CULTURAL CHANGE: A COMPARATIVE STUDY OF THE CHANGE EFFORTS OF DOUGLAS MACARTHUR AND CARLOS GHOSN IN JAPAN

by

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<u>ABSTRACT</u>

When an organization adapts to a changing environment and struggles through an organizational crisis, its organizational culture is sometimes challenged.   At such a time, a leader who can change current culture and embed a new culture is needed for the organization to survive.   Dealing with cultural changes is one of the most important roles of a leader.

In this thesis, I examine the leadership of two leaders—General Douglas MacArthur and Nissan's CEO Carlos Ghosn—who came to Japan from the outside during organizational crises and conducted organizational reforms and cultural changes at two different levels—the country Japan and the company Nissan.

Using Edgar H. Schein's (1992) frameworks, culture-embedding mechanisms and basic assumptions, I examine what has, and has not, been changed by the two leaders in terms of organizational culture.

I will show how most of Nissan's problems came from basic assumptions of postwar Japan, and how the country has not been changed while the company has been successfully changed.

My research was conducted mainly through historical studies and articles written by both American and Japanese writers in order to analyze various events from differing objective perspectives.

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CHAPTER ONE

Introduction

Organizational Culture and Leadership

An organization is sometimes forced to change in response to environmental changes.   If it fails, it is sometimes forced to withdraw from the stage.   However, changing is very difficult; in general, the larger the organization is, the more difficult the change.   Why is change so difficult?   It may be due to organizational inertia.   It may be a desire on the part of members to maintain the status quo or perhaps reflect often "mental constraints" among organizational members.   In other words, change may be up against culture, by which I mean shared values, mindsets or customs deeply embedded in the organization.   Once the organizational culture--societal or organizational--has been established, it cannot be easily changed.

Of course, organizational culture does have its purpose.   It serves as a guide and as a way of dealing with uncertainty surrounding routine and non-routine events.   Organizational culture is in a sense a stabilizer for the organization (Schein, 1992).   When environmental changes occur in ways that could threaten the survival of the organization, however, the organizational culture should be challenged; the organization may be at a critical decision point which affects its future viability.

At the moment of change in organizational culture, the role of the leader becomes essential. A leader must bear the responsibility for determining how to change the current situation and

for presenting to organizational members a new way or direction for a sustainable future. A leader is a person who changes the current organizational culture and creates a new culture to take its place (Schein, 1992). In this respect, leadership is a key component of creating and changing organizational culture.

Cases of Change in Organizational Culture

Japan suffered a long recession from the beginning of the 1990s until recently. Many ailing companies were struggling to change their way of management in order to adapt to what many say is a "new" global economy (Maeya, 2004). In many cases, however, they failed. Companies do not change easily. Change is particularly difficult for Japanese companies with their extremely homogeneous cultures. Organizations sometimes need an external stimulus to overcome inertia and for individuals to break down mental barriers. Looking into Japanese history and the business world, we can find a few cases in which a leader came from outside an organization and managed to successfully change the organizational culture. There are a small number of leaders who have dramatically transformed an organizational culture. They are regarded as having changed the situation and shown to their organization a clear direction toward growth and sustainability.

When looking at a recent case, we can identify Carlos Ghons who was dispatched from French auto-maker Renault to tackle Nissan's problems and was believed to have successfully changed Nissan's corporate culture. As CEO of Nissan, Ghosn implemented reforms and revolutionized Nissan's way of doing business.

Broadening this perspective to the national level, consider the case of American General

Douglas MacArthur, who landed on the Japanese soil just after World War II and is thought by

many Japanese people to have enabled a democratic social system to emerge in Japan (Sodei,

2001; Takamae 1, 2002).   The American forces he commanded occupied Japan for about five

years and conducted many reforms reaching into every aspect of Japanese society.   These

reforms played a part in the significantly high economic growth that began in the 1950s.

MacArthur's occupation was not the only time in history when Japan changed its course.   The

Meiji Restoration of the mid-1800s was a radical change from the Samurai ways and forged the

basis for modernization.   Interestingly, the Meiji Restoration was triggered by the United

States' Commodore Perry who came to Tokyo Bay in 1854 and coerced Japan to open its

harbors to the outside world.   Since Perry's visit, Japan carried out many reforms modeled on

the Western governments, companies and other institutional frameworks.   It can be said that

the Meiji Restoration was the onset of modern Japan (Westney, 1987).

As we see from these cases, a large change in Japanese society was sometimes a result of

external stimulation.   Japanese organizations, regardless of their size, sometimes change

dramatically when triggered or coerced by outsiders.   This is clearly illustrated in the Nissan

case.   In Nissan there were early attempts to change before the outsider, Carlos Ghosn,

appeared.   They resulted in failure.   Arguably, Ghosn is the reason change could be made

within the company.   Hanawa Yoshikazu, Nissan's ex-CEO, remembered that there was no

one in Nissan who could have changed its corporate culture when Nissan fell into serious

financial distress (Takarabe, 2002).   Looking at the broad range of Japanese corporate

environments, one can find many executives and managers whose company is in a serious quagmire and who are expecting some outsider like Ghosn to come and save the company (Maeya, 2004; Takarabe, 2002).

Studying successful cases helps to reveal why organizational change is difficult and what a leader might do when the organization is in dire trouble.   In this thesis, I will study two cases: Douglas MacArthur and Carlos Ghosn.   They are at two different levels of analysis. The first is at a national level and the second at a corporate level.   By analyzing in some depth these two different cases, it may be possible to extract a few general lessons about organizational change.

Research Questions and Frameworks

The research questions for this thesis are as follows:

- To what extent did Douglas MacArthur and Calros Ghosn change culture?
- How did they try to change culture?
- What are the similarities and differences between these two leaders?
- What cultural elements, if any, changed?
- What can we learn in general from these two cases?

Chapter Two provides an overview of the reforms that Douglas MacArthur and Carlos Ghosn initiated.   These reforms were of course supported by many and it is difficult to precisely know MacArthur's and Ghosn's specific contributions.   For example, the American occupation forces controlled Japan indirectly through the Japanese government; thus, it is difficult to distinguish the results of reforms derived from MacArthur's initiatives and those

derived from others.   Regardless, I will try to provide a broad picture of what happened in the immediate post-war years.

In Chapter Three, I will analyze the leadership styles of MacArthur and Ghosn using Schein's (1992) *Culture-Embedding Mechanisms* framework.   For example, when an organization is established, a founder starts to embed a new culture into it through his or her decisions, actions, and behaviors.   When the organization experiences a crisis, Schein says, a leader may try to destroy the current culture and embed a new culture for survival.   Leadership is in a sense a process of culture embedding.   In this chapter, therefore, I will examine the leadership of MacArthur and Ghosn and try to articulate the cultures they were trying to embed.

In Chapter Four and Five, I will examine the changes in "basic assumptions" that the two leaders tried to bring about.   According to Schein, there are three layers of organizational culture: (1) visible artifacts; (2) espoused values, rules, and behavioral norms; and (3) tacit, basic underlying assumptions (Schein, 1992 pp46-47).   Among these, the basic assumptions are the foundation of a culture.   One useful method to try to determine basic assumptions is to trace back the organizational founding process.   Cultural assumptions usually have their roots in the founding process or in the early experiences of an organization (i.e., its early successes and failures).   In these chapters, therefore, I will try to formulate some hypotheses about the formation of basic assumptions and about changes in these assumptions.

Overall, this thesis attempts to extract some useful lessons on changing organizational cultures. I believe the lessons will help leaders, both formal and informal, better operate in today's

diversified and difficult workplace.   I hope too that these lessons will be helpful to a manager who is trying to change certain aspects of his or her organization.   An organizational culture is sometimes too strongly embedded to adapt to changing environments.   At such times a leader from the outside may be needed to successfully implement the organizational change.   But what can be done when an organization can not expect the arrival of a leader from the outside?

In this thesis, I conducted my research through historical studies and articles written by both American and Japanese authors.   Those resources deal mainly with events and phenomena occurring in Japan.   While American authors typically write from a global perspective looking at the universality of the events, Japanese authors focus on a narrower but deeper perspective, looking at the peculiarity of the Japanese people.   I wanted to understand the events in an objective way.   At the same time, however, I wanted to know more on internal Japanese feelings.   Therefore, I draw on both American and Japanese studies.

When I analyzed both cases and extracted general ideas from them, I relied on personal experience as a Japanese citizen, having lived in Japan for forty years and having worked for a Japanese company and the government for the past eighteen years.

CHAPTER TWO

Outline of Reforms

In this chapter, I will outline the reforms undertaken by General MacArthur and Carlos Ghosn. In MacArthur's case, we have many past studies—principally by American and Japanese scholars. Among American scholars, Professor John Dower's recent study "*Embracing Defeat*" (1999) is an outstanding work; I draw on it extensively in this chapter. The most important aspect of his work is its focus on the Japanese populace. He reveals what the Japanese people thought at that time, how they lived their lives, and how they felt during the occupation period. Among Japanese scholars, I draw also on the works of Professor Takemae Eiji (2002) and Sodei Rinjiro (1976). In Ghosn's case, I draw largely on Nissan's Annual Reports and Web-pages.

A. MacArthur's Reforms

The reforms that General MacArthur instituted during the American occupation of Japan have influenced almost all aspects of Japanese life. Their impact is thought to rank with those of the national reunification in the seventeenth century and the Meiji Restoration in Japanese history (McClain, 2002). Considering the relatively short period and the breadth of the reforms, it may be said that MacArthur's initiatives were the greatest in Japanese history.

The formal period of the American occupation of Japan was from September 2, 1945 to April 28, 1952: 6 years and 8 months. The period was almost twice as long as the war between the

U.S. and Japan.   MacArthur was appointed as Supreme Commander for Allied Powers (SCAP) on August 14, 1945, 19 days before the formal occupation began.   He did not remain in power for all the occupation period, however, because he was dismissed by President Truman on April 11, 1951—almost one year before the end of the occupation.   He was replaced by General Matthew B. Ridgeway who left little memory on Japanese minds. Even now, the American occupation is usually remembered as "MacArthur's era" by the Japanese people.   Virtually all the important reforms were implemented under MacArthur, not Ridgeway.

Historically the period of the occupation can be divided into two periods.   The first is the early stage, roughly between 1945 and 1947.   The second is what is now called the "reverse course," roughly between 1948 and 1952.   The end of the occupation occurred when Yoshida Shigeru[1], then Prime Minister, signed the San Francisco Peace Treaty on April 28, 1952.   On that date Japan's sovereignty was restored and the occupation era formally ended.

A-1.   First Phase

In this section, I will first examine the objectives of the occupation because of their significant meaning when analyzing what the occupation forces tried to do in Japan.   I will then outline the reforms starting from the demilitarization which was carried out as the first step of the reforms.   Next, I will look at the constitutional revision; it was the most important of all the

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[1] Yoshida Shigeru was the third Japanese Prime Minister after World War II (May 22, 1946—May 24, 1947).   He formed his Cabinet again on October 15, 1948, and served for five years as Prime Minister.   He established the basis of the postwar Japanese conservative political rule (Sodei, 1976).

reforms conducted during the occupation.   As the last part of the first phase, I will pick up the

economic democratization which significantly influenced the postwar Japanese economy.

Objectives

Even before the end of the war, the American policy for defeated Japan had already been

broadly agreed upon.   It later took form as "United States Initial Post-surrender Policy

Relating to Japan (USIPPJ)" on August 31, 1945 (McClain, 2002).   USIPPJ proposed two

major objectives: "*demilitarization*" and "*democratization*".   It stated that the occupation

should "ensure that Japan will not again become a menace to the United States or to the peace

and security of the world" and "bring about the eventual establishment of a peaceful and

responsible government which will respect the rights of other states and will support the

objectives of the United States as reflected in the ideals and principles of the Charter of the

United Nations", and that the Japanese government should "confirm as closely as may be to

principles of democratic self-government but it is not the responsibility of the Allied Powers to

impose upon Japan any form of government not supported by the freely expressed will of the

people" (Dower, 1999, pp71-72).   Following these major objectives, USIPPJ prescribed some

specific measures such as the dismemberment of the Japanese empire, constitutional revisions,

dissolution of *zaibatsu*, and severance of the linkage between Shinto[2] and government

(McClain, 2002).

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[2] Shinto is the indigenous religion of Japan influenced by Buddhism, Confucianism and Taoism.
After the Meiji Restoration it was protected by the government and the emperor became
deified (Kōdansya International, 2000).

Before USIPPJ was formally authorized in Washington, MacArthur had already formed in his mind the primary objectives of occupation.   He described them as:

> *...First destroy the military power.   Punish war criminals.   Build the structure of representative government.   Modernize the constitution.   Hold free elections. Enfranchise the women.   Release the political prisoners.   Liberate the farmers. Establish a free labor movement.   Encourage a free economy.   Abolish police oppression.   Develop a free and responsible press.   Liberalize education. Decentralize the political power.   Separate church from state* (MacArthur, 1964, pp 282-283).

MacArthur's objectives were more advanced and detailed than those that the Allied Powers had sought (Sodei, 1976).   Various reforms in Japan were initiated according to his objectives.

Demilitarization

MacArthur landed on the Atsugi airport on August 30, 1945 with his famous words "Melbourne to Tokyo; it was a long way" (MacClain, 2002).   Immediately, he moved into Hotel New Grand in Yokohama.   He directed the surrender ceremony aboard the USS *Missouri* on September 6 and declared the victory of the Allied Powers over Japan with the comment: "Today the guns are silent.   A great tragedy has ended. A great victory has been won."[3]

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[3] http://www.pbs.org/wgbh/amex/macarthur/filmmore/reference/primary/macspeech   (Jan. 31, 2005)

About a week before the surrender ceremony took place, the occupation forces started to land on Japan, finishing by the end of October 1945.   During the first month of the occupation about 110,000 soldiers had landed on Japan.   After one year, it increased to 160,000 soldiers and 2,000 civilians (Shyukan Shincho 1, 1983).

MacArthur moved to Tokyo on September 8, six days after the surrender ceremony.   He selected for his headquarters (officially called the Allied Powers General Headquarters (GHQ)) the Dai Ichi Insurance Building located just opposite the Emperor's palace.   It was one of a few Western-style buildings left standing in bombed-out Tokyo (McClain, 2002).

Following the landing of the occupation forces, the Japanese military forces were disarmed. Surprisingly it was accomplished with no conflict or disorder, although at the time of the surrender ceremony, 6,983,000 Japanese soldiers were still in service and 2,576,000 of them were on the main islands of Japan.   On October 16, 1945, MacArthur declared that the disarmament was completely finished.   It was carried out with cooperation between the occupation forces and the Japanese military bureaucracy (Sodei, 1976).

On October 4, 1945 GHQ issued a directive for the discharge of political criminals, abolishment of the ideology police, and a purge of bureaucrats involved in militaristic and ultra-nationalistic activities.   Consequently nearly 4,000 bureaucrats were purged, including a few ministers in the Cabinet.   This impact was so large that it resulted in overall resignation of the Cabinet including then Prime Minster Higashikuni[4] (Sodei, 1976).

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[4] Higashikuni (Higashikuninomiya Naruhiko) was the first Japanese Prime Minister after

Additionally GHQ issued a directive called "Removal and Exclusion of Undesirable Personnel from Public Office" on January 4, 1946.   Another directive followed on January 1947, demanding more purges.   As a result of the directives, more than 200,000 people lost their jobs.   Most of them were ex-soldiers and politicians but also included top business managers and journalists (Shyukan Shincho 1, 1983; McClain, 2002; Sodei, 1976).   The purges were justified by an article of the Potsdam Proclamation: "There must be eliminated for all the time the authority and influence of those who have decided and misled the people of Japan into embarking on world conquest" (Dower, 1999, p347).   The criteria for just who was to be purged was not clear, however, and purges were sometimes used by conservative politicians to banish leftist political leaders (Sodei, 1976).

Constitutional Revision

On October 16, 1945, MacArthur suggested to the Japanese government that they revise the constitution that was written in the Meiji-era.   At the same time he proposed to Shidehara[5], the Prime Minister, the so-called "five major reforms": (1) enfranchisement of women, (2) encouragement of labor unionization, (3) a liberal education system, (4) abolishment of the authoritative police, and (5) democratization of the economy (Sodei, 1976, pp180-181).

World War II (August 15, 1945—October 5, 1945).   He belonged to the Imperial Household and served as one of commanders of the military actions in China (http://www.geocities.jp/since7903/zinbutsu/hi.htm, Mar. 6, 2005).

[5] Shidehara (Shidehara Kijyuro) was the second Japanese Prime Minister after World War II (October 9, 1945-April 22, 1946).   He was an ex-diplomat and served as Foreign Minister from 1924 to 1931, when he promoted an "international cooperation policy."   This period was before the Japanese military started to expand its power with terrorist activities (http://www.c20.jp/p/skijuro.html, Mar. 6, 2005).

Many reforms followed this order between 1945 and 1947: the reform of civil and criminal law, elimination of the feudalistic family system, expansion of the right to vote to women, establishment of local autonomous police, enactment of progressive laws governing working conditions, revision of the structure and curriculum of the education system, enhancing the right of tenants, renovation of the electoral system, autonomy of the local governments, separation of religion and state, and so on (Dower, 1999).   The occupation forces instituted and attempted various reforms at almost every level of Japanese life (Passin, 1990).   Of all the various democratic reforms, the constitutional revision was most important.

The revised constitution codified the basic ideals of "*democratization.*"   It was especially epoch-making from two points of view: the renunciation of war and the shift in the symbolic status of the Emperor.   Article 9 of Chapter II of the Japanese Constitution states that "Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of forces as means of settling international disputes."   Article 1 of Chapter I in the new constitution defined the Emperor as "the symbol of the state and of the unity of the people, deriving his position from the will of the people with whom resides sovereign power."

Responding to MacArthur's suggestion on October 16, the Japanese government was forced to take an action to revise the constitution.   Prime Minister Shidehara appointed a committee of scholars and bureaucrats to consider the revision.   In addition to the governmental movements, there emerged at least a dozen private organizations proposing liberal and progressive revisions from autumn of 1945 to March 1946.   Among all of the proposed drafts, the government's

was the last to appear and it was the most conservative and apparently cosmetic (Dower, 1999).

MacArthur was unwilling to wait until the spring of 1946 because he wanted the revised constitution to be finalized before the starting date of the Far Eastern Committee on February 26, 1946 (Dower, 1999).   In December 1945, the foreign ministers of three major powers, the U.S., U.K., and Soviet Union, had gathered in Moscow and decided to establish the Far Eastern Committee (FEC) in Washington D.C. and the Allied Council for Japan (ACJ) in Tokyo in order to supervise MacArthur's operation of the occupation (Takemae 1, 2002).

MacArthur directed his staff to draft the constitutional revision within a week on February 3, 1946 via a memo known as the "MacArthur Note."   It suggested three major revisions on the constitution: the renunciation of war, the Emperor's status derived from absolute sovereignty of people, and the abolishment of feudal systems (Sodei, 1976).   The GHQ staff finished the draft secretly by the deadline.   They referred largely to one of the Japanese private drafts which had been proposed by the "*Kenpo-Kenkyu-Kai* (Constitutional Research Group)" composed of liberal and left-wing intellectuals.   This private draft had remarkably liberal provisions such as popular sovereignty; prohibition of discrimination by birth, status, sex, race, or nationality; abolition of peerage; and a guarantee of extensive workers' benefits (Dower, 1999; Sodei, 1976).

On February 13, Courtney Whitney, the head of Government Section of GHQ, visited the then Prime Minister Yoshida Shigeru and stated:

> *...I cannot emphasize too strongly that the acceptance of the draft constitution is your only hope of survival, and that the Supreme Commander is determined that the people of Japan shall be free to choose between this constitution and any form of constitution which does not embody those principles* (Dower, 1999 pp375).

Japanese governmental discussions ensued and on March 6, 1946, the final draft was made public by the Emperor with only one substantial change to GHQ's draft on a provision for a bicameral Diet (McClain, 2002).

Economic Democratization

The dissolution of the "*zaibatsu*" was the most important reform in terms of democratization of the economic system in Japan.   At the time of the Japanese defeat there were 10 major "*zaibatsu*": the four old and famous ones (Mitsui, Mitsubishi, Sumitomo, and Yasuda) and six relatively new ones (Asano, Furukawa, Nissan, Okura, Nomura, and Nakajima).   Together they controlled almost half of capital invested in mining, machinery, shipbuilding, chemicals and banking and about 60% of the insurance and shipping business in the nation (Dower, 1999).

The *zaibatsu* break up started from a proposal from the Yasuda zaibatsu made under GHQ's strong pressure early in November 1945.   That plan stated that major *zaibatsu* holding companies would sell their stock to the public and that corporate directors and all *zaibatsu* family members employed in the *zaibatsu* companies would resign their offices.   On November 6, 1945, MacArthur accepted the Yasuda proposal, reserving the right to undertake

additional measures (McClain, 2002).

Eventually the stocks held by *zaibatsu* holding companies were sold to the public.   In April

1947, GHQ pressured the Diet to pass the "Anti-monopoly Law" prohibiting cartels and

monopolistic holding companies, and in the fall of 1947 to pass the "Law for the Elimination

of Excessive Concentration of Economic Powers," authorizing dissolution of any company so

dominating a particular market that newcomers were unlikely to survive.   As a result,

hundreds of big companies were designated as targets for dissolution (McClain, 2002; Dower,

1999).

Two other reforms as important to economic democratization as the dissolution of *zaibatsu*

were those related to land ownership and labor.   The land reform bill was passed on October

21, 1946. It authorized the government to purchase all land owned by absentee landlords.   It

allowed resident landlords to own only as much land as they could cultivate.   At the time of

the surrender, about half of the Japanese population still lived in agricultural villages and about

a quarter of all farm families owned less than 10% of the land they cultivated.   Following the

land reform bill, however, the government purchased millions of acres of land from about 2

million landlords and sold it to about 5 million tenant farmers.   Later MacArthur declared that

it was the most successful land reform since the time of the Roman Empire (McClain, 2002).

Between 1945 and 1947, three fundamental labor laws were enacted: the "Labor Standard

Law" which stipulated minimum wages, maximum labor hours, paid holidays, plant safety and

so on; the "Trade Union Law" which guaranteed all workers the rights to organize, engage in

collective bargaining and participate in strikes; and the "Labor Relations Adjustment Law" which prohibited unfair practices by management such as discriminating against workers for union activities (McClain, 2002). Eventually Japanese workers were unionized on an unprecedented scale. At the end of 1946, union membership reached 5 million; by 1949 it grew to 7 million out of an industrial workforce of 15 million (Passin, 1990).

A-2.   Reverse Course

The so-called "Reverse Course" was one of the most striking events of the occupation when one considers its effect on the direction of postwar Japanese society. Although MacArthur's reforms were initially guided by a highly idealistic view of democratization, that course was forced to be changed and had a major impact on the Japanese people.

It is difficult to clearly say when the Reverse Course began. In looking at the international environment at the time, some factors can be seen as causes: the onset of Cold War between the U.S. and the Soviet Union; the newly forming satellite communist states in Eastern Europe; the rise and development of the Communist Party in China; and the rising hostility between North Korea and South Koreas (McClain, 2002). More important perhaps were the changes in U.S. domestic opinion. U.S. policymakers began to think that they needed to revitalize the Japanese economy in order to reduce the burden of occupation on American taxpayers. The U.S. government was spending a large amount of money on the occupation (i.e., about $500 million on salaries and fuel, and much larger indirect costs in the first two years of the occupation) (McClain, 2002). In addition, the U.S. Congress, fearing expansion of Communism across the Pacific region, started to worry about the "over-democratization" of

Japan (McClain, 2002).   Representatives and Senators thought the U.S. should promote the restoration of the Japanese economy for the purpose of making Japan a barrier against Communism (Syukan Shincyo 2, 1983).   Illustrating this sentiment, Kenneth C. Royall, Secretary of the Army, made a speech on U.S. policy toward Japan in January 1948 and noted:

…We also realize that the United States cannot forever continue to pour hundreds of millions of dollars annually into relief funds for occupied areas and that such contributions can end without disaster only when the occupied countries can pay for their own necessities with their own production and exports.
We realize that deconcentration must stop short of point where it unduly interferes with the efficiency of Japanese industry.   Earlier programs are being reexamined. We are not averse to modifying programs in the interests of our broad objective.   I would not leave the impression that questions of demilitarization or reparation or deconcentration or disqualification of personnel are the most immediate obstacles to Japanese recovery.   The principal difficulties arise from the destruction which war brought to Japan and to the chaotic condition which has existed in the Far East since V-J Day.   The flimsy nature of Japanese construction and the concentrated population centers made these islands most vulnerable target for our incendiary and other missiles
(http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPUS/19480106.S1E.html, Feb. 20, 2005).

Consequently, SCAP began to modify the reforms and even acquiesced to overturning some reforms (McClain, 2002).

The Reverse Course period was characterized by three factors.   The first was the establishment of political power of conservatives.   During the initial period of the occupation, a momentum toward rapid democratization was promoted by SCAP, especially by the

Government Section in GHQ led by Courtney Whitney.   The Reverse Course, however, put a

curb on this momentum and in turn helped establish a base of conservative political powers,

which afterward determined the course of postwar Japan.

The second factor was the rearmament of Japan which was initiated at MacArthur's direction.

An outstanding feature of MacArthur's reforms was his enthusiasm for peace and democracy

as embedded into the revised constitution of Japan.   Soon after the constitutional revision was

finished, however, the Japanese people began to raise serious concerns about the principle of

renouncing war.   It has since become one of the major political issues of postwar Japan.

The third factor was the direct American involvement with many economic aspects of Japanese

life.   As the USIPPJ did not address any economic issues, SCAP didn't assume any

responsibility for rehabilitating or strengthening the Japanese economy (Dower, 1999).

Nonetheless, the new reality that was been being formed globally around the growing U.S. and

Soviet Union rivalry forced the occupation policies to change course.   I will look more

closely into the rise of conservatives, rearmament, and economic reforms respectively, as these

elements had a large influence on postwar Japanese society and its economy.

Rise of Conservatives

Some of the occupation's first phase democratic reforms allowed more radical additional

movements than MacArthur anticipated (e.g., the release of political prisoners; the legalization

of the Communist Party; and the introduction of pro-labor legislations) (Dower, 1999).   On

April 22, the Shidehara Cabinet resigned en masse following the results of the first general

election held on April 10: Shidehara's political party, "*Simpo-Tō*" ("Advancement Party"), did not receive a majority of votes and failed to form a coalition cabinet.   On May 1, 1946, 250,000 people, including Communist leaders, gathered in front of the Imperial Palace demanding food management be placed under the people's control and more radical members be appointed in the next Cabinet.   This event was dubbed the "Food May Day Demonstration" (Sodei, 2003).   In response on May 20, MacArthur warned the Japanese people that "the growing tendency towards mass violence and physical processes of intimidation, under organized leadership, present a grave menace to the future development of Japan" (Dower, 1999).   Shortly thereafter, on May 22, Yoshida Shigeru, a conservative leader and the head of "*Jiyu-Tō*" ("Liberal Party"), formed his cabinet.

The popular movement for more democratization abated, but the prevailing crises of hyper-inflation, food shortages, and growing unemployment continued, making people's lives more and more difficult.   The ranks of discontented public workers swelled rapidly and reached a height by the end of 1946.   Many trade unions formed a "joint struggle" organization involving 4 million workers and declared that they would go on a nation-wide general strike on February 2, 1947.   They called for a "living wage" and permanent job security and, moreover, demanded that the members of the Yoshida's Cabinet resign en masse and be replaced by the leftist coalition.   The conservative Prime Minister requested the American's intervene and forbid the strike.   On the evening before the scheduled day of the general strike, MacArthur issued a statement banning the strike (McClain, 2002).   This event marked the beginning of the Reverse Course.

A "Red-purge" was soon started with the aim of breaking radical unions and purging activist union members.   As a result, over 10,000 leftist employees were fired by the end of 1950 (Dower, 1999).   At the same time, politicians and other wartime leaders purged from the public sector after the war were gradually "depurged."   Through these processes, occupation officials developed a close relationship with conservative Japanese politicians, government bureaucrats, corporate managers, and even right-wing citizens from Japanese society (Dower, 1999).

Rearmament

When American forces in Japan were needed on the Korean peninsula at the outbreak of the Korean War on June 25, 1950, MacArthur had to adopt some measures to ensure domestic tranquility in Japan.   Consequently, on July 8, 1950, MacArthur ordered the Japanese government to establish a National Police Reserve of 75,000 men (McClain, 2002).   This build-up was carried out under the auspices of the Potsdam Proclamation which allowed for a total of 200,000 policemen.   As the total number of policemen was 125,000 (95,000 local and 30,000 national) at the outset of the Korean War, MacArthur was able to utilize the unused portion of the overall police allowance.   The National Police Reserve was established as a police force, but it actually more closely resembled a modern armed force (Sodei, 1976).

These seeming contradictions sometimes brought about significant confusion among Japanese policymakers.   Prime Minister Katayama[6], whose coalition cabinet resigned en masse in

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[6] Katayama (Katayama Tetsu) was the fourth Japanese Prime Minister after World War II (May 24, 1947—March 10, 1948).   He was an ex-lawyer and established the "Socialist Party" on

February 1948, recalled that the reason for the mass resignation of his cabinet was that they were coerced by MacArthur to allow rearmament.   Since then, one of the largest political issues in Japan is how to justify the existence of the National Police Reserve (later called the "Self-Defense Forces") under the revised constitution.

Economic Reforms

The economic facets of the Reverse Course were based upon the American belief that a healthy Japanese economy was a prerequisite for peace in the Pacific region.   In March 1948, George F. Kennan, assigned to the staff of the State Department, visited MacArthur and passed on a communiqué from Washington.   The message was that SCAP must modify its programs and undertake a new priority for economic recovery and political stability in order to let Japan stand against Communism (McClain, 2002).   In GHQ, "New Dealers" who had led the democratic reforms of the first phase were pushed aside by technocrats and pro-business advisors and staff (Passin, 1990).

In February 1949, Joseph Dodge visited Japan as a member of a mission to impose the economic policies of Washington on Japan.   It was called the "Dodge Line" and included such measures as an "overbalanced" budget, price controls, and a fixed exchange rate.   The "Dodge Line" had aimed at keeping inflation under control, increasing tax revenues and stimulating exports.   The results were the opposite, however, as unemployment rose to over a million workers, domestic consumption was suppressed, and the stock market dropped.   It

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November 2, 1945.   The Socialist Party became the first partying power as a result of the general election on April 25, 1947.   As the Reverse Course advanced, his party lost momentum (http://www.c20.jp/p/ktetu.html, Mar. 6, 2005).

caused a vicious spiral of contraction and the people suffered extreme hardships (Sodei, 1976; Dower, 1999).   The outbreak of the Korean War helped to revive the Japanese economy.   A war boom emerged as a result of stimulation by U.S. "special procurements."   Most of the industrial sectors in the Japanese economy enjoyed massive renewed growth (Dower, 1999).

*   *   *   *   *

MacArthur's reforms had two phases. During the first phase he directed many democratic reforms including the constitutional change and economic democratization.   Although those reforms were based on the primary objectives of the occupation written by American policymakers in Washington, they were actually conducted along the line of MacArthur's more radical intentions.

The second phase was called the "Reverse Course."   The Reverse Course was characterized by three events: the rise of conservatism, rearmament, and economic reforms.   These retreats from the original objectives seem to have had more influence on postwar Japanese society than the first phase reforms.

B. Ghosn's Reforms

In this section, I will overview Ghosn's reforms which were incorporated into "Nissan Revival Plan (NRP)" announced on October 18, 1999.   Before outlining the NRP, I will briefly examine Nissan's recent history.

B-1.   Nissan: Recent History

World's Number 4 Auto-maker

In 2004, Nissan produced 3,295,830 cars globally.   When combined with Renault's production, this number grows to 5,785,231.   This is an 8.0% increase from the previous year. With a share of 9.6% of the global automotive market, the Renault-Nissan Alliance ranks as the world's Number 4 car manufacturer, located just behind GM, Toyota and Ford.[7]   Nissan's operations are worldwide.   Its production of cars spans numerous countries, including Japan, United States, Mexico, Brazil, Spain, U.K., Thailand, Philippines, Taiwan, China, Australia and South Africa.[8]   Nissan is now aggressively pursuing a new global strategy called "NISSAN Value-UP" taking advantage of its alliance with Renault.   Nissan's current aim is to achieve an indisputable performance leadership in the global automobile industry.[9]   Clearly, today, Nissan is a growing and profitable company.

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[7] http://www.nissan-global.com/jp/astory   (Feb.11, 2005)
[8] Nissan Corporate Profile (2005)
[9] http://www.nissan-global.com/EN/IR/MESSAGE/index.html (Jan. 7, 2005)

Dire Situation

Before Ghosn came to Nissan in 1999, however, Nissan was in a serious predicament.

Nissan's share of the Japanese market in 1999 was below 19%, having gradually decreased

from a peak of 34% in 1974.   Its global market share had decreased from 6.6% in 1990 to

4.9% in 1999 (Magee, 2003).   Nissan had posted a net operating loss of ¥ 684.4 billion during

FY1999.   This was the largest of net operating loss among Japanese companies listed on the

Tokyo Stock Exchange.   Its domestic production capacity had reached a level of 24 billion

cars but Nissan's domestic sales target was only 12.8 billion. Its plant utilization rate was 53%

(Takarabe, 2002).

Table 1 shows Nissan's financial results in FY2003 and FY1999.[10]

Table 1.   **Nissan's Financial Results of FY1999 and FY2003**

	FY 2003	FY 1999
Net Sales	7,429.2 billion yen	5,977.1 billion yen
Operating Income	829.4 billion yen	82.6 billion yen
Operating Margin	11.2%	1.4%
Net Income	503.7 billion yen	(684.4) billion yen
Total Net Debt	13.6 billion yen	1,348.7 billion yen
Total Assets	7,859.9 billion yen	6,541.2 billion yen

Source: Nissan's annual report

As of 1999, Nissan desperately needed funds and a global partner.   One promising partner

was DaimlerChrysler.[11]   However, DaimlerChrysler pulled out of negotiations with Nissan on

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[10] Nissan's Annual Report 2003, Annual Report 1999
[11] DaimlerChrysler was established as a result of a merger of Daimler and Chrysler on May6, 1998.

March 11, 1999.   Nissan eventually reached the point in which they had no possible partners

except for Renault (Magee, 2003).   To make matters worse, the day before the announcement

of DaimlerChrysler's refusal, Moody's Investment announced it had degraded Nissan's status

(Nikkei Business, 2000).

On March 27, 1999, Louis Schweitzer, CEO of Renault, and Yoshikazu Hanawa, CEO of

NISSAN signed the Renault-Nissan Alliance.   Accordingly, Nissan received $5.4 billion from

Renault while Renault received 36.8% of Nissan's shares. At the same time, Carlos Ghosn was

chosen as COO of Nissan.

B-2.   Nissan Revival Plan

The Nissan Revival Plan (NRP) was the most important part of Ghosn's reforms.   It accounts

for nearly all of the major business changes at the company.   Looking closely at the NRP

reveals the kinds of reforms Ghosn emphasized and directed.

Ghosn's nickname, "le cost killer," was been well-known by Japanese people who were aware

of his past achievements at Renault and Michelin.   Many expected that his reform plan would

be mainly cost reduction (Magee, 2003).   When it was unveiled on October 18, 1999,

however, it was clear that the new reform plan aimed not only at dramatically reducing costs

but also at creating greater long-term growth (Magee, 2003).   By creating centralized control

over global operations such as corporate planning and brand management, NRP aimed to move

Nissan from a current multi-regional organization to a global one.

Reduction of Production Capacity

Perhaps, the most difficult to implement of all the NRP measures were the plant closures Ghosn initiated. Even though the productivity of Nissan plants, both domestic and overseas, was comparatively high globally, Japanese plants were, as mentioned, operating at a 53% level of capacity utilization. NRP set a target of 82% capacity utilization in 2002; Nissan decided to close three assembly plants and two powertrain plants in order to achieve their goal.[12]

Along with the plant closures, NRP proposed to reduce the domestic car platforms from 24 models to 15 by 2002 for the purpose of bringing down the complexity of car assembly system.

As a result of the plant closures, 5,200 employees were effected. 3,840 were transferred to other plants and 1,300 retired from Nissan. Nissan tried to help these employees as much as possible, and 1,200 of the retired employees were eventually re-employed by other local employers (Ghosn, 2001). Magee (2003) claims that plant closures were carried out with little trouble and the plant labor force worked hard until their last day with the company.

Personnel Reduction

NRP proposed a 21,000 headcount reduction. This represented 14% of Nissan's total employment. The breakdown of the worldwide headcount reduction was 4,000 in manufacturing; 6,500 in the Japanese dealer affiliated network; 6,000 in selling, general and administrative departments; 5,000 in spin-offs; and an increase of 500 R&D employees.

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[12] Three assembly plants were Murayama Plant, Nissan Shatai Kyoto Plant, and Aichi Kikai Minato Plant. Two powertrain plants were Kurihama Plant and Kyusyu Engine Shop.

These numbers were supposed to be achieved mainly by natural attrition and through early retirement programs.   Noteworthy is the R&D personnel increase of 500.   Nissan tried to reduce the total workforce while increasing the R&D personnel which might help build a foundation for profitable growth.

Reduction of Purchasing Costs

Another target of NRP was to achieve a 20% reduction of purchasing costs over three years. This was a crucial objective because purchasing costs accounted for 60% of Nissan's overall costs.   This reduction was to be carried out through measures to centralize and globalize purchasing, to reduce the number of material suppliers from 1,145 to no more than 600 in 2002, and to reduce the number of equipment suppliers from 6,900 to no more than 3,400 in 2002. These measures meant for some suppliers a loss of contracts with Nissan, but, for other suppliers, it meant an increase in volume.   The alliance with Renault also meant huge opportunities for reducing purchasing costs.   Nissan and Renault took advantage of common purchasing in select areas using common standards and suppliers.

Over-engineering was another problem of Nissan's past.   Nissan used to be called by Japanese customers "*Gijyutsu no Nissan*" ("Technologically-advanced Nissan").   Its brand identity was a technologically-advanced auto manufacturer (especially in the 1960s and early 1970s). Both in image and technology, Nissan surpassed other domestic car manufacturers, including Toyota (Uesugi, 2001; Takarabe, 2002; Magee, 2003).   Gradually in the 1980s and 1990s, the use of the nickname "*Gijyutsu no Nissan*" diminished.   It is now remembered by few customers but it was deeply embedded in the minds of Nissan's engineers who maintained

"over-quality" and "over-engineering" standards in the 1990s (Tokudaiji, 2001).   It brought

about high levels of purchasing costs along with an excessive number of suppliers.

In addition to the reduction of purchasing costs, a 20% reduction of sales, general, and

administrative costs were targeted by the NRP.   These costs were regarded as too high and out

of line with the best car manufacturers at that time.

Revamp of Dealer Networks

The revamping of dealer networks was another major goal.   NRP proposed to reduce

distribution subsidiaries by 20% and close 10% of the total retail outlets in order to reduce

territorial overlap and intra-Nissan dealer competition.   Moreover, most of the 1,000

employees who had been sent to the dealerships from Nissan were to be brought back to

operations.   They were viewed as a burden for dealerships.

Disposing of Non-core Assets

It was critical for Nissan to reduce its automobile debt which was directly linked to its financial

crisis.   To achieve this debt reduction, NRP proposed disposal of land, securities and other

non-core assets.   Disposing shareholdings was important from the Japanese traditional

business perspective.   Nissan was intertwined with the so-called "*keiretsu*" networks.   When

the NRP was announced, Nissan had shareholdings in 1,394 companies; shareholdings were

above 20% in more than 50% of the companies in which Nissan held interest.   Therefore,

Nissan decided to sell all of its shareholdings with the exception of four companies that were

strategically important to Nissan's future.

Investment in Future

Beyond reducing costs, NRP also focused on investing in the future. As part of NRP, Nissan announced that 22 new cars would be unveiled within three years. NRP emphasized increasing the company's technological strength and boosting its R&D output, but to do so as efficiently as possible. To this end, the company created a globally integrated R&D structure. Nissan Technical Center (NTC) would be in charge of worldwide R&D and other regional R&D centers around the world would be centralized with NTC.

By trying to re-capture its former technological clout, Nissan signaled that its brand identity was critical. At the time of the NRP announcement, Ghosn did not reveal his detailed plans for bolstering Nissan's brand identity. He mentioned only that Nissan had begun a focused technical effort. Eventually a strategy for establishing a global brand identity was formulated during the first year of NRP.

Clear Commitment

When NRP became public, Ghosn made clear the commitment that Nissan executives must follow. It is a rare case in the Japanese business world that a CEO makes a clear and public commitment by announcing a corporate strategy or restructuring plan. He said in his NRP presentation speech: "We explained to you today what Nissan's situation is. We told you what we are going to do about it. We unveiled to you our commitments. The Nissan revival

plan is our plan to prepare Nissan's future.   Its objectives and commitments will not change.
It is a consistent and reliable guideline for the next three years and beyond."[13]   The three
fundamental commitments in NRP were as follows:

- Nissan will return to net profitability in fiscal year 2000
- Nissan will achieve a minimum operating income to sales margin of 4.5% by fiscal year 2002
- Nissan will reduce consolidated net automotive debt to less than ¥ 700 billion by fiscal year 2002

NRP promised that if any of these commitments were not met, the executive committee would
resign en masse.

Response to NRP

Then-Prime Minister Obuchi Keizo and other politicians expressed concern about the 21,000
job cuts planned in NRP and the impact of the keiretsu move on suppliers' employees.   The
Trade Minister, Takashi Fukaya, stated: "I'm very worried about the affiliated subcontractors.
These companies have to study ways to survive on their own, but the government would like to
expand as much help as possible" (Wall Street Journal, Oct. 20, 1999).   Investors had
anxieties, too.   They were concerned that the company would have trouble executing the plan
because NRP was more aggressive than they expected.   Standard & Poor's Ratings Services,
for example, maintained its negative outlook on Nissan's long-term debt (Wall Street Journal,
Oct. 20, 1999).   An analyst said that Ghosn might become a "target of public outrage" if
Nissan throws former affiliates out of its supply chain (Wall Street Journal, Oct. 19, 1999).

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[13] http://www.nissannews.com/site_library/coporate/news/1999speeches/2_25_2000.shtml (Jan. 12, 2005)

Success

Nissan reported for FY2000 a net income of ￥331.1 billion and operating income of ￥290 billion.   It had achieved the first commitment of NRP.   Surprisingly, it was the best financial performance in Nissan's history.   Moreover, the operating margin of FY2000 was 4.75%, higher than the second commitment of a 4.5% operating margin for FY2002.   The company was two years ahead of the deadline.[14]   The third commitment of reducing the net automotive debt by FY2002 was achieved during FY2001.   Also, Nissan's share price rose by 46% from ￥316 in October, 1998 to ￥460 in May, 2000 when Nissan announced the financial results of FY2000.   It is now (2005) around ￥1,200 almost quadrupled from the time of its financial difficulty.

The Nissan Revival Plan brought about a financial recovery of the company.   The most important aspect of NRP was, however, that it changed the traditional way of doing business in Japan. Recently Ghosn stated:

> *…The Nissan Revival Plan represented a revolution of sorts for the Japanese economy. Not for its social effect, which were as moderate as implementation of the plan would allow, but for its effects on standards and practices that had been in place for decades and were associated, rightly or wrongly, with the success of the Japanese economic model* (Ghosn & Riès, 2005, pp125-126).

NRP's successful results drew attention to Nissan and Ghosn. For example, Ghosn became a

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[14] Nissan's Annual Report 2000

subject of a Japanese comic (Manga) book series, "The True Story of Carlos Ghosn,"[15] that sold more than 500,000 copies of each issue (see **Figure 1**).   Ghosn was given the new nickname of "Seven-Eleven" ("work very hard from early in the morning till late at night") and became Japan's new superhero (Magee, 2003).   Norihiko Shrouzu, a journalist at *Wall Street Journal*, wrote:

Figure 1.   Ghosn in Manga

Source: The True Story of Carlos Ghosn (Togashi, 2002)

> *...Mr. Ghosn's surprising success has made him a celebrity in Japan and in global business circles.   Using his outsider status, he is upending Japan Inc.'s traditional way of doing business, carrying out mass job cuts, dismantling Nissan's inefficient keiretsu of affiliated suppliers and closing surplus factories in Japan.   By doing so, he has shown that it is possible to bring market capitalisim to bear on Japan's old-line, quasisocialist corporate culture without catastrophic results* (*Wall Street Journal*, Nov. 16, 2000).

Ghosn was named as Asia's 2002 Businessman of the Year by *Fortune* magazine, as "Industry Leader of the Year 2001" and "Top CEO—Asia" by *Automotive News*, as "Top 25 Managers of the Year 2001" by *BusinessWeek*, as "Executive of the Year 2002" by *American Industries* (Magee, 2003).

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[15] The comic was published as a book in May 2002.

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Most of the reforms Ghosn directed were incorporated in the Nissan Revival Plan (NRP).

NRP had cost reduction measures such as the reduction of production capacity, personnel, and

purchasing costs, as well as the measures for future growth.

The important aspect of NRP was its commitment.   Ghosn promised all executives would

resign if NRP failed.   NRP was successful and Ghosn was applauded by the employees and

the media both in Japan and abroad.

CHAPTER THREE

Leadership

In this chapter, I examine the leadership styles of MacArthur and Ghosn by utilizing Shein's

"*Culture-Embedding Mechanisms*" framework (1992).   Leadership is a process of embedding

organizational culture.   Studying those things to which a leader pays attention, and how he or

she behaves, reveals how a new culture is embedded in the organization.

Schein lists six embedding mechanisms:

- What leaders pay attention to, measure, and control on a regular basis
- How leaders react to critical incidents and organizational crises
- Observed criteria by which leaders allocate scarce resources
- Deliberate role modeling, teaching, and coaching
- Observed criteria by which leaders allocate rewards and status
- Observed criteria by which leaders recruit, select, promote, retire, and excommunicate organizational members (Schein, 1992, p231)

A.   MacArthur's Leadership

Douglas MacArthur was born in Little Rock, Arkansas on January 26, 1880.   He graduated

first in his class from the U.S. Military Academy at West Point in 1903 and was sent to the

Philippines to work as an aide to his father, General Arthur MacArthur, Jr..   During World

War I, he was appointed as a brigade commander, the youngest soldier ever to achieve the rank

before or since.   After World War I, he was appointed as major general commanding the

Department of the Philippines from 1928 to 1930, and served in the U.S. as Chief of Staff of

the Army from 1930 to 1935.   In 1937, he retired from the Army to reinforce and command

the Philippine Army.   When the war with Japan became imminent, he was recalled to active

duty as commander of United States Army Forces in the Far East (USAFFE)

(http://www.answers.com/topic/douglas-macarthur, Feb. 19, 2005).

During World War II, after the withdrawal of his troops from the Philippines to Australia, he

began a leap-frog campaign to regain the islands lost in the Pacific and finally returned to the

Philippines in 1944 (http://www.ehistory.com/wwii/PeopleView, Feb. 19, 2005).

He spent most of his career in the Philippines where his father thwarted Emilio Aguinaldo's

insurgence and served as commander of the occupation forces.   His father had a burning sense

of mission for modernizing and democratizing the Philippines society (Sodei, 1976).

MacArthur may have appropriated his father's sense of mission and it became embodied in his

idealism and enthusiasm for directing democratic reforms within the Japanese society.   It was,

in many ways, a continuation of his father's policy of "benign colonialism".

A-1.   Idealism

The way MacArthur conducted the reform was characterized by his "idealism."   By

"idealism," I mean MacArthur's vision and his principles as they guided his reforms, especially

his enthusiasm for the democratization of occupied Japan.

MacArthur's idealism is well illustrated in his famous speech aboard the USS *Missouri* during

the surrender ceremony on September 2, 1945.   Surprisingly, it was the first and last speech

that MacArthur made during the occupation period (Sodei, 1976).

> *...It is my earnest hope and indeed the hope of all mankind that from this solemn occasion a better world shall emerge out of the blood and carnage of the past—a world founded upon faith and understanding—a world dedicated to the dignity of man and the fulfillment of his most cherished wish—for freedom, tolerance and justice."*

> *...As Supreme Commander for the Allied Powers, I announce it my firm purpose, in the tradition of the countries I represent, to proceed in the discharge of my responsibilities with justice and tolerance, while taking all necessary dispositions to insure that the terms of surrender are fully, promptly and faithfully complied with* (http://www.pbs.org/wgbh/amex/macarthur/filmmore/reference/primary/macspeech04.html, Jan.31, 2005).

Standing at the ceremony and listening to the speech, Kase Toshikazu, a general manager of public relations in the Japanese Ministry of Foreign Affairs, reported to the government that "He (MacArthur) is a man of peace;" "He is a man of light;" "Radiantly, the gathering rays of his magnanimous soul embrace the earth, his footsteps paving the world with light;" and "In the dark hour of our despair and distress, a bright light is ushered in, in the very person of General MacArthur" (MacArthur, 1964, pp272-277).   Kase's report seemingly helped shape the impressions of MacArthur for the Emperor and other government elites (Sodei, 1976).

MacArthur's idealism is typically seen in his attitude toward war.   Even in minds of many Japanese today, the constitution's stand on war is thought to have been imposed by the Americans.   The article on the renunciation of war has been contentious since the constitution took effect in 1947 but the constitution has not yet been changed.   Although in MacArthur's

1964 book, "*Reminiscence*," he wrote that the idea of renouncing war was taken from then

Prime Minister of Japan Shidehara.   But, some studies show that the idea came from

MacArthur himself.   He wrote: "For years I have believed that war should be abolished as an

outmoded means of resolving disputes between nations" (MacArthur, 1964, p303).   Sodei

(1976) says that MacArthur was forced to compromise his renunciation of war during the

Reverse Course period of the occupation and, because of this, he may have been reluctant to

attribute the credit to himself.

MacArthur's idealism also appears in the way he chooses staff members during the occupation.

The occupation was run mainly by people who did not have specialized knowledge of Japan.

If MacArthur had been more practical and wanted the reforms to be smoothly carried out, he

might have chosen knowledgeable specialists on Japan as his staff.   He did not do so,

however; he wanted the reforms to be carried out differently.   For example, Colonel Charles

Kades, arguably one of the most talented staff members in the Government Section of GHQ

and a passionate "New Dealer", recalled: "I had no knowledge whatsoever about Japan's

history or culture or myths.   I was blank on Japan, except of course I knew about the atrocities

that had occurred during the war and I was aware of their expansion into China and Southeast

Asia" (Dower, 1999, p223).   MacArthur appears to have deliberately avoided staff possessing

special knowledge of Japan. He expected a totally fresh approach from his subordinates.

A-2.   Absolute Power (or Arrogance)

The primary authority of the occupation was formally held by the Far Eastern Commission

(FEC) made up of eleven nations, the U.S., U.K., China, Soviet Union, Australia, France, the

Netherlands, India, Canada, New Zealand, and the Philippines.   It was headquartered in

Washington D.C..   Within the FEC was the Allied Council for Japan (ACJ) which was formed

and headquartered in Tokyo for the purpose of directly supervising the day-to-day operations

of the occupation forces (see **Figure 2**).   Although MacArthur was formally under the

supervision of these organizations, he kept them essentially powerless.   He regularly skipped

ACJ meetings.   Even when he attended them, he did not carefully listen to delegates' opinions

(McClain, 2002).   MacArthur had formal obligations to follow Washington policies, but the

actual details and operations of all the occupation policies were left to his discretion.

Figure 2.   Organizations for Occupation

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                              ┌──────────────────┐
                              │   Far Eastern    │
              ┌───────────────┤   Commission     │
              │               └────────┬─────────┘
              │                        │
              │         ┌──────────────┴──────┐   ┌────────────────────┐
              │         │ The U.S. Government  │   │ British Commonwealth│
              │         └──────────┬───────────┘   │   Governments       │
              │                    │               └──────────┬──────────┘
  ┌───────────┴──────┐   ┌─────────┴────────────────────────────────────┐
  │  Allied Council  │- -│                 GHQ/SCAP                      │
  │    for Japan     │   └──┬──────────────────┬──────────────────┬──────┘
  └──────────────────┘      │                  │                  │
                    ┌───────┴──────┐  ┌─────────┴──────┐  ┌────────┴─────────────┐
                    │ U.S. Occupation│  │   Japanese   │  │ British Commonwealth │
                    │    Forces    │  │  Government   │  │  Occupation Forces    │
                    └──────────────┘  └───────────────┘  └──────────────────────┘
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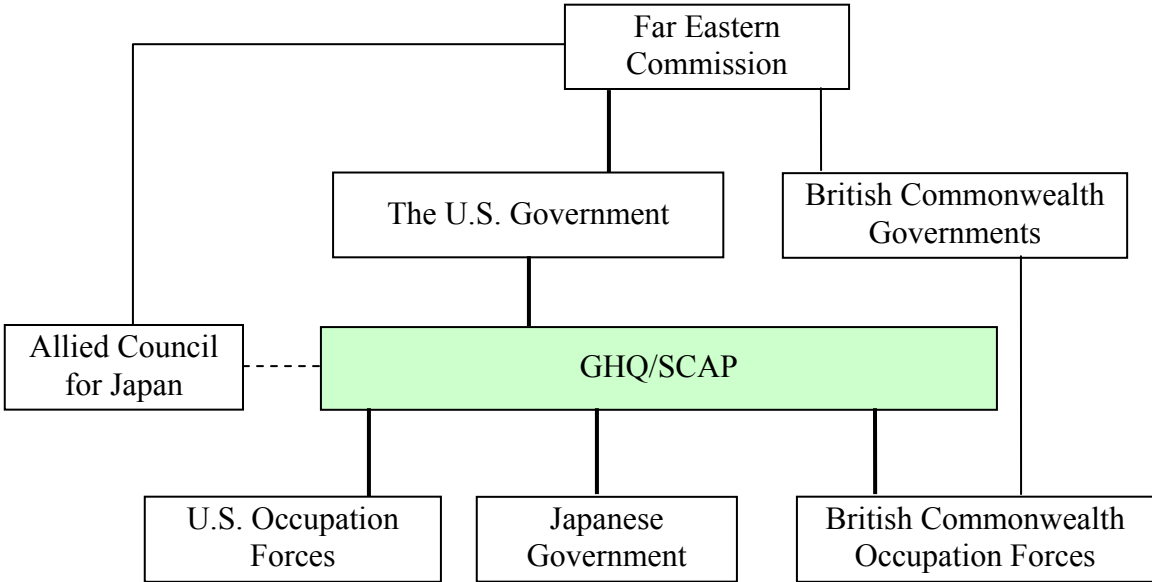
Source: Takemae & Nakamura, 1996   (Thick lines mean the command lines)

MacArthur's nickname during the occupation period illustrates his absolute power.   He was

called the "Blue-Eyed Shogun" by the Japanese people.   McClain (2002) says: "He had an

astonishing power over the Japanese people and the occupation forces."   He himself

recognized his power.   In 1951, he explained to a U.S. Senate committee that he had not only

the normal executive authorities analogous to those of the U.S. President but also the legislative prerogatives (Dower, 1999).   In addition, he controlled the International Military Tribunal for the Far East.   It can be said that MacArthur possessed all three powers that most modern democratic governments typically maintain separate (Sodei, 1976).

A-3.   Divinity and Theatrical Behavior

Looking beyond his "governmental" powers, we can infer from historical facts that he also tried to act as a sacrosanct figure.   One important fact illustrates this well—MacArthur actually met only a small number of Japanese people.   He ensconced himself in the Dai Ichi Insurance Building and his travel was restricted to commuting between the headquarters building and his residence in the U.S. embassy (Dower, 1999).   The actual number of Japanese people who saw MacArthur face-to-face more than once was only 16 (Shyukan Shincho 2, 1983).   Yoshida Shigeru had an unusually high number of 75 visits during the occupation period of five and a half years.   The Showa Emperor had 11 visits.   Most others visited MacArthur only a few times.   Nor did MacArthur ask his staff questions about Japan (Dower, 1999).   It could be argued he was trying to behave as a feudal shogun or another emperor.   This kind of behavior seems to have helped him achieve detachment and maintain his idealism.

Looking through Japanese eyes, General MacArthur was a kind of liberator; a man of generosity and one who had similar attributes as the Showa Emperor. MacArthur wrote:

...as reforms progressed and freedom increasingly came to Japanese masses, a unique bond of mutual faith developed between the Japanese people and the supreme commander. As they increasingly sensed my insistence upon just treatment for them, even at times against the great nations I represented, they came to regard me not as a conqueror, but as a protector (MacArthur, 1964, p 283).

The most striking moment for Japanese people was publication of one photograph in which General MacArthur and the Showa Emperor were standing side by side (see **Figure 3**). In the picture MacArthur has a relaxed look with rough attire while the Emperor has a nervous look with formal attire. This picture made the Japanese people realize who really was controlling the nation. MacArthur utilized public relations ingeniously. For example, Eisenhower, the 34th U.S. President, who had served as a subordinate of MacArthur when he was the Chief of Staff of the Army,

Figure 3.   Historical Photo

Source: Sodei, 2003

remembered that MacArthur was obsessed with an idea that a commander must protect his public image by all means and at all times (Sodei, 1976).

It was well-known that the Japanese people sent many letters to MacArthur during the occupation. Most of them were venerating and appreciative of his "boundless generosity." It is estimated that about 0.75% of the adult population wrote such letters (Dower, 1999).

When it was decided that MacArthur must return to the U.S., many Japanese expressed

gratitude.   There was even a public movement in 1951 advocating a "MacArthur Memorial"

be erected in Tokyo Bay (Dower, 1999).

His reputation and high status disappeared from Japanese minds relatively early; however,

many Japanese were shocked when he made his famous speech, "Old Soldiers Never Die" on

April 19, 1951.   In the speech, he described Japan as a "boy of twelve."   Actions such as this

eventually diminished the obsession and mystique MacArthur carried among the Japanese

people (Dower, 1999).

A-4.   Relationship with the Emperor

The photo shown above represented a historical event.   In their first meeting, MacArthur and

the Emperor spent about forty minutes together.   The content of the meeting was kept secret

by both GHQ and the Japanese government.   Ten more meetings between the two took place

during the occupation period.   The content of all these meetings was kept secret. MacArthur

used these occasions to embellish upon the image of the Emperor, commenting that the

Emperor was the "first gentleman of Japan" (Dower, 1999).

Before MacArthur met the Emperor, he had understood the Emperor could serve as a

protective umbrella to legitimatize his actions to those who actually ruled Japan.   He regarded

the Emperor as a symbol uniting all Japanese people.   He had believed that if the imperial

institution was transformed into a constitutional monarchy, the Emperor could contribute to

stabilizing Japanese society (McClain, 2002).   The treatment of the Emperor was a critical

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issue among the Allied Powers because China, Australia, the Philippines, and the Soviet Union were running a coordinated campaign against the throne (Dower, 1999). Even in the U.S., there was widespread opposition to the throne. George Atcheson, for example, the State Department's representative in Tokyo, reported to President Truman early in 1946: "the Emperor is a war criminal and the Emperor system must disappear if Japan is ever to be really democratic" (Dower, 1999, p327).

A-5. MacArthur's Challenge

In terms of protecting the Emperor, MacArthur faced two major challenges. The first major challenge for MacArthur was to finish the constitutional revisions before the FEC actually began operating. As mentioned before, he ordered his staff to draft a constitution within a week and present it to the Japanese government.

The second major challenge was handling of war crimes. The International Military Tribunal for the Far East (IMTFE) was established for trying and punishing the major war criminals in the Far East. British and Soviet representatives to the FEC wanted to indict the Emperor as a war criminal. They believed that the atrocities the Japanese committed could not have occurred without the knowledge and permission of the Emperor (McClain, 2002). MacArthur, however, crafted the IMTFE to function as a defense team for the Emperor. He had the authority to appoint the judges and prosecutors. Consequently, the Emperor did not have to appear or testify at the tribunal. Also, any references to the Emperor were carefully excluded from testimony (Sodei, 1976; Dower, 1999).

Prime Minister, Yoshida Shigeru, later remembered that the constitutional revision was not an issue of law but a political matter of preserving the throne.   He praised MacArthur as the great benefactor, not because he oversaw the birth of democracy in Japan but rather because he protected the Emperor (Dower, 1999).

A-6.   Internal Conflict and Ambiguity

Under MacArthur's authority, there was significant intra-organizational conflict in GHQ between the Government Section (GS) and the Intelligence Section (G-2).   The Government Section was in charge of advising GHQ on policies concerning the internal affairs of civil government in Japan.   Its objectives were to demilitarize and democratize the political, economic, social and cultural aspects of Japan.   It was headed by Courtney Whitney, who was one of the most influential persons in GHQ.   He was also one of the most trusted staff members by MacArthur.   G-2 was headed by General Charles A. Willoughby, who was MacArthur's intelligence chief during the war (Takemae 2, 2002).

These two sections often conflicted because of their different agendas.   GS was reform-minded.   G-2 was military-minded.   The most striking conflict was over the police system.   GS supported a decentralized police system, in which each local government had authority over the police in their area.   G-2 wanted a centralized police system.   After long debate, MacArthur compromised and decided to implement aspects of both systems, creating local police and national police (Syukan Shinco 1, 1983).

Such internal conflict sometimes complicated the direction of policy making in the Japanese government (Sodei, 1976).   GS and G-2 at times tried to directly influence the formation of Japanese political system.   The former was seeking a more radical political body while, the latter, a more conservative one (Syukan Shincho 2, 1983).

Such internal conflicts have been attributed to MacArthur's way of managing.   He believed that the best way to manage the occupation was by imposing reforms while still attempting to prevent the Japanese people from feeling the reforms were imposed by the Americans.[16] Therefore, his directives were sometimes ambiguous.   As an example, a directive on shrines was quite confusing to the Japanese people because it stated that Shinto operated by the government should be eliminated, but Shinto based on the folk religion should not.   The Japanese people usually thought all the shrines were based on the folk religion.   But the Japanese were typically obedient to authorities.   Hence, they felt that they had to go and ask an American officer of the occupation forces whenever they wanted to conduct religious activities (Syukan Shincho 1, 1983).

*   *   *   *   *

In summary, MacArthur had an idealistic vision for managing the occupation of Japan that was likely influenced by his father, who was, as mentioned, the supreme commander of the occupation of the Philippines.   MacArthur had absolute power over the Japanese people, analogous to that possessed by a Roman Emperor.   Through his exercise of benign but

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[16] MacArthur told his subordinate aboard on the plane for Tokyo that the reforms should be thought to be voluntarily implemented by Japanese people (Syukan Shincho 1, 1983 pp83).

absolute authority, he made himself sacrosanct and protected the Japanese Emperor by all

means.   He was praised by the Japanese people not as a reformer who introduced democracy

but as a protector of the Emperor.

At times, however, MacArthur experienced conflict within his own organization.   Such

conflict resulted in confusion among the Japanese people.

B. Ghosn's Leadership

Ghosn was born in Brazil into a family of Lebanese origin on March 9, 1954.   He moved to Lebanon and was educated in France, where he studied engineering in such renowned schools as the École Polytechnique and the École des Mines.   In September 1978, he joined Michelin in France.   He became general manager of the Michelin factory in Puy-en-Velay at the age of 27.   In 1985, he moved to Brazil to serve as COO of Michelin Brazil, in charge of all operations in South America.   He was the youngest COO in Michelin history.   His most noteworthy accomplishment in that position was making his company profitable during a time of hyper-inflation in Brazil.   Although Michelin Brazil had lost money in 1985 and 1986, it began to be profitable in 1987.   By 1988 it showed the highest profit among all the Michelin subsidiaries.   In1989, Ghosn moved to the U.S. and became CEO of Michelin North America. As CEO, he managed the acquisition of Uniroyal-Goodrich and successfully merged the American and French cultures of the two companies.   In 1996, he was selected for the position of executive vice president of Renault by Louis Schweitzer, the CEO of Renault.   At the time Renault was in serious difficulty and desperately needed drastic changes to revive its financial health.   Ghosn developed a 20 billion franc cost-cutting plan and carried it out successfully.   In 1999, as mentioned, he became the first outside CEO of Nissan (Magee, 2003; Ghosn & Riès, 2005).

Below, I examine various aspects of Ghosn's leadership.   The most important feature of his management approach seems to his emphasis on "Cross-Functional Teams".   The broad and drastic measures associated with NRP can be attributed to the way in which Ghosn took

maximum advantage of cross-functional teams.

B-1.   Cross-Functional-Team (CFT)

Ghosn organized nine cross-functional teams (CFTs) for tackling Nissan's problems.   In

Ghosn's view, these teams were the key to his success in revitalizing Nissan.   Ghosn

explained to employees at all levels of the company that they themselves possessed solutions to

Nissan's problems.   According to Ghosn, it was neither top-down nor bottom-up.   It was the

way of "both top-down and bottom-up."[17]

Meticulous CFT Way

Nissan's CFTs were established on July 5, 1999.   All CFTs had one common goal, one

common rule and one common deadline.   "The goal is to make proposals in order to develop

the business and to reduce costs, and the rule is 'no sacred cows, no taboos, no constraints,' and

the deadline is the October 18"[18]   The nine CFTs formed are shown in **Table 2**.

Each CFT was headed by "a pilot" who was selected from among all senior managers who had

competence in the CFT's area of expertise.   The CFTs were on average made up of ten people,

typically middle-level managers with direct responsibilities.   Although their alloted time to

come up with a conclusion was short, they were given room to think freely and creatively to

find ways to solve the Nissan's problems (Magee, 2003).   More importantly, they were

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[17] http://www.nissannews.com/site_library/coporate/news/1999speeches/2_25_2000.shtml (Jan. 12, 2005)

[18] http://www.nissannews.com/site_library/coporate/news/1999speeches/2_25_2000.shtml (Jan. 12, 2005)

supposed to take no responsibility for implementing the plan they created.   The CFTs' mission

was to propose solutions, not to implement them (Maeya, 2004).

Table 2. Subjects of Nine Cross-Functional Teams

Team	Topics
1	Business growth—new products, new services, new markets
2	Purchases which represent 60% of expenditures
3	Manufacturing and logistics
4	Research and development
5	Sales and marketing
6	General and administrative services
7	Finance
8	Everything that has to do with phasing out a product, a piece of equipment, or a service
9	Organization and value added

At first, there was confusion among members of CFTs.   They were at a loss as to what to do

and how to do it.   They were not accustomed to doing things in such a fashion.   The

members were from different departments and each of them maintained positions on behalf of

their respective department.   Agreement was hard to come by.   On August 18, 1999, Ghosn

called the nine pilots together informally and motivated them directly.   He explained the

objectives of CFTs and told the pilots that they were expected to make clear the causes for

Nissan's failure and to present a breakthrough plan with innovative measures.   In addition,

Ghosn told them he entrusted his hopes with the nine pilots (Maeya, 2004, pp85-97).   The

pilots were very impressed with Ghosn's words and afterwards played the role of facilitator within their CFTs, guided by Ghosn's principles (Maeya, 2004).   The CFTs began to advance in their efforts.   In September, 1999, the CFTs presented their proposals to the executive committee.   Some proposals were approved and some were deferred.   But by mid-October, 1999, all the plans that the CFTs proposed had been formulated and approved.

We should pay attention to the conviction with which Ghosn believed in the managers and employees in Nissan.   He could have formulated solutions by himself and ordered them to be implemented by senior managers.   Instead, he stated: "I was non-Nissan, non-Japanese.   I knew that if I tried to dictate changes from above, the effort could backfire, undermining morale and productivity" (Magee, 2003, p66).   The CFTs proved to be a way to involve and motivate middle managers who had detailed information about the company's daily business and had the potential to come up with solutions to the company's problems.

B-2.   Sense Making

Ghosn held a belief that employees at all levels of a company possess the solutions to the problems.   He learned this lesson at Michelin, when he was doing a line job on a manufacturing shop floor (Magee, 2003).

Before he ordered to make the CFTs in Nissan, Ghosn needed to control the flow of information inside the company and outside.   During the first three months after arriving at Nissan he vigorously visited its offices and factories, as well as subsidiaries and suppliers throughout Japan and abroad (Takarabe, 2002).   Ghosn wrote:

...To understand how the company had reached this point, I spent most of spring 1999 examining Nissan from every angle: inside Japan and outside; in offices, factories, and technical centers; in conversations with suppliers, dealers, and customers (Ghosn & Riès, 2005, p93).

...I asked people what they thought was going right, what they thought was going wrong, and what they would suggest to make things better. I was trying to arrive at an analysis of the situation that would not be static but would identify what we could do to improve the company's performance. It was a period of intensive, active listening. I took notes, I accumulated documents that contained very precise assessments of the different situations we had to deal with, and I drew up my own personal summaries of what I learned. In the course of those three months, I must have met more than a thousand people. During that time I constructed, bit by bit, my image of the company based on hundreds of meetings and discussions (Ghosn & Riès, 2005, pp93-94).

Jim Morton, senior vice president of Nissan North America, describes Ghosn's actions in the following way: "He wanted to fully understand all aspects of the company from the bottom up. He was observant and listened to everything that was said" (Magee, 2003, p26).

One characteristic event was that, just after he came to Nissan, he went to the test track and tested most Nissan cars as well as those of competitors, driving them at an extremely fast speeds (i.e., over 120 miles per hour). This impressed Nissan's employees who had never seen such executive involvement at Nissan. It was widely believed by employees that those who like driving cars could not be promoted to high positions within Nissan (Takarabe, 2002, p158). Even before the CFTs started, Ghosn listened to the employees and, in the process, apparently enchanted those who spoke with him.

B-3.　Design, Brand Identity

What Ghosn paid the most attention to was establishing Nissan's brand identity (Takarabe, 2002).　Ghosn formed a Brand Identity Committee within Nissan right after his arrival.　The committee discussed for almost one year what kind of company Nissan was and what kind of company Nissan should become (Tokudaiji, 2001).　Nissan had no unified corporate marketing messages worldwide before the crisis.　As a result, compared to Toyota, Nissan's customers were paying an average of $1,000 less for a car with similar specifications to Toyota's (Magee, 2003).　To make matters worse, Nissan's design was subordinated to the director of engineering (Ghosn & Riès, 2005).　In Nissan, a car's first design gradually vanished through many interventions at every level of the development process.　Nobody knew who made the car or who had responsibility for the final design (Takarabe & Katayama, 2001).　When Ghosn arrived, Nissan's brand image was suffering badly (Magee, 2003). Ghosn wrote:

> *...Before I came to Nissan, the executive who made the final decision on a model's design was the head of engineering.　When I became CEO, that decision rested with me.　I became the first CEO of a car manufacturer to convene executive committee meetings on the test tracks, where we tried out competition's cars. Before, the people at the top of Nissan were not really engaged with its products* (Ghosn & Riès, 2005, pp138-139).

As a first step to establish a new brand identity, Ghosn hired Nakamura Shiro as a chief designer in June 2001 (Magee, 2003).　Nakamura had worked for Isuzu Motors, a Japanese carmaker taken under the wing of General Motors, and had made a name for himself with a virile, muscular style (Ghosn & Riès, 2005).　The appointment of an outsider, Nakamura, to

chief designer was received by Nissan's four hundred designers as a shock because of Isuzu's

small size compared to Nissan (Ghosn & Riès, 2005).   Looking at Nissan's Design

Department, Nakamura said: "There were some good designs in the studio, but for different

reasons they were not coming to production" (Magee, 2003, p118).

As an example of building the brand identity, Ghosn ordered Nissan's corporate symbol to be

pur on all the steering wheels of its cars.   Before, some Nissan models did not display the

corporate symbol (Tokudaiji, 2001).

Ghosn promoted the design department within the organizational hierarchy, combining it with

the product development department and putting it under the direct supervision of the

executive vice president, Patrick Perata[19](Takarabe, 2002).   Ghosn also changed the

responsibility range of a "chief product specialist" who was in charge of development of

certain kinds of cars.   In the past the chief product specialist had to manage all the

development, marketing, and budget of a few kinds of cars.   The new post, in contrast, had

only to focus on the development of a new model by concentrating on enhancing the product's

competitiveness (Takarabe & Katayama, 2001).

As many large companies in Japan do not put as much importance on building brand identity

as in the U.S. and other Western countries, Ghosn's strong emphasis on the brand identity was

fresh to the Japanese business world (Magee, 2003).

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[19] Perata came from Renault's engineering department.

Revival of Z car

In July 2000, Ghosn announced the revival of "Z car[20]" (see **Figure 4**).   As Ghosn wrote: "Recreating the Z car would be tantamount to uncovering Nissan's genetic signature, its DNA" (Ghosn & Riès, 2005, p138).   It was the most symbolic event

Figure 4.   Z car (now)

Source: http://www.z.com/

amongst various activities to rebuild Nissan's brand identity (Takarabe & Katayama, 2001). Also, the design of the Z car was finished with collaboration between Japanese, American, and European designing staff, an outcome of the global integration of designing process that Ghosn initiated (Magee, 2003).

The Z car was introduced to the U.S. market as "DATSUN 240Z" in 1970 (see **Figure 5**).   It was a high-performance sports car with a cheap price tag.   It sold unexpectedly well, achieving a still-standing world record as a sports car of selling 540,000 units within nine years.   After the success of the first Z car, however, Nissan changed its design frequently and gradually lost sight of target users.   By 1996, the Z car had grown too big and expensive for its potential customers.

Figure 5.   DATSUN 240Z (1970)

Source: Takarabe & Katayama, 2001

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[20] "Z" means English "Zenith" and Japanese "Z-flag."   "Z-flag" was used on the ships and meant "advance and efforts" for sailors (Takarabe & Katayama, 2001).

Consequently, production of the American-version Z car was suspended in 1996.   The overall

sales reached one million units between 1970 and 1996 (Tkarabe & Katayama, 2001).

Ghosn recognized the brand value of Z car because he himself had known the Z car well.   He

possessed and drove the car for three years when he worked for Michelin North America.

The revival of Z car not only attracted old Z-car fans but also invigorated Nissan's employees

(Takarabe, 2002).

B-4.   Public Relations

Public relations (PR) were the key to Ghosn's management.   His PR skills were well

illustrated by his way of announcing the NRP.   The time of the announcement of NRP was

fixed on the day prior to the Tokyo Motor Show[21] which was being held when many

international journalists had gathered in Tokyo.   It was held at the Nihonbashi Royal Park

Hotel, located at the center of Tokyo.   Ghosn seriously and smoothly explained Nissan's

problems and how to deal with them.   It lasted for 45 minutes.   It was a striking event for the

Japanese media because, generally, Japanese CEOs rarely made such long public presentations

(Takarabe, 2002).

Ghosn also put the public relations department directly under his control (Tokudaiji, 2001).

Again looking to the outside, he hired a woman who had headed the P.R. department for Asia

Pacific region at JP Morgan.   She became the first female senior manager in Nissan (Itagaki,

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[21] Tokyo Motor Show is a largest event in the Japanese automobile industry.   It has been held
almost annually, when the Japanese automobile started to expand in 1954
(http://www.tokyo-motorshow.com/show/history/history-01.html, Mar. 19, 2005).

2001).   Public relations were critical for Ghosn's management. He states:

...In crisis, communication has to be concentrated.   You can't have fifteen people talking at the same way.   It was obvious from the start that the head of the company had to be the one doing the communicating and that I had to communicate a lot of information about the plans I'd made and how I was carrying them out.   It's my responsibility to do that (Ghosn & Riès, 2005, pp129-130).

...Generally speaking, only the public can determine the perception, the image of the company.   The company can set benchmarks and indicate what it wishes to become. It offers a model, an ideal.   I may know I'll never reach that ideal, but I also know that I must always strive for it (Ghosn & Riès, 2005, p134).

*   *   *   *   *

Ghosn's way of management is characterized by the Cross-Functional Teams and the value he put on brand identity.   He started with few preconceptions and tried to find out solutions among the related people: employees, suppliers, and so on.   He also pursued growth opportunities even when cost-cutting activities were being carried out.

C.   Comparison of the Two Leaders

C-1.   Similarity

Firstly, MacArthur and Ghosn have international backgrounds.   MacAurhur stayed in the Philippines for a long time and traveled around the Pacific region during the World War II. Ghosn worked in four different countries: France, Brazil, U.S., and Japan.

Secondly, both MacArthur and Ghosn possessed great charisma.   MacArthur was loved by the Japanese people during the occupation.   He received great praise from the Japanese people. Similarly, Ghosn was praised by the Japanese media and Nissan's employees alike.   He has become a national hero in Japan.

Thirdly, they both regard public relations as an important measure to carry out their reforms, although the ways they each utilized PR were quite different.   MacArthur tried to enhance his image through minimizing his exposure to the public.   His image had a kind of divinity. In contrast, Ghosn tried to expose himself as much as possible without allowing others to represent a company's will.   He tried to bring consistency into the perception of the company.

C-2.   Difference

The most significant difference between MacArthur and Ghosn lies in how they led. MacArthur conducted the occupation through indirect control and with a hierarchical command structure.   He intentionally chose non-specialists and tried to carry out reforms in an idealistic

way.　He had a solution in his mind before assuming his office.　Ghosn, however, listened to

employees, suppliers, and others.　He tried to find a solution through involvement of

employees at all levels.　He intentionally put himself in a situation without preconceptions.

C-3.　Culture Embedding Mechanisms

By looking at MacArthur and Ghosn's behavior and principles, I will hypothesize what kind of

culture each embedded into their respective organizations: the country, Japan, and the company,

Nissan.　**Table 3** shows the Culture Embedding Mechanisms of MacArthur and Ghosn that I

developed following Shein's (1992) framework.

Although MacArthur tried to embed "democracy" in Japan, he conducted reforms through a

militaristic and hierarchical structure, and without democratic procedures.　He held absolute

power and behaved like an emperor.　His idealism in renouncing war, the most important part

of the constitutional revision, was compromised by the outbreak of the Korean War.　He

allowed conflict among his staff, sometimes resulting in confusion among Japanese people.

In the case of Ghosn, although he had a primary mission to turn Nissan around, he was not

consciously attempting to embed an envisioned culture within Nissan.　His way of conducting

reforms seems to have had embedded cultural shifts from the bottom-up, without a master plan.

He tried to find solutions among employees and he put a large value on commitment of the

employees. Such behavior seems to implicitly embed a new culture.

In the next two chapters, I will look at changes in organizational culture brought about in the two organizations by examining basic assumptions.

Table 3.   Culture Embedding Mechanisms of MacArthur and Ghosn

Culture-Embedding Mechanisms	MacArthur	Ghosn
What leaders pay attention to, measure, and control on a regular basis	➢ Idealism ➢ Visioning ➢ Contradiction on democratization and demilitarization ➢ Public relations	➢ Realism ➢ Sense-making ➢ Emphasizing commitment ➢ Public relations
How leaders react to critical incidents and organizational crises	➢ Protecting the Emperor ➢ Challenge to upper authority	➢ Revival of Z car
Observed criteria by which leaders allocate scarce resources	➢ Democratic reforms	➢ Future growth ➢ Brand identity
Deliberate role modeling, teaching, and coaching	➢ Divinity ➢ Charisma, nicknamed, "Blue-eyed Shogun" ➢ Ambiguity	➢ Diversity ➢ Charisma, nicknamed, "Le Cost Killer" and "Seven-Eleven" ➢ Clarity
Observed criteria by which leaders allocate rewards and status	➢ Militaristic human relationship	➢ Performance
Observed criteria by which leaders recruit, select, promote, retire, and excommunicate	➢ Militaristic hierarchy ➢ Using Non-specialists ➢ Conflict of subordinates	➢ Cross-functional teams ➢ Shared goal

CHAPTER FOUR

Japan's Change

Organizational Culture and its Levels

What is the organizational culture?   Schein (1992) defines the culture of a group (or organization, even a society) as:
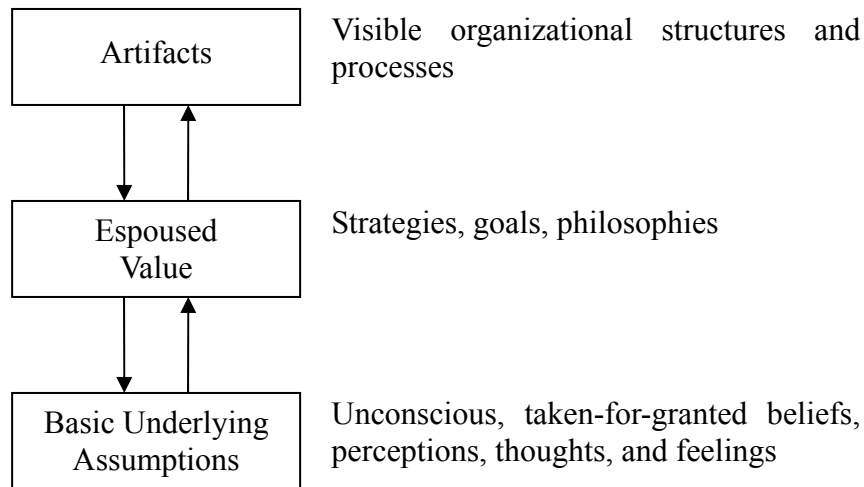
> *…A pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems* (Schein, 1992, p12).

Thus, Schein regards organizational culture as a pattern of shared basic assumptions.   How then is the culture formed?   The factors Schein regards as relevant to culture-forming are as follows:

> *…Culture basically springs from these sources: (1) the beliefs, values, and assumptions of founders of organizations; (2) the learning experiences of group members as their organization evolves; and (3) new beliefs, values, and assumptions brought in by new members and leaders* (Schein, 1992, p211).

When dealing with organizational culture, as Schein (1992) states, we should give heed to three levels of the culture: "Artifacts," "Espoused Value," and "Basic Underlying Assumptions" (see **Figure 6**).

Figure 6.   Levels of Culture

Artifacts	Visible organizational structures and processes
Espoused Value	Strategies, goals, philosophies
Basic Underlying Assumptions	Unconscious, taken-for-granted beliefs, perceptions, thoughts, and feelings

Introduction to Chapters Four and Five

We have seen how both MacArthur and Ghosn were trying to embed a new culture into their respective organizations through their behaviors or principles in Chapter Three.   In Chapters Four and Five, I will identify the basic assumptions associated with the problems both MacArthur and Ghosn were facing when they began their respective regimes.

I will first examine the founding process of Japan and Nissan and then look at how the organizations developed assumptions until a crisis occurred and the new leaders assumed their positions.   As Schein (1992) stated, basic assumptions are embedded during the founding process of the organization.   It is therefore important to examine this process when trying to identify the basic assumptions.   It is also helpful to examine why the organization fell into a crisis.

Second, I will examine what the two leaders did (and did not do) to change the basic assumptions of their respective organizations.

A.   Meiji Era and War

A-1.   Meiji Restoration

Foundation of the Country

In Japan, February 11th is the National Foundation Day.   It is based on Japanese ancient legends and is not historically accurate.   The first actual unification of the country was achieved around the seventh century and it is called the "Yamato Rule" (Kōdansya International, 2000).   This foundation of the country is so old, however, that I will not examine it in analyzing the founding process of Japan.   I choose rather the Meiji era as a founding process because it marks Japan emergence as a modern nation.

Commodore Perry and the Meiji Restoration

In 1853, Commodore Perry and his U.S. Navy squadron appeared in the Tokyo Bay.   He visited Japan to demand the opening of the country's ports (McClain, 2002).   The visit, threatening Japanese people with cannonballs, brought about a domestic crisis over whether to open the country or to expel the foreigners.   This crisis developed into movements toward overthrowing the Tokugawa Shogunate, eventually leading to warfare and weakening of the power of the Tokugawa Shogunate.   Consequently, the 15th Tokugawa shogun, Yoshinobu, returned his power to the imperial court in 1867.   Accordingly, a new government was

established, placing the emperor at the center of authority.   It brought an end to the feudal system (Kōdansya International, 2000).   This transition is called the Meiji Restoration, the nation-wide transformation from a Samurai world to a modern nation (Westney, 1987).

Meiji Emulation

According to Westney (1987), the Meiji era was characterized by an emulating process. During the early Meiji era, broad institutional changes occurred as a national response to both international pressure and domestic demands of industrialization.   These changes were guided through emulation of Western organizational models, deliberately selecting some characteristics and rejecting others.   Westernization was introduced not only into politics, the military, industry and the economy, but also into society in general (Henshall, 1999).

Westney (1987) characterizes the three major goals of the Meiji emulation as follows:

- The achievement of a military capability equivalent to that of the Western powers.
- The revision of the unequal treaties that had been signed by the Tokugawa Shogunate and reaffirmed by the new Meiji government.
- The desire to make Japan into a modern nation that was the equal of the Western powers, one that would be respected internationally as a modern, "civilized" society (Westney, 1987, pp18-19).

It was believed by the Japanese people that Westernization would make Japan stronger, better able to compete with the Western powers, and even match them or surpass them.   One of the slogans of the time was "*Oitsuke-Oikose*" ("catch up and overtake") (Henshall, 1999).   The government adopted and promoted national policies called "*Fukoku-Kyōhei*" ("Enrich Country

and Reinforce Military") and "*Shyokusan-Kōgyo*" ("Increase Production and Develop Industries")[22].

It is noteworthy that the Meiji emulation was considered as a classical case of "modernization from above." Interestingly, the men who played an important role in making the new institutions had a common social background. They were the samurai, the hereditary administrative class of the Tokugawa era, but they only accounted for only seven percent of the total population (Westney, 1987).

Meiji Constitution

In 1889 the Meiji Constitution was formulated. It made clear the political basis of the Meiji government and stated that "the emperor is sacrosanct and must not be violated" (Kōdansya International, 2000). The treatment of the emperor was devised by Itō Hirofumi[23], the most influential politician during the Meiji era, who believed that the Imperial family could function as a spiritual center of Japanese society. He thought Japanese society was easy to split up into any number of closed circles, and there were no appropriate or effective concepts that could unify the whole nation other than the concept of "All the Japanese people are children of the emperor" (Doi, 1973, p60).

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[22] http://db.gakken.co.jp/jiten/ha/513680.htm, (Mar. 21, 2005)
[23] Itō Hirofumi (1841-1909) was the first Prime Minister in Japan. He established the cabinet system and formulated the Meiji constitution. In 1905, he became a top officer of the Japanese occupational government in Korea, and he was shot to death by a Korean patriot (http://www.cc.matsuyama-u.ac.jp/~tamura/itouhirofumi.htm, Mar. 21, 2005).

There was a principle in the constitution that became one of the causes for the militaristic expansion in the Showa era.   It was a principle of "*Hohitsu*" (Doi, 1973).   It is a term that can be translated as "assist (the emperor)," but it implies that a person who assists the emperor should shoulder all actual responsibility while conceding all apparent authority (Doi, 1973). In the Meiji constitution, all the ministers were supposed to assist ("*Hohitsu*") the emperor while the emperor was supposed to possess absolute governmental power including "*Tōsuiken*" (the supreme commanding right of the military).   The military in the Showa era leveraged this legal structure and made its own decisions on aggression without discussing the matter in the cabinet (Dower, 1999).

A-2.   Military Expansionism and Assumptions about Battle

Military Expansion

Hirohito became the Showa emperor in December 1926.   He had been raised under a strong personal military influence.   As an individual he was aloof and far removed from the public (Henshall, 1999).   His regime undertook a period of military expansion and warfare despite the fact that "Showa," the name that represents Hirohito's regime, literally means "Illustrious Peace" (Henshall, 1999).   The Japanese military expansion during the 1930s and the early 1940s was an attempt to throw off the status quo, to overcome the global depression, and to catch up with the major advanced Western countries (Dower, 1999).

This military expansion was initiated by a group of middle-ranking military officers within the Kwantung Army located in Manchuria.   It gradually took on nation-wide momentum as the

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military intervention on the continent expanded.   It eventually developed into the war against China and finally into World War II (Henshall, 1999).

This aggressive military nature was nurtured by the rapid successes of the Meiji era.   Japan achieved world-power status by the end of the Meiji era and acquired colonies of its own, through military strength.   Military and political leaders believed that they could continue down the same road with such ambitious intensity (Henshall, 1999).   Of course, some leaders believed from the beginning that Japan could not ultimately win, and tried vainly to stop the war (Shukan Shincho 1, 1983).   In November 1945, Konoe Fumimaro[24], the Prime Minister at the time of the Marco Polo Bridge Incident[25] (1937) and just before the Pacific War began (1941), testified to an American investigator:

> *…After the Marco Polo Bridge Incident occurred, things rapidly unfolded.   Before the cabinet meeting was held, the military built up the troops.   As this incident could affect the international policy, I questioned the Minister of Army but he refused to answer* (Shukan Shincho 1, 1983, p161).

> *…The Army had no plan of how to end the war.   They even never came up with such an idea.   They had only one plan of fighting to the end.   Therefore, we would have been fighting now without the Emperor's decision* (Shukan Shincho 1, 1983, p166).

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[24] Konoe Fumimaro belonged to a peerage family.   He became the Prime Minister in June 1937.   He passed the National Mobilization Act (*Kokka Sōdōin Hō*) in 1938 establishing a basis for controlling the economy and ideology.   He killed himself on the day when he was to be summoned as a war criminal in December 1945 (http://www.cc.matsuyama-u.ac.jp/~tamura/konoefumimaro.htm, Mar. 21, 2005).
[25] The Marco Polo Bridge incident was a battle between the Japan's military and China's National Revolutionary Army, making the beginning of the Sino-Japanese War (1937-1945) (http://www.japan-101.com/history/marco_polo_bridge_incident/htm, Mar. 28, 2005).

....I had an intention to avoid a war by all means, because I thought if the war began,

Japan could have no chance to win (Shukan Shincho 1, 1983, pp167-168).

On the other hand, the populace was under a structure of authoritarian coercion that transferred oppression downward (Dower, 1999).   Towards the end of the war, a frenetic and fanatical campaign was waged in order to mobilize all the people for a suicidal battle (Dower, 1999).

Assumptions of the Military

Unquestionably, the most powerful and influential organization during the early stage of the Showa era was the military.   Examining the assumptions of the military is essential for analyzing basic assumptions of prewar Japan.

The Japanese military had developed unique assumptions for battle strategy.   During the Pacific War, one of the fiercest battles was fought at Guadalcanal Island.   There, the Japanese military had to confront the American military, especially the U.S. Marines.   The U.S. Marines had developed new tactics combining ground, sea, and air forces.   On the contrary, the Japanese Army did not cooperate with the Navy and simply repeatedly attacked at night using bayonet charges, resulting in huge losses.   Night attacks and bayonet charges were the primary assumptions for the Japanese Army.   When it came to the Japanese Navy, they usually focused on battles using cannon fire.   They believed victory was to be decided by the crossfire between large battleships (Nonaka, 1995).

These assumptions for battle strategy were formed through successful experiences during the Russo-Japanese War and the China Incident. They were treated almost as sacrosanct within the Japanese military. Moreover, the organizational structure, promotion system, and leadership style of the military were all designed to match these assumptions (Nonaka, 1995).

A-3.   Basic Assumptions before the Occupation

Inferring from the historical stream mentioned above, there seems to be three basic assumptions before the occupation. The first is the desire to catch up and overtake the Western major countries. The assumption here is that such catching up was both possible and good. The second assumption concerns obedience to authority, especially to the government. The third assumption concerns compartmentalism in organizations. These are discussed below.

Desire for Catching up

As Henshall (1999) describes, the desire for catching up and surpassing the Western major countries was derived from a kind of xenophobia exemplified by a catchphrase "*Sonnō-Jōi*" ("Revere the emperor, expel the barbarians"). The Japanese people had enjoyed a closed society until Commodore Perry came to Japan. The society was extremely homogeneous and most people did not know foreigners. Perry's appearance caused a kind of mass hysteria among Japanese people and it eventually boosted the Meiji Restoration (Kōdansya International, 2000).

Since then, Japanese leaders had been obsessed with becoming an "*Ittō-Koku*" (the "first

ranking country").   The military expansion in the early Showa era was also conducted with an

ideological objective of overthrowing the Western imperialism and bringing about a "*Dai-Tōa*

Kyōei-ken" ("Greater East Asia Co-Prosperity Sphere") (Dower, 1999).

Obedience to Authority (or Superior)

There had always existed in Japan an objection to the military expansionism, but it did not gain

enough momentum to sway leaders or overturn expansionism (Syukan Shincho 1, 1983).   The

reforms of the Meiji era were conducted from "above" by the government.   The subsequent

military expansion was initiated by a small group of military officers and allowed by the

government.   National movements were always started by the elites in the government or big

companies.   As Westney (1987) states, the Meiji Restoration itself was initiated by the

Samurai, a small portion of the total population.   From the Meiji Restoration to the defeat of

World War II, the Japanese populace was at the mercy of the ruling class: politicians,

bureaucrats, and capitalists.   The populace was obedient to the authority.

This mindset seems to have come from the long and peaceful age, the Edo era, that lasted for

264 years between 1603 and 1867.   During the period, a status system called

"*Shi-Nō-Kō-Shō*" ("Samurai, Peasant, Artisan, Merchant") was established and reinforced by

the Tokugawa Shogunate (Kōdansya International, 2000).   These classes were hereditary.

Impolite behaviors towards the Samurai were strictly prohibited, sometimes resulting in death

for violators.

From an analysis of social structure, Nakane Chie, a Japanese sociologist, (1970) insists that Japanese political powers have successfully controlled people through the country's unique social structure.   According to her, Japanese people are likely to form various groups, small or large, but these groups have little sense of solidarity with other groups.   These groups leave much room for a centralized political power to easily control them.   Isolated groups have no social power to form a higher entity by themselves.   As a result, these groups rely on centralized authority (Nakane, 1970).   This general tendency of the Japanese people corresponds with Itō Hirofumi's view of the Emperor (as "a spiritual center of Japanese society") and the legal structure of the Meiji constitution ("*Hohitsu*").

This tendency is seen not only in the relationship toward authority but also in the deferential relationship of subordinates to superiors within a group.   According to Nakane (1970), the Japanese organization (or group) emphasizes strong vertical ties among people.   It excels in transferring information from top to bottom and in mobilizing people.   When disagreements arise among the members, however, the hierarchical order of power always dominates.   As a result, the opinion of higher-ranking or most influential people is heeded without discussion (Nakane, 1970).   Following this tendency, the Japanese military dominated other governmental bodies at the time of military expansion.   They meticulously utilized the "*Tōsuiken*" (the "supreme right of commanding") and mobilized all the country, leading Japan into the war.

Arrogant Compartmentalism

As mentioned, the Japanese military stuck to faulty battle strategy assumptions that resulted in the country's defeat in World War II.   In addition, the Japanese military organizations were homogeneous and isolated.   They rejected any human interchange with other organizations and ignored information contrary to the military's basic assumptions.   The General Staff Office within the military was considered the most closed and self-righteous.   Unorthodox officers were sooner or later removed from the organization (Nonaka & Tobe, 1991). Moreover, the members of the organization were tightly networked.   Loyalty rather than performance was valued.   There were many cases when a military staff officer, having failed in an operation and reassigned to a field office, soon came back to an important post at headquarters (Nonaka & Tobe, 1991).

This Japanese group mentality, exemplified by the prewar military organizations, sometimes brings about a harsh behavior towards those who do not belong to the group.   Dower (1999) points out:

> *...Despite a mild Buddhist tradition of care for the weak and infirm, despite Confucian homilies about reciprocal obligations between social superiors and inferiors, and despite imperial platitudes about all Japanese being "one family" under the emperor, Japan was a harsh, inhospitable place for anyone who did not fall into a "proper" social category.   There existed no strong tradition of responsibility towards strangers, of unrequited philanthropy, or of tolerance or even genuine sympathy towards those who suffered misfortune* (Dower, 1999, p61).

Expressions of the Basic Assumptions in Japanese

As we have seen, there were three major basic assumptions in Japanese society before the occupation.   There are very suitable expressions for describing such phenomenon in the Japanese language: "*Oitsuke-Oikose*" ("Catch up and overtake"), "*Okami-Ishiki*" ("Superior-obedient"), and "*Yarō-Jidai*" ("Arrogance in a small, closed world").

Oitsuke-Oikose is literally "catch up, overtake."   The word, as mentioned, was used as a slogan during the Meiji era.   It is used even in today's companies.   When a company lags behind competitors, this slogan is sometimes brought forth and praised by managers.

Okami-Ishiki literally means recognizing the power of authority.   "*Okami*" is "existence above" and "*Ishiki*" is "consciousness."   Thus, the word means being obedient to an authority or a superior.   It also means relying on the government (or often "higher-ranking" institutions).

Yarō-Jidaii comes from a Chinese proverb.   The proverb is based on an ancient episode: a king of a small and weak country met with another king of a far larger and stronger country (the China Dynasty).   The smaller country's king behaved arrogantly as if he was a ruler of the larger country without realizing that his country was actually the smaller and weaker of the two.   Thus the word *Yarō-Jidaii* refers to a person who behaves arrogantly, incorrectly

believing that he or she is in a position of power or authority.

I will examine what MacArthur's reforms meant to the Japanese people and how the basic assumptions mentioned above were affected by them.

B.   What has, and has not, been Changed by MacArthur?

B-1. Basic Assumptions of Americans

The Americans who came to Japan during the occupation had basic assumptions concerning the militaristic Japan.   They thought that the domestic institutions such as schools, state religion, landlord-tenant relations, business structures, and civic organizations were to blame for Japanese aggression.   From the American point of view, these institutions drilled obedience into the people, suppressed individuality, and forced subordination of the self to the collective goals set by higher authority (Passin, 1990).   As for business, they thought that the concentration of economic control enabled the *zaibatsu* to maintain feudal relationships between *zaibatsu* and thier employees, suppress wages, and hinder the development of independent political ideologies.   *Zaibatsu* thus retarded the formation of a middle class that could have opposed the militarist group (McClain, 2002).   For the Americans, *zaibatsu* were seen as monopolizing the economy through authoritarian measures and making unfair profits throughout the war (Syukan Shincho 2, 1983).   In addition to *zaibatsu*, the Americans regarded high tenancy rates of the prewar land system as promoting the militaristic momentum in prewar Japan.   From their point of view, the high tenancy rates intensified the depression of the inter-war decades and turned villages into breeding ground for ultra-nationalism (McClain, 2002).

The Americans that arrived in Japan during the occupation typically held the prevalent political views of people in the U.S. at that time, such as liberal, New Deal, mainline American, and militaristic (Passin, 1990).   The occupation intended to remake the political, social, cultural

and economic fabric of Japan and in the process change the way of thinking of the Japanese populace. As mentioned before, MacArthur's reforms were conducted with his idealistic view of democratizing Japan that derived seemingly from his father's "benign colonialism." More specifically, his implicit personal vision was to exert control over a pagan, oriental society through the principles of white men who were engaged in a Christian mission (Dower, 1999).

B-2. Response to MacArthur's Reforms

Japanese Initiative

Among numerous reforms the occupation forces conducted, some reforms were actually initiated by the Japanese people. The land reform, enfranchisement of women, labor reform, and civil code reform are the major examples of implemented reforms (Passin, 1990; Dower, 1999; MacClain, 2002).

Many Japanese had regarded rural tenancy as a serious social problem before the war. The young officers and ultra-rightists who carried out terrorist acts in the 1930s often cited the rural distress caused by the tenancy system as one of the major reasons for their direct actions (Passin, 1990). Thus, as early as October 1945, some bureaucrats began to plan for land reform even before MacArthur announced his thoughts on the issue (MacClain, 2002).

Similarly, before the war, women suffragists and their supporters such as Christians, liberals, socialists, and some intellectuals had already expressed strong opinions (Passin, 1990). In the

fall of 1945, prewar leaders of the women's movement met and petitioned the government to grant woman suffrage before MacArthur issued his civil liberties directives (Dower, 1999). The labor and civil code reforms were also based on widely-held sentiments among the Japanese (Dower, 1999; MacClain, 2002).

Retreat from the Initial Objective

There were two examples of reforms that retreated from the initial objectives the Americans had sought.   One concerns the police system and, the other, the education system.

On September 16, 1947, the new police system was established.   It started, as mentioned, with a local and a national police—a result of MacArthur's compromise on policy differences within the occupation.   In July 1954, soon after the end of the occupation, however, the Japanese police system returned back to a centralized system similar to that of prewar (Syukan Shincho 1, 1983).

Similarly, the system of locally elected school boards modeled after the American system was tried out for a while but repealed in 1955 (Passin, 1990).   The principle of local education system autonomy was abandoned.   The Japanese Ministry of Education still retains predominant authority over a national school system (Passin, 1990).

Status of the Emperor

On December 15, 1945, MacArthur issued a directive ordering a cessation of Shinto doctrines in any educational institutions supported fully or partly by public funds.   Subsequently, on the New Year day of 1946, the Emperor announced a "Rescript" that was printed in newspapers nationwide and became popularly known as the "Declaration of Humanity" (McClain, 2002; Dower, 1999).   The idea for the declaration came not from the Japanese bureaucrats but from an expatriate British aesthete and a middle-level American officer with the intention of satisfying foreign critics that the Emperor no longer claimed divinity (Dower, 1999). Moreover, as mentioned before, the revised constitution (effective from May 3, 1947) stated that the Emperor is "the symbol of the state and of the unity of the people."   Thereafter, the Emperor's specific political duties were limited to purely ceremonial functions and even on these occasions he must act only with the advice and approval of the cabinet (McClain, 2002).

Although the status of the Emperor was literally changed from that of the old Meiji constitution (stating that the Emperor was "sacred and inviolable"), there was no essential discrepancy between the old and new status of the emperor (Doi, 1973).   The new definition of "unity of the people" was equal to a new way of phrasing the old "family nation" ideology.   It became possible to argue that the Emperor's position had been elevated above politics (Dower, 1999).

More interestingly, the Emperor himself had the same idea toward Japanese people.   In 1975, he said to a journalist: "I understand that since the conclusion of the war people have expressed various opinions, but, looking at this from a broad perspective, I do not think there has been any change between prewar and postwar" (Dower, 1999, p556).

B-3. Bureaucracy and Financial System

Bureaucracy

More important than any of the reforms initiated by MacArthur was that the central

bureaucracy was left unscathed (Noguchi, 2002).   Although the military establishment was

eliminated and the repressive Home Ministry was dissolved, the civilian bureaucracy was left

untouched (Dower, 1999).   The three reasons most likely for the status quo in this domain are

as follows:

- The occupation forces never had a clear concept of what to do about the bureaucracy
  because they became accustomed to a system different from their country: the spoils
  system.   They also did not realize that the Japanese bureaucracy had been a principal
  political power alongside the military, politicians, and big business community (Passin,
  1990).
- MacArthur managed the occupation through indirect control[26] due to the occupation
  forces' lack of linguistic and technocratic capacity.   As a result, he had to utilize the
  operational prowess of the Japanese bureaucracy (Sodei, 1976; Dower, 1999).
- The screening committee established for operating the purge was staffed with civilian
  bureaucrats and they were predictably lenient toward themselves and fellow officials
  (McClain, 2002).

Consequently, the Japanese bureaucracy attained greater authority and influence than it had

possessed even at the height of the national mobilization for the war (Dower, 1999).

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[26] One important difference between the German and Japanese occupations was that in
Germany the occupying powers abolished the existing government and directly controlled the
country (Passin, 1990).

Administrative Guidance

MacArthur's authority was supreme for the Japanese people. His directives, issued through GHQ, could not be challenged.   Suggestions from even low-ranking officers of GHQ were equal to an informal command.   The entire structure of GHQ was rigidly hierarchic, and there was no transparency or accountability (Dower, 1999).   This structure of political control significantly influenced the post-occupation Japanese bureaucracy.   Mimicking GHQ, the bureaucracy developed the political control device of "administrative guidance" for the purpose of directing and regulating industries (Dower, 1999).

Financial System

The financial system was also left unscathed (Noguchi, 2002).   Although the American "trust-busters" had recognized that large banks were a problem, the financial sector somehow escaped dissolution. Calder (1993) states:

> *...the occupation focused narrowly on technical and ideological questions, such as "democratization," remaining most part blind to the deeper issues of incentives that might stimulate a thoroughgoing transformation of established practices.   Such an emphasis was a major reason that SCAP failed to make really fundamental changes in the structure of Japan's financial system* (Calder, 1993, p44).

Eventually, key "city banks" became the core about which ex-*zaibatsu* companies (dissolved under the occupation) converged, resulting in the formation of *keiretsu* (Noguchi, 2002; Dower, 1999).   The financial system was one of the main driving forces of high economic growth during the 1950s and 1960s, enabling funds to selectively pour into strategic industries such as

shipbuilding, steel, heavy metal and petrochemical (Noguchi, 2002).

1940 System

Noguchi (1998) points out that the wartime legacy of Japan is still prevalent in today's economic system.   According to him, most of the basic elements that constitute the so-called "Japanese economic system" were introduced as the wartime system during the years around 1940.   He calls it the "1940 system."   He lists the elements as:

...(i) Employment practices such as the lifetime-employment, the seniority wage, and in-house labor unions, which are typically observed in large organizations; (ii) weak influence of shareholders on corporate decisions; (iii) an indirect financial system; (iv) intensive government interventions on private economic activities, in particular, protection of low-productivity sectors such as agriculture and small businesses; (v) a tax structure which relies heavily on income tax, and a government (Noguchi, 1998, p404).*

Dower (1999) also states:

...Imperial Japan had begun mobilizing national resources for possible war after the onset of the Great Depression; the concept of establishing a "total war" capacity was strongly promoted in military and bureaucratic circle from the early 1930s; and such industrial and financial consolidation finally materialized, quite belatedly, in what is sometimes called the "1940 system" (Dower, 1999, p559).

There were various aspects of consistency in the Japanese economical system between the wartime and the postwar period: bureaucracy, financial system, and employment customs.   As mentioned before, the occupation reinforced the governmental bureaucracy.

B-4.　Basic Assumptions after World War II

In this section, I ask if the prewar basic assumptions (*Oitsuke-Oikose*, *Okami-Ishiki*, and

Yarō-Jidai) were actually changed or not through the course of the occupation reforms.

Oitsuke-Oikose (Catch up and overtake))

The war destroyed one-quarter of the country's wealth and one-half of the country's total

potential income.　　Rural living standards were estimated to have fallen to 65% of prewar

levels and urban standards to 35% (McClain, 2002; Dower, 1999) (see **Table 4**).　　The

economic structure of the big cities was devastated.　　About nine million people all over the

country were homeless.　　The average calorie intake per person had fallen to far less than

deemed necessary even for light work. "*Eiyō-Shitchō*" ("malnutrition") became a common

word of the times.　　Within three months after the surrender, more than one thousand people

died of hunger in Tokyo.　　To make matters worse, mass illnesses prevailed.　　Over 650,000

people were reported to suffer from cholera, dysentery, typhoid fever, paratyphoid fever, small

pox, diphtheria, polio, and encephalitis between 1945 and 1948 (Dower, 1999).　　Everything

was in short supply as inflation edged up.　　By 1947, the infant mortality rate soared to 77

deaths per 1,000 births (it fell to 5 per 1,000 in 1987) (McClain, 2002).　　Under these

circumstances, people were preoccupied with day-to-day survival.　　Hunger persisted for a

long time (McClain, 2002).

The impetus for the high economic growth realized during the 1950s and 1960s was that many,

if not most, people living in big cities who had to work very hard at any job available just to

earn a living (Masuda, 2004).

Table 4.   War damages in Japan

Percentage of total national wealth destroyed	**25.4%**	
Shipping	80.6%	
Automobiles	36.8%	
Industrial machine tools	34.2%	
Structures	24.6%	
Products	23.9%	
All vehicles	21.9%	
Furniture and household goods	20.6%	
Electricity and gas facilities	10.8%	
Railway tracks	7.1%	
Cities bombed		
Total number	66	
Area destroyed	40%	
Population made homeless	30%	
Urban residences destroyed		
In air raids	2,510,000	(51% of total residences)
For fire breaks	600,000	(13% of total residences)
In Tokyo	1,066,000	(65% of total residences)
Calorie intake per person		
Before December 1941	2,000	
1944	1,900	
1945 (summer)	1,680	

Source: Dower, 1993

As the defeat was complete, the Japanese people saw themselves as victims of the pre-war
government and embraced the occupation forces as "liberators" (Sodei, 1976).   They did not
feel xenophobia towards the Americans.   In the extreme hunger and scarcity, the material
comfort enjoyed by the Americans was seen as an idealistic image to which they should catch
up.   "Democracy" was also appealing to them because it appeared to be the way to become
prosperous (Dower, 1999).

The frantic postwar pace of industrialization can be viewed as an effort to end hunger.

Okami-Ishiki (Superior-obedient)

Overall, MacArthur's reforms were attempts to impose a "democratic revolution from above" and his command was a kind of neo-colonial military dictatorship. There was no transparency and no accountability in this "super-government" (Dower, 1999). The American military officers and civilian employees of SCAP constituted a privileged class and race. The "democracy" they advocated, however, was inconsistent with their authoritarian way of ruling. Some Japanese intellectuals pointed out that the democratic revolution from above was the same as when ordinary people had been manipulated by militarists and ultra-nationalists during the war (Dower, 1999). The concept of revolution from above was, in fact, common in Japan (Dower, 1999). The Meiji Restoration, as well as the imperialistic policies of the military and civilian autocrats of the 1930s and 1940s, was a revolution from above.

Looking at the "1940 system," the economic structure of Japan remained virtually unchanged since the national mobilization during wartime and continued to do so. The bureaucracy, big business, and conservative politicians had been ruling the country. The occupation was unsuccessful in breaking up the entrenched economic structure. Instead, the occupation's policies reinforced the economic system's authoritarian aspects. Dower (1999) states that the Japanese people and the occupation forces together created a hybrid Japanese-American model (the so-called "SCAPanese" model) with a belief that Japan needed top-level planning and protection to achieve optimum economic growth. In such a system, the Japanese mentality of being obedient to authority (or superior) persists. As an example, Alex Karr, an American

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writer and a specialist on Japan, (2001) laments over today's Japan and says:

> *...Foreign analysts have admired a population trained to obey bureaucracies and large corporations as the source of Japan's industrial might. But it also means that the country has no brakes. Once the engine of policy begins to turn, it moves forward like an unstoppable tank. One might say this inability to stop lies at the root of the disaster of World War II, and it is also behind the environmental destruction of postwar Japan* (Karr, 2001, p52).

> *...A largely ritualistic form of democracy in force since World War II has given the bureaucracy far-reaching control over society. Ministers not only are shielded from foreign pressures but function outside Japan's own political system. Schools teach children not to speak out; hence activists are rate. The police investigate only the most flagrant cases of corruption and courts rarely punish it; cozy under-the-table give-and-take between officials and industries has become institutionalized. It is no exaggeration to say that government officials control nearly every aspect of life from stock prices to tomatoes in supermarkets and contents of schoolbooks* (Karr, 2001, p133).

Yarō-Jidai (Arrogance in a small, closed world)

According to Noguchi (2002), the characteristic point of the "1940 system" is the principle that expanding production should be prioritized over all other considerations. There was a consensus among Japanese people, however, that the people's standard of living could be enhanced when they made the economy grow (Noguchi, 2002). Bridging these two principles was another principle that working for the company should be an individual's highest priority. As a result, during the period of high economic growth few people had an objection to the idea that company's earnings should be re-invested for its further development rather than being

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disbursed to employees or shareholders (Noguchi, 2002).   In the 1970s and 1980s, Japan was

called "rich nation, poor people" from overseas (Henshall, 1999).   As an example, in 1979, a

European Community Commission report referred to the Japanese as "workaholics" who lived

in "rabbit hutches."   At that time, Japanese people worked some 400 hours more per year than

western workers and they lived in houses that were half the size of typical American houses

(Henshall, 1999).

The arrogant compartmentalism, typically seen in the prewar military organizations, seems to

have been transferred into private enterprise.   Policies such as life-time employment, the

seniority system, and enterprise-based unions show how strongly employees were bound to

their companies (Noguchi, 2002).

Democracy

In addition to the three basic assumptions explored thus far, I must add one point.   What

happened to the "democracy" that MacArthur tried to embed in Japanese people?   I believe

that democracy is not a basic assumption but an espoused value: I am compelled to comment

on this value because it was the most important motivator of all MacArthur's reforms.

Yosida Shigeru, the Prime Minister during the occupation period, thought it was not impossible

to make Japan democratic and that MacArthur's reforms could be revised after Japan regained

the sovereignty (Dower, 1999).   There are also many Japanese intellectuals who espouse

negative opinions about the Japanese democracy.   For example, Nakane, a sociologist, (1970)

says:

...What the Japanese mean by "democracy" is in practice any decision should be made on the basis of a consensus which includes those located lower in the hierarchy (Nakane, 1970, p144).

Also, Doi, a psychiatrist, (1973) points out:

...Not only has Japan failed to establish the freedom of the individual as distinct from the group, but there is, it seems, a serious dearth of the type of public spirit that transcends both individual and group (Doi, 1973, p42).

From the Westerner's point of view, Henshall (1999) states:

...western-style democracy and concepts of individual rights have only ever had limited appeal in Japan.   Of course the Japanese, like anyone, have preferred freedom to repression, but they have shown a greater readiness than most westerners to accept limits.   The survival of the group means the survival of at least the majority of its individual members.   It is in the interests of each individual to preserve the group—one main reason why harmony has become such an ideal (Henshall, 1999, p183).

Of course there are some who say that the most significant achievement of MacArthur is that some "grass roots democracy" took root in Japan (Syukan Shincho 2, 1983).   However, it seems true that the postwar removal of the ideological restrictions imposed by the Imperial system did not serve the cause of individualism but contributed to spiritual and social confusion (Doi, 1973).

<div align="center">*   *   *   *   *</div>

Considering the consistency of the Japanese economical structure between before and after the occupation, it can be said that the basic assumptions in place before the occupation have not been appreciably changed.　**Table 5** shows the slight differences between before and after the occupation.　From the viewpoint of the Japanese, the three basic assumptions are the same before and after the occupation.

Table 5.　Basic assumptions before and after the occupation

Before	After
➢ *Oitsuke-Oikose* 　- desire for catching up and overtaking 　　the Western major countries 　- based on xenophobia ➢ *Okami-Ishiki* 　- obedience to superior or authority ➢ *Yarō-Jidai* 　- arrogant compartmentalism	➢ *Oitsuke-Oikose* 　- desire for reviving economy and 　　enjoying prosperous life 　- based on hunger-phobia ➢ *Okami-Ishiki* 　- not speaking out (to superior or 　　authority) ➢ *Yarō-Jidai* 　- enterprise over individual

CHAPTER FIVE

Nissan's Change

A.   Nissan's Founding Process and Hardships

A-1.   Founding Process of Nissan
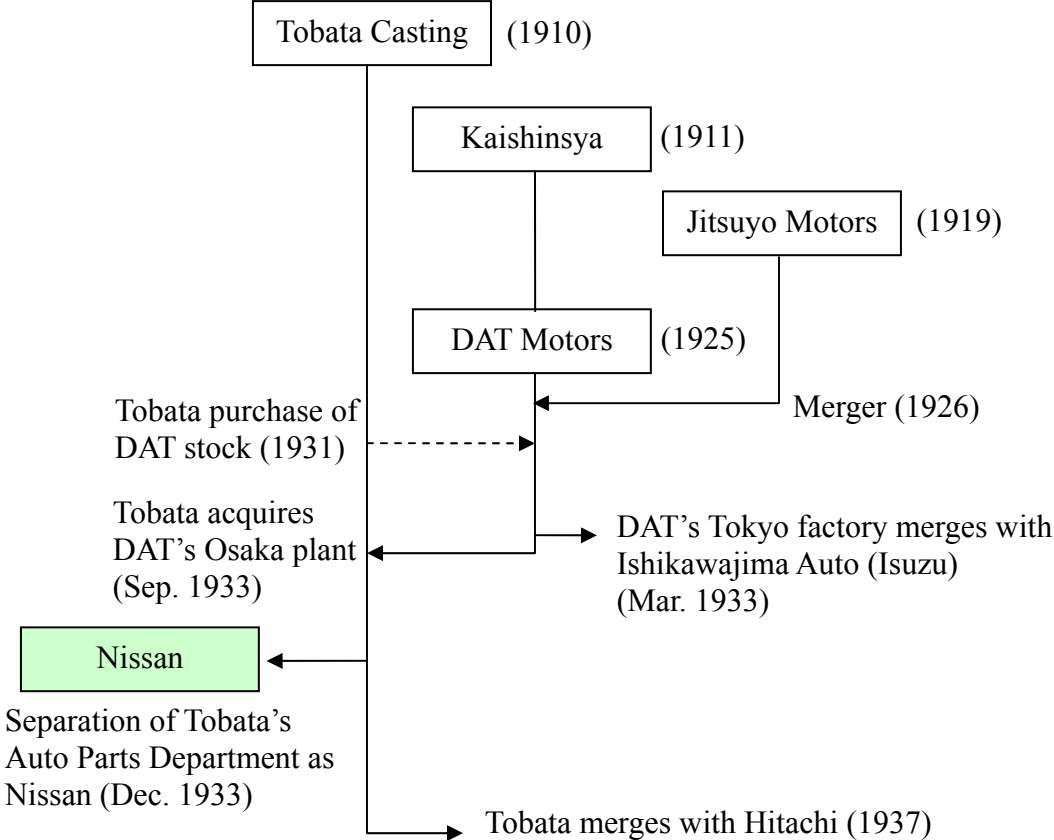
Foundation as Merger

Nissan was established by a Japanese engineer and entrepreneur, Aikawa Yoshinosuke, in 1933.

It was the result of a merger of an automobile components department of Tobata Casting and a

factory owned by DAT Motors.   Tobata Casting, the predecessor of both Nissan and Hitachi

Metals, was established by Aikawa in 1910.   Tobata Casting made enormous profits as a

result of the outbreak of World War I.   The war prevented Japan from importing cast-iron

goods, thus increasing domestic orders to the company.   Tobata Casting eventually purchased

shares in DAT Motors in 1931 (Cusumano, 1989).

DAT Motors was originally called Kaishinsya and was established by Hashimoto Masujiro in

1911.   Hashimoto designed a car called "DAT[27]" during 1913-1914 by combining domestic

and imported components.   He completed only six units between 1913 and 1916.   When the

army offered subsidies to truck producers in March 1918, Hashimoto started to convert the

"DAT" car into a truck.   DAT Motors merged with Jitsuyo Motors, a manufacturer of a

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[27] Hashimoto named an in-house model "DAT" taking the first letters of the surnames of his three major investors (Den Kenjiro, Aoyama Rokuro, and Takeuchi Meitaro) (Cusumano, 1989).

motorized vehicle to replace the rickshaw, in 1926.   The company introduced a new car called "DATSON" in 1931. "DATSON" later became "DATSUN," the brand name that became one of Nissan's most important intangible assets in its golden times (see **Figure 7**) (Cusumano, 1989).

Figure 7. Formation of Nissan

Tobata Casting (1910)

Kaishinsya (1911)

Jitsuyo Motors (1919)

DAT Motors (1925)

Tobata purchase of DAT stock (1931)

Merger (1926)

Tobata acquires DAT's Osaka plant (Sep. 1933)

DAT's Tokyo factory merges with Ishikawajima Auto (Isuzu) (Mar. 1933)

Nissan

Separation of Tobata's Auto Parts Department as Nissan (Dec. 1933)

Tobata merges with Hitachi (1937)

Source: Cusumano, 1989

Founder

Nissan's founder, Aikawa Yoshinosuke, was born in Yamaguchi prefecture in 1880 as the eldest son of a former samurai.   His mother was a niece of Inoue Kaoru[28] who was one of the most powerful politicians during the Meiji era.   Consequently, Aikawa had invaluable contacts with influential politicians and wealthy people.   He worked as a factory worker in Mitsui's machinery-manufacturing affiliate, Shibaura, the predecessor of Toshiba.   He later switched to an iron casting shop for two years.   In 1905, he went to the U.S. and worked as an apprentice at two firms: the Gould Coupler Company of Depew in New York and the Erie Malleable Iron Company in Pennsylvania.   There, he learned iron-casting techniques that had not yet been introduced into Japan.   In 1907, he went back to Japan.   With Inoue's help, he founded Tobata Casting in 1910.   Through his several trips to the U.S., he came to seriously consider manufacturing automobiles.   In 1921, he hired an American electrical engineer, William R. Gorham, as a part-time consultant.   In 1923 Aikawa asked Gorham to oversee the production of gasoline engines for boats and farm machinery.   By 1931, Aikawa had started to think of initiating the development of the Japanese car industry by manufacturing small vehicles that did not compete directly with the larger ones imported from the U.S. (Cusumano, 1989).

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[28] Inoue Kaoru was a samurai who played an important role at the Meiji Restoration.   He reigned over the political stage of the Meiji era with Ito Hirobumi and Yamagata Aritomo (http://www.c20.jp/p/ikaoru.html, Mar. 8, 2005)

Relation with Manchukoku

In 1922, Aikawa founded a holding company later called "Nippon Sangyo"[29] ("Japanese Industries"). Its stock holdings substantially grew in value after the Japanese invasion into Manchuria in 1931, and the country's subsequent military actions. He transferred the company to Manchuria in 1937. At the end of World War II it included seventy-four companies such as Hitachi, Nippon Mining, Nissan and Nissan Chemical. It belonged to a new "*zaibatsu*" as mentioned in Chapter Two. Aikawa organized the largest single group of companies in metals, machinery, and chemicals within one decade, accounting for 2.4 percent of domestic and overseas capital in 1937. By 1941, his *zaibatsu* grew so large that it surpassed both Mitsui and Mitsubishi. This rapid expansion was attributed to the company's strong relationship with the government of Manchukoku[30]. By the end of World War II Nissan had become a large subsidiary within the zaibatsu group mainly due to truck sales to the military (Cusumano, 1989).

After World War II

After World War II, Aikawa's *zaibatsu* was dissolved by MacArthur's order. Aikawa was put in prison for twenty-one months on suspicion of war crimes[31]. Nissan's top executives were also purged. Nissan's production was greatly reduced from prewar levels mainly due to shortages of materials, operating capital, and credit for installment sales. In 1947, Nissan

[29] The name "Nissan" originated as an abbreviation used on the Tokyo Stock market for the holding company "Nippon Sangyo" (Cusumano, 1989).
[30] Manchukoku is the name for the puppet regime Japan installed in Manchuria during 1932 (Cusumano, 1989)
[31] Aikawa was released from prison in September 1947. He retained a modest fortune after the war and served in the upper house of Diet (Cusumano, 1989).

produced only 4,421 vehicles, down from 19,688 in 1941 (Cusumano, 1989).

Nissan regained its prewar level of vehicle production in 1954 due to a combination of huge loans, dismissal of thousands of employees, and special orders from the U.S. Army during the Korean War.   At the same time, the Industrial Bank of Japan[32] began buying Nissan's shares and became a principal shareholder.   The Industrial Bank of Japan held a considerable voice in Nissan's decisions, such as investing and selecting CEOs, until (and even after) Nissan became one of Japanese largest companies during the 1970s (Cusumano, 1989).

During the 1950s, all the companies in the former Nissan *zaibatsu* formed an association led by Nissan and Hitachi, although the new group demonstrated little of the coordination seen in other former *zaibatsu* groups such as Mitsui, Mitsubishi, and Sumitomo (Cusumano, 1989).

A-2.   Causes of Financial Distress

What were the causes of Nissan's financial distress?   Why did Nissan have to have Ghosn come to save the company?   Ghosn himself pointed out five major reasons for Nissan's crisis at his presentation of NRP on October 18, 1999.   They were (1) lack of a clear profit orientation; (2) insufficient focus on customers and too much focus on chasing competitors; (3) lack of cross-functional, cross-border, and intra-hierarchical lines of work in the company; (4)

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[32] The Industrial Bank of Japan (IBJ) was one of three long-term credit banks that were specially authorized by law and played a major role in channeling the flow of Japanese heavy-industrial credit in innovative directions.   IBJ played a notable role in the rise of Japan's chemical and machinery industries, supporting them strongly during the early and mid-1950s (Calder, 1993).   IBJ merged with Fuji Bank and Dai-ichi Kangyo Bank; they together formed the Mizuyo Financial Group in April 2001 (http://findai.com/yogo/0247.html, Mar. 10, 2005).

lack of a sense of urgency; and (5) no shared vision or common long term plan.[33]   What then

had happened in the past?

Nissan had consistently held around 30 percent of the domestic market before 1980.   During

the 1980s, however, Nissan's share decreased every year.   By 1987, it dropped below 24

percent (Ishizuka, 1990).   Finally in FY1992, Nissan showed a loss for the first time since it

was listed on the Tokyo Stock Exchange in 1951 (Maeya, 2004).   What drove Nissan into

such a serious situation?   Many agree that it originated from the policies of the

immediate-past two CEOs, Ishihara Takashi (1977-1985) and Kume Yutaka (1985-1992)

(Takarabe, 2002; Uesugi, 2001).   In addition, many regarded Shioji Ichiro, a leader of the

Nissan labor union at the time when Ishihara was CEO, as "a felon" (Uesugi, 2001).   To help

draw contrast with Ghosn's policies and identify basic assumptions of past Nissan, I will

briefly detail these past eras more closely.

Ishihara Era

After becoming CEO in 1977, Ishihara formulated a plan called "Global Ten" aiming to

achieve a 10 percent share of the global market, and aggressively made investments in

large-scale overseas projects (Ishizuka, 1990).   In the U.S, a design studio, Nissan Design

International, was established in 1979 and a development center, Nissan Research and

Development Inc. was founded in 1983 (Ishizuka, 1990).   The first plant in the U.S. (Smyrna,

Tennessee) was opened in 1983 producing small "DATSUN" pickup trucks (Magee, 2003).

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[33] http://www.nissannews.com/site_library/coporate/news/1999speeches/2_25_2000.shtml (Jan. 12, 2005)

In the United Kingdom, Nissan Motor Manufacturing (UK) Ltd was established in 1984 and started its production in 1986. In Spain, Nissan acquired shares of Motor Iberica, S.A. in 1980 and it started its production in 1983 (Nissan fact file 2004). Some say this expansion strategy came from Ishihara's eagerness to catch up to Toyota. Unfortunately, it was not followed by a well-aligned marketing strategy (Takarabe, 2002).

In response to this aggressive international strategy, the Nissan Labor Union led by Shioji came out against Ishihara. It resulted in a serious conflict between labor and management, reaching the point where labor and management could no longer carry on an effective dialogue (Ishizuka, 1990). In particular, the issue of expanding to the UK fueled the fiercest confrontations between Ishihara and Shioji. There seemed to be no end in sight for the conflict. It was finally settled when UK Prime Minister Thatcher visited Ishihara at the Nissan headquarters in Tokyo during her stay in Japan while meeting with Japanese Prime Minister Nakasone. She asked Ishihara to let the plant be installed in the UK (Uesugi, 2001). In the meantime, however, Nissan's domestic sales slumped and its share gradually declined (Ishizuka, 1990).

In the early 1950s, Nissan had a serious confrontation with the labor unions. In 1953, a new labor union (the Nissan Labor Union) was formed out of a long and serious labor dispute. The new union pursued a course of cooperation rather than confrontation with management. The aim of the new union was to improve not only employees' living standards but also the company's performance through a cooperative relationship with the management (Ishizuka, 1990). Consequently, the 1960s and 1970s became a honeymoon period for labor and management; the company grew significantly (Ishizuka, 1990). Over that same time period,

however, the labor union gradually came to intervene in personnel matters and other issues

which had been the exclusive prerogative of management.   Union-related activities and

meetings were openly held during working hours, tacitly allowed by management (Ishizuka,

1990).   The union leader, Shioji[34], eventually gained enormous power and was dubbed "Shioji

the Emperor," "Shioji Dynasty," and "Labor Peerage" (Itagaki, 2001).   It was under this

situation that Ishihara became CEO and started his expansion policy. The conflict was

inevitable.

Table 6. Corporate Philosophy and Principles formed by CEO Kume in 1986

| Corporate Philosophy |
| --- |
| Our first commitment is to customer satisfaction. Through diligent efforts to develop new customers and expand our customer base we are contributing to the ongoing progress and enrichment of society. |
| Corporate Principles |
| (1) To create attractive products by capitalizing on the company's innovative and highly reliable technologies, staying in constant touch with the needs of the global market
(2) To be sensitive to customers' needs and offer them maximum satisfaction based on steadfast sincerity and ceaseless efforts to meet their requirements
(3) To focus on global trends, making the world the stage for our activities, and to nurture a strong company that will grow with the times
(4) To foster the development of an active and vital group of people who are ready and willing at all times to take on the challenge of achieving new goals |

Source: Ishizuka, 1990

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[34] Shioji fell from power with a sex scandal in 1986
(http://www1.harenet.ne.jp/~noriaki/link54-1.html, Mar. 10, 2005).

Kume Era

Kume Yutaka succeeded Ishihara in June 1985.   He did at least two important things during

his term as CEO.   One was a company-wide movement to change Nissan's corporate culture

and the other was a huge investment in expanding Nissan's dealership network.

Figure 8

Flat Fish

Broom
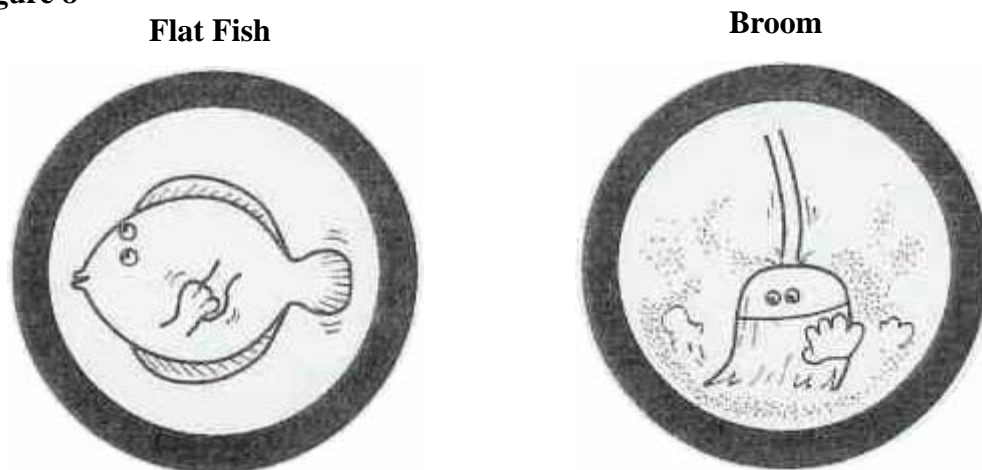
Source: Ishizuka, 1990

Soon after he took over as CEO, he visited the company's offices, dealers, and affiliated firms

throughout Japan.   He tried to improve direct communications with employees and the

keiretsu companies.   He appealed to all the employees to change the traditional currents and

create a new corporate culture.   He eventually formulated a new corporate philosophy and

principles (see **Table 6**) in 1986 (Ishizuka, 1990).   He tried to change the current corporate

culture.   The culture was exemplified by two pictures drawn by a young employee, that of a

"flat fish" and that of a "broom" (see **Figure 8**).   The "flat fish" symbolized a person who

"only pays attention to the boss and looks up at him all the time," and the "broom" symbolized

a person who "cleans only the spot on which he stands, moving the dust to others' spots."

These pictures were made into stickers and distributed to those who wanted them.   The

stickers were put on tables, cabinets and walls as a warning of undesirable behavior (Ishizuka,

1990, p15).

In 1988, Kume formulated a plan called "N-MAX 5000," aiming at strengthening the

dealership network within Japan with an investment of 500 billion yen.   As it was in the midst

of the swelling bubble economy in Japan, many companies at that time adopted an expansion

policy and tried to aggressively enlarge their customer base.   Nissan also made a huge bet on

the expansion policy as a way of coveting its eroding share of the domestic market (Uesugi,

2001).

Kume's reforms of the corporate culture and domestic dealership network showed a few good

results.   For example, Nissan introduced a passenger car called "B-1" in 1987 and "Cima" in

1988.   The "B-1" was developed and designed by a group of young employees as a special

project.   It had a brand-new look and resembled a toy car.   It became popular among

Japanese young people and established a new category called "Pike-car."   The "Cima" was a

luxurious and powerful car, and achieved remarkably success in sales due, in part, to the

euphoric atmosphere of the Japanese bubble economy.   It gave birth to a new expression, "the

Cima Phenomenon," among Japanese people that represented a rising consumers' desire for

luxurious items (Ishizuka, 1990).

After the bubble economy burst, however, the Nissan financial performance rapidly

deteriorated.   Kume's expansion plan backfired and brought a huge debt, leading to the

Nissan's crisis in 1999 (Takarabe, 2002).   The two CEOs, Ishihara and Kume, are regarded by many analysts as the culprits of Nissan's distress (e.g., Takarabe, 2002).   In addition to their policies, there seemed to be some organizational events that contributed to Nissan's trouble. These events are briefly described below.

Dealership Problem

The dealership organization was one of the causes of the Nissan's crisis.   There were two problems with Nissan's dealerships: one was an incentive to motivate customers and the other was the unique connection between Nissan and its affiliated dealerships (Magee, 2003; Maeya, 2004; Takarabe, 2002).

The monetary incentives to the dealers were comparatively high, but they were not focused on sustaining and expanding Nissan's customer base.   Instead, the incentives were often used by the dealers to finance costs incurred by inefficient operation.   With incentive money readily available, there existed little motivation for dealers to maximize efficiency (Maeya, 2004; Magee, 2003).   Nissan continuously put huge amounts of money into dealerships.   As a result, in order to help dealers out of their financial deterioration, Nissan had to repeatedly abandon its obligations to dealers over 20 years since the early 1980s, leading to its accumulation of huge debt (Takarabe, 2002).

Half of the Nissan's dealers were operated by affiliated companies (In Toyota's case, only 7% of dealers were directly affiliated as of 2001) (Uesugi, 2001).   These companies were usually run by ex-executives or ex-senior-managers of Nissan.   In addition, many Nissan's managers

were sent to dealerships (Takarabe, 2002). This direct connection between Nissan and dealers had become a tradition in Nissan and had continued for 40 years (Uesugi, 2001). The executives at the dealerships were always looking up to Nissan's headquarters and they often asked Nissan to buy back cars that were left when models lost their attractiveness to customers. These strong personal connections prevented Nissan from taking drastic measures to revamp the dealership network (Maeya, 2004).

MITI at Ginza

Nissan used to be called "MITI[35] at Ginza" by affiliated and related companies (Maeya, 2004). The nickname was attached to the company during CEO Kawamata Katsuji's tenure. In the midst of fierce disputes with labor unions in 1947, Kawamata moved to Nissan from the Industrial Bank of Japan, the then-main bank of Nissan, to become the executive vice president. He helped diffuse labor problems and became CEO in 1957. He reigned over Nissan for an extremely long period of 16 years. He was a person with an air of importance; some people called him "Dictator" (Uesugi, 2001, pp46-51). Under his management, an authoritarian image of Nissan's headquarters was formed. Affiliated and related companies, including dealerships, gradually stopped expressing direct opinions to Nissan (Uesugi, 2001). It was analogous to private companies' refraining from expressing direct opinions to MITI, the powerful and authoritarian bureaucracy that had arguably played an important role in helping boost the Japanese postwar economy (Calder, 1993).

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[35] MITI is the abbreviation of the Ministry of International Trade and Industry. MITI had been preparing its economic and industrial vision for a long time since its establishment in May 1949. MITI was reorganized to the Ministry of Economy, Trade and Industry (METI) in 2001 (http://www.meti.go.jp/english/aboutmeti/data/ahistory.html, Mar. 10, 2005).

Merger with Prince Motors

In August 1966, Nissan merged with Prince Motors.   Prince Motors had leading edge automotive technologies but its sales were always stagnant.   It was at the brink of bankruptcy due to recession of the Japanese economy at the time of the merger.   Executives at Prince Motors tried to find a partner and asked Toyota to save the company.   After being rejected by Toyota, they and their main bank, Sumitomo Bank, consulted with Nakayama Sohei[36], then CEO of the Industrial Bank of Japan, and Sakurauchi Yoshio[37], then Minister of International Trade and Industry.   As a result, Nissan's CEO Kawamata accepted the offer to merge with Prince Motors. Kawamata's aim was to catch up to Toyota, and Nissan's and Prince Motors' combined production capacity would nearly match Toyota's level.   Nissan had difficulty in absorbing Prince Motors, however, due to hidden debts that were later discovered.   The gap between Nissan and Toyota was not lessened at all (Uesugi, 2001).

The merger had a serious impact on Nissan's dealerships.   As a result of the merger, Nissan had two lines of directly affiliated dealers: those originally owned by Nissan and those formerly owned by Prince Motors.   These dealerships sometimes directly competed with each other.   The two lines of dealerships even proposed different kinds of cars to Nissan's marketing department, leading to a lack of brand identity for Nissan's automobile models (Tokudaiji, 2001).

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[36] Nakayama Sohei was the CEO of the Industrial Bank of Japan (IBJ) between 1961 and 1968. He was nicknamed "Kurama Tengu (Super hero) of the business communities."   Many say he established the basis of significant economic growth of Japan (http://retsuden.gozaru.jp/na/nakayama/html, Mar. 10, 2005).

[37] Sakurauchi Yoshio is an influential politician belonging to the Liberal Democratic Party. He served as chairman of the House of Representatives between 1990 and 1993 (http://j.poeplediary.com.cn/2003/07/06/jp20030706_30410.html, Mar. 10, 2005).

Nissan's acceptance of a merger with Prince Motors and its nickname of "MITI at Ginza" indicate its deep connection with influential politicians (powerful politicians belonging to the Liberal Democratic Party) and central bureaucrats.   Nissan employed many graduates from first-class universities, including the University of Tokyo, as candidates for future managerial positions.   However, these elite-school graduates were often more inclined to discuss high affairs of state and politics rather than automobile design and marketing (Uesugi, 2001; Itagaki, 2001).

BC War

1955 is often regarded as the most important year in the history of the Japanese automobile industry.   Toyota and Nissan introduced their epoch-making cars "Crown" and "DATSUN 110" respectively.   The cars were the first authentic passenger cars produced by domestic manufacturers.   Before the appearance of these cars, there were only foreign passenger cars or domestic ones that used a truck chassis with a passenger car body (Tokudaiji, 2003).   Since then, Toyota and Nissan have competed with each other in developing better passenger cars. This competition gained momentum and led to a fierce competition.   In 1959, a Nissan car named "Bluebird 310" was introduced and the car sold at an explosive rate.   It evolved into additional new models, such as the 1963 "Bluebird 410" and the 1967 "Bluebird 510."   In response, Toyota introduced the "Corona."   The competition between "Bluebird" and "Corona" was eventually dubbed the "BC War" (Tokudaiji, 2003).

The "BC War" ended with Toyota's victory when Toyota's "Corona" finally beat Nissan's "Bluebird."   The period when "BC War" raged corresponded to the popularization of

automobiles in Japan.   As previously mentioned, Nissan was called "*Gijyutsu no Nissan*"

("Technologically-advanced Nissan"), whereas Toyota was called "*Hanbai no Toyota*"

("Marketing-oriented Toyota").   Technologically speaking, "Bluebird" surpassed "Corona" in

all aspects.   Although "Corona" had a mediocre engine and chassis, it boasted of its

trouble-free reliability.   As buying cars was an expensive and first-time experience for most

Japanese people, they typically wanted a well-built car rather than a technologically-advanced

one (Tokudaiji, 2003).   The "BC War" also illustrates a characteristic of Nissan—one that

stands in stark contrast to both Toyota and Honda.   Nissan had an excessively high standard

for the engineering design and performance compared to Toyota and Honda (Tokudaiji, 2003).

Additionally, Nissan formulated its marketing strategy based on its production goals while

Toyota and Honda organized their production systems based on marketing strategy (Takarabe,

2002).

Killing Brand

Nissan exported cars (sedans and compact pickup trucks) under a brand name of "DATSUN"

(its sedan brand name in Japan was "Bluebird") to the U.S. market in 1950s (Magee, 2003).

The "DATSUN" cars became popular in the U.S. market. In 1975, "DATSUN" surpassed

Volkswagen as the leading foreign automaker.   The name of "DATSUN[38]" even became a

synonym for a Japanese car (Takarabe & Katayama, 2001).

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[38] "DATSUN" used to be very popular in Japan as well as in the U.S.   In Japan, they referred
to something small and of high quality as "like DATSUN" (Takarabe & Katayama, 2001)

In 1980, however, the brand name "DATSUN" was killed by Ishihara, the then-CEO of Nissan. He integrated the brand names, "Nissan" and "DATSUN," into one.   He thought it was better for Nissan to use "Nissan" across the overseas markets in order to achieve global expansion. As a result, the trusted name "DATSUN" vanished in front of customers' eyes.   When "DATSUN" disappeared suddenly on the signboards and cars, however, American customers were confused.   Nissan's most precious intangible asset had disappeared (Takarabe & Katayama, 2001).

As another example, Nissan had a masterpiece car called "Skyline[39]" in Japan.   It was a technologically-advanced and high-performance sporty sedan that many Japanese people adored and wanted.   Nissan used "Skyline" to compete against Toyota and changed its features without a clear strategy, simply following model changes of Toyota's cars. Consequently, Skyline's brand image eroded significantly (Uesugi, 2001).   A similar example occurred with the small sedan "Bluebird."   The brand of "Bluebird" was significantly hurt by a newly introduced car called "Primera"[40] that was developed for the purpose of penetrating the European market (Takarabe, 2002).   As a consequence, from the mid-1990s, Nissan's product lineup became steadily outdated and failed to deliver products attractive to customers (Magee, 2003).

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[39] "Skyline" has become a legend of the Japanese motor sports world.   The car originated from Prince Motors and debuted in 1958.   Beginning in the 1960s, the car won innumerable races in Japanese motor sports (Tokudaiji, 2003).   Although the brand value of "Skyline" eroded during the 1990s, it is now revived and called the "Infiniti G35" in the U.S. and was awarded the "Car of the Year 2003" from the magazine *Motor Trend* in November 2002 (http://www.nissan-global.com/JP/STORY, Mar. 11, 2005).

[40] The development of "Primera" was initiated in 1986.   Its production started in 1990 (Nonaka, 1995).

Mr. K, the Father of Z Car

The Z car, mentioned in Chapter Three, was initially developed by Katayama Yutaka. By introducing the Z car, he aimed to sell the car to young American people who wanted a good quality sports car but could not afford to buy an expensive model. Therefore, the price of Z car was set to a third of the Porsche 911, the benchmark sports car at that time. It eventually became quite popular among young people and produced a large amount of enthusiastic fans in the U.S. Many love and admire the Z car (especially the first model called "DATSUN 240Z": see **Figure 4**) (Takarabe & Katayama, 2001).

After the introduction of Z car, Katayama was called "Mr. K" or "Father of Z car" and he has many American fans. In Japan, however, his existence had been surprisingly erased from Nissan's history even though he made significant contributions: opening and expanding the U.S. market for Nissan in 1960s, helping establish a U.S. subsidiary of Nissan in 1970, and making the "DATSUN" the leading brand among imported-car makers in the U.S. in 1975 (Uesugi, 2001). According to Takarabe (2001), the reason for the deletion of Katayama from Nissan's history was that he had an emotional conflict with Ishihara, who was then the head of export department in Nissan's headquarters (Takarabe & Katayama, 2001).

In 1960, Katayama was transferred to the U.S. as a market researcher. He wanted to sell Nissan's cars on the west coast of the U.S. He started selling cars and the sales grew successfully. This action clashed with Ishihara's goals. He wanted to expand sales on the east coast in the U.S. under his direct control. Following the growing sales volume on the west coast, the U.S. subsidiary of Nissan was established in 1970 based upon Katayama's

suggestion.   Ishihara became the CEO of the subsidiary against the expectations of most employees.   Ishihara, however, did not travel outside of Japan and the sales on the east coast in the U.S. remained sluggish.   Consequently, Katayama replaced Ishihara as the CEO in 1965 and he successfully expanded the market and raising the brand recognition of "DATSUN."   In 1975, Nissan surpassed Volkswagen and became the leading maker of imported cars in the U.S. In 1977, when Ishihara became CEO of Nissan, however, Katayama was returned back to Japan and became the chairman of a small subsidiary company doing public relations business.   Eventually, the name of Katayama was erased from Nissan's history along with the extinction of the "DATSUN" brand name (Takarabe & Katayama, 2001).

*   *   *   *   *

Nissan used to be an auto-manufacturing arm of a new *zaibatsu* and had a strong relationship with the government.   Nissan's financial distress came from its aggressive expanding policies for global operations and domestic dealerships during two CEOs' tenures.   Nissan had other significant problems, including strong personal relationships with dealers, an authoritative atmosphere, difficulty in merging with Prince Motors, and an underestimation of its brand identity.

B.   What has, and has not, been Changed by Ghosn?

In this section, I will examine the basic assumptions before Ghosn came to Nissan.   First, I look at the reasons for the failure of the previous reforms together with the historical facts, and I will propose what I believe were the basic assumptions in Nissan before Ghosn.   I will, then, look at what has changed since Ghosn arrived at Nissan.

B-1.   Obstacles to Reforms

First Plant Closure

As Nissan financial condition deteriorated, CEO Kume was replaced by Tsuji Yoshifumi in June 1992.   FY1992 was Nissan's first "red ink" after its listing on Tokyo Stock Exchange. Tsuji eventually announced the "Structural Reform Plan" in 1993.   The plan included the unprecedented measure of a plant closure: the closure of "Zama Plant."   The plant closing was the first in Nissan's history and its announcement startled the employees as well as the media (Maeya, 2004).   During the Kume era, Nissan's financial conditions had come to the point where a drastic measure should have been implemented but it had been stubbornly avoided.   The plant closure was inevitable for the new CEO Tsuji.   Tsuji tried to instill within employees a sense of urgency by informing them of the plant closure, but his efforts were in vain.   They were startled but in the end did not regard it as a crisis.   The Zama Plant closure failed to lead to the significant corporate reforms that Ghosn eventually carried out (Maeya, 2004).   During FY 1993, Nissan achieved a profit of ¥7.6 billion but then marked a loss of ¥61 billion in FY 1994.

Nissan's previous turnaround efforts in the 1990s failed because they were never carried out on a company-wide scale and were often changed shortly after announcement. The political environment sometimes prevented them from being executed as they had been originally envisioned (Magee, 2003). Matsumura Norio, executive vice president, said "There were many plans before Ghosn came. They were nothing but armchair plans made by the *Kikaku-Shitsu* (Planning Office). They made their plans without knowing the actual situation. Therefore, the plans failed" (Maeya, 2004, p67). The Kikaku-Shitsu was an office occupied by young elites with little practical experience. These elites were simply called together at their office and they produced "blueprints" for the company (Maeya, 2004).

Culture of Blame

The former CEO, Hanawa Yoshikazu, remembered:

> *…There was an atmosphere in Nissan that it is difficult for managers and employees to feel environmental changes. Nissan had been operated by people who had had a similar idea and a fellow feeling. Even though a leader tried to conduct reforms, many said "It is not necessary to change for now" or "It is only an imitation of the American way." As a result, it became to be too late to change. A mono-culture turns into a disaster when reforms are needed. In order to rescue Nissan, we had nothing but to let someone having a different culture to take up an important post. Therefore, I asked Renault to let Mr. Ghosn to come to Nissan"* (Takarabe, 2002, pp29-32)

Hanawa called such a corporate culture "a culture of blame" (Takarabe, 2002, p85; Maeya, 2004, pp54-55). It was unimaginable in Nissan that different departments, especially the

engineering and marketing departments, should cooperate with each other (Maeya, 2004). In

such a culture, when a failure occurs, one blames others in trying to protect one's own

department. Ghosn also stated:

> *…This compartmentalization inside Nissan was well known to people outside the
> company. We had the feeling that everyone was protecting his own territory, hiding
> information about it from his neighbors* (Ghosn & Riès, 2005 p100).

> *…Nissan had gradually developed a culture in which the standard response to
> problems was "It's not me, it's someone else." If the company was in trouble, it
> was always the fault of other people. The sales department complained about
> product planning, thus effectively knocking the ball into the engineering
> department's court. Engineering blamed finance. Nissan Europe accused of
> Tokyo, and vice versa. The root of the problem was that the areas of executive
> responsibility were vague* (Ghosn & Riès, 2005 p149).

This culture of blame prevented the previous reform efforts of Nissan from succeeding. Even

though a reform plan was formulated, it was soon abandoned (Magee, 2003).

Keiretsu

Another obstacle to the previous reforms was *keiretsu*. Nissan entangled itself with *keiretsu*

networks. When Nissan was in the crisis, Nissan's supply costs were at a level that the

company could no longer operate profitably. Nissan, however, was not able to cut ties to the

networks because many senior managers of suppliers were former Nissan employees (Magee,

2003).

Keiretsu was not a problem that only Nissan suffered. Generally, top Japanese companies are tied together through a keiretsu relationship: a system of cross-shareholding that was devised during the Japanese rapid economic growth of 1950s and 1960s (Magee, 2003). Also, *keiretsu* was a kind of substitute for the *zaibatsu* system that was dissolved under MacArthur's direction (Noguchi, 2002). It was considered taboo in Japan for these *keiretsu* links to be broken (Magee, 2003). Sato Akira, the financial vice president of Nissan, says: "Nissan's old management would have told me to wait and postpone action because they were focused on the Japanese relationship" (Magee, 2003, p106).

B-2. Basic Assumptions before the Crisis

Relationship with the Government and the Main Bank

Historically, Nissan had a strong relationship with the government and powerful politicians. The expansion policy of CEO Ishihara during the 1980s originated as a political issue. By 1980, Japanese automobile production reached a level of eleven million units, surpassing that of the U.S. This fact brought about an international political dispute between the Japanese and U.S. governments (Uesugi, 2001). Nissan characterized its expansion policy as a key part of national policy. Thus, Nissan continually reinforced its strong ties with the government. This mindset had its origin in the "Nissan" *zaibatsu* that had developed a relationship with Manchukoku in the early part of the 20th century.

As mentioned before, the name "Nissan" is the abbreviation of the parent company's name "Nihon Sangyo" ("Industry of Japan"). While other Japanese car-makers such as Toyota and

Honda were named after their founders, Toyata Sakichi and Honda Soichiro, Nissan derives its name from the name of *zaibatsu* that thrived through leveraging relationships with the government and military.   The dream of Nissan's founder, Aikawa Yoshinosuke, was to compete against American automobile companies and to produce small and cheap cars suitable for the Japanese (Takarabe & Katayama, 2001).   For this purpose, Aikawa took a maximum advantage of his relationship with powerful politicians and bureaucrats.   This corporate mindset seems to have continued until recently.

Another strong relationship was with the "main bank." The main bank is a mainstay within a *keiretsu* network.   The former *zaibatsu* companies formed *keiretsu* during the 1950s and 1960s by leveraging financial ties to the main bank.   Nissan belongs to a *keiretsu* "Fuyo Group" and its main bank was the Industrial Bank of Japan (today, it has been merged into the Mizuho Financial Group).

Nissan's financial distress was partly due to its dependence on the main bank (Nikkei Business, 2000).   The former chairman and ex-CEO of Nissan, Tsuji Yoshifumi, remembered: "The reason why Nissan had kept a huge amount of debt was that we were too dependent on banks. We increased the debt as the banks asked us to do so.   There was an objection in the company, but it was not strong" (Nikkei Business, 2000, p183).   As Nissan's past CFOs always came from its main bank, there was an atmosphere that whenever Nissan was in difficulty, the main bank would help financially (Nikkei Business, 2000).

Vertical over Horizontal Relationships

As we have seen, there were two main reasons why Nissan could not change before Ghosn arrived.   One was that the executives and managers were too concerned about their personal relationships with suppliers and dealers.   The other was that the executives and managers were only concerned about their respective departments.

Nakane (1970) suggests that the Japanese organization (or group) is based on vertical human relationships.   According to her, the way Japanese people form a group is structurally unique. After an individual enters into a group, he or she develops human relationships of the sort that take a considerable amount of time to form.   The relationships are usually formed vertically. But once they are established, they show strong stability.   In Japanese society, the length in which one has maintained such relationships comes to be a social asset for the individual. Moreover, in such a structure, emotional sympathy sometimes dominates rationality (Nakane, 1970).

Nissan had the typical structure Nakane describes.   In Nissan's case, each department formed a closed group and rarely cooperated with other groups.   Each department was based on a vertical human relationships.   These vertical relationships also extended to suppliers and dealers (Maeya, 2004).   In the vertical cluster, people are usually ranked by seniority. Therefore, Nissan's executives and managers could not carry out a drastic measure on reducing costs associated with suppliers and dealers that employed ex-Nissan-employees (Maeya, 2004).

Vertical human relationships are also likely to fall into strong sectionalism. After Nissan had experienced the glorious days of "*Gijyutsu no Nissan*" ("Technologically-advanced Nissan") and sturggled to recover past success, it tended to focus too much on technology or production. As a result, the engineers and plant workers had been given priority over the marketing and designing staff. The engineers and plant workers did not cooperate with other departments. This sectionalism led to the loss of market share and lack of brand identity.

Too Big to Fail

At the time of the crisis, there was an atmosphere among employees that Nissan could not go bankrupt (Maeya, 2004). Matsumura Norio, the executive vice president, recounts: "There was no sense of urgency in the company. Ghosn came and made us see the serious facts. He implanted us a sense of urgency" (Maeya, 2004, p18). Ghosn himself says, "For many years, changes needed to be made, but no one made them. That's why my first task was to instill a sense of urgency" (Magee, 2003, p61).

Nissan's executives had relied psychologically (and literally) on the government and the main bank. The employees, sectionalized by the department, could not feel the urgency the whole company faced. They all felt that a company as big as Nissan could not go bankrupt. This mentality prevented the previous reform efforts from succeeding.

Market-share-seeking

As we have seen, the two major causes for Nissan's crisis were Ishihara's global expansion and Kume's huge investment in domestic dealerships.   These policies were implemented because of a strong desire to catch up to Toyota (Itagaki, 2001).   Nissan came close to an equality with Toyota when it absorbed Prince Motors, but then domestic sales declined gradually despite successive CEOs struggling to regain the market share.   They were stuck in a mindset that to be ready for increased market share, the plants must not be closed even though capacity utilization was declining (Magee, 2003).

*   *   *   *   *

Expressions for the Basic Assumptions in Japanese

There seem to have been four basic assumptions in Nissan before the crisis.   There are quite suitable expressions for characterizing these assumptions in Japanese: "*Okami-Ishiki*" ("Authority-reliant") "*Shigarami*" ("Entwined human relationship"), "*Oyakata-Hinomaru*" ("Public-like business"), and "*Oitsuke-Oikose*" ("Catch up by all means"). (*Okami-Ishiki* and *Oitsuke-Oikose* were mentioned in Chapter Four as well.)

Okami-Ishiki means relying too much on the government or a higher-ranking authority.   It also means being too obedient to an authority or a superior.

Shigarami means a human relationship too entwined for a man or woman to do things as he or she desires.   He or she is too concerned about his or her reputation among other group

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members to challenge issues that go against his or her own will.

Oyakata-Hinomaru literally means "employer and the Japanese national flag." It refers to a way bureaucrats do their jobs.   It represents being inefficient, slow, and imprecise.   The word also denotes the mindset possessed by an employee who works for a large company considered to be too big to fail.

Oitsuke-Oikose is, as previously mentioned, used when a company (or country as in Chapter Four) lags behind competitors and tries to spur employees.

I will examine how these basic assumptions were affected by Ghosn's reforms.

B-3.   What has been Changed on Basic Assumptions?

Okami-Ishiki (Authority-reliant)

The assumption of depending too much on the government and the main bank seems to have diminished.   As mentioned before, Ghosn announced the closure of five domestic plants against government desires.   His clear commitment to make Nissan profitable demonstrated Ghosn's strong will to carry out the reform plans without any support from the outside. Ghosn also has reduced Nissan's automotive debt resulting in less dependence on banks.

Shigarami (Entwined human relationship)

The human relationship represented by *keiretsu* was drastically reduced by Ghosn.   As mentioned before, he ceased the cross-shareholdings of non-essential companies.   For example, Nissan had traditionally purchased 75% of its steel evenly from three large steel makers: Nippon Steel, NKK, and Kawasaki Steel.   NKK and Nissan belonged to the same *keiretsu*, "Fuyo Group."   Through carrying out the NRP, Nissan reduced the amount of steel purchased from NKK from 25% of all the purchases to below 10%.   Nobody imagined Nissan would reduce purchases from NKK.   It was regarded as a challenge to the traditional Japanese way of business (Uesugi, 2001).

Oyakata-Hinomaru (Public-like business)

The lack of a sense of urgency among Nissan's employees ended when the Renault-Nissan alliance was formed and the decision of Ghosn's becoming Nissan's CEO were announced. Nissan had a homogeneous workforce and few employees could imagine they would work with foreigners within the company.   Many employees considered it a dishonor to have a foreigner as CEO (Uesugi, 2001).   Some shareholders even regarded Ghosn as an "occupation force," similar to MacArthur's army (Maeya, 2004).   As Ghosn's nickname "Le cost killer" became known to employees, they were worried that Nissan would be destroyed in a cool-headed, western way by management (Uesugi, 2001).   Ghosn's very appearance helped to put a sense of urgency into the minds of employees.   Interestingly, NRP's rapid success indicated that the employees also had both a sense of urgency and a sense of commitment.

Oitsuke-Oikose (Catch up by all means)

Shortly after arriving at Nissan, Ghosn told global sales and marketing executives that Nissan should not strive for market share and products that were not profitable should not be sold at all (Magee, 2003).   As previously mentioned, Ghosn emphasized brand identity and attractive products like the Z car.   He tried to enhance the value of the products instead of increasing the market share.

The Renault-Nissan alliance also indicates that Nissan does not focus on the market share because the alliance was established in such a way as to recognize and maintain each company's identity (Ghosn & Riès, 2005).   The overall strategy is not one focused on directly increasing market share.   In March 2004, Nissan announced that Renault-Nissan alliance would be World's Number 3 auto-maker.   Ghosn says: "We do not aim to be Number 3 in terms of production.   Our objective is to be within top three auto-makers in terms of quality, technology, and net income."[41]

*   *   *   *   *

These four basic assumptions of the past seem to have been drastically challenged if not entirely eradicated.   What kind of basic assumptions have been newly embedded in Nissan since Ghosn's reforms?

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[41] *Syukan Tōyō-Keizai* (May 15, 2004; p98)

B-4.   New Basic Assumptions in Nissan

Renault-Nissan Alliance

When Nissan's then-CEO, Hanawa Yoshikazu, was negotiating the alliance with Renault, Renault's CEO, Schweitzer, told him that Renault and Nissan would benefit the most if both companies maintained separate brand and corporate identities, leaving Hanawa with the favorable impression that Nissan could successfully make an alliance with Renault (Magee, 2003).   The Renault-Nissan alliance is unique among corporate alliances.   Both companies seek to maintain their individual identities while trying to produce maximum synergy collectively.   This is in contrast to other examples, such as DaimlerChrysler, where one company tries to absorb another (Magee, 2003). Ghosn states:

> *…For Renault and Nissan, learning to live together is more difficult.   This is a job that requires a daily effort.   As with a couple, there must be a clear definition of the rules and a good deal of attention paid to the other partner.   The Alliance is making progress because it respects individual and culture identities* (Ghosn & Riès, 2005 p163).

> *…We're going to have to respect both of them, whether within a single company or within the framework of the global economy, and this necessity is absolute within the framework of the Alliance.   The essential first step in working together successfully is mutual respect.   We can accept globalization all the more readily if our individual identities are preserved and affirmed* (Ghosn & Riès, 2005 pp163-164).

Initially, Ghosn came to Nissan leading a team of 21 people from Renault (Nikkei Business, 2000).   Nissan and Renault are currently exchanging their executives and managers broadly

(Ghosn & Riès, 2005).   Nissan is now becoming a multicultural enterprise. Ghosn also states:

...We're crossing cultures and experiences.   In my opinion, that's an advantage for the future.   The world that's emerging depends on interrelationships.   Nissan is building a culture that's well adapted to this new world (Ghosn & Riès, 2005, p168).

Language

Language plays an important role in building a multicultural enterprise.   All meetings of Nissan's executive committee are now conducted in English (Ghosn & Riès, 2005, p161).   Both Japanese and English are used in documents for the management meetings (Tokudaiji, 2001).   The employees are encouraged to communicate more directly than is normal in the case of typical Japanese social settings.   This "directness" helps reduce ambiguity in management and leads to a clearer delineation of responsibility (Maeya, 2004).   For example, a proposal on product development includes a specific target market share rather than the typical vague targets mentioned in past proposals.   As a result, the manager in charge of development has to make the commitment clear (Tokudaiji, 2001).   Over time, tenured workers start to think differently as they used a new language and processes in everyday work (Magee, 2003).   Ghosn states:

...We've made English an everyday language.   It was a management decision—we gave ourselves a tool to help us communicate with people who work for the same company but come from different cultures.   Nissan has made a lot of progress (Ghosn & Riès, 2005, pp161-162).

Systematizing the Ghosn Way

In the fall of 2004, Nissan organized the experiences and lessons learned during Ghosn's

reforms and systematized them as the "Nissan Management Way" (NMW).   NMW was

formalized, programmed onto a CD-ROM, and distributed to managers and overseas

executives.   One of the program objectives was to globally unify the definition of words such

as "commitment" that Ghosn used in day-to-day management.[42]   In April 2005, Nissan also

established a training facility called the "Management Institute," where managers from

overseas (including Renault) gather and learn NMW and other programs, such as cross-cultural

training.   Watanabe Kuniyuki, an executive in charge of human resources, says: "We want to

make it like GE's Crotonville[43] that has produced many excellent leaders" (*Nikkei Business*,

Jan. 31, 2005, p30).   They intend to further develop NMW through making partnership with

other companies and business schools.

Ghosn's Cross-Functional Teams were systematized into a management activity called

"V-up."[44]   When managers face a certain management problem, a cross-departmental team is

formed.   The team members meet once in a week, discuss the problem, and propose a solution

within three months.   V-up succeeded in solving 3,800 out of 4,500 cases between 2001 and

2004.[45]

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[42] *Nikkei Business*, Jan. 31, 2005

[43] GE's Crotonville, formally named "John F. Welch Leadership Center" is the center for GE's leadership training.   Its mission is to create, identify and transfer organizational learning to enhance GE growth and competitiveness worldwide (http://www.ge.com/en/company/companyinfo/welchcenter/welch.htm, April 15, 2005).

[44] V-up comes from "Value up."   Nissan management regards it as an activity to enhance the corporate value (*Nikkei Business*, Jan. 31, 2005)

[45] *Nikkei Business,* Jan. 31, 2005

*   *   *   *   *

Considering the changes brought about by Ghosn's reforms, I propose four new assumptions that are now present at Nissan: commitment, clear communications, respect for other cultures, and clear identity.

Commitment

Ghosn, as mentioned before, clearly made a commitment when announcing NRP.   Now, "commitment" is a key-word in Nissan (Magee, 2003).   Matsumura Norio, an executive vice president of Nissan, says, "In the past, we tried to put off the problem.   Today, we are encouraging everyone to put forth the problem immediately so we can solve it" (Magee, 2003, p178).   Commitment is the key to carrying out everyday missions, as well as conducting reforms.

Clear Communications

Clear communications is brought about by the usage of English and by requiring a clear sense of job range and responsibility in all correspondence.   Clear communications has created transparency in Nissan's management.   The principles that Ghosn practiced through NRP's reforms were systematized into NMW and spread throughout Nissan.

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Respect for Other Cultures

The Renault-Nissan alliance is currently maintained by mutual respect for each other's corporate culture.   After the alliance was announced in 1999, Nissan's employees had to face a multicultural working environment in order to make the alliance successful.   In such a multicultural environment, respect for other cultures is essential.   Such a mindset of respect helps employees to break departmental barriers and to tackle management challenges cross-functionally.

Clear Identity

The Renault-Nissan alliance was established with the purpose of maintaining each company's corporate identity, while leveraging all possible synergies.   Such a relationship is different from a common merger, where one corporate culture is absorbed by other one.

More importantly, Nissan's products have dramatically changed since Ghosn's arrival (Tokudaiji, 2001).   Nissan shifted its focus from seeking market share to establishing a brand identity.   Enhancing the brand identity led to increased attractiveness of Nissan's products among customers.

Sense of Urgency

I want to add one final point—a sense of urgency.   The changes that Ghosn brought about could not have been achieved if employees had not embraced a sense of urgency.   Similar to the postwar economic growth of Japan that was driven by a sense of overcoming hunger, the

underlying motivation of Nissan's reforms was a sense of urgency.   The alliance with Renault

and Ghosn's arrival seem to have instilled such a sense into the minds of Nissan's employees,

and motivated many of behavior changes that followed.   **Table 7** shows the summary of basic

assumptions before and after Ghosn's reforms.

Table 7.   Basic assumptions before and after Ghosn's reforms

Before	After

➢ *Okami-Ishiki*
  - dependence on the government
    and the main bank
 	
➢ *Shigarami*
  -being entangled with a vertical
    human relationship
 	
➢ *Oyakata-Hinomaru*
  - mentality of "too big to fail"
 	
➢ *Oitsuke-Oikose*
  - desire for catching up to Toyota
	➢ **Commitment**
	  - individual responsibility,
	    independence
	
	➢ **Clear communications**
	  - linguistic relationship, transparency,
	    systematizing the management way
	
	➢ **Respect for other cultures**
	  - humility, cultural modesty
	
	➢ **Clear identity**
	  - corporate identity, products'
	    attractiveness, unique design
	
	(all are based on a sense of urgency)

CHAPTER SIX

Conclusion

A-1. Similarity between the Country and the Company

Looking at the basic assumptions outlined in Chapters Four and Five, they are similar.   Most of the basic assumptions of the company before Ghosn's reforms seem to have come from the basic assumptions of the country.   **Table 8** shows two sets of the basic assumptions: on the left side are those of the country after MacArthur's reforms and on the right side are those of the company before Ghosn's reforms.   If Nissan is considered to be typical of big Japanese firms (e.g., Uesugi, 2001), the problems of the company seem to have derived from those of the country.

Table 8.   Basic assumptions of Japan and Nissan

Japan (after MacArthur)	Nissan (before Ghosn)
➢ ***Oitsuke-Oikose*** - desire for reviving economy and enjoying prosperous life - based on hunger-phobia ➢ ***Okami-Ishiki*** - not speaking out (to superior or authority) ➢ ***Yarō-Jidai*** - enterprise over individual	➢ ***Okami-Ishiki*** - dependence on the government and the main bank ➢ ***Shigarami*** - being entangled with a vertical human relationship ➢ ***Oyakata-Hinomaru*** - mentality of "too big to fail" ➢ ***Oitsuke-Oikose*** - desire for catching up Toyota

Oitsuke-Oikose

Oitsuke-Oikose is the same between the two.   The country developed its economy driven by a

strong desire for re-establishing the status and standing of the nation and for making people

wealthier.   This appears to arise from the hunger experienced during the occupation period.

Almost all of the Japanese people struggled to obtain their daily food.   The later spectacular

high economic growth was achieved largely by the people who had experienced this hunger.

This mentality can be interpreted in the company as the principle of "expanding by any means"

or "increasing market share is everything."   Nissan had glorious days of being known as

"*Gijyutsu-no-Nissan*" ("Technologically-advanced Nissan") but it always lagged behind Toyota.

Therefore, the company's objective was always to "catch up to Toyota."   Expanding the

global operation and domestic dealerships without considering the actual capacity of

customers' demand contributed to its financial distress.

Okami-Ishiki

Okami-Ishiki is also the same between Japan and Nissan.   MacArthur could not change the

Japanese economic structure.   His purges retreated during the Reverse Course, and his

dissolution of *zaibatsu* was replaced with *keiretsu* based upon cross-shareholdings among

group companies centering on a main bank.   The bureaucracy was also left untouched.

Along with the people driven by hunger, the unscathed bureaucracy and financial system

changed the country into a thriving economic machine.   This process, as well as the

ideological confusion brought about by MacArthur, seems to have made most Japanese people

feel powerless in changing the political system but grateful for the successes of the same system.   By being accustomed to a "revolution from above," the populace falls into political apathy.

Nissan was like a mini-model of Japan.   Nissan was originally a manufacturing arm of the new *zaibatsu* "Nihon Sangyo" ("Japanese Industries").   The founder took maximum advantage of his relationship with powerful politicians and the special connection to *Manchukoku*.   Even though the *zaibatsu* was dissolved by MacArthur, the mentality of the founder seems to have remained in the company.   Nissan's problems were exacerbated by a great dependence on the government and *Shigarami* (vertical human relationship) with the bureaucracy and politicians.

Shigarami

This vertical human relationship was seen not only between Nissan and authority but also within the *keiretsu* networks.   Nissan's suppliers and dealers were supplied by ex-Nissan employees.   Nissan's current managers and executives still viewed many of the ex-employees as superiors.   As I have said several times, Japanese organizations are characterized by their vertical human relationship and the rank order of each individual is important.   Nissan could not carry out needed drastic measures, even in crisis.   Only Ghosn could change the company. It may be because he had no *Shigarami* within Japanese society.

Yarō-Jidai

Most managers and executives who played an important role in the process of reviving the Japanese economy were said to be ex-soldiers who came back after the defeat (Nonaka & Tobe, 1991).   They had been trained in military organizations.   Some say that in postwar Japan the Japanese military resurrected itself under a democratic flag and denied its past (Nonaka & Tobe, 1991).   The arrogance of the military organizations seems to have been transferred into postwar enterprises.   Japanese economic growth was supported by a strong mindset of "enterprise over individual."   Under this mindset, maintaining the company became the primary goal, sometimes leading to neglect of other stakeholders such as consumers, shareholders, and local communities.   In many ways this mindset still seems to prevail among Japanese companies today.

Oyakata-Hinomaru

The mindset "enterprise over individual" seems to be based on employees' mentality of identifying themselves with the company.   In Nissan's case, its employees were said to like discussing national policies (Uesugi, 2001).   As Nissan was called "MITI at Ginza," Nissan's elites felt like they were working not for a private company but for the nation.   This mentality seems to have led to lack of urgency and the feeling of "too big (and powerful) to fail."

A-2.   Why Did the Country Not Change?

My research suggests that the country Japan has not changed while the company Nissan has
changed drastically.   Why did Japan not change?

In this case, the main reason lies in MacArthurs indirect control.   He eradicated the military
powers but he chose not to abolish the current government and economic systems.   In
Ghosn's case, however, I believe the critical difference leading to his success is his
involvement of the people.

MacArhur behaved like an emperor and seldom met with the Japanese people.   He provided
direction to his subordinates and a select number of Japanese elites, but he did not get involved
in the process at all.   On the contrary, Ghosn tried to find solutions among employees,
suppliers, and dealers.   He went to see and ask them for advice and help.   He created CFTs
and showed them clear directions.   In contrast to Nissan's past strong sectionalism, CFTs
were very effective in making the employees feel involved in the revival of the company.

From the nation's perspective, this kind of involvement in the process of developing and
executing national policy was rare.   The Japanese people organized themselves into small
groups.   As Nakae (1970) points out, mutually isolated groups are likely to be controlled by a
centralized higher authority, and, in such a social structure, the mentality of being obedient or
not speaking out to authority is likely to prevail.   MacArthur's ideological contradictions and
his zeal for peace (while rearming) and democracy (while acting hierarchically) brought about

confusion in postwar Japan and contributed to the political apathy of the Japanese people. As a result, employees, as individual citizens, tried to contribute to their organizations and companies, but not to the community or public at-large. Indeed, the Japanese populace has experienced little participation in the national policy-making process since MacArthur's occupation.

As the Meiji Restoration was driven by xenophobia, postwar economic growth was driven by hunger-phobia. During the occupation period, nearly all the Japanese people suffered from hunger. In this respect, the postwar high economic growth had little to do with MacArthur and his policies. It was instead driven by people's desire for overcoming hunger and achieving a stable life and economic growth. MacArthur's reforms may have played a roll in reinforcing this momentum by leaving the bureaucracy untouched. Most of old basic assumptions were not changed by MacArthur's reforms, although they were affected by the harsh environments of the war and the occupation. In terms of organizational culture, the country was apparently too large and complicated to change.

Nissan has changed. I believe it was because the employees were involved with the reforms and started to think differently from their past sectionalism. If all of the employees believe they have to change the company, then change will happen. Considering the size of a company compared to a country, even a large company is small enough to make change possible. In general, a company has a shorter history than a country. A company's culture is not as strongly embedded as that of a country. We can change the culture of the company more easily than the country.

A-3.   Implications for Managers as Change Agents

What should we learn from these cases?   The two general problems are illustrated in these cases:

- Problem1: Strong vertical relationships within an organization produce hierarchy and hinder clear communications.   It prevents the organization from adapting to environmental changes and sometimes allows emotional factors to drive managerial decisions, often resulting in failure.
- Problem2: An organization sometimes allows subcultures to develop.   Greater degrees of sectionalization typically harm the organization as a whole.

These problems are not new but we may still learn several lessons from how both MacArthur and Ghosn wrestled with these issues.   With regard to Problem1, we should try to make an organization more transparent.   In other words, open and clear information reduces the risk of communication-related failures and of failures to adapt.   In terms of Problem2, we should remove barriers between departments and get people involved in the process of reform. Turning people into participants in an organizational change is important.

Although these lessons are easy to state, the cultural problems and traditions that surround them are extremely difficult to deal with in practice.   In MacArthur's case, the defining event was hunger during the occupation period.   In Ghosn's case, it was employees' sense of urgency that emerged as Nissan's shares were bought by Renault and the "cost-killer" was brought in as a CEO.   If we overlook these critical situational factors, we may not deal with the cultural issues properly.   For a change agent, finding out what really has affected the people is essential.

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