15.229 - Managing Global Integration

Joe Santos
Senior Lecturer Global Economics and Management MIT Sloan
Professor of Practice in Global Management (Affiliated) INSEAD

Session 2

MANAGING GLOBAL INTEGRATION

☐**CLASS 2. Realizing a Global Performance** – Wednesday, April 4

Learning Objectives:

a. General management and collective performance
b. Shaping global performance

Pre - Reading:

CASE: Nissan Motor Co., Ltd., 2002 (HBS case no. 9-303-042)(In course reader).

Study Guide Question:

1. Suppose you could compare two full "pictures" of Nissan: one taken in early 1999, the other in 2002. Which differences would you spot to explain Nissan's dramatic performance improvement during that period? List up to 10 differences, and rank them according to your judgment.

The Nissan Revival (1999-2002)

Salvatore Lupoli, Jin Tanaka, Hiroyuki Matsumoto, Alan Goh & Yoko Yamashita

Our group agreed that the dramatic change which Carlos Ghosn brought about in Nissan between 1999 and 2002 would probably not have been possible if Ghosn had been Japanese. Because he was an outsider who understood Japanese work culture, and was able to make tough decision in a respectful manner, he was able to achieve what previous Japanese CEOs could not. Ghosn successfully *"created a collective performance in Nissan that was superior to that which would naturally occur"*, and managed *with the Japanese* and *for the Japanese*. Ghosn's deep understanding of Japanese culture was very likely honed during his previous business experiences in Brazil, where he probably worked with many Brazilian-Japanese people.

The 10 differences we spotted of Nissan between early 1999 and 2002 are ranked as follows:

Nissan main strategic plans in the 1990's

(1991: ¥ 6.0 T sales, ¥ 49 B profit. Yen at 125. Nissan #2 in Japan, but declining)

- ***1992* –** New CEO (Tsuji-san)

- ***1993*** - *Three-year Plan*
  - Achieve profit in 1993
  - Operating Margin of 3% by 1995
  - Reduce total expenses by ¥200 billion by 1995
    - Eliminate 5,000 jobs
    - Cut number of models by 35% and number of parts by 40%

(1995: ¥ 5.8 T sales, ¥ 166 B loss. Yen at 103. Nissan #2 in Japan)

- ***1996*** – New CEO (Hanawa-san). Plan had been re-formulated with added cost/job cuts
- ***1998*** – Plan is re-formulated with added cost cuts *and* a debt reduction of ¥1 trillion

(1998: ¥ 6.6 T sales, ¥ 14 B loss, Yen at 113. Nissan becomes #3 in Japan)

- ***1999*** – *NRP*
  - Return to profit in 2000
  - Operating Margin of 4.5% by 2002
  - Reduce debt by 50% by 2002
    - and also:
      - Eliminate 21,000 jobs
      - Reduce purchasing costs by 20%

(2002: ¥ 6.2 T sales, ¥ 372 B profit. Yen at 128. Nissan #3 in Japan)

Diagnostics of Nissan Problems in the 1990's

- *1993 : Tsuji-san*

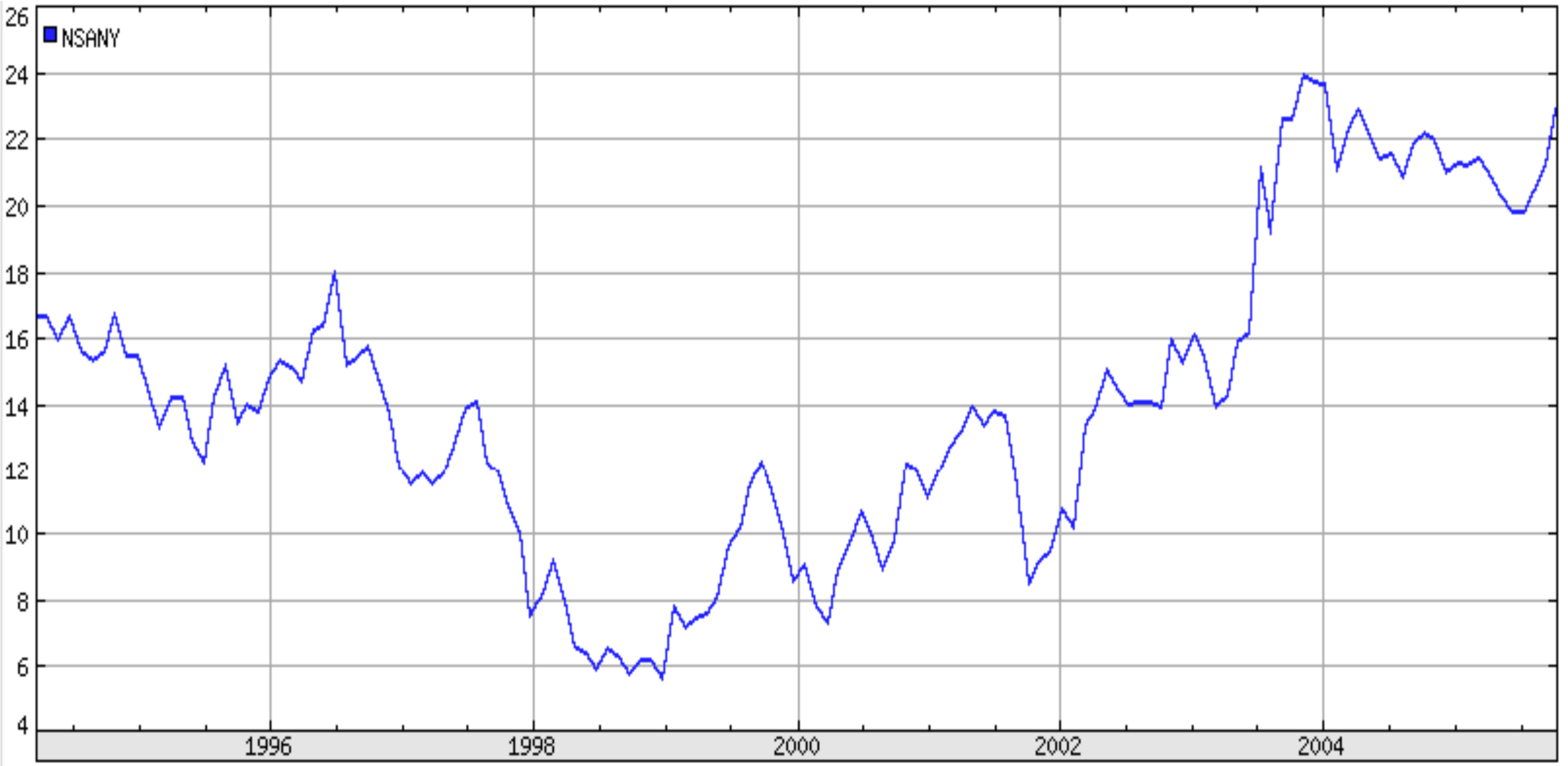
  - Lack of discipline and weak accountability
  - No customer orientation (and weak distribution)
  - Dominant engineering orientation
  - No determination to follow through
  - Culture that emphasises consensus and compromise

- *1999: Ghosn-san*

  - Lack of profit orientation
  - No customer focus (company is focused on competitors)
  - No cross-functional nor cross-border orientation
  - No sense of urgency
  - No shared vision and long-term strategy

    - Culture of blame
    - Ill defined areas of responsibility and accountability

Nissan Stock Price*
and the Nissan Revival Plan (and "Nissan 180")



NRP Nissan 180

(Source: finance.yahoo.com)

Consolidated operating profit margin

Graph removed due to copyright restrictions.
Source: Slide 31 in Nissan FY04 Financial Results and Value-Up presentation, April 25, 2005.

(Source: Nissan FY04 Results presentation, 25 April 2005)

Net automotive debt

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Source: Slide 15 in Nissan FY04 Financial Results and Value-Up presentation, April 25, 2005.

Return on invested capital (auto)

Graph removed due to copyright restrictions.
Source: Slide 35 in Nissan FY04 Financial Results and Value-Up presentation, April 25, 2005.

Nissan 1998-2002 (Financials)

Millions of yen (except per share amounts and number of employees)

	2002	2001	2000	1999	1998
NET SALES	6,828,588	6,196,241	6,089,620	5,977,075	6,580,001
OPERATING INCOME	737,230	489,215	290,314	82,565	109,722
NET INCOME (LOSS)	495,165	372,262	331,075	(684,363)	(27,714)
NET INCOME (LOSS) PER SHARE	117.75	92.61	83.53	(179.98)	(11.03)
CASH DIVIDENDS PAID	50,800	27,841	0	0	17,591
SHAREHOLDERS' EQUITY	1,808,304	1,620,822	657,939	563,830	943,365
TOTAL ASSETS	7,349,183	7,215,005	6,451,243	6,175,658	6,606,331
LONG-TERM DEBT	1,603,246	1,604,955	1,402,547	1,655,610	1,591,596
DEPRECIATION AND AMORTIZATION	371,125	374,827	360,191	434,553	498,444
NUMBER OF EMPLOYEES	127,625	125,099	133,833	141,526	131,260

Source: Page 47 in Nissan Annual Report 2002.

Nissan Sales (volume) – 1998-2002

	Unit Sales				
	2002	**2001**	**2000**	**1999**	**1998**
GLOBAL (WHOLESALE)	2,635,686	2,460,484	2,564,160	2,415,433	2,541,736
JAPAN	792,767	702,657	725,842	758,603	872,507
N. AMERICA	1,040,684	968,030	985,168	874,160	656,789
EUROPE	458,222	453,697	513,048	500,836	549,547
OTHERS	344,013	336,100	340,102	281,834	462,893

Source: Page 47 in Nissan Annual Report 2002.

Nissan – Purchasing Economies (1999-2002)

Graph ("Reduced Purchasing Costs" removed due to copyright restrictions.
Source: Page 31 in Nissan Annual Report 2002.

Harmony in the *content* of Nissan transformation **(selected sample)**	
Strategy	Introduced new models with superior (customer) quality, one identity, improved brand image. Cut excess (eng.) quality. Increased prices (and/or reduce discounts).
Processes	Revised design process of new models, with customer knowledge input from the start. Reviewed engineering and manufacturing practices.
Structure	Separation of Design from Engineering. Design group under VP Pelata (ex-Renault) Six “Program directors” appointed (by platform) with profit responsibility for each model.
People	Praise the value of customers. Newly hired, CA (USA) trained, head of Design (Nakamura-san). Selected managers move from Renault to Nissan (Product Planning…) Increase in the share of non-Japanese in the design process.
Incentives	Promotion system based on performance. Bonus for managers based on achieving objectives.
Evaluation	Customer satisfaction surveys and other customer metrics institutionalized. Model Profitability and Operating Margin are key performance metrics.
Environment	The USA becomes more central in Nissan’s world.

The order of intervention matters ...

Realizing Superior Performance at Nissan 99-02

A = Low Performance
Nissan, 1999

1: Environment*

2: Organization**

3: Strategy***

B = High Performance
Nissan, 2002

* The Renault-Nissan Alliance (and soon thereafter: end of keiretsu; making USA more central in Nissan's world).
** Starting at he top of the organization
*** Starting with the corporate strategy

A feature of the Nissan turnaround is that the new business strategy was "formulated" by the middle management and "implemented" by the top management – contrary to common belief.

In order to move from A to B, you need to understand and respect A.

EOS: The elements of collective performance

* The *collective entity* can be a "business unit" (or a company with a single business) or the entire corporation (that is, a set of business units). In the latter case we should add "Corporate" to EOS. The expression "we" in the elements above means the "unit" (BU or single-business-company, or corporation).

NB. If you manage a unit, then the rest of your company is "part" of the Environment of your unit.

EOS: The elements of collective performance

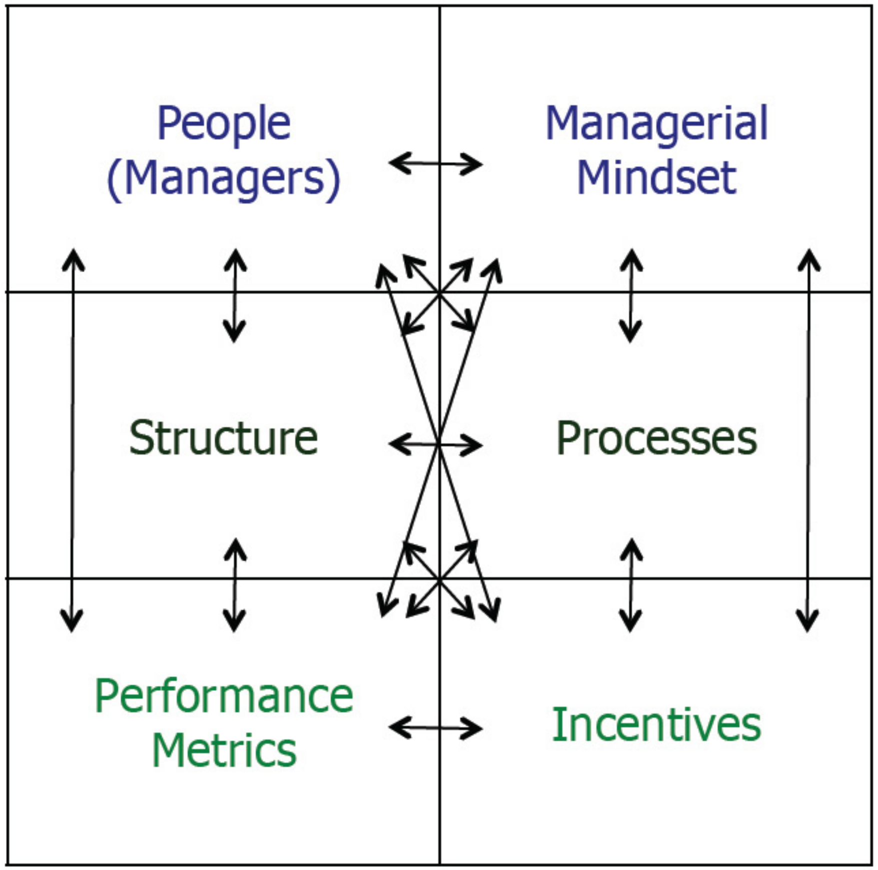
- **Environment**: the company's (or unit) *customers and* its *shareholder*s; its *suppliers*, *competitors*, *partners*, …; and *society*, the national or international context of its activities. Such context exhibits not only physical, institutional, and cultural properties, but also a particular *history*.

- **Strategy**: the company's (or unit) choice of value propositions. It is usually expressed by its offerings and position in its markets and by its set of activities (its "business model"). The expression of "strategy" can also include the bundle of required resources and a set of functional policies, programmes and major projects. It may be set at two levels: the "corporate strategy" (for the whole of the company) and the "business strategy" (for each business unit in the company)*.

- **Organization** (see next slide)

* "Global strategy" is usually considered to be "corporate strategy".

A model of organization



N.B. 1. There are several systemic models of “Organization”, each giving special emphasis to particular elements. I developed the model above to focus on managerial intervention, but you can use another model – for example, the “PARC” model (by Roberts) or the model built in the 7Ss (by Waterman et al, aka the “McKinsey model”) or in the “STAR” (by Galbraith).

N.B. 2. I developed and depict the model this way in order to signify the critical role of the “right side” (Mindset, Processes, Incentives) in *global integration*.

A model of organization

- "**People**" is the set of individuals in the organization, with their individual traits, style, experience and skills. It includes particularly all its managers: the general manager ("CEO"), the top management team and the other managers. If we take the whole organization, it will include also the other employees, and even outsourcing agents that are closely intertwined with the people of the organization in their daily activities.

- "**Managerial Mindset"** refers to the principles, values and frames of reference *shared* by the general manager ("CEO") and the management team. The "purpose" of the company, its "vision", and its "goals" are elements of the "managerial mindset" and express the intent and dreams of the management team. *The "managerial mindset" determines what is right, good, and beautiful for the organization* – and therefore guides the managers in their choices.

- "**Structure**" is the organizational structure, i.e. the differentiation of roles, location, information, and authority (decision rights) and their integration through a number of coordination and control mechanisms. The structure includes the pattern of relations between the individuals and units that make up the organization, be it the formal relations (the "org chart") and the informal relations (the "network").

- "**Processes**" include, in general, the decision making processes in the organization, be it resource allocation (budgeting, headcount and capex planning,…), conflict resolution, and the handling of exceptions. Specifically, it includes information processes and people processes. (N.B. These are the processes that make the organization be (the "physiology" of the organization), not the activities/processes that are elements of "strategy" (such as delivering a solution to a client).

- **"Performance Metrics"** is the set of indicators (quantitative and qualitative) used in the company to measure the individual, unit, and organization level of performance.

- "**Incentives**" include the instruments of recognition, retribution, and motivation of managers -- and other employees -- for their own performance: the salaries and equivalent; the bonus systems and other special rewards; and the career and promotion rules.

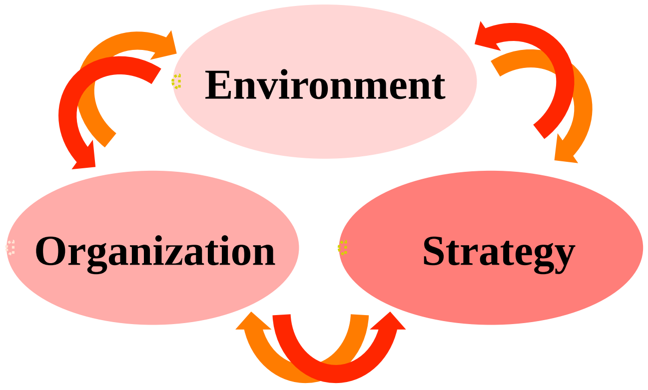
EOS: a model of collective (company) performance

Performance =

N.B. 1. The performance model described here is my own (and its more developed version will be presented later in the class). It builds on the explicit consideration of these three elements of firm performance, E, O, and S, as presented by Danny Miller in the early 80’s and more recently by Roberts (in the book “The modern Firm”). A simplified version of this model – of the form [E ➔ S ➔ O] – is typically taught in MBA programs (and can be considered for the early stages of new companies).

N.B. 2. The model above implicitly considers the company (the set of O and S) to be *open* and therefore its performance is not separable from its Environment. Simply put, it is the audience that applauds, not the actors - but the actors are also part of the audience.

Collective Performance as a complex system: combinatorial, complementary, non-malleable, dynamic



Harmony = High Performance*

"Complex": with many and different (sub-)elements (here grouped as E and O and S) with non-linear interactions (that is, a very small element can have a major impact in the overall performance of the system, aka the "butterfly effect"). Each of the three "first-tier" elements (E,O, and S) are also complex systems themselves.

- "Combinatorial": the elements available can be combined in different configurations
- "Complementary": some elements increase in value in the presence of other elements
- "Non-malleable": the elements cannot just be combined in any way the general manager wishes, as not all configurations are effective. Indeed, only (very) few configurations are in harmony and exhibit high performance. Many other configurations exhibit low performance and (many) other simply fail with catastrophic performance.
- Dynamic: The arrows depict dynamic interactions (which may not be instantaneous) of unequal strength.