involved a unique combination of technology transfer and process innovation. However, the approaches of Toyota and Nissan in technology transfer were very different. Toyota mostly relied on indirect technology transfer that consisted of selective coping of designs and manufacturing techniques from different foreign automakers, whereas Nissan relied mostly on direct technology transfer through formal tie-ups with foreign automakers like British, American, and German automakers or part manufacturers. For Nissan, tie-ups had an advantage of speedy introduction of new models comparable to imports, but this approach locked Nissan into designs that were not the most advanced and

suppliers that most often were not cost efficient. Toyota's advantage with indirect technology transfer was three fold. First, Toyota engineers were able to duplicate proven technologies selectively from different manufacturers and to incorporate advanced features much faster than Nissan in their automobile designs. Second, indirect technology transfer provided Toyota a valuable experience in engineering design that became highly valuable for development of new products or improvement of existing designs. Third, Toyota's reliance on in-house engineering prevented them from adopting manufacturing techniques and, more importantly, equipments that were better suited for larger manufacturers that emphasized economics of scale in manufacturing as was the case for American and European automakers.

Several other important factors helped Toyota to set the standard for productivity and profitability. Most of Toyota's assembly plants and its parts suppliers were both located in the rural areas of Japan. This became critical in subsequent years for the effectiveness of Just-in-time manufacturing due to the proximity and ease of part transportation in the supply chain. This was not the case for Nissan who had plants in the urban areas of Japan mostly close to large metropolitan areas. The unions of Toyota and Nissan also played an important role in the differences between productivity and the manufacturing cost structure of the two companies. The union at Nissan, unlike Toyota's, opposed methods to compress cycle time, raise assembly line speeds, or use overtime when the demand was high. Figure 3 shows the productivity per employee at Toyota and Nissan from 1950 to 1983.



Perhaps the most critical factor that contributed to Toyota's productivity and profitability was the culture that promoted independent experimentation and continuous improvement (Kaizen) that could be traced back to Sakichi Toyoda. He always encouraged experimentation by saying that *"Before you say you can't do something, try it"(* Toyota Motor Publication, 1985). The Kaizen culture was a major factor for the development of Kanban and Just-in-time manufacturing at Toyota. Much credit must be given to Kiichiro Toyoda and other top production managers for their foresights to allow a highly intelligent but relatively inexperienced young man by name of Ohno Taiichi to take up the task of reducing production waste and developing the pull system of Kanban and Just-in-time inventory management system. It took 15 years to develop and refine these techniques. Although Ohno Taiichi did not have a formal college level technical education, he was a highly intelligent and persistent individual. Many other engineers may have given up on such an enormous project or might have lost their managers support for its continuation, but that was not the case for the experimental culture of Toyota. Some of the techniques Ohno used include the redistribution of worker motions and cycle times to eliminate idle time for a series of workers. By 1950, some workers were operating up to four machines

arranged in a horseshoe or rectangular configuration according to the series of processes in the production flow.

Moreover, Ohno devised a revolutionary approach to assembly of parts and lean manufacturing through the reversal of the information flow from a forward push to a backward pull. The classical forward push system of assembly line resulted in a tremendous amount of work-in-progress inventory or idle parts sitting at different stages of production line. The backward pull asked workers to go back to the previous stations to take only materials or parts they needed, and a rule was established that no station should produce more parts than the next station could handle immediately. By reversing the system, Ohno could identify waste in manufacturing, transport, buffer stocks, equipment operation, worker motions, defective production, inspection, and finished product inventories. As a result, the backward pull system forced process improvement. By 1970, the backward pull (Kanban) and Just-in-time inventory system had become the most important techniques that increased productivity and at the same time reduced the production cost at Toyota.

Nissan managers were aware of the Ohno's techniques from early 1950s, but some major factors inhibited them to copy Toyota's manufacturing techniques. First, the types of machinery that Nissan had were highly specialized and not suitable for reconfiguration to be used for multiple purposes as was the case for Toyota's machinery. Second, the union at Nissan opposed cycle time reduction and worker's overtime. Finally, geography affected how Nissan and Toyota reacted to the production management since Toyota's rural workers had lower consciousness of labor and management distinction, i.e. higher power distance, versus Nissan's urban labor force that demanded greater role in running the company. So, Nissan's answer to Ohno's techniques was wide spread use of high speed single function machine tools with the goal of higher productivity through automation. During the 1970s, as manufacturing volumes and product complexity rose, Nissan improved its computer based production system and linked factories to main suppliers through on-line terminals and added highly automated robots. Nissan managers expected to bring the same results as Ohno's techniques, but by mid 1980s the Toyota workers produced more cars, added more value, and yielded more profit per employee than Nissanites.

Renault-Nissan Alliance

By 1998 Nissan was a company on the verge of bankruptcy with declining sales, poor margins, more than $20 billion in debt, and under pressure from its creditors to find a partner. Nissan's poor performance was attributed to poor styles and design, infrequent model changes, high manufacturing and parts cost, more than $4 billion in poor performing investments in Keiretsu suppliers, and a highly bureaucratic decision making process. Nissan was in desperate search for a partner for large amount of cash infusion and turn-around managerial expertise. Several companies including Ford and Daimler-Chrysler had looked at possible alliance with Nissan, but were put off by its high debt and intractable company culture. At the same time, Renault was looking for a partner to expand its global reach and improve its quality and productivity. The two automakers complemented each other in terms of strengths and weaknesses. Specifically, Nissan's market share in North America filled an important gap for Renault, while Renault's cash reduced Nissan's mountain of debt and opened markets in Europe and South America to Nissan. Moreover, Renault was known for innovative design, marketing, platform strategy, and financing of sales and services, while Nissan was known for its expertise in quality and

manufacturing productivity. So, in March 1999, Nissan and Renault signed a Renault-Nissan Alliance and Equity Participation agreement. Renault originally took a 36.8% stake in Nissan for $5.4 billion and in March 2002 raised its stake in Nissan to 44.4%. Louis Schweitzer, Renault's chairman and CEO, appointed his number two man, Carlos Ghosn, to the post of the COO of Nissan. In June 2001, Ghosn was promoted to the position of president and CEO. Ghosn had joined Renault as executive vice president in 1996 after 18 years at Michelin Tire Company. He was a Brazilian born to a French mother and Lebanese father, spoke five languages and was a graduate of the prestigious French Ecole Polytechnique. He earned the nickname "Le Cost Killer" at Renault for sweeping cost reduction and controversial plant closings. Ghosn recalled the challenges he faced when he took charge of Nissan:

"Nissan suffered from a lack of clear profit-orientation, insufficient focus on customers and too much focus on chasing competitors, no culture of working together across functions, borders, or hierarchical lines, lack of urgency, and no shared vision."(Ghosn, 2002)

Ghosn realized that Nissan's problem was threefold: financial, structural, and cultural. The first major financial decision was to dismantle the Keiretsu investments. Despite widespread fear by some Japanese managers of damaging relationship with suppliers, the Keirestu partners recognized that Nissan as viable customer is more critical to their business than Nissan as an investor. This decision was instrumental in freeing up much needed cash for investment in other areas. Nissan also demanded price reductions on the suppliers to bring them down to par with Toyota's suppliers. The cultural challenges at Nissan were the most paramount issue facing the new French CEO. From the outset, Ghosn and Renault had decided to keep the identity of Nissan intact and show respect for the dignity of its employees as they challenged them to overturn deep-rooted traditions. Some of these traditions contributed to complacency and lack of accountability. Like many other Japanese companies, Nissan paid and promoted its employees based on tenure and age. The longer employees stayed, the more power and compensation they received regardless of their performance. Ghosn instituted a new system of reward, compensation, and promotion solely based on performance that included yearly bonuses and stock options. Another deep-seated cultural problem was lack of accountability and responsibility by senior managers. If things went wrong, there was always someone else's fault. The functional areas of design, marketing, planning, engineering, and finance always finger-pointed each other for poor sales and weak financial performance. Moreover, Nissan had many senior managers titled "advisers" or "coordinator" with no operational responsibilities that hindered and under-minded the authority of line managers. Ghosn eliminated all advisory positions and put those individuals into positions with direct operational responsibility and accountability. With these modifications, Nissan managers could see their contributions and when problems occurred, they took responsibility for fixing them.

After a thorough study of Nissan, Ghosn drew up the Nissan Revival Plan (NRP). The plan was implemented with an extensive use of nine Cross Functional Teams (CFT) named Business Development, Purchasing, Manufacturing & Logistics, Sales & Marketing, General & Administrative, Finance & Cost, Phase-out of Products & Parts Complexity Management, and Organization. These CFTs addressed all the key drivers of Nissan performance. The use of 10-member CFTs, all drawn from the rank of Nissan's middle managers, showed Nissan workers that decision are made by Nissan people and not imposed from the top. The NRP reduced

operational cost, increased efficiency through reduction of excess capacity and synergy with Renault, and put the finances of Nissan in order by reducing corporate debt burden. In May 2002, encouraged by the successes of NRP, Ghosn initiated NISSAN 180, a business plan aimed at achieving 1 million additional unit sales, an operating margin of 8%, and zero automotive debt, all within three years. Within one year, Nissan achieved the last two objectives set in the plan.

The overall turn-around of Nissan has been nothing short of magical. By end of fiscal year 2002, Nissan domestically increased sales by 14.3% to 816,000 units. It increased market share to 19%, which is the first year it has increased market share by more than 1% in 31 years. Currently, Nissan is a profitable automaker with a growing market share both domestically and globally with an operating margin of 9.36% compared to 9.76% for Toyota. Furthermore, the equity markets have taken notice of the cultural and managerial revolution at Nissan tripling its capitalization in the past five years.

The Road Ahead for Toyota and Nissan

The Renault-Nissan alliance was a breakthrough after unsuccessful automaker mergers such as Daimler/Chrysler and Ford/Jaguar. At first, the alliance between the French and Japanese companies seemed like an impassable obstacle due to the major differences between the two companies. But amazingly the alliance has met its objectives by combining the strengths of both companies and developing synergies through common organizations, cross-company teams, shared platforms and components. Consolidating the two companies enabled them to benefit from economies of scale giving each a larger market share and greater geographical reach (Europe and Japan/North America regions) as well as gain many other synergies such as better distribution channels and design and production best practices. Nissan is currently the world's 9th largest automaker priding itself on being the world's most profitable mass-volume carmaker by operating margin and Renault follows in 10th place, aspiring to be Europe's most profitable mass volume producer. The merger may have worked wonders for Nissan, but we presume that Toyota will avoid a merger and still remain ahead of its competitors. Toyota has a very traditional and discrete company culture that is valued by its employees. There would be more risk than benefit from Toyota integrating with another company. Toyota has made sound financial decisions throughout the years, holding true to one of its corporate principles: "Be practical and avoid frivolity." Toyota has managed to be debt free by avoiding long term borrowing, exhibiting no need for partnership with another automaker based on financial need. Toyota also remains forward looking and ahead of the times because of its "endless creativity, inquisitiveness and pursuit of improvement." (Toyota Motors Website) Toyota's philosophy of "Innovation into the Future" derives from a passion to create a better society through "Monozukuri - manufacturing of value - added products" and "technological innovation," which they believe is helping to create a more prosperous society.

Committing to the principles set forth in their "Innovation for the Future" strategy, Toyota has been a market leader in hybrid technology which was first introduced in the Toyota Prius, and has since expanded to the Camry, Highlander, and Lexus RX, LS, and GS models. While other automakers were slow movers in the Hybrid market fearing rigid development costs and high sticker prices, Toyota has been creating patents that could provide an edge over competitors. As one indication of that, Ford licenses some of Toyota's technology for the Ford Escape hybrid.

Nissan has made tremendous strides in improving their performance since the merger with Renault. With the Nissan Revival Plan, they trimmed down costs, hired new management, forced employees of both companies to communicate in English, and have seen growth in production and sales. Their new body styles and engine designs have gained popularity globally, and especially in North America. Ghosn has already expressed an interest in an additional merger to further advance the global position of the alliance. We conclude that when the right time comes, Nissan-Renault, will partake in another merger in the near future. Toyota with its strong ambitions for continual improvement and focus on future innovations, which is deep rooted in its company culture, will keep finding a way to preserve its place at the top.

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