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CARLOS GHOSN:

THE RISE AND FALL OF AN AUTOMOBILE LEGEND

Was it politics, greed, or hubris that led to Carlos Ghosn's downfall?

*By Jochen Reb, Abhijeet Vadera
and Cheah Sin Mei*

On December 29, 2019, disgraced auto titan Carlos Ghosn (rhymes with 'tone') made an audacious escape from house arrest in Tokyo, where he had been detained on financial impropriety charges. Of all the places imaginable, Ghosn hid in a huge case for musical instruments, which was then loaded onto an aeroplane as cargo. Dubbed as "one of the most brazen and well-orchestrated escape acts in recent history, involving a dizzying array of hotel meet-ups, bullet train travel, fake personas, and the chartering of a private jet",¹ it was a Hollywood caper in line with Ghosn's cavalier personality and gilded lifestyle.

Upon arrival in Lebanon, Ghosn was feted like a hero. He then had an audience with Lebanese President Michel Aoun and subsequently claimed at a press conference that he had suffered "injustice and political persecution" at the hands of the Japanese government. He went to the extent of comparing what he had undergone to the Japanese assault on Pearl Harbour. While the Lebanese press had a field day reporting on his daring getaway, Japanese authorities only discovered Ghosn's flight several days later from Lebanese media reports. Ghosn thus cemented his global notoriety by becoming a fugitive of the law.²

The allegations

The Tokyo District Public Prosecutors Office had indicted Ghosn for violating a Japanese financial law, the Financial Instruments and Exchange Act, which was promulgated in 2006. Ghosn was detained on the allegations of misappropriation of company funds for personal use and underreporting his income by more than four billion yen (about US\$35 million)—understating his true earnings by half—from 2015 until 2018,

according to reports submitted to a bureau of Japan's Ministry of Finance.³ The chief prosecutor said Ghosn's wrongdoing was more serious than insider trading.⁴ Ghosn denied allegations of financial misconduct, claiming he had no intention of making false reports.⁵

A cosmopolitan background

Ghosn was born in Porto Velho, a north-western city in Brazil on March 9, 1954. He spent his early childhood in the cities of Porto Velho and Rio de Janeiro before leaving for Lebanon, his parent's homeland, at the age of six. At that age, he had already developed a keen interest in cars and was reportedly able to differentiate models by the sound of their horns.⁶

In Beirut, Lebanon, he attended the prominent Collège Notre-Dame de Jamhour, a private Jesuit Catholic secondary school, which had several notable alumni, including a number of Lebanese presidents. At 17, he moved to Paris, where he went on to graduate from two prestigious engineering schools—École Polytechnique in 1974 and the École des Mines de Paris in 1978. Both universities were top-notch French institutions famous for producing Nobel Prize winners and senior business executives of large corporations.

Born in Brazil, raised in Lebanon, and educated in France, Ghosn acknowledged that he has been different from others since young. In an interview with a U.S. newspaper, he shared, "Because you are different, you try to integrate, and that pushes you to try to understand the environment in which you find yourself. That tends to develop one's ability to listen, to observe, to compare—qualities that are very useful in managing."⁷

Having lived on four continents, North and South America, Europe, and Asia, Ghosn spoke fluent English, French, Portuguese, Spanish, and Arabic, as well as some Japanese.

Michelin France, Brazil, and North America

Ghosn started his career as a management trainee in 1978 at Michelin, the world’s second largest tyre producer, in France. He quickly rose through the ranks to head Michelin’s operations in Brazil in 1985 at the age of 30.

There, he reorganised the problem-ridden subsidiary’s finances and corporate structure. He eliminated debt by cutting unnecessary investments, reducing inventories, and selling dispensable assets. He brought separate divisions that were operating in silos to work together.

In a mere two years, Ghosn turned Michelin Brazil’s books from red to black. It was his first turnaround of several to come. By 1989, Brazil was Michelin’s most profitable division in terms of ratio of profit to total sales. Ghosn had successfully reversed the dismal fate of the ailing Brazilian company, and he was ready for more.

He then conquered his next challenge in North America by successfully overseeing Michelin’s acquisition of Uniroyal-Goodrich, the main supplier of General Motors and the fourth largest tyre company in the United States. He integrated French and American cultures, and multi-branded the two companies, once again reversing losses into profitability.

In 1996, Michelin underwent a reorganisation, whereby the company was separated by product lines rather than geographical regions. At 42, Ghosn was in charge of the division for passenger and van tyres—the most important product lines in Michelin’s business. He was the number two man in Michelin. However, he knew that reaching the summit was unlikely, as that position had always remained within the Michelin family. When a headhunter presented an opportunity for a second-in-command role with the possibility of ascension to the top executive position in the automobile industry, it was an offer he could not refuse.

Renault: The 20-billion plan

A year after Ghosn joined Renault, he launched the 20-billion plan in 1997. It had an ambitious goal to cut the company’s costs by 20 billion francs (US\$3.5 billion) in three years through slashing the production cost of every car by 10,000 francs (US\$1,700). Steep cost reduction was thus a key component of the plan and it was applied in all areas—factory manufacturing, purchasing, research and

development (R&D), information technology (IT), and administrative expenses.

Ghosn soon discovered that Renault’s corporate culture, similar to Michelin’s, was deeply entrenched in silo operations. Again, he implemented cross-functional teams, knocked down internal walls and brought people from different divisions to work together.

Another surprise for Ghosn was Renault’s focus on harmonious employer-employee relations at the expense of labour productivity and corporate profitability. The state-controlled company was under the obligation to provide employment to the French people and had a tradition of powerful worker unions. To drive employees’ awareness of the importance of productivity, Ghosn benchmarked Renault’s factories to Nissan’s plant in Sunderland, U.K., which was then the most productive plant in Europe.

Renault’s Belgium factory, which employed about 3,200 people, subsequently shut in 1997, leading to labour strikes and political protests.⁸ It was then that Ghosn was given the nickname of “*le cost killer*”.

By 1999, Renault’s finances had gradually returned to glowing health, proving again the effectiveness of Ghosn’s plan.

The Renault-Nissan alliance

In 1998, the Daimler-Chrysler cross-border merger resulting in US\$155 billion of annual sales, a presence in 34 countries, and 440,000 employees, created a shockwave in the auto industry.⁹ The merger inspired Renault’s management to seek acquisitions as well.

After a few eliminations, the final candidate came down to Nissan, which Ghosn had dealt with when he was with Michelin in North America. Nissan was desperately pursuing capital injection as it ran the risk of insolvency and was in bad financial shape after several years of deficit. In March 1999, the Renault-Nissan alliance was unveiled. Renault purchased 36.8 percent of Nissan’s shares for US\$5 billion and formed an alliance with the latter, with each retaining its original brand and corporate identity.¹⁰

Nissan’s glorious days had been during the 1970s. At a time when Europeans dominated the luxury sports car market, the made-in-Japan Datsun 240Z managed to score a triumphant success, particularly in the U.S., due to its good engine performance, attractive styling, and affordability. However, the product line was terminated in the mid-1990s as it had become too expensive to manufacture.

In its domestic market, Nissan was slightly behind Toyota, Japan’s leading car brand in the 1980s, but its sales

volume had fallen drastically to half of Toyota’s by the end of the 1990s.¹¹ For 27 consecutive years since the 1970s, Nissan’s domestic market share was in decline. By 1999, Nissan was on the brink of collapse after having incurred a loss of US\$6 billion (684 billion yen) and a debt of US\$20 billion (2.1 trillion yen).¹²

The dire situation at Nissan in 1999 left its management with little choice but to sell one-third of its stake and reluctantly hand over the ruins to a foreigner—Carlos Ghosn. In Japan, foreign top executives were rare, but Ghosn was a gem in the auto industry as he came across as a visionary leader with an impressive track record. Ghosn himself reasoned that Nissan needed someone who did not carry the baggage of the company’s history, and who had a degree of credibility that would have been difficult for someone from the inside to achieve.¹³

The Nissan revival plan

In October 1999, Ghosn announced the Nissan Revival Plan (NRP) with three bold commitments—a return to net profitability in the fiscal year 2000, a minimum operating income to sales margin of 4.5 percent by fiscal year 2002, and a reduction of net automotive debt from 1.4 trillion yen to less than 700 billion yen, also by fiscal year 2002. He then declared that he would resign if he failed to achieve these goals.¹⁴

Armed with his characteristic resolve and self-mastery, Ghosn made short shrift of the implementation of the NRP. Not only did he axe jobs, plants, and suppliers, Ghosn initiated significant structural and corporate cultural changes at Nissan. He broke away with a slew of Japanese corporate traditions by doing away with promotions based

on seniority and age, turning lifetime employment into a desired objective from a guarantee, and taking down Nissan’s *keiretsu* system—a sophisticated web of parts suppliers that had cross-holdings in Nissan. He was consequently nicknamed “*keiretsu* killer” and further earned the wrath of many after tearing away former affiliates from Nissan’s supply chain. Ghosn then switched Nissan’s official language from Japanese to English, and brought in European and North American executives to take part for the first time in important global strategy sessions.

In just two years, his targets were not only fully met, they were surpassed. Nissan’s operating profit for 2001 was US\$3,678 million (489.2 billion yen), 68.5 percent higher than that for the preceding year, and the highest in the company’s history. Its operating margin was at a record high of 7.9 percent, far exceeding the initial goal.¹⁵



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The Renault-Nissan-Mitsubishi alliance

In 2016, Mitsubishi Motors Corporation joined the Renault-Nissan alliance. Mitsubishi was struggling financially after admitting to the falsification of fuel efficiency data.¹⁶ Two of Nissan’s minicar models were manufactured by Mitsubishi at that time, and Nissan was implicated in the scandal that was estimated to cost both companies US\$2.5 billion (270 billion yen).¹⁷ Nissan eventually acquired a 34-percent stake in the struggling car maker and entered into a three-way alliance.

Ghosn was appointed as chair of the alliance’s board to oversee the restoration of Mitsubishi’s reputation. In 2017, Ghosn stepped down as CEO of Nissan, but retained his chairmanship, in order to focus his work on turning around Mitsubishi and the alliance as a whole.

Since 2015, there had been speculation on the potential merger of Renault and Nissan, but towards the end of 2018, talks between the French and Japanese had stalled.

Celebrity status

Ghosn is the first person in the world to run two Fortune 500 companies at the same time. In 2002, the year that made Nissan proud and Ghosn famous, he was awarded the Japanese Prime Minister’s commendation for business reformer, as well as Asia Businessman of the Year by *Fortune* magazine.^{18,19} In 2004, he was honoured with the Japan Medal with Blue Ribbon by Japanese Emperor Akihito in recognition of his outstanding achievements. In the same year, he was admitted into the Automotive Hall of Fame as the industry leader of the year.²⁰ In 2006, he was bestowed with an honorary knighthood from the U.K. for his contribution towards strengthening ties between Britain and Japan. Ghosn continued to bag global awards for another decade.

Inspired by Ghosn’s success story, the Japanese published a *manga* (comic) book about his life story and restaurants sold *bento* (lunch boxes) with *sushi* (raw fish slices) arranged to resemble his face. The culturally insulated Japanese had not only come to accept the *gaijin* (foreigner), they adored the charismatic corporate superhero to the extent that his legion of fans turned into a cult.

In a culture that places high value on discretion and humility, did Ghosn get his comeuppance when he committed the unforgiveable sin of nurturing hero worship and taking credit for his success?

What went wrong?

Until his arrest, Ghosn ruled an automotive alliance comprising Nissan, Renault, and Mitsubishi. Did he have too much power as a single person at the apex of the three companies? Had he been too greedy to claim CEO-level pay from all three companies? Would his remuneration have been an issue if there had been no allegations about his personal abuse of funds?

Ghosn had been planning a Nissan-Renault merger before his arrest in Tokyo, a deal that the Japanese carmaker’s board opposed and was hatching ways to thwart. Ghosn had hinted to other executives that, after shifting to the new structure, he intended to install himself atop the new entity.²¹ Was the scandal and his arrest a “palace coup” to stall the merger?

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His hard-nosed leadership and management styles did not sit well with the Japanese who preferred non-confrontational methods of communication. Much to the chagrin of his sceptics and enemies, he succeeded beyond expectations. Being a *gaijin*, Ghosn was not culturally confined by Japanese practices and was therefore able to carry out antagonistic reforms, something that a Japanese could not do. He was condemned for substituting a meritocratic model for the traditional system of prizing seniority, such that excellent performance would be recognised through hefty bonuses. Given his higher remuneration vis-à-vis that of other Japanese corporate bosses, Ghosn stood out. However, his successful cost-cutting measures helped turn Nissan’s finances around and made him famous.²² Since modesty is expected of the powerful in Japan, could Ghosn’s autocratic leadership style and flamboyant living have led to his eventual downfall?

In many a classical Greek tragedy, the term *hamartia* is used to denote a deadly weakness of the protagonist that eventually causes his or her undoing.²³ Among the various weaknesses such characters tend to have, one of the most common is hubris. Was Ghosn a victim of inordinate hubris?

We will never know where Carlos Ghosn went wrong. It may not have been one factor that veered him onto the road to ruin but a combination of factors. Will the resourceful auto king recover his reputation and reinstate his status in the business world? We shall have to wait and see.

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