

# Melbourne Business School

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## Asian practices can get lost in translation

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# Choose your culture

By Carol Gill

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*Can an effective leader overcome an unproductive national culture or will the foreign culture dominate the organisational culture?*

New research from Melbourne Business School debunks the myth that Japanese operational practices are the most productive in the world.

It finds that when these practices are taken out of a protected Asian business environment and placed in a competitive Western environment, they can be detrimental to the company's success.

There is no doubt that Asia is different to the rest of the world. With it accounting for 25% of the world's population and now opening up to takeovers by Western companies, it's more important than ever for Western leaders to understand Eastern culture if they wish to introduce change.

The question is, can a Western leader change Asian organisational practices to make it more successful in a competitive market? The answer is, yes, but it requires strong leadership.

## **What makes a Western leader successful in Asia?**

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My research examined the Japanese automotive industry to identify what makes a Western leader successful in Asia.

Part of the research focused on Nissan and Mitsubishi which both required international bailouts by Renault and DaimlerChrysler respectively due to dysfunctional organizational cultures.

Each company appointed a new CEO to drive these rescue projects. Nissan appointed Carlos Ghosn in 1999 and Mitsubishi appointed Rolf Eckrodt in 2002.

Both CEOs had very different styles, but only one was successful. Understanding why required examining the link between organisation and national culture and leadership.

Nissan's Ghosn was born in Brazil but he adopted a German leadership style after spending much of his early corporate years in Europe. Interestingly Eckrodt was born in Germany but he developed his leadership style in Brazil during four years as head of Mercedes Benz.

Prior to Ghosn and Eckrodt taking over the helm at Nissan and Mitsubishi respectively, both organisations were in crisis.

At that time the Japanese collectivist culture promoted life-long employment within the same company as long as they did not make a mistake. This produced a culture where staff documented everything, information travelled slowly up and down the hierarchy, accountability was diffused and there was a lot of finger pointing.

There was no connection between performance and promotion which discouraged individual initiative.

Employees would poll opinions before meetings to test propositions, selecting those that were most popular so that no one individual could be identified later for originating a faulty position.

The Japanese government's tradition of bailing out large, troubled employers meant that scant, if any attention was paid to profits.

There was a norm of 'saving face' and employees felt they could not criticize their own products.

### **A study of two different leadership styles**

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Ghosn successfully turned Nissan around by instigating some distinctly German leadership practices.

He insisted from the very beginning that Nissan's transparency would be total and that staff must speak openly about problems and results.

To promote the value of accountability Ghosn defined the roles of all Nissan managers so that everyone could see exactly what their contributions to Nissan were.

Cross functional teams were established to drive change and move Nissan from a consensus culture, where dissent was not voiced, to active consensus.

He personally role-modelled a sense of urgency and teamwork announcing that he would resign if he failed to accomplish any of the commitments that had been set.

He addressed the issue of accountability by using a performance-based incentive system and by reducing Nissan's workforce by 14% (21,000 jobs).

The failure of the Mitsubishi turnaround is in stark contrast with the success of Nissan.

Despite cutting costs by 15% and slashing 9,500 jobs in three years, closing a manufacturing plant and cutting production capacity by 20%, doubling the outlay on research and development and eliminating the traditional system of promotion based on seniority, DaimlerChrysler-Mitsubishi continued to accumulate losses and by 2004 corporate analysts were calling the alliance a "disaster"

It has been suggested that Eckrodt's Latin style was not a good fit with the Japanese culture. Eckrodt is accused of being too laid back and informal. In contrast to Ghosn he had no sense of urgency.

Eckrodt had been warned not to practice Latin style and not to be too willing to believe Japanese managers when they promised to fix a problem. 'Yes' in Asia, means 'I heard you' rather than 'yes I agree'.

The Brazilian culture in contrast to the German culture was long on enthusiasm, energy and optimism.

Eckrodt's upbeat and informal Brazilian management style focussed on improving morale by having numerous meetings with factory workers and employees and inviting them to present ideas to improve the company.

Instead he needed to mimic Ghosn's style in this context. Ghosn was blunt, punctual, rigid, intense and focussed and his restructuring was precise and unforgiving with detailed numerical targets. Ghosn demanded and demonstrated accountability. In particular, he set detailed targets and swiftly demoted those who failed to reach a promised goal. Ghosn did not stray from the topic at hand. Ghosn won the trust of Nissan's managers who helped motivate the rest of organization by putting his own job on the line if targets were not met.

Yet while Ghosn has been lauded for the Nissan revival, it has been proposed that there is a dark side to his methods. It is reported that during his tenure as CEO of Renault between 2006 and 2008, seven workers in one facility attempted suicide and five were successful. One worker left a suicide note blaming work pressure and mentioning Ghosn by name.

### **Failure is a great teacher**

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While the Nissan Revival Plan gives us a map of how to change culture we can learn a lot from Mitsubishi's failed turn around.

We learn how difficult it is to change culture in an organization that lacks a sense of urgency around the need for change. Mitsubishi officials were insulted by the suggestion that DaimlerChrysler rescued them. They preferred to believe that DaimlerChrysler's stake in Mitsubishi had given them well placed manufacturing facilities in the Asia Pacific.

In contrast, Nissan's Keiretsu – shared ownership - was weaker and couldn't afford to rescue anyone which made the organization more responsive to change.

From Nissan we learn that organizational culture can become independent of the influences of national culture with effective leadership.

Nissan's leadership was able to break with the traditions of national culture to change the organizational culture, making the organization culture more important to its performance than its country of origin.

To cite Lou Gerstner, "The thing I have learned at IBM is that culture is everything". Culture is the glue that holds organizations together by providing cohesiveness. A change in mindset from adversarial to collaborative company interaction can improve organizational performance.

The Nissan case demonstrates that Japanese management practices can be taken too far and sacrifice productivity without careful management of organisational culture. Toyota is an example of an organization that has been effective in this regard, countering the tendency towards consensus with an organizational culture that rewards employees for challenging the status quo.

In particular this case demonstrates the importance of diverse teams which eliminates silos and turf battles.

This case also indicates that the role of strong leaders in the change process can not be underestimated particularly in change resistant cultures.

Leadership deserves a double weighting when considering how to align HRM practices with the cultural capability required for competitive advantage, proposing that what leadership 'does' and 'is' matters. In particular, leaders as role models are important to culture and change.

### **International human resource management – which culture is best?**

These findings have implications for international HRM in general and more specifically in Asian countries which characterize emerging economies that are of increasing relevance to future business.

Organizational culture is at the heart of effective HRM because it defines how people will behave. The most effective HRM strategy aligns its human resource practices to the cultural capabilities that an organization needs to compete effectively in its environment.

Changes made by Ghosn to the HRM practices of recruitment, reward, promotion and selection had a significant impact on organizational culture and most significantly these practices can be effective even when they are not consistent with the values pervasive in the national culture.

International business involves the interaction and movement of people across national boundaries, consequently, an appreciation of cultural impact on these practices is essential.

It is often proposed that activities such as hiring, promoting, rewarding and dismissal are determined by the practices of the host country and are often based on a value system peculiar to that country's culture however, the Nissan case indicates that host country cultural practices need not dominate organizational culture or HRM practices.

It seems that organizational culture, rather than national culture, has a much greater impact on behaviour although national culture is an important consideration during change.

In a nutshell, the role of both national and organizational culture and the interaction between them in organizational performance should be carefully considered by leaders and human resource managers during any interaction and is particularly relevant to international mergers and acquisitions.

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