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CASE 11 Carlos Ghosn: Multicultural Leader as CEO of Nissan and Renault

We knew some people were concerned about the potential for culture clashes between the French and the Japanese, but it was not an issue. Cultural differences should be used as a catalyst for change, not as a crutch that inhibits change. You can learn a lot from somebody who is not like you.[1]

— Carlos Ghosn,
CEO, Nissan

Make sure you are focused on your own people. Bring in them motivation and sense of ownership, then you can do your miracle.[2]

— Carlos Ghosn,
CEO, Nissan

Introduction

In 2002, Louis Schweitzer, CEO of Renault, announced that Carlos Ghosn (Carlos), the president and CEO of Nissan, would also take over the reigns at Renault in April 2005, while Louis Schweitzer would remain the chairman of the board. With the new position, Carlos would lead two companies Nissan and Renault. As of 2004, Renault held 44% stake in Nissan which owned around 15% of Renault's shares. "Turnaround artist," as Carlos was called, was behind the industry's most remarkable turnaround at Nissan. After he became the CEO of Nissan in 1999, he had brought in many un-Japanese changes in the Japanese company and had actively persuaded the employees to accept change. Carlos was credited for reviving the company from $254 million losses and $19 billion debt in 1999 into profits within 2 years.

After taking up his position as the CEO of Renault in April 2005, Carlos faced many challenges. Heading two different automobile companies from two different countries was first of its kind and industry observers expressed doubts whether Carlos would be able to take up the pressure and rework the "Nissan magic." Although Renault witnessed an increase in its net income from €2,836 million in 2005 to €3,376 million in 2006, it witnessed decrease afterwards.[3]

Carlos Ghosn: The "Nissan Magic"

In March 1999, Renault, the then ninth carmaker in the world announced its alliance with Nissan, investing $5.4 billion. Nissan had losses for many years from 1990–99 except for profits reported in 1997 (Exhibit I) and looked out for partners to recover from the troubles. The brand recognition was very low and it was estimated that Nissan was losing $1,000 for every car it sold in US. By the end of 1990s, Nissan exported cars to Europe and Australia and some parts of Asia. The company had losses to the tune of $5.5 billion, had debts totalling around $19 billion and was suffering from a poor product portfolio and diminishing brand value. Nissan's market share had dropped from 6.6% in 1991 to 4.9% by late 1990s.

EXHIBIT I The Nissan Crisis

Year	Annual Sales ($)million)	Annual net income ($) million)
1995	67,401.6	**(1,918.4)**
1996	56,972.7	**(834.1)**
1997	53,700.6	**627.0**
1998	49,732.1	**(106.1)**
1999	54,380.2	**(229.0)**
2000	56,387.5	**(6,456.3)**
2001	49,109.8	2,670.0
2002	46,588.3	2,799.0
2003	56,904.9	4,126.4
2004	70,087.0	4,751.6

Source: www.hoovers.com.

Renault at the same time was expanding internationally through acquisitions. After the unsuccessful merger with Volvo, Renault under Louis Schweitzer entered into an alliance with Nissan acquiring a 36% stake in the company. Triggering the alliance was Nissan's strength in product designs and sophisticated manufacturing that blended well with the engineering quality at Renault. For Renault, the alliance would help in international expansions in the long term while for Nissan; it was to get rid of its short-term troubles that had accumulated.

Initially, industry observers were sceptical about a non-Japanese manager successfully leading a Japanese firm. While Carlos was successful in cutting costs and had sometimes imposed hard regimes during his tenure at Michelin,[4] many

This case was written by D. Gayatri, under the direction of T. Phani Madhav, Icfai Business School Case Development Centre. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. This case was compiled from published sources.

[1] Carlos Ghosn's interview, "Interview: The road to ruin," www.themanufacturer.com, December 2002.

[2] Parachkevova Anna, "CEO outlines Nissan's resurgence," www.thedartmouth.com, May 12th 2004.

[3] "Financial Statements for Renault SA (RENA)," http://investing.businessweek.com/businessweek/research/stocks/financials/financials.asp?ric=RENA.PA.

[4] Carlos Ghosn joined Michelin in 1974, where he was chairman and CEO of North American operations and had undertook several cost-cutting initiatives.

were apprehensive if he would be successful in Japan. He was 46 when he joined Nissan and was far younger than the middle-level managers in the company. Carlos knew nothing about Japan and had no knowledge of the culture there. He once said that he had a "very vague" idea about the country and accepted, "I did not try to learn too much about Japan before coming, because I didn't want to have too many preconceived ideas. I wanted to discover Japan by being in Japan with Japanese people."[5] On the first day, when Carlos arrived at Nissan, he took an elevator to reach his office. As he entered the lift, which was already packed with workers who were coming up from garage, everyone knew he was the new CEO. To his surprise, at every floor the lift stopped, none got down. Finally, when he got down, the employees bowed as he left and went back to their floors. After such an unexpected incident which reflected major cultural difference, Carlos realised how important it was to understand them. Since the first day, Carlos had made the cultural diversity a catalyst rather than a crutch for the company.[6]

However, since the beginning, Carlos was in a Catch-22 situation as Japanese were not used to dictatorship kind of leadership. He knew that if he tried to dictate terms that could lead to bruising employee morale and if he remained lenient, it could hinder the required change. Instead of imposing change, Carlos brought about the need for urgency in operations by mobilising the managers. Carlos identified that the basic flaw with Nissan's culture when he took over was that employees were reluctant to accept the failures and held other departments or economic conditions responsible for them. This resulted in a lack of urgency among employees as everyone assumed the other would take action. He found that instead of solving the problems, they were trying to live with them. Nissan, throughout 1990s, had been concentrating on short-term market share growth rather than long-term growth and instead of investing its profits towards product portfolio improvement, it was spending them towards equity purchases of other companies especially its suppliers. Its product profile was comparatively outdated with old designs when customers craved for stylish designs while competitors were steadily focusing on new product designs. By 1999, it had around $4 billion held in the form of shares while its purchasing costs remained very high, around 20%–25% more than that of Renault's.

The employees openly resisted cross-functional teams as they strongly believed in territories and sectionalism, which was a major part of their culture. Carlos explained, "Engineers work very well together, financial people work very well together, salespeople work very well together. But when you start to add an engineer, a marketer, a salesperson, and a manufacturer, here all the strengths of Japan in teamwork disappear."[7] To overcome the resistance, he had to explain to the employees why the cross-functional teams were important and how they would impact the overall benefits. Carlos believed that the general human tendency was to resist anything different. He considered that by accepting change people tend to become stronger, as they understand the differences and try to analyse the causes for such differences. Cross-functional teams were formed and employees were involved in the revival process. This helped Carlos explain his plans and gain acceptance easily. Through these cross-functional teams, employees were made to look beyond their line of responsibilities, understanding the nitty-gritties of the other departments as well. After the cross-functional teams were in place, people owned up responsibility whenever something went wrong. "The solution to Nissan's problems was inside the company. The main (idea) we would have for revival of the company would be a rebuilt motivation of Nissan employees and partners," he explained.[8]

Immediately after appointing the teams, they were asked to submit plans to achieve the maximum possible output in each area and within a week decisions were made. The outcome was the Nissan Revival Plan (NRP) (Exhibits IIa and IIb). After the NRP was announced, every aspect from the timing, the plan schedules and the commitments as well as targets were clearly stated. Shiro Tomii, vice president, Nissan Japan remarked, "He establishes high yet attainable goals; makes everything clear to all roles and levels of responsibility, works with speed; checks on progress; and appraises results based on fact."[9]

EXHIBIT IIA The Nissan Restructuring Plan (NRP) and Results . . .

Carlos Ghosn explaining the NRP, once remarked that if people at Nissan were still in school, the Nissan's final exam would have the following multiple-choice question:
>How do you revive Nissan?

a) Implement Nissan Revival Plan
b) All the above

Cross Functional Teams at Nissan

The cross functional teams were established to meet the objective of bringing in around 200 senior executives at all levels of the organisation to discuss the problems and the opportunities for each particular area: business development, marketing and sales, purchasing, manufacturing & logistics, research & development, and general & administrative costs, finance cost, product phasing out, organisation, cost of Investment (Exhibit VIII). They were given a single goal: To develop business and reduce costs and were given time of three months to come up with a plan. The result was NRP.

(*Continued*)

[5] "Carlos Ghosn: standing at the global crossing," http://web-japan.org, April 5th 2002.
[6] "Throwing away the culture crutch," *2000 Automotive News World Congress*, January 18th 2000.
[7] "Carlos Ghosn: standing at the global crossing," op.cit.
[8] Saadi Dania, "Nissan's miracle man offers clues to solving national economic woes," www.lebanonwire.com.
[9] David Magee, *Turnaround: How Carlos Ghosn Rescued Nissan*, HarperCollins, 2003.

EXHIBIT IIA *(Continued)*

NRP	Results
Goals . . .	*Progress . . .*
Profitability by March 31st 2001 and achieve an operating margin of 4.5% by March 31st 2001.	Group net profit forecast at Yen 250 billion for full year to March 2001. Operating margin of 4.5% achieved for the half year ending October 30 th 2000.
Reduce debt from Yen 1.4 trillion to Yen 700 billion by March 31st 2003	Debt reduced to Yen 1.15 trillion by October 30th 2000.
Cut 14% of the workforce-around 21,000 jobs by March 31st 2003	12,000 jobs eliminated by March 31st 2001
Close 3 assembly plants and two power train factories by March 31st 2002 - a 30% reduction in manufacturing capacity. Reduce number of platforms from 24 to 15	All three proposed plants winding off operations by summer of 2000
Reduce the purchasing costs by 20% and decrease the number of suppliers from 1,145 to 600 by March 31st 2002	Savings of Yen 192 billion from cost reduction in sales, purchasing and administrative expenses by October 30th 2000
Sell off assets in non-core affiliates and assets. Achieve a 30% cut in inventory to sales	Sold the stake in Fuji Heavy Industries, Akebono Brake Industries, Ichiko Industries and Ikeda Bussan

Source: Gold R. Allan, et al., "An outsider takes on Japan", www.mckinseyquarterly.com.

EXHIBIT IIB The Results in Key Performance Areas

	FY99 results	FY00 results	Preliminary results of 1st half of FY01	Forecast for FY01	Revival plan objectives for FY02
Operating margin	1.4%	4.75%	6.2%	5.5%	**more than 4.5%**
Operating profit	$6.8 million	$2.4 billion	$1.6 billion	$2.9 billion	N/A
Net profit (loss)	($5.7 billion)	**positive result of $2.8 billion**	$1.9 billion	$2.8 billion	N/A
Net automotive debt	$11.2 billion	$7.9 billion	$6.7 billion	Less than $6.25 billion	**less than $5.8 billion**
Capacity utilization (Japan)	53%	51.1%	75.7%	74.1%	82%
Purchasing cost reduction	N/A	11%	N/A	More than 18%	20%
Number of parts suppliers	1,145	810 (30% reduction)	750 (35% reduction)	N/A	600 (50% reduction)
Number of employees	148,000	133,800	128,100	N/A	127,000

The conversion rate used was ¥120=$1

Source: Carlos Ghosn, "Saving the Business without Losing the Company," *Harvard Business Review*, January 2002.

Listening to the employees and facilitating their participation in the decision-making process, was key aspect of Carlos' leadership. By avoiding impersonal meetings through mails, he stressed the need for face-to-face communication. He believed that the people close to the company could come out with better solutions than an outsider like him. In contrast, the Japanese were polite, reticent and never spoke about the plans to their boss. Carlos had to repeatedly explain to the employees that he needed their viewpoints and would not mind if they speak out. This, according to him was the greatest hurdle. While in France at Renault, he emphasised on teamwork, in Japan he believed it was not required and instead individuality was given more prominence. PriceWaterhouseCoopers in a report on change management listed Carlos' key human resource management techniques calling them very simple and straightforward (Exhibit III).

By maintaining transparency from the stage of planning to action, he aimed at the best possible outcomes while also l-ifting the morale of the employees who were particularly distressed after the crisis at the company. He invited suggestions from every influential individual from suppliers, Nissan's ex-employees, dealers, etc. He explained, "As you know credibility has two legs, performance, and transparency. Performance, we had none to show at the time, so we were determined to be highly transparent."[10] He called the NRP an "organisation's collective effort" involving thousands of employees at every managerial level. To show his commitment to the plan, he declared that he would resign along with other top executives if the plan fails in bringing in the benefits. Carlos wanted immediate results by fixing short-term targets. While he called the passive style of management-by-consensus a killer, an active and constructional version could work miracles, according to him. He believed that an 85% consensus was enough and 100% was not always essential.

While cultural adaptability had been his key, he was also at the same time affirmative about giving more priority to the bottom line growth rather than just to the cultural aspects. He remarked, "I do not want to intentionally offend people, but I am more concerned about making Nissan profitable again than being culturally sensitive."[11] The first phase of NRP focused on cutting the costs and improving profits. The first major step Carlos undertook was divestments from subsidiaries to reduce the debt. Suppliers accounted for major part of costs of production and the age-old *Keiretsu* system[12] and the obligations that came with it were adding to heavy costs. Deviating from the system, Carlos opened the purchasing offer to all the suppliers encouraging new suppliers who were ready to supply at low prices. As part of the revival plan, suppliers were forced to offer discounts to the tune of 20%–30% and the number of suppliers was brought down to 600 from 1,145 while the purchasing costs were reduced by 20%. During a meeting with the dealers of Nissan, Carlos announced, "I don't want any excuses. I want to know what you are going to do to make things better."[13] Cost cutting at each stage began to be regarded as the need of the hour as the employees were encouraged to reduce expenses through all possible ways. The cross-functional teams were given one month time to identify areas to cut costs and increase the profits through bottom line growth.

EXHIBIT III Carlos Ghosn's Human Resource Management

- Listen (if you can't listen, you can't lead)
- Make and keep commitments
- Encourage focused input, make fact-based decisions
- Be consistent
- Instill motivation and urgency.

Source: "Change management insights", www.pwc.com.

The most un-Japanese practices like closing plants and cutting work force, in a country, which believed in lifetime employment, were the biggest of all challenges. When he planned to close five plants which included both assembly plants and powertrain plants, the board of directors were not informed until the night before, as Carlos knew some people within the company wanted his plans to fail. After he announced, he was reported to have threatened, "If this leaks out, I'll close seven plants, not five."[14] For Carlos, convincing the labour unions over the disadvantages of rigid job definition was a big task.

The seniority-based promotion that was entrenched in the Japanese firm was replaced by a performance-based and merit-based incentive system. Instead of sacking people, which was against the culture in Japan, 21,000 jobs were cut through retirements, pre-retirements and golden handshakes out of which 16,500 were in Japan alone. The plants were closed, while offering alternative jobs to the employees in other plants of the company. The complex manufacturing structure, which involved 24 platforms at seven assembly plants, was brought down to 12 platforms, which were shared by four plants. Around 10% of the retail outlets were closed and 20% of the dealer affiliates was streamlined to further reduce selling and marketing expenses. After the phase one of the revival plan was over, Nissan reported profits of $1.5 billion for 6 months between April to September, which was the best result the company had ever seen.

At the same time, Carlos began to be called an iconoclast, who had brought in some un-Japanese, western style of culture in the company's operations. In contrast to the traditional Japanese business etiquettes, he shook hands with his partners and other executives. As a result, there was discontent among the traditionalists and other industry associations in the country. And his bold decisions, like closing plants, had invited repugnance among many including the insiders and Carlos began to take along a bodyguard wherever he went.

The cross-cultural alliance between a French and a Japanese firm, raised several other challenges. The alliance aimed at cost savings through sharing of platforms and

[10] Ibid.

[11] Larimar Tim, "Japan, Nissan and Ghosn revolution," www.gsb.columbia.edu

[12] The *Keiretsu* system in which the companies maintained partnership with each of its suppliers, holding shares in those companies, transferring managers characterised the big family of companies and its suppliers were both shared relationships.

[13] "Japan, Nissan and Ghosn revolution," op.cit.

[14] "Nissan's boss," www.businessweek.com, October 4th 2004.

engineering capabilities. Initially though the employees and the design engineers were convinced over the superiority of the platforms brought in from the Renault plants, they were reluctant to adopt them. To overcome resistance, regular meetings were conducted among the Nissan and Renault employees. At the same time, Carlos began to recruit more designers from Japan to design new models. He maintained that the best way to solve the cultural differences was to avoid forcing the cultural blend. Rather, he believed in appreciating the differences between the cultures and minimising the cultural clashes by bringing in a performance-driven management. To ensure that the Japanese staff understands what the French managers spoke, English was made the common language in the company. A dictionary of 100 keywords used by the management was prepared to solve the differences that came in the way as work was interpreted by French as well as Japanese. The words included 'commitment,' 'transparency,' 'objectives,' 'targets,' etc.

In Japan, attending all formal parties of suppliers was very important and one was not supposed to miss them unless there was a strong reason. When Carlos missed the New Year party hosted by the suppliers' association, it was considered as a sign of disrespect to their culture. Carlos attended all such gatherings since then. Carlos understood all these subtle aspects, which were an essential part of the culture, as he began adapting to them.

In the second phase of the revival plan, which started in 2001, Carlos stressed selling more cars, improving the top line growth as well. Dropping non-performing products from its portfolio, the company introduced trendy new models in SUVs and minivans category. An updated Z sports coupe was reintroduced in the market. The phase two increased sales by 1 million and debt was brought down to zero.

With his unconventional leadership style and charisma, he began to win praises from the employees of the company as well as from the industry and the public. Sometimes, people in streets would stop him and wish him success saying, "Gambatte (go for it)." *Time* magazine named him the most influential global business executive and more and more Japanese companies were embarking on the *gaijin* (Foreigner) – Carlos style for attaining maximum benefits in a short time. His colleagues at Nissan were particularly impressed by his dedication towards achievement of targets and his 24/7 work ethics reinforcing the importance of hard work. His devotion towards the revival of the company from problems, for which he was not in any way responsible, encouraged his peers to work hard and contribute towards a common goal. Toshiyuki Shiga who was made in charge of the Nissan's expansions in China had once remarked, "He told me to make a clear strategy for Nissan in China, and he gave me two months to do it."[15] While he ensured that the progress was undertaken without holding any individual responsible for the past crisis, he was also at the same time particular about results. Dominique Thormann, senior vice president, Nissan Europe, said, "To people who don't accept that performance is what is at stake, he can be ruthless."[16]

Calling his turnaround at Nissan a "near death experience," Carlos said he had experienced extensive cultural diversities during his tenure at Renault, Nissan, Nissan's North American business and Samsung Motors, a Korean-based company acquired by Renault. His management style is woven around two attributes—"value and motivation." He believed in motivating

EXHIBIT IV The True Life of Carlos Ghosn

Source: www2.gol.com

[15] Ibid.
[16] "Nissan's boss," op.cit.

EXHIBIT V Carlos Ghosn: Le Cost Killer

Born in Brazil on March 9th 1954 and educated in France. Graduated in engineering from polytechnic. Career

Michelin, tyre maker (1978–96)
- Plant manager in Le Puy, France (1981–84)
- R&D head in Ladoux, France (1984–1985)
- COO of South American operations (1985–99)
- President and COO of North American operations (1989–90)
- Chair, president and CEO of Michelin in North America (1990–96)

Renault (1996–99)
- Executive VP. In charge of advanced research, car engineering and development, car manufacturing, power train operations and purchasing.

Nissan (1999 onwards) as president and CEO

Speaks five languages: English, French, Italian, Portuguese and Spanish

Compiled by the author

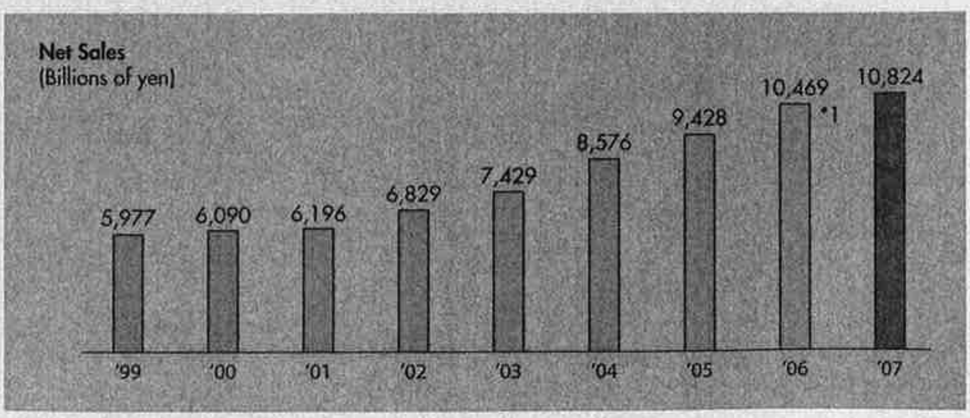
employees and demanding performance by empowering them. "Your employees must be interested in what is going on in the company. Nothing is more inefficient than a boring company. You have to create an interesting environment where people are interested in the story you are creating and want to hear the happy ending," he said. He was called "Ice Breaker" by DaimlerChrysler's chairman Jurgen E. Schrempp because of his unconventional thinking and implementing western style of management in Japan breaking the prevalent myth in the industry.

The biweekly comic series *The True Life of Carlos Ghosni* (Exhibit IV) featured Nissan's CEO Carlos, depicting his popularity in the industry as well as the country. Some others called him "an ambassador of change," "the troubleshooter" and considered him as a role model for all those business executives who were seeking solutions to the poor state of their companies in Japan (Exhibit V).

After the implementation of the Nissan Revival Plan (NRP), within 2 years, the company recovered from the losses and reported a 10.2% increase in its revenues and nearly 84% increase in its operating profits (Exhibits VIa, VIb, VIc, VId). Though the sales had not considerably improved, the cost cuttings contributed towards improving the bottom line. In May 2001, the company reported its largest net profit of $2.7 billion. Carlos was named the "Businessman of the Year" by *Fortune* magazine in 2002 and *Automobile* magazine called him 'Man of the Year' for his contributions to Nissan. Renault increased its stake in Nissan to 44.4% while Nissan owned 13.5% of Renault's share capital.

However, by 2003, Nissan started experiencing a downward trend in its sales, as the volume of goods that passed out from dealers was dropping in size. Customers regularly complained of quality defects and Nissan's rank in overall quality (as per a survey by J.D. Power Associates) dropped to 11 th in 2004 from 6th in 2003. It looked as the rigorous emphasis on the faster execution of the restructuring had resulted in these quality defects while Carlos assured he would fix them. To counter the situation, in May 2004, he sent a quality control team of 220 engineers to the Nissan plant in Smyrna (Tennessee) and every part of the assembly line went through a

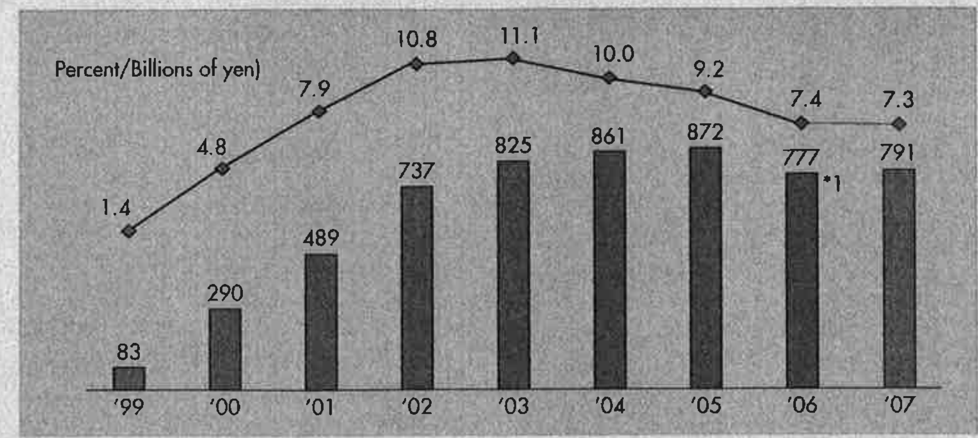
EXHIBIT VIA Nissan's Net Sales (1999–2007)



*1 – Due to the fiscal year unification, includes 15 months result in FY 2006.

Source: "Historial Financial Data," http://www.nissan-global.com/EN/IR/SUMMARY/

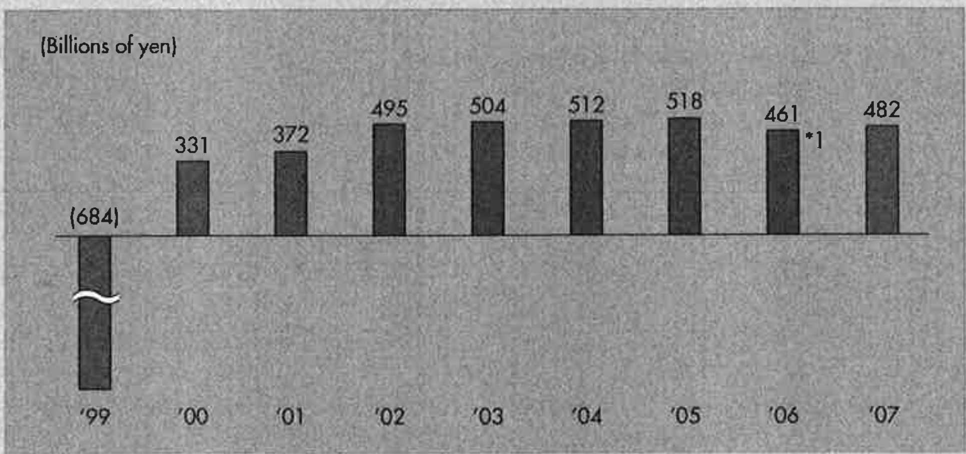
EXHIBIT VIB Nissan's Consolidated Operating Profit Margin (1999–2007)



*1 – Due to the fiscal year unification, includes 15 months result in FY 2006.

Source: "Historial Financial Data", http://www.nissan-global.com/EN/IR/SUMMARY/

EXHIBIT VIC Nissan's Net Income (1999–2007)



*1 – Due to the fiscal year unification, includes 15 months result in FY 2006.

Source: "Historial Financial Data", http://www.nissan-global.com/EN/IR/SUMMARY/

EXHIBIT VID Nissan's Financial Performance (2006–2008) ($ million)

Year	Revenue	Gross Profit	Operating Income	Total Net Income
March 2008	109,324.8	24,410.1	7,987.4	4,870.8
March 2007	88,716.8	20,689.8	6,584.2	3,905.1
March 2006	80,583.7	20,404.3	7,451.6	4,427.8

Source: "Financial Information: Nissan Financials," http://www.hoovers.com/nissan/—ID 41879,target financial_information—/free-co- samples-index.xhtml

detailed scrutiny. Subtle issues like the workers who wore studded jeans and rings causing scratches to the freshly painted cars, etc., came to light. Carlos was amazed at some very obvious ones, which could be rectified at the plant like defective doors and reading lights, etc. Carlos had already achieved two of the three goals that were set for NRP, the debt was cleared and profitability was achieved.

The Nissan 180, an extension of NRP was launched and aimed at additional sales volume of 1 million annually from 2005, the third objective of NRP. The US market was considered to play a key role in achieving the goal of additional 1 million sales. A new plant was set up in Canton, the first in North America where Nissan was facing challenges from other Japanese automakers, Toyota and Honda. Meanwhile, Nissan was planning an alliance with Mitsubishi after DaimlerChrysler gave up its plans of partnership with Mitsubishi. The partnership would help Nissan enter the minicar segment while Mitsubishi would be able to reduce cost burden of new product development.

The shortage of steel supplies forced Nissan to reduce its production in 2004, affecting production of 15,000 units amounting to $58.5 million of loss in sales. Nissan closed its plants for 5 days following the shortage of supplies, as steel prices increased with demand for steel increasing after the economic boom in China. While halting production was considered a sign of mismanagement, many felt that Carlos' attempt to bring down the number of suppliers as part of NRP had resulted in over-reliance on few suppliers. However, Carlos defended himself saying that the savings achieved during that phase were far more ($9.7 billion) than the losses incurred due to loss of sales.

Renault—The French Automaker

Renault was a state-owned government enterprise since 1945. It was started as a motorised vehicle assembler in 1898. Renault built trucks, airplane engines and heavy vehicles during the World War II and after the war along with the economic boom, Renault achieved high volume sales with its low-cost cars like 4CV, Renault 4 and Renault 5 through the 1970s and 1980s. During early 1980s, Renault expanded into US by acquiring half the shares of American Motor Corporation. However, the deal was unprofitable and the company had to withdraw from the market in 1987. A similar deal failed in Mexico and with both the deals financed through debts, Renault was left with huge debts accumulated by the end of 1980s. It reported losses of $3.5 billion between 1984 and 1986. Further, because it was a state-owned business, obligations with labour unions led to more costs for the company.

When Louis Schweitzer joined Renault in 1986, Renault had accumulated debts to the tune of $9 billion and was in huge losses. Its proposed merger with Sweden-based AB Volvo in 1993 failed due to unfavourable French political climate and with Swedish shareholders expressing reservation. The company continued to have losses till 1996, when Louis Schweitzer brought in Carlos as the executive vice president. Under the duo, product quality was improved, outsourcing secondary activities and overheads were reduced along with reduction in workforce. At the same time, French government started setting ground for its IPO when Louis Schweitzer discovered that privatisation of the company could only save it. In July 1996, the IPO was completed. By 1998, with the midsize model Scenic, Renault was successful in the European market and, in 1998 alone, it made profits of $1.4 billion from $40 billion sales.[17]

While Renault became the No. 1 automaker in Europe, to be a global player, it had to expand its operations further. By the end of 1990s, it had a very small presence in Asia and was totally absent in the North American market. After the merger of Daimler and Chrysler in 1998, for Renault, expansions became a requisite. And, Nissan seemed a lucrative opportunity, as an alliance with Nissan could help in easier market expansion for Renault in developing markets. While others, including Ford and DaimlerChrysler, had earlier attempted a deal with Nissan, they later withdrew keeping in view the huge debt that Nissan held and its culture that was inflexible. After the alliance, Renault managed to reduce its launching and warranty costs for new product introductions by recruiting managers from Nissan to undertake the launch. At the same time, it sent its employees to Nissan to oversee manufacturing, to achieve cost-efficient production. Later, Renault acquired Samsung Motors in South Korea and Roman automaker Dacia, as part of its international expansion. With the launch of multi-purpose vehicles, Laguna II and Avantime in 2001 and Espace IV in 2002 (Exhibit VII), and after its association with Formula One racing between 1992 and 1997, its brand popularity improved.

By 2004, Renault held strong foothold in European market and reported a 6.5% increase in sales by the first half of 2004 and was the fourth-largest auto company in the world. It held nearly 11% market share in Western European market in passenger car and light vehicle cars. At the same time, Renault performance in large cars segment was sluggish and was struggling to achieve operating margin of 4%, when the demand for cars in the European market was low. Some of the new launches like the Vel Satis, a tall saloon luxury model, were not very successful in the market. A relaunch in the US market was also underway. Renault was facing other challenges along with Nissan and other automakers. Environmentally friendly cars, which seemed a likely potential opportunity, were costly to manufacture at the price the customers were ready to pay. Renault was planning for expansions in the Chinese market and South Korea and other parts of Asia through alliance with Nissan.

Carlos Ghosn as CEO of Renault and Nissan

By 2010, Nissan and Renault would build their cars using the common building blocks. Carlos viewed the alliance as "managing contradiction between synergy and identity"[18] and confirmed that, while gaining synergies, the individual identity of each brand would be safeguarded. The other major alliances in the industry, the DaimlerChrysler and the GM/Fiat, had not proved to be very successful because of improper management of merged assets, trans-atlantic product development, and failed attempts in understanding the local market; Carlos confirmed that Nissan's alliance with Renault would creatively achieve it. At the same time the alliance would avoid merger and would maintain "a spirit of partnership."[19] The alliance would be the fourth-largest automobile group in the world. In October 2004, the first car was built using a common platform of Nissan and Renault. Modus, a subcompact minivan of Renault shared its base with Nissan's Micra saving $500 million for Renault every year.

After taking over from Louis Schweitzer at Renault's in April 2005, Carlos would also continue as the CEO of Nissan. Carlos was affirmative that he would not leave the company unless he finds the right person who would succeed him at Nissan. He stressed the need for a Japanese as the CEO of Nissan in such a culture-sensitive country. While at Nissan, he had transformed himself into a Japanese, adapting to the culture, analysts feared that he would breach the French business etiquette as he takes the rein at Renault.[20] Carlos took up the reins at both the companies when they also underwent senior level

[17] "For Renault, a new chance to take on the world," www.businessweek.com, November 15th 1999.

[18] "Renault's alliance with Nissan," www.economist.com, August 16th 2001.
[19] "CEO outlines Nissan's resurgence," op.cit.
[20] "Carlos Ghosn-Nissan motor," www.businessweek.com, January 8th 2001.

EXHIBIT VII Renault Product Portfolio

Category	Brands
Passenger Cars	• Twingo • Clio • Clio V6 • Clio Saloon • Clio Renault Sport • Modus(small car) • Kangoo • Kangoo 4x4 • Megane Hatch Megane • sports Hatch Megane • Coupe-Cabriolet Megane • Sports Saloon Megane • Sport Tourer Megane • Renault Sport Scenic • Grand Secnic(7 seater version of Scenic) • Laguna • Laguna Sport Tourer • Espace • Grand Espace • Vel Satis • Trafic Generation • Kangoo Express
Light Commercial Vehicles	• Trafic • Master • Master RWD

Source: www.renault.com

Nissan Product Portfolio

Category	Brands			
Cars	Sentra	Altima	Maxima	350Z
Trucks	Frontier	Titan		
SUVs	Xterra	Murano	Pathfinder	Armada
Van Concepts	Quest	Actic	Qashgai	Tone
	C-note	Dunehawk(2003)	Jikoo	

Source: www.nissan.com

management changes. At the same time, many wondered whether the sense of urgency brought through NRP would continue at Nissan or the company would slip back to its old habits when Carlos left. The pressure was considered to be very high, as an analyst stated, "He will be less present at Renault than he was at Nissan, and less present at Nissan that he used to be. I believe this challenge will be more difficult."[21]

The alliance had helped both the companies equally, in terms of cost savings from not requiring to construct new plants where the alliance can use common buildings, common platforms, etc. This had also helped them enter new markets faster and gain other synergies (Exhibits VIIa and VIIb). The purchasing power had also increased as they ordered and bought components through Renault-Nissan purchasing organisation for both the companies at a time. The alliance had from the beginning ensured that the inter-company cultural clashes do not exist, by maintaining individual cultural identities. While a merger had been avoided since the beginning, Carlos confirmed that it would be its agenda in future also.

Carlos remarked that taking up the two positions would blend the strengths of the people at the companies, the innovation excellence of the French and the dedication towards manufacturing of the Japanese.[22] He affirmed that his tenure at Nissan had allowed him to learn the real essence of successful

[21] Tierney Christine, "Leadership, bold moves help Renault save Nissan," www.detnews.com, October 24th 2003.

[22] Smith DuVergne Nancy, "Nissan Renault alliance faces down few challenges," http://web.mit.edu, November 18th 2004.

EXHIBIT VIIIA Nissan Renault Alliance – The Synergies

2003	
January	The Alliance Vehicle Evaluation System (AVES) is applied in Nissan and Renault plants.
January	The Renault 1.5 dCi engine (K9K) is used on Nissan Micra.
January	Sales of Renault vehicles through local Nissan sales network in Kuwait begin.
January	Sales of Nissan vehicles through local Renault sales network in Romania begin.
February	Sales of Renault vehicles through local Nissan sales network in Bahrain begin.
March	Production of Nissan Xterra, the third model produced at Curitiba LCV plant, begins.
May	Establishment of common working group to improve supply plant management for logistics.
May	Sales of Renault vehicles through local Nissan sales network in Qatar begin.
May	Distribution of Nissan vehicles by Renault importer ARTES in Tunisia begins.
May	Establishment of fourth Single Legal Entity (SLE) in Austria.
June	Renault and Nissan announce the creation of common regional parts warehouse in Hungary, to cover the activities of both groups in Central Europe from end of 2004.
July	The Renault 200Nm manual transmission (JR) is used on Nissan Micra.
October	The Renault Kangoo is adapted and sold by Nissan under the Kubistar name.
December	The Alliance Worldwide Backbone (AWB) broadband network, the new high level network infrastructure of the Alliance, is operational.
2004	
January	The Renault Nissan Purchasing Organisation (RNPO) enlarges the scope of its operations from 43% to 70% of Alliance turnover, or an increase from $21.5 billion to $33 billion. Geographical responsibilities are also expanded.
January	A new financing programme in Mexico begins.
January	New SLEs in Slovenia and Croatia begin operations.
March 29th	Announcement of the Alliance Vision – Destination on the occasion of the fifth anniversary of the Alliance.
May	Unveiling of the new Modus, the first Renault model to use the common B Platform, to be marketed largely in Europe from September 2004.

Source: Nissan Annual Report 2003, www.nissan-global.com

leaders and would drive his success in future also. He called himself, "not a theorist of citizenship but an expert in multinationality."[23] However, under Carlos, Renault has witnessed a flat growth in its total revenues and fall in its net income (Exhibit IX).

Carlos had done wonders blending his innovative management practices with a unique understanding of international business and world cultures. He accomplished this through empowering company employees, and developing internal, cross-communication process that broke down barriers between corporate divisions.

Carlos called the three major attributes, 'Value, Transparency, and Performance' as the ones that would determine the competence of any CEO. He believed that they act as standards for leadership in global business, in the light of growing corporate scandals, when the top executives of the companies were increasingly coming under scrutiny. He explained that the actual results that are delivered, along with simultaneous value creation to the customers and the other stakeholders through maintaining transparency, reflect an efficient leadership. By communicating every strategy to every person concerned, he maintained that it would facilitate a faster reaction to dynamics in the fiercely competitive global marketplace. An analyst once called Carlos , 'a manager without borders, polyglot and cosmopolitan'. Talking about his dual roles and the cultural barriers that he had to face as he moved to Renault while also heading Nissan, Carlos said, "Global is global. In my opinion, this is going to be the story of the twenty-first century. This is what's going to happen in the twenty-first century—you're going to see the emergence of more 'global' standards, some kind of global references; you're going to see more and more of it. But 'globality' doesn't mean 'uniformity.' It doesn't mean that. You'll still have different cultures, you'll still have different tastes, and you'll still have some adaptations to make to different countries, but you'll have some basic things that will be common globally, especially in the economic area."[24]

[23] Abescat Bruno, "I am an expert of multinationality," http://livres.lexpress.fr

[24] "Carlos Ghosn: standing at the global crossing," op.cit.

EXHIBIT VIIIB Cross Functional Teams

Team	Business Development	Purchasing	Manufacturing & Logistics	Research & Development	Sales & Marketing	General & Administrative	Finance & Cost	Phaseout of Products & Parts Complexity Management	Organization
CFT Leaders	• executive VP of overseas sales & marketing • executive VP of product planning	• executive VP of purchasing • executive VP of engineering	• executive VP of manufacturing • executive VP of product planning	• executive VP of purchasing • executive VP of engineering	• executive VP of overseas sales & marketing • executive VP of	• executive VP of finance (CFO) • senior VP of finance (DCFO)	• executive VP of finance (CFO) • senior VP of finance (DCFO)	• executive VP of domestic sales & marketing • executive VP of product planning	• executive VP of finance (CFO) • executive VP of manufacturing
CFT Pilot	• general manager of product planning	• general manager of purchasing	• deputy general manager of manufacturing	• general manager overseas of engineering	• manager of sales & marketing	• manager of finance	• deputy general manager of finance	• manager of product planning	• manager of human resources
Functions Represented	• product planning • engineering • manufacturing • sales & marketing	• purchasing • engineering • manufacturing • finance	• manufacturing • logistics • product planning • human resources	• engineering • purchasing • design	• sales & marketing • purchasing	• sales & marketing • manufacturing • finance • human resources	• finance • sales & marketing	• product planning • sales & marketing • manufacturing • engineering • finance • purchasing	• product planning • sales & marketing • manufacturing • engineering • finance • purchasing
Team Review Focus	• profitable growth • new product opportunities • brand identity • product development lead time	• supplier relationships • product specifications and standards	• manufacturing efficiency and cost effectiveness	• R&D capacity	• advertising structure • distribution structure • dealer organisation • incentives	• fixed overhead costs	• shareholdings and other on-core assets • financial planning structure • working capital	• manufacturing effciency and cost effectiveness	• organisational structure • employee incentive and pay packages
Objectives Based on Review	• launch 22 new models by 2002 • introduce a minicar model by 2002 in Japan	• cut number of suppliers in half • reduce costs by 20% over three years	• close three assembly plants in Japan • close two power-train plants in Japan • improve capacity utilisation in Japan from 53% in 1999 to 82% in 2002	• move to a globally integrated organisation • increase output efficiency by 20% per project	• 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 centres or common back offices	• reduce SG&A costs by 20% • reduce global head count by 21,000	• dispose of noncore assets • cut automotive debt in half to $5.8 billion net • reduce inventories	• reduce number of plants in Japan from seven to four by 2002 • reduce number of platforms in Japan from 24 to 15 by 2002 • reduce by 50% the variation in parts (due to differences in engines or destination, for example) for each model	• create a worldwide corporate headquarters • create regional management committees • empower programme directors • implement performance-oriented compensation and bonus packages, including stock options

Source: Ghosn Carlos, "Saving the Business without losing the company," *Harvard Business Review*, January 2002.

EXHIBIT IX Renault's Financial Performance (2005–2008) (€ million)

Financials	January 2nd 2005 Restated	January 2nd 2006 Restated	January 2nd 2007 Restated	Jan. 2nd 2008
Total Revenues	40,292.0	40,246.0	40,332.0	40,682.0
Gross Profit	8,290.0	8,240.0	8,004.0	8,153.0
Operating Income	2,115.0	1,323.0	1,063.0	1,354.0
Net Income	2,836.0	3,376.0	2,886.0	2,669.0

Source: "Financial Statements for Renault SA (RENA)," http://investing.businessweek.com/businessweek/research/stocks/financials/financials.asp?ric=RENA.PA

Carlos, who has never lacked for confidence, explained in an interview, "In 1999 Nissan was in trouble and Renault was a very small regional company. Joining forces and working together, today [Renault Nissan] has the second-largest market capitalization in the car industry and the second-most-profitable car conglomerate in the industry."[25]

However, the automobile industry faces collapse due to the global financial crisis which started in 2008 without rapid intervention from governments. This affected Renault too. Carlos explained how to survive a crisis and prosper, saying, "First, you need to [weather] the next two years. That's a basic condition. To get through them, you need to make sure that you have a positive free cash flow. Or to put it another way, avoid burning cash. That's very fundamental. [You must be able to] still generate cash, even with a market as treacherous as the one we'll be facing. There is an end to any crisis, and this one is no exception. There will be an end. And you want to be ready. You want to have innovative products, strong fundamentals, a team that believes in the brand and believes the company will be ready to fight again. I don't think everybody is going to make it through this period of time, but those who survive will have a boulevard in front of them because people will still need to buy cars."[26] It remains to be seen whether Carlos would do the turnaround magic again.

Case Questions