

Saving the Business Without Losing the Company

by **Carlos Ghosn**

It was in March of 1999 that I got the call from Louis Schweitzer, CEO of Renault, asking me if I would be willing to go to Tokyo to lead a turnaround at Nissan, the struggling Japanese motor giant. The two companies had just agreed to a major strategic alliance in which Renault would assume \$5.4 billion of Nissan's debt in return for a 36.6% equity stake in the Japanese company. The combined company would be the world's fourth largest carmaker. On paper, the deal made sense for both sides: Nissan's strength in North America filled an important gap for Renault, while Renault's cash reduced Nissan's mountain of debt. The capabilities of the two companies were also complementary: Renault was known for innovative design and Nissan for the quality of its engineering.

The alliance's success, though, depended on turning Nissan into a profitable and growing business, which was what Schweitzer was calling on me to do. I suppose I was a natural candidate for the job, as I had just finished contributing to the turnaround initiative at Renault in the aftermath of its failed merger with Volvo. We had had to make some controversial decisions about European plant closures, difficult for a French company with a tradition of state control. I had been in challenging situations before then as well. In the 1980s, as COO of Michelin's Brazilian subsidiary, I had to contend with runaway inflation rates. In 1991, as the unit CEO of Michelin North America, I faced the task of putting together a merger with Uniroyal Goodrich, the U.S. tire company, just as the market went into a recession.

But Nissan was something else entirely. It had been struggling to turn a profit for eight years. Its margins were notoriously low; specialists estimated that Nissan gave away \$1,000 for every car it sold in the United States due to the lack of brand power. Purchasing costs, I was soon to discover, were 15% to 25% higher at Nissan than at Renault. Further adding to the cost burden was a plant capacity far in excess of the company's needs: The Japanese factories alone could produce almost a million more cars a year than the company sold. And the company's debts, even after the Renault investment, amounted to more than \$11 billion (for the convenience of our readers, the approximate exchange rate at the end of September 2001 of 120 yen to the U.S. dollar is used throughout). This was, quite literally, a do-or-die situation: Either we'd turn the business around or Nissan would cease to exist.

It was also an extremely delicate situation. In corporate turnarounds, particularly those related to mergers or alliances, success is not simply a matter of making fundamental changes to a company's organization and operations. You also have to protect the company's identity and the self-esteem of its people. Those two goals—making changes and safeguarding identity—can easily come into conflict; pursuing them both entails a difficult and sometimes precarious balancing act. That was particularly true in this case. I was, after all, an outsider—non-Nissan, non-Japanese—and was initially met with skepticism by the company's managers and employees. I knew that if I tried to dictate changes from above, the effort would backfire, undermining morale and productivity. But if I was too passive, the company would simply continue its downward spiral.

Today, less than three years later, I am pleased to report that the turnaround is succeeding. Nissan is profitable again, and its identity as a company has grown stronger. How did we manage it? In two key ways. First, rather than impose a plan for the company's revival, I mobilized Nissan's own managers, through a set of cross-functional teams, to identify and spearhead the radical changes that had to be made. Second, Renault remained sensitive to Nissan's culture at all times, allowing the company room to develop a new corporate culture that built on the best elements of Japan's national culture. In the following pages, I'll discuss the turnaround process and Nissan's new culture in more detail. But to really understand the Nissan story, you first have to understand how dramatically the company has broken with its past.

Breaking with Tradition

When I arrived at Nissan at the close of the 1990s, established business practices were wreaking huge damage on the company. Nissan was strapped for cash, which prevented it from making badly needed investments in its aging product line. Its Japanese and European entry-level car, the March (or the Micra in Europe), for example, was nearly nine years old. The competition, by contrast, debuted new products every five years; Toyota's entry-level car at the time was less than two years old. The March had had a few face-lifts over the years, but essentially we were competing for 25% of the Japanese market and a similar chunk of the European market with an old—some would say out-of-date—product. Similar problems plagued the rest of our car lines.

The reason Nissan had cut back on product development was quite simple: to save money. Faced with persistent operating losses and a growing debt burden, the company was in a permanent cash crunch. But it didn't have to be that way. Nissan actually had plenty of capital—the problem was it was locked up in noncore financial and real-estate investments, particularly

in *keiretsu* partnerships. The keiretsu system is one of the enduring features of the Japanese business landscape. Under the system, manufacturing companies maintain equity stakes in partner companies. This, it's believed, promotes loyalty and cooperation. When the company is large, the portfolio can run to billions of dollars. When I arrived at Nissan, I found that the company had more than \$4 billion invested in hundreds of different companies.

The problem was that the majority of these shareholdings were far too small for Nissan to have any managerial leverage on the companies, even though the sums involved were often quite large. For instance, one of Nissan's investments was a \$216 million stake in Fuji Heavy Industries, a company that, as the manufacturer of Subaru cars and trucks, competes with Nissan. What sense did it make for Nissan to tie up such a large sum of money in just 4% of a competitor when it could not afford to update its own products?

That was why, soon after I arrived, we started dismantling our keiretsu investments. Despite widespread fears that the sell-offs would damage our relationships with suppliers, those relationships are stronger than ever. It turns out that our partners make a clear distinction between Nissan as customer and Nissan as shareholder. They don't care what we do with the shares as long as we're still a customer. In fact, they seem to have benefited from our divestments. They have not only delivered the price reductions that Nissan has demanded but also have improved their profitability. Indeed, all Nissan's suppliers posted increased profits in 2000. Although breaking up the Nissan keiretsu seemed a radical move at the time, many other Japanese companies are now following our lead.

Nissan's problems weren't just financial, however. Far from it. Our most fundamental challenge was cultural. Like other Japanese companies, Nissan paid and promoted its employees based on their tenure and age. The longer employees stuck around, the more power and money they received, regardless of their actual performance. Inevitably, that practice bred a certain degree of complacency, which undermined Nissan's competitiveness. What car buyers want, after all, is performance, performance, performance. They want well-designed, high-quality products at attractive prices, delivered on time. They don't care how the company does that or who in the company does it. It's only logical, then, to build a company's reward and incentive systems around performance, irrespective of age, gender, or nationality.

So we decided to ditch the seniority rule. Of course, that didn't mean we systematically started selecting the youngest candidates for promotion. In fact, the senior vice presidents that I've nominated over the past two years all have had long records of service, though they were usually not the most senior candidates. We looked at people's performance records, and if the highest performer was also the most senior, fine. But if the second or third or even the fifth most senior had the best track record, we did not hesitate to pass over those with longer service. As expected when changing long-standing practices, we've had some problems. When you nominate a younger person to a job in Japan, for example, he sometimes suffers for being younger—in some cases, older people may not be willing to cooperate with him as fully as they might. Of course, it's also true that an experience like that can be a good test of the quality of leadership a manager brings to the job.

We also revamped our compensation system to put the focus on performance. In the traditional Japanese compensation system, managers receive no share options, and hardly any incentives are built into the manager's pay packet. If a company's average pay raise is, say, 4%, then good performers can expect a 5% or 6% raise, and poor performers get 2% or 2.5%. The system extends to the upper reaches of management, which means that the people whose decisions have the greatest impact on the company have little incentive to get them right. We changed all that. High performers today can expect cash incentives that amount to more than a third of their annual pay packages, on top of which employees receive company stock options. Here, too, other Japanese companies are making similar changes.

Another deep-seated cultural problem we had to address was the organization's inability to accept responsibility. We had a culture of blame. If the company did poorly, it was always someone else's fault. Sales blamed product planning, product planning blamed engineering, and engineering blamed finance. Tokyo blamed Europe, and Europe blamed Tokyo. One of the root causes of this problem was the fact that managers usually did not have well-defined areas of responsibility.

Indeed, a whole cadre of senior managers, the Japanese "advisers" or "coordinators," had no operating responsibilities at all. The adviser, a familiar figure in foreign subsidiaries of Japanese companies, originally served as a consultant helping in the application of innovative Japanese management practices. That role, however, became redundant as familiarity with Japanese practices spread. Yet the advisers remained, doing little except undermining the authority of line managers. So at Nissan, we eliminated the position and put all our advisers into positions with direct operational responsibilities. I also redefined the roles of the other Nissan managers, as well as those of the Renault people I had brought with me. All of them now have line responsibilities, and everyone can see exactly what their contributions to Nissan are. When something goes wrong, people now take responsibility for fixing it.

Mobilizing Cross-Functional Teams

All these changes were dramatic ones. They went against the grain not only of Nissan's long-standing operating practices but also of some of the behavioral norms of Japanese society. I knew that if I had tried simply to impose the changes from the top,

I would have failed. Instead, I decided to use as the centerpiece of the turnaround effort a set of cross-functional teams. I had used CFTs in my previous turnarounds and had found them a powerful tool for getting line managers to see beyond the functional or regional boundaries that define their direct responsibilities.

In my experience, executives in a company rarely reach across boundaries. Typically, engineers prefer solving problems with other engineers, salespeople like to work with fellow salespeople, and Americans feel more comfortable with other Americans. The trouble is that people working in functional or regional teams tend not to ask themselves as many hard questions as they should. By contrast, working together in cross-functional teams helps managers to think in new ways and challenge existing practices. The teams also provide a mechanism for explaining the necessity for change and for projecting difficult messages across the entire company.

Within a month of my arrival, we had put together nine CFTs. Their areas of responsibility ranged from research and development to organizational structure to product complexity. Together, they addressed all the key drivers of Nissan's performance. (See the table "Nissan's Cross-Functional Teams" for a detailed description of the teams, their areas of responsibility, and the principal changes they instigated.)

Nissan's Cross-Functional Teams					
The following table lists the nine cross-functional teams that produced the Nissan Revival Plan, showing their composition and the objectives they identified.	Team	Business Development	Purchasing	Manufacturing & Logistics	Research & Development
	CFT Leaders	<ul style="list-style-type: none"> • executive VP of overseas sales & marketing • executive VP of product planning 	<ul style="list-style-type: none"> • executive VP of purchasing • executive VP of engineering 	<ul style="list-style-type: none"> • executive VP of manufacturing • executive VP of product planning 	<ul style="list-style-type: none"> • executive VP of purchasing • executive VP of engineering
	CFT Pilot	<ul style="list-style-type: none"> • general manager of product planning 	<ul style="list-style-type: none"> • general manager of purchasing 	<ul style="list-style-type: none"> • deputy general manager of manufacturing 	<ul style="list-style-type: none"> • general manager of engineering
	Functions Represented	<ul style="list-style-type: none"> • product planning • engineering • manufacturing • sales & marketing 	<ul style="list-style-type: none"> • purchasing • engineering • manufacturing • finance 	<ul style="list-style-type: none"> • manufacturing • logistics • product planning • human resources 	<ul style="list-style-type: none"> • engineering • purchasing • design
	Team Review Focus	<ul style="list-style-type: none"> • profitable growth • new product opportunities • brand identity • product development lead time 	<ul style="list-style-type: none"> • supplier relationships • product specifications and standards 	<ul style="list-style-type: none"> • manufacturing efficiency and cost effectiveness 	<ul style="list-style-type: none"> • R&D capacity
	Objectives Based on Review	<ul style="list-style-type: none"> • launch 22 new models by 2002 • introduce a minicar model by 2002 in Japan 	<ul style="list-style-type: none"> • cut number of suppliers in half • reduce costs by 20% over three years 	<ul style="list-style-type: none"> • close three assembly plants in Japan • close two power-train plants in Japan • improve capacity utilization in Japan from 53% in 1999 to 82% in 2002 	<ul style="list-style-type: none"> • move to a globally integrated organization • increase output efficiency by 20% per project

Sales & Marketing	General & Administrative	Finance & Cost	Phaseout of Products & Parts Complexity Management	Organization
<ul style="list-style-type: none"> • executive VP of overseas sales & marketing • executive VP of domestic sales & marketing 	<ul style="list-style-type: none"> • executive VP of finance (CFO) • senior VP of finance (DCFO) 	<ul style="list-style-type: none"> • executive VP of finance (CFO) • senior VP of finance (DCFO) 	<ul style="list-style-type: none"> • executive VP of domestic sales & marketing • executive VP of product planning 	<ul style="list-style-type: none"> • executive VP of finance (CFO) • executive VP of manufacturing
<ul style="list-style-type: none"> • manager of overseas sales & marketing 	<ul style="list-style-type: none"> • manager of finance 	<ul style="list-style-type: none"> • deputy general manager of finance 	<ul style="list-style-type: none"> • manager of product planning 	<ul style="list-style-type: none"> • manager of human resources
<ul style="list-style-type: none"> • sales & marketing • purchasing 	<ul style="list-style-type: none"> • sales & marketing • manufacturing • finance • human resources 	<ul style="list-style-type: none"> • finance • sales & marketing 	<ul style="list-style-type: none"> • product planning • sales & marketing • manufacturing • engineering • finance • purchasing 	<ul style="list-style-type: none"> • product planning • sales & marketing • manufacturing • engineering • finance • purchasing
<ul style="list-style-type: none"> • advertising structure • distribution structure • dealer organization • incentives 	<ul style="list-style-type: none"> • fixed overhead costs 	<ul style="list-style-type: none"> • shareholdings and other noncore assets • financial planning structure • working capital 	<ul style="list-style-type: none"> • manufacturing efficiency and cost effectiveness 	<ul style="list-style-type: none"> • organizational structure • employee incentive and pay packages
<ul style="list-style-type: none"> • move to a single global advertising agency • reduce SG&A costs by 20% • reduce distribution subsidiaries by 20% in Japan • close 10% of retail outlets in Japan • create prefecture business centers or common back offices 	<ul style="list-style-type: none"> • reduce SG&A costs by 20% • reduce global head count by 21,000 	<ul style="list-style-type: none"> • dispose of noncore assets • cut automotive debt in half to \$5.8 billion net • reduce inventories 	<ul style="list-style-type: none"> • reduce number of plants in Japan from seven to four by 2002 • reduce number of platforms in Japan from 24 to 15 by 2002 • reduce by 50% the variation in parts (due to differences in engines or destination, for example) for each model 	<ul style="list-style-type: none"> • create a worldwide corporate headquarters • create regional management committees • empower program directors • implement performance-oriented compensation and bonus packages, including stock options

We put the teams to work on a fast track. They were given three months to review the company's operations and to come up with recommendations both for returning Nissan to profitability and for uncovering opportunities for future growth. The teams

reported to Nissan's nine-member executive committee. And though the CFTs had no decision-making power—that was retained by the executive committee and myself—they had access to all aspects of the company's operations. Nothing was off limits.

📖 Building Trust Through Transparency (Located at the end of this article)

The CFTs consisted of approximately ten members, all drawn from the ranks of the company's middle managers, that is, people with line responsibilities. Limiting the members to ten ensured that the teams' discussions would move forward at a reasonable pace; given the urgency of the situation, we could not afford to spend time in protracted debates. But we also recognized that a team of ten people would be too few to cover in any depth all the issues facing it. To get around that problem, each CFT formed a set of subteams, consisting of CFT members and other managers selected by the CFT. The subteams, each of which was also limited to ten members, focused on particular issues faced by the broader teams. For instance, the manufacturing team had four subteams, which reviewed capacity, productivity, fixed costs, and investments. All together, some 500 people worked in the CFTs and subteams.

To give CFTs authority within the organization, we appointed to each team two "leaders" drawn from the executive committee. These leaders served as the team sponsors, who would smooth the way for the team as it conducted its work and remove any institutional obstacles. Why two leaders rather than one? Having two such senior voices made it less likely that the team would focus its efforts too narrowly. For instance, we decided that Nobuo Okubo, Nissan's executive vice president for research and development, and Itaru Koeda, the executive vice president of purchasing, would lead the purchasing team. Their voices would balance each other, so that no single function's perspective would dominate.

But it was also important that the CFT process not look like a corporate-imposed blaming exercise. The team leaders, therefore, took a back seat in the actual operation of the CFTs and attended few of the meetings. The ten regular members of each CFT carried the real work, and one of them acted as the team's "pilot," taking responsibility for driving the agenda and discussions. The pilots were selected by the executive committee, and the leaders and pilots together selected the rest of the team. Typically, the pilots were managers who had frontline experience with Nissan's operating problems and credibility with the rank and file. I took a personal interest in their selection because it gave me a chance to have a close look at the next generation of Nissan leaders.

📖 From Cross-Function to Cross-Company (Located at the end of this article)

Setting up a clear process of this kind has helped managers to become much more aware of what they can achieve if they put their minds to the task. Take the purchasing team, which I had challenged to find ways to reduce supplier costs by 20% to bring Nissan in line with other car companies. I suggested that a third of the savings could be achieved through changes to engineering specifications, many of which were stricter at Nissan than at other companies. At first, the engineers didn't believe that anything like the amount I was looking for could be found in specification changes.

Yet by engaging in the CFT exercise, those very engineers proved themselves wrong. In fact, they have been able to deliver far more cost savings than I had expected through identifying a multitude of small changes. For example, it turned out that Nissan's quality standards for its headlamp parts were higher than its competitors, even though there was no discernible performance difference. By making a small reduction in standards for the surfaces of headlamp reflectors, Nissan was able to reduce the rejection rate for that component to zero. Another small reduction in the specification for heat resistance allowed Nissan to use less expensive materials for the lenses and inner panels of the headlamps. Together, the two changes decreased the cost of headlamps by 2.5%.

The result of the CFTs' three-month review was a detailed blueprint for the turnaround, the Nissan Revival Plan, which I released to the public in October 1999. This plan, developed by Nissan's own executives, included the major changes to Nissan's business practices that I described earlier. They also prescribed some harsh medicine in the form of plant closures and head count reductions, all in Japan. Inevitably, of course, the press focused on the way we were challenging Japanese business traditions—and on the staff cutbacks that were thought to be revolutionary in a society used to guarantees of lifetime employment. But necessary and important as these changes were, they were not the whole story.

Turning around a company in Nissan's state is a bit like Formula One racing. To take the highest-speed trajectory, you have to brake and accelerate, brake and accelerate all the time. The revival plan, therefore, was as much about future growth (accelerating) as it was about cutting costs (braking). We couldn't say, "There will be a time for cost reduction and then a time for growth"—we had to do both at once. So along with the cutbacks and closures, the plan included a number of major investment commitments, such as a \$300 million investment to produce Nissan models at Renault's plant in Brazil and a \$930 million investment for a new plant in Canton, Mississippi. We also announced our entry into the minicar market in Japan and took back control of our operations in Indonesia. (For a summary of the revival plan and our performance against it, see the exhibit "What the Numbers Show.")

What the Numbers Show

This table shows how successful the turnaround has been along the key performance dimensions laid out in the Nissan Revival Plan. The company's objectives under the plan are marked in bold: to return Nissan to profitability by 2000, to increase the operating margin to more than 4.5% by 2002, and to reduce debt to below \$5.8 billion by 2002.

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

Note: The conversion rate used was ¥120 = \$1.

The CFTs have remained an integral part of Nissan's management structure. I still meet with the pilots at least once a month, and at least once a year, I receive briefings from the full teams. We have even added a tenth team covering investment costs and efficiency. The teams' mission today is twofold. First, they serve as watchdogs for the ongoing implementation of the revival plan. Second, they look for new ways to improve performance. In short, they are my way of making sure that Nissan stays awake and fit.

The Importance of Respect

As might be expected, given the cutbacks we made in Japan, the public was initially uneasy about the revival plan, and I took a lot of the flak as the foreigner in charge. Inside Nissan, though, people recognized that we weren't trying to take the company over but rather were attempting to restore it to its former glory. We had the trust of employees for a simple reason: We had shown them respect. Although we were making many profound changes in the way Nissan carried out its business, we were always careful to protect Nissan's identity and its dignity as a company.

That had been true even during the original negotiations between Renault and Nissan. As many people know, Renault was not Nissan's number one choice for partner. DaimlerChrysler was the preferred counterpart, which on paper was not that surprising, given its financial muscle and reputation at the time. While Nissan was negotiating with Renault, it had also been talking to DaimlerChrysler, and I myself believed that the two would probably close a deal. In the end, however, DaimlerChrysler dropped out, believing that Nissan was too risky. In the words of one Chrysler executive, bailing out Nissan would have been like putting \$5 billion into a steel container and throwing it into the ocean.

With DaimlerChrysler out of the picture, Renault was Nissan's only hope for survival. The other potential suitor, Ford, had stepped aside long ago. Under those circumstances, you might have expected Renault to tighten its terms for dealing with Nissan. But Renault decided against exploiting its short-term bargaining advantage. We took the view that we were entering a long-term relationship. If we were to start by abusing our partner, we'd pay for it later. I believe that Renault's decision to stick to the terms it had offered Nissan before DaimlerChrysler dropped out contributed greatly to preserving the morale of Nissan managers at the start.

Since then, of course, cooperation between the two companies has dissipated all fears of foreign domination. Although the needs of the turnaround meant that Nissan was at first more of a learner than Renault, the relationship between the two companies has become evenly balanced. Renault people are now coming to learn from Nissan, and Nissan senior managers are transferring their skills to Renault business units. Indeed, after just three years with Nissan, I doubt anyone would say that the people I brought with me still belong to Renault. They have probably contributed a lot more to Nissan than to Renault. What's more, it sometimes seems to me that as Nissan's identity strengthens, the North Americans, Europeans, and Japanese working here are becoming much more alike than they are different.

On the whole, I think Nissan's identity and culture as a company have been far more important factors in its performance than its country of origin, and I think this would be true for most companies. In fact, looking to national culture for an explanation of a company's failure or success almost always means you are missing the point. All that a national culture does is provide the company with the raw human resources for competing. Obviously, if those resources are untrained or the business environment is undeveloped, even the best company can do little. But equally, no matter how promising your resources, you

will never be able to turn them into gold unless you get the corporate culture right. A good corporate culture taps into the productive aspects of a country's culture, and in Nissan's case we have been able to exploit the uniquely Japanese combination of keen competitiveness and sense of community that has driven the likes of Sony and Toyota—and Nissan itself in earlier times.

Building Trust Through Transparency

For a turnaround process of this kind to work, people have to believe both that they can speak the truth and that they can trust what they hear from others. Building trust, however, is a long-term project; those in charge have to demonstrate that they do what they say they'll do, and that takes time. But you have to start somewhere. Right from the beginning, I made it clear that every number had to be thoroughly checked. I did not accept any report that was less than totally clear and verifiable, and I expected people to personally commit to every observation or claim they made. I set the example myself; when I announced the revival plan, I also declared that I would resign if we failed to accomplish any of the commitments we set for ourselves.

On a broader level, I also sought to impose transparency on the entire organization to ensure that everyone knew what everyone else was doing. Traditionally, for example, the company's European and North American units operated independently, sharing little information and expertise with the rest of the company. Each unit had its own president and regional team, who were supposed to build links to corporate headquarters and thus to the rest of the corporation. In reality, however, the regional presidents and their teams were building walls, and there was little cooperation between different parts of the company.

I decided, therefore, to do away with the post of regional president and announced the change in March 2000, six months after the publication of Nissan's overall revival plan. Today, four management committees, meeting once a month, supervise Nissan's regional operations. Each committee includes representatives of the major functions: manufacturing, purchasing, sales and marketing, finance, and so on. I chair the committee for Japan, while the committees supervising the European, U.S., and general overseas markets are chaired by Nissan executive vice presidents based in Japan. I also make sure that I attend the European and North American committee meetings at least four times a year. This reorganization was one of the few changes I made unilaterally, but it was consistent with my commitment to transparency inside the organization.

From Cross-Function to Cross-Company

Cross-functional teamwork has been central to the Nissan turnaround. A similar approach has also emerged as a key element behind the success of the Nissan-Renault alliance.

At a certain point in negotiations between the two companies, there was a discussion about how they would work together. Renault's negotiators assumed that the best way forward would be to set up a series of joint ventures, and they wanted to discuss all legal issues surrounding a joint venture: who contributes what and how much, how the output is shared, and so forth. The Nissan team pushed back; they wanted to explore management and business issues, not legal technicalities. As a result, negotiations were stalled.

Renault CEO Louis Schweitzer asked me if I could think of a way to resolve that impasse. I recommended abandoning the joint-venture approach. If you want people to work together, the last thing you need is a legal structure that gets in the way. My solution was to introduce informal cross-company teams (CCTs). Some teams focused on specific aspects of automobile manufacturing and delivery—there was a team focusing on product planning, for instance, and another on manufacturing and logistics. Others focused on a region—Europe, for instance, and Mexico and Central America. All told, we created 11 such cross-company teams.

Through these teams, Renault and Nissan managers have found many ways to leverage the strengths of both companies. The experience of the Mexico regional CCT is a good example. At the time of the alliance in early 1999, Nissan was suffering from overcapacity in the Mexican market because of sluggish domestic demand and flagging sales of the aging Sentra model to the United States. Renault, on the other hand, was thinking about reentering the Mexican market, which it had abandoned in 1986. Putting managers from both companies together meant that they immediately recognized the synergy opportunity. In just five months, they put together a detailed plan for producing Renault cars in Nissan's plants. Just over a year later, in December 2000, the first Renault models rolled off the production lines.

The improvement in Nissan's manufacturing position has been dramatic. At the Cuernavaca plant, the capacity utilization rate has risen from 55% at the end of 1998 to nearly 100%. For Renault's part, the arrangement greatly accelerated its reentry into Mexico. In fact, Renault was able to begin selling cars in Mexico even before the first Scenic rolled off the production line. Because the Mexican government recognized Renault as a partner of the Nissan group, Renault was able to immediately export cars to Mexico without having to obtain separate government approval. What's more, Renault could use Nissan's local

dealers as distributors.

Today the cross-country teams and the cross-functional teams have complementary roles: The company CFTs serve as guardians of each company's revival plan, while the CCTs feed the alliance.

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