



Betting on Big Collaboration

In 1999, when the French automaker Renault S.A. sent \$5 billion and a group of European executives to Japan to save the Nissan Motor Corporation from imminent collapse, a successful rescue seemed remote. Nissan was competing poorly against Toyota, and Renault had very little experience in Japan. In addition, Nissan was not strong in Europe and neither company was managing to prosper in the United States market, the world's most lucrative. One prominent automotive executive, Bob Lutz, quipped that Renault might as well dump the cash in the Pacific.

The person whom Renault put in charge of rescuing Nissan was Carlos Ghosn. Ghosn had begun his career at Michelin, the tire maker, then moved to Renault. At both companies, Ghosn distinguished himself with senior assignments abroad. Even more important, Ghosn, who speaks five languages, was a pragmatic executive with a thoroughly global pedigree. Born in Brazil, he moved when he was 6 to Lebanon, where his family had its roots. Ghosn studied engineering in France at the prestigious École Polytechnique.

Rather than acquiring Nissan outright, Renault bought an equity stake of approximately one-third in the company, with the aim of controlling the Japanese enterprise without absorbing it. The strategy was seen as a practical means of preserving the autonomy of the two automakers, along with their brands,

cultures and business strengths, without risking a clash of national and corporate cultures.

At Nissan, now the No. 2 automaker in Japan, Ghosn was a straight-talking change agent who quickly built a reputation as someone who could be trusted. To put Nissan on its feet, he brought an end to promotion by seniority, lifetime employment and loyalty to the keiretsu system of favored suppliers. He forced the restructuring of basic processes like vehicle development and marketing.

The rescue worked, and six years after moving to Japan, Ghosn, now Nissan's CEO, began delivering the highest profit margins in the industry. His success gave him hero status in Japan, where a flood of articles has been written about him. He even had a bento box meal named after him. In 2005, Ghosn triumphantly returned to Paris, where — in addition to being Nissan's CEO — he was named CEO of Renault, thereby becoming chief executive of two Fortune Global 500 companies simultaneously. Together, the Renault-Nissan alliance produces about 10 percent of the world's cars. Ghosn commutes between Paris and Yokohama and is now the longest-serving chief executive in the global auto industry.

But how do you lead two global companies, each with a distinct culture, in two different parts of the world, each serving large areas of the global market? What follows is a discussion involving Carlos Ghosn; Doron Levin, a *Briefings* contributor; and Yannick Binvel, a senior client partner at Korn/Ferry International. The discussion took place at Renault's headquarters in Paris.

You and your team's rescue of Nissan is a powerful business lesson. It is not often that companies come back from the brink. What did you do first when you went to Japan to fix Nissan?

GHOSN: Look. Most turnarounds of companies aren't based on an intellectual breakthrough — they are based on execution breakthroughs. They are strategies that are put in place in a way that is motivating and logical and pragmatic. When I arrived at Nissan in 1999, our problems were internal and our solutions were internal — it just took someone to unlock them. I didn't use any consultants. I just listened to people inside the company. I met with people every day — hundreds of people in the first three months. They all had bits and pieces of the solution. The solution was widely known within the company. Then we put it into a shape with credibility, a sense of clear priorities and an opportunity to finally be successful.

In your 2005 book, "Shift," about the rescue of Nissan, you explained your strategy of linking Nissan with Renault in an

alliance. The strategy worked well 12 years ago, in part because Nissan was in desperate straits and receptive to cultural changes imposed by Renault. As Nissan has grown stronger, has the original basis for the relationship changed?

GHOSN: It didn't work only in 1999 — it still works today because the alliance has developed a lot in 12 years. There are new governing bodies, new ways of doing work, new synergies. It's not a calcified organization. But the basic mind-set — that this is a partnership, not a conventional merger and acquisition, and not a fusion — remains in place. It's a part-



nership between two entities with two cultures, two bodies for decision making, two headquarters and two brands that continue to do very well. As a principle, the alliance can carry us into the future for a very long time. No one knows how long — in business, everything can change — but for the foreseeable future, and for sure during the course of a six-year mid-term. The plans of both companies, and the way we work, will continue to evolve. In fact, we will never stop changing and evolving. It's worked so well — not only in 1999, but ever

“CHANGE AGILITY”

In the automotive industry, where stasis almost killed the giants, it makes sense a new school of leaders would emerge, defined by their ability to lead through crisis and change. Behind Carlos Ghosn’s substantial experience and razor-sharp instincts is a rare trait, even among world-renowned CEOs. Successful CEOs tend to be highly learning agile - curious about the world, visionary, willing to try new things, comfortable with ambiguity, and highly socially attuned. But the least common form of learning agility is change agility, in which a leader is galvanized by crisis, and naturally drawn to the bleeding edges of innovation. It requires focus and calm in the “heat” of change, and the ability to inspire and empower people who have been rocked by uncertainty. Carlos Ghosn leads with this rare skill, and goes one step further to create change-agile organizations.

—Dana Landis, Ph.D., Vice President,
Global Search Assessment, Korn/Ferry



since — and it’s the only cross-cultural combination or entity in the auto industry where you’re not hearing about drama or conflicts.

Perhaps you’ve simply been successful keeping the drama out of the media.

GHOSN: No way. It’s very difficult to hide things when something’s wrong. You would hear about it. Believe me. You can’t hide it. Now, you asked how long we can continue. Yes, we

can continue, but, that said, adaptations have to be made. We’re not on the defensive. We’re open to change, adaptation and evolution — with the same mind-set of mutual respect.

Can this business combination be as good as or better than a successful merger or acquisition?

GHOSN: O.K., first thing: I have a preconceived notion against acquisitions. Acquiring a company is very hard because making the people of the company you are acquiring fired up and motivated and totally integrated as normal citizens — not

second- or third-class citizens — is very hard. I’m not saying it’s impossible, but it’s very hard in this industry. The likelihood that two companies with different cultures will end up in a successful long-term integration is very small. And, in fact, we’ve seen so many disasters in the past 10 years, so many “divorces,” that it should make us question whether it makes sense. Remember: In this industry, people have a lot of pride. They’re emotionally connected with the technology and the brand. Is it possible to integrate this passion? I have my doubts. That’s why if I maintain the same business results while keeping the companies autonomous and keeping intact their own history and pride, I’m going to do it that way. That way spares a lot of energy fighting against an emotional, defensive position.

Let’s talk about Daimler, the newest member of the alliance. How and why did you organize this relationship?

GHOSN: I don’t want to talk for my friend Dieter Zetsche, Daimler’s CEO, but the relationship with Daimler is an interesting case study. In the case of Daimler, we did not start by saying, “We are going to establish a strategic cooperation, so now let’s organize a team and let’s organize projects.” No. Instead, we started by saying, “We can do the Twingo/Smart small-car project together.” Then our teams looked at the product plans and said, “And we can also do an L.C.V. — a light commercial vehicle — together.” Then we found that we could do specific engine exchanges. Then batteries, and so on.

So we lined up all the potential — all the projects that might make sense to collaborate on and we said, “You know what? There’s enough on the table to establish a strategic cooperation.” Now, this is the important part: The strategic cooperation was established after the objectives were organized. So back to your question: One of the reasons we were so successful was that we started by asking, “What are the specific projects; where is the substance?” and only then saying, “Let’s establish an alliance or a strategic cooperation in order to extract synergies and to eventually imagine more



Carlos Ghosn (left) addresses workers at a Japanese Nissan plant.



than that.” Right now, the relationship is extremely project oriented, synergies oriented, and extremely pragmatic. We start with projects. We don’t start with the framework. If we started with a framework, and then tried to execute against it, it would never work.

You and Dieter Zetsche are friends. Does this help make the relationship work more smoothly?

GHOSN: Oh, yeah. He was head of Freightliner, the truck maker, and I was head of Michelin. We were both working in the U.S., and he came to visit me in Greenville, S.C. And yes, there was personal chemistry. But I would say chemistry is a starting point. The relationship beyond that has to be based on projects and principles. We both had enough experience with alliances and combinations, some good and some bad, to come together on this.

How did the alliance relationship start?

GHOSN: The cooperation started with a request from Daimler to Renault. Daimler said, “Can we work together on the next Smart?” They were looking for a partner. We sat down and said, “O.K., let’s work on it.” We said there may be other things we can do together, so we extended it to Nissan, and little by little more projects came, and then I met with Dieter and said, “Hey, there’s more here than just a specific project,” and that raised the question of cooperation and collaboration.

Are you developing more cooperative projects with Daimler?

GHOSN: Yes, there already are others. There is room for more partnerships, and for more strategic cooperation as long as you know exactly why you want to do a partnership and

you’re working with the right people and there’s respect. You want people who will work collaboratively and in a very pragmatic way.

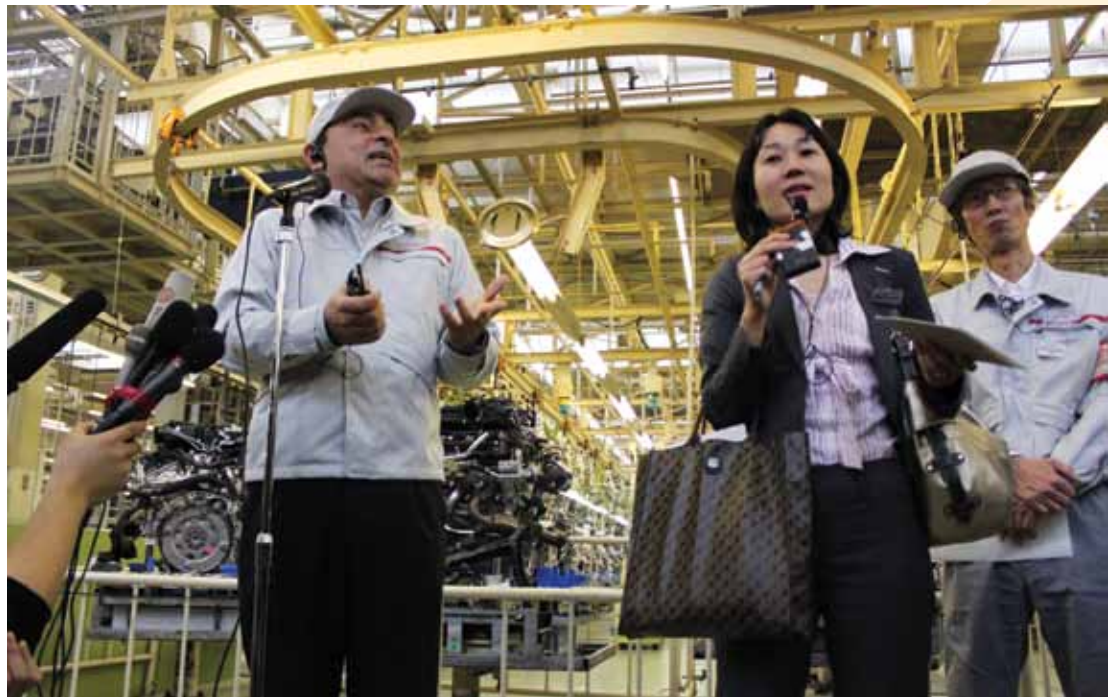
What type of manager works out best in a partnership environment? Can you disclose how you identify these people, how you train and acclimate them to the situations they may face?

GHOSN: Managing in the 21st century — it is different. People who participate in these projects are usually extremely pragmatic. They understand that diversity of background, ethnicity and point of view can translate into wealth and enrichment. Diversity isn’t only something difficult to manage but something that can be positive. You can’t be successful without understanding what I call the “culture of management.” We know that we don’t do it the same way as we did 20 years ago. Back then, we didn’t need as much cross-cultural and cross-functional management as we need today. Back then, it was new and interesting, but today it’s a basic requirement.

How do you define cross-cultural management?

GHOSN: Cross-culture means: if you are a Japanese company, you know how to work with my American employees, Chinese employees, European employees, etc. And that’s not all: Then you also have to know how to work with people from different corporate cultures in the form of alliances. So it’s cross-cultural squared — it’s not only working on your own company in different countries around the world, but it’s working with a different company in a different country. Again, this skill used to be a nice management trait, but now it’s absolutely a requirement.

Bertel Schmidt (3)



Is the educational system evolving so younger managers understand the cross-cultural approach you are describing?

GHOSN: Yes, we're going in this direction. Not all business schools are at the same level. Not all have embedded this into the teaching yet. But there's no doubt that this is coming. I do enough speaking at business schools to know, based on the programs and questions they have, that we are going in this direction.

What are the barriers to creating a global management team?

GHOSN: What's the most important challenge? People become very defensive when you try to diversify. If you bring in too many foreigners, people from the country start to become a little defensive. This is the most important challenge you face: how can you globalize, how can you diversify, without putting your organization on the defensive? It's not obvious. You need to explain why, be extremely selective, be sure that the people coming into a country are extremely top-notch so other people see the value in bringing in these sources of diversity. You send them into different parts of the organization and you give these people a kind of global track record so that they gain credibility and so they can understand the challenges.

Is that the approach you are taking now?

GHOSN: At Nissan, non-Japanese people hold 46 of the top 100 jobs. O.K., you might think they are all French — but that's not the case. They are Dutch, South African, British, American — more than a dozen citizenships. And this, by the way, took more than a decade to do. In that decade, the Japanese team

saw clearly the value that people are adding and they saw how they contributed. It's not a situation where one group says, "It's not our company anymore." It's a way of finding the best talent and making them comfortable on a global team. And, by the way, all the time we are hiring top talent we also have to keep reminding everyone that Nissan is a Japanese company, it has Japanese DNA — but it's much more open-minded and global than it used to be, and it's much more equipped to deal with problems and crises. You cannot globalize your team artificially or introduce diversity from one day to the next. This is a long-term effort where people can feel your investment and your belief.

Another thing that's important is stepping up to do what is obvious and taking full responsibility. Someone needs to accept the risk of becoming unpopular, and losing everything if the solution doesn't work. In this case, it was me as the CEO — I would pay a very high price if the turnaround strategy didn't work. But the truth is very few people want to sacrifice their reputation and everything else for the sake of getting their organization out of trouble.

Are you suggesting that people in positions of responsibility lack courage?

GHOSN: My point is that it's difficult. Even if the solution is obvious, getting a company or organization out of a particularly tough circumstance doesn't come naturally. It comes through a lot of perseverance and difficulty. Turnarounds are based on execution, and execution is the hard part. And taking personal responsibility is also very difficult. You need to accept the fact that you're willing to sacrifice something — everything — to change.

Nissan had a number of plants and a number of people working very near the site of the devastating March 2011 earthquake in Japan. You received a lot of positive attention for the way you handled the crisis and were able to get the company operating again. What's your approach to crisis management?

GHOSN: In crisis management, you have five important steps that need to be done perfectly and religiously. First, there is assessment. You need to go for assessment, diagnosis, and you need to do it quickly and intensively. You need to know what's going on. Assessment is a very important part of how to face a crisis. When we had the earthquake crisis on March 11, the same day the earthquake hit we had a team in place connected with all the plants and teams. We sent people and instructions to make the decisions on the ground. And we made assessment continuous, which is very important. If you don't know what's going on, you can't take a bold action.

What comes next?

GHOSN: After you make the assessment, the second thing you need to do is establish an action plan and, importantly, you must also offer a vision for the time when the crisis is over. You need to line up the priorities — the priorities now and those we need to keep — and you need to keep them extremely simple. Usually, it's only one priority. After the Lehman collapse and the onset of the global financial crisis, our priority was save cash flow. After the earthquake, it was to “push production” — we needed to produce as many cars as possible for customers. At the same time, there are also secondary priorities that you can emphasize. After Lehman, during the Great Recession, I said not to compromise our electric car project or electric vehicle production generally. You need to know what you must prioritize, but you also must know what — at any cost — must be preserved for the long term.

What's the third step?

GHOSN: Empower! In a situation of crisis, people want to centralize. Wrong. Decentralize! Empower people! Make sure the plant manager has more power than he ever has to engage and repair, to approve expenses, to hire and fire. Make sure your engineers engage. Engage and empower the gemba — which is Japanese for “the real place” or “shop floor”! You need to give the power to people on the ground for a turnaround to go very fast. The people on the ground have the most information — you must empower them because they are closest to the solutions and action.

Next, just as you empower people at the gemba level, top management needs to engage fully. In Thailand, which had a huge flood, our head of production took the plane to Thailand immediately. We said to him, you have full power and engagement, you will have everything you need, and top management is committed and accountable. During the Nissan

revival plan, I said I'd resign if any of our top three priority commitments were not met: We said by end of year we'd be profitable. By the end of three years, we'd cut the net automotive debt in half. And, third, we said we'd achieve an operating profit of at least 4.5 percent. I said that if any of these are not met, I would leave and the operating committee would leave with me. I was very committed to this — I was fully engaged, and I fully engaged the team. This is extremely important.

And the last step is, when the crisis is finished, the only thing you can be sure of is another one will hit you. We went from the Lehman collapse — when the so-called Great Recession was supposed to be the crisis of the century — to the March 11 earthquake and tsunami, which was the natural disaster of the century. Then we got flooding in Thailand, then the yen appreciation, and now we've got the euro crisis. It's coming from everywhere. But you know what? This is a really good opportunity, and you can identify your heroes this way.

What do you mean by heroes?

GHOSN: Well, crises are great, in a certain way, because you can see who your heroes are. People who you didn't notice before will stand up and you will say, “Oh, my God, this guy is more powerful than I thought.” In crises, these people will reveal themselves. We have heroes who emerged after the Lehman shock, during the earthquake, in the flood — these are good opportunities. You see people standing up to challenges you would have never expected. Without the crises, these people were still good employees — these are not people who were ever inefficient. But they didn't necessarily stand out. They seemed normal and then, whoof, a crisis comes, they rise up, and they become leaders. We are fortunate in some ways that we have had experiences that allowed us to identify a lot of leaders. We have a deeper talent bench. We could not have imagined this.

So are crises not only unavoidable but important?

GHOSN: Yes, they're important because crises are the true nature of business. A crisis is an acceleration of reality. All of a sudden, you have things you usually do or see coming together very fast. You don't need a CEO when times are good. You need a CEO when things become hectic, when you need to re-establish north, to re-establish coherence.

Is the European economic and currency situation just the latest crisis then?

GHOSN: Frankly, I think the situation in Europe is not impossible, and I don't think it will be doomsday. There are many solutions for what we're going through — all the solutions have a degree of difficulty, but there are solutions.

In our case, we are preparing for a very volatile year. 2012 has a very high degree of uncertainty. It's very difficult to see if Europe will be in heavy recession, mild recession or stable.

No one in Europe believes in growth — so we are eliminating the growth scenario. You prepare for the worst. When you are in front of uncertainty, in general, the strategy is “hope for the best, plan for the worst.” But you want to avoid unrealistic Armageddon scenarios too. If everyone is slowing down, if you stop hiring, if you stop employment, if you stop investment in future technologies, if you decrease inventories, if you make it difficult for suppliers and employees, this type of thinking becomes a self-fulfilling prophecy. So, I don't believe in Armageddon in Europe in 2012. I don't buy it. There's enough knowledge, experience and history on this continent, and we can agree that Europe has made many smart choices in the past. Yes, there's a lot of wrestling and negotiation taking place. Fundamentally, I'm not very pessimistic. I'm impatient but not very pessimistic.

Outside of some emerging market countries, it's not a secret that the world's car markets are still a bit shaky. Given that fragility, Nissan and Renault are introducing zero-emission electric cars. Aren't you taking a big risk?

GHOSN: You shouldn't look at electric cars as a risk. You should look at them as an opportunity. First, look at the challenges that we are facing, that the car industry is facing — too much dependence on oil; the cost of oil today and in the future; global warming; the cost of regulation around global warming; development of the car industry in emerging markets. And, by the way, nobody denies that the oil price will go north, nobody denies that the trend of global warming we are currently on is unsustainable. So you can't look at all these trends and say, “Let's do nothing.” You have to look for a solution, and be part of the solution.

What is the most elegant solution today? It's the electric car. It's the zero-emission car. There are other technologies but they're not ready — like fuel cells. They're still expensive. It's an obvious thing that electric cars will become part of our future. Now, adoption will go faster or slower depending on circumstances beyond our control. But I think it will go faster because I think we underestimate the trend on climate change. And we underestimate the consequence of dependence on oil. We have the technology; and we know how to put together solutions. And by the way, the car — the Nissan Leaf — is very well accepted by all the people who have driven it.

Yes, the Leaf is an excellent car.

GHOSN: That's what I'm saying! If the car were miserable to drive, or didn't have excellent performance, O.K., that would be a different story. But people really love their electric cars.

So that's another big reason I prefer to talk about opportunity: We're in a situation where we are selling every car we make. But here's the interesting thing: When you're selling every car you make, you don't know where the pent-up demand is. In surveys that we've done and that are consistent with those others have done, we keep seeing this: 10 percent of people



say if they have choice between gas, diesel, hybrid or electric car for their next car, they would want an electric car. These people have never driven one and they already want one! Can you imagine that? So I prefer not to talk about risk — it's an opportunity for Renault and Nissan! It's a big benefit! We are associating our name with a technology that people are receiving with arms open.