

# Cross-functional Teams: Turnaround Mantra for Nissan

*KBS Kumar*

A turnaround attempt had already been made on Nissan's revival in 1993, under the leadership of Yoshifumi Tsuji. But eventually, the pressure from the labor force and lack of cooperation from the management did not let the plan succeed.

In 1999, Renault entered into an alliance with Nissan. The agreement costed Renault \$5.4 bn. Carlos Ghosn, an Executive at Renault group was sent on a mission to turnaround Nissan. Undoubtedly, the agreement was, on the face of it, a risky venture for Renault, in general and Ghosn in particular. Ghosn, as his first step towards the Nissan's revival, sorted out the strengths and weaknesses of Nissan. He could feel clearly that the employees and the management at Nissan had lost confidence in the company's performance. Ghosn first targeted at understanding the culture and the people of Japan and Nissan. He had the specialty of adapting to any new culture quickly; Nissan's was not an exception. Ghosn warned: "If you do not adapt, you lose, if your identity is compromised, you lose". The employees could feel his sense of urgency towards the company's situation and his liking for the culture of the country, that made him an acceptable leader across the organization.

The next target of Ghosn was the improvement of communications at Renault. Ghosn could infer that the internal communication mechanism at Nissan was poor and it did not have a proper infrastructure for communication. David Magee in his book *Turn Around: How Carlos Ghosn Rescued Nissan* defines Ghosn: "Ghosn recognizes the benefit of communications like, perhaps, no other business leader in the world". Ghosn created a well-established communication system across the organization.

## **Cross-functional Teams**

Ghosn had to act meticulously, as he was an outsider to Nissan and Japan. He took all the care, so that his instructions to the management and employees did not sound as dictations. He came up with the idea of establishing Cross-functional Teams (CFT)<sup>1</sup>. CFT concept already proved to be successful during his turnaround at Michelin Group. CFT groups included mostly the middle level managers who were in continuous access with Ghosn with their observations, concerns and suggestions. Ghosn emphasized facilitating the managers and the workers with empowerment that helped in reducing bottlenecks at the departmental level. He allowed the members to think freely and challenged the employees to find ways to solve the crisis at Nissan.

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<sup>1</sup> Cross-functional groups comprised managers from different departments and different functions, who could share their problems through brainstorming.

Teams were allowed to operate with authority and the executive committee decided that the idea of CFTs was recommendable. The concept of CFT allowed a free flow of ideas and out of the box thinking. Earlier, the people of one department had a tendency of shying away from the people of another department. CFT encouraged Inter-disciplinary thinking and a better understanding of various problems across the organization than bothering about the problems of one's own department. Various departments that participated in CFTs were business development, purchasing, manufacturing, logistics, research and development, sales and marketing.

Ghosn set a deadline of three months for CFTs to come up with the observations and problems and the possible solutions. It started with a slow pace, and picked up the speed gradually. The organization witnessed a gradual transformation in the style and the pace of functioning of the managers and the staff at Nissan. After three months of formation, all the CFTs together had come up with as many as 2000 ideas, which were presented to the executive committee. The executive committee, in turn, presented the final recommendations to Ghosn. As a result of a thorough study of all the ideas and his own analysis, Ghosn came up with the tough Nissan Revival Plan(NRP).

Ghosn announced his NRP on October 18, 1999. The plan comprised of many tough decisions. The revival plan aimed at reducing the production capacity by 30%, raising the utilization rate to 82% and reducing purchasing costs by 20% by the end of the Fiscal year 2002. The critics of the tough tenets of NRP, initially, opposed Ghosn. But he had only one aim i.e., Revival of Nissan.

As a part of NRP, the first and foremost task that Ghosn took up was the removal of Keiretsu. Ghosn decided to slash the number of parts and the material suppliers, to achieve the 20% cut in the operating costs. Nissan withdrew its investments in all the non-core, and non-strategic businesses, which meant withdrawal from the Kieretsu agreement. Akira Sato, a CFT pilot, recommended the massive reduction of the holdings of Nissan in various companies. Most of the holdings in those companies were non-performing. This move of Nissan was followed by a protest from the managers of almost all the companies. But Sato convinced them, by explaining the long-term gains and the international significance. The next target of Ghosn was strengthening the brand of Nissan. The new product rollout, and the brand development was a crucial part of the revival plan. Ghosn opined, "There is no problem in a car company that good products cannot solve". The research and development expenditure was boosted by 25% and Nissan concentrated on developing new products. NRP included reinvention of the present models and introduction of as many as 22 new models of cars globally during the three-year period of NRP.

Nissan, before the implementation of NRP, was decentralized and individually managed. As a result, Nissan had its accounts being maintained in as many as 200 banks across the world. One of the tenets of Ghosn's NRP was centralization of the financial management, which brought the number of required banks to mere 15. This consolidation of the global treasury operations brought down Nissan's financial operations cost from ¥90 bn in 1999 to ¥24 bn in 2000.

In the case of suppliers to Nissan, it was observed that Nissan was purchasing the parts at much higher price than their competitors. There was no mutual benefit in the transactions with the suppliers. Ghosn decided to bring down the costs of the parts. This was at the cost of relationship with the old suppliers, but was inevitable for the revival of Nissan. Hence, Ghosn did

not hesitate to throw the offer of supplying the parts open, and allowed new suppliers. The new suppliers agreed to work with Nissan under the changed conditions and lowered costs.

Nissan, under the leadership of Ghosn, had to undergo a massive restructuring from within as well. The restructuring involved, retrenchment<sup>2</sup> of thousands of employees, closure of plants and announcement of compensation packages which, were against the Japanese work culture. Nissan reduced the number of employees to 21,000 from 1,48,000 by closing down the plants. The situation was sensitive and prone to opposition. Ghosn handled the situation with knack and he offered three options to the employees.

- Retirement by natural attrition.
- Early retirement by offering incentives.
- Transfer of the remaining employees to other healthy plants.

With this, the productivity of Nissan raised by around 20%. Nineteen months after the announcement of NRP, Nissan produced the best results in its history. At the financial year-end 2000, the sales of Nissan grew by 4%. The same year witnessed the launch of 22 new models of Nissan. The other significant results of NRP were, reduction in purchasing costs by 11%, and improvement of manufacturing utilization from 51% to 74%. Soon after the announcement of the results, after the first year of implementation of NRP, Ghosn was named Nissan's President and CEO.

With the rigorous planning and successful implementation of three-year NRP, Nissan could achieve its goals within two years i.e., by May 2002. Nissan posted its best ever financial results at the end of financial year 2002.

With success of NRP, Ghosn, in April 2002, launched a new plan called NISSAN 180. Nissan aimed at improving the sales growth dramatically by the financial year-end 2004. Ghosn said "Through NRP we transformed a struggling company into a good company; through NISSAN 180 we will transform a good company into a great company." The name NISSAN 180 itself connoted the objectives of the plan. The numerical 180 have their significance in that they define the goals of the plan, which are as follows:

- '1' stands for an additional one million unit sales worldwide by the end of the fiscal year 2004, compared with the fiscal year 2001.
- '8' stands for an 8% operating margin, which would help the company to attain a global leadership in the auto industry.
- '0' stands for zero net automotive debt.

As result of the strict implementation of the plan, Renault and Nissan sold a combined 5,357,315 units in 2003, up by 4.2% over 2002, (Nissan and Renault sold a total of 2,968,357 and 2,388,958 vehicles, respectively).

*The author is Associate Consultant at The ICFAI University Press.*

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<sup>2</sup> The reduction of expenditures by way of laying-off employees in order to become financially stable.

