

LUND UNIVERSITY • CENTRE FOR EAST AND SOUTH-EAST ASIAN STUDIES

# Has the traditional Japanese management system transformed after the bubble burst in the 1990's?

Case study: Nissan Motors

Author: Joona Vuori

Supervisor: Roger Greatrex

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## ABSTRACT

There has been much debate about the Japanese management system and its changes as well as continuity.

There is a consensus that the Japanese human resource management rests on three core pillars which are lifetime employment, seniority based salaries/promotions and unions. The purpose of this study was to investigate if these three core pillars have transformed after the 1990's when the economic bubble burst in Japan and find out how Nissan Motors has changed them during the same time period. My hypothesis was that they have debilitated and thus the Japanese management system has altered. I have used Nissan Motors as a case study to investigate in real life context how a traditional and respected Japanese company has dealt with the core pillars in the process of changing its business strategy. To identify the possible changes I have applied Kurt Lewin's 3-step model of change.

The results of my research show that a change has indeed taken place in the Japanese management system and the three core pillars have transformed, but not so much as suggested in the consulted literature. My case study, Nissan Motors, supports this conclusion, since they have modified the pillars as well.

Key words: Japan; Japanese management system; Three core pillars; Kurt Lewin's 3-step model of change; Nissan Motors

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## 1 INTRODUCTION

For a long time, Japan has been one of the biggest economies in the world and these days it is number three right after the U.S. and China respectively (Bergmann 2014). However, due to rapid globalization during the last few decades, major Japanese companies have faced a more competitive business environment and especially the rapid economic development of China has put them in a new situation with new challenges.

During the booming years of the 1970s and 1980s, the Japanese management system was seen as one of the most important factors behind Japan's success (Firkola 2006, p. 115) and a very competitive alternative to the Western, basically US model of management (Haak & Pudelko 2005, p. 21). The Human resource management practices used by large Japanese companies raised interest in foreign countries among scholars and business persons and had a great impact on business practices at that time. These practices were under large-scale studies both domestically and internationally, and there were even discussions of the "*Japanization*" in Western industries (Aoki, Delbridge & Endo 2012, p. 2551). However, at the beginning of the 1990s Japan went into recession which was followed by the so-called "*lost decade*" (Ibid.), and this led to a situation where this earlier admired management system was considered a major problem, at least outside Japan (Firkola 2006, p. 115). It is widely argued that the Japanese management system is changing and moving more and more towards the Western style of management and this has been regarded as the only way how Japanese businesses can compete globally and succeed in the future (Pudelko 2010, p. 158). In this thesis the Japanese management system refers to the Japanese human resources management (HRM) and its three core pillars of the personnel management practices which are or used to be shared by Japanese companies and differ from those of companies outside Japan. It is clear that personnel management is just one aspect of companies' management systems, but it gives a good picture of business culture and history in a specific country as well (Firkola 2006, p. 115). Furthermore, characteristically personnel management plays an essential role in the Japanese business model and the human resources department has had an important role in traditional Japanese companies (Haak & Pudelko 2005, p. 184).

The management practices among large Japanese companies were called "*Japanese model*" or "*best practice*", for example (Aoki, Delbridge & Endo 2012, p. 2551). Especially the three employment-related practices were seen as key factors in the success of the Japanese management system (Ibid.). These core pillars in the Japanese management system are **life-time employment** (Shūshin koyō),

**seniority-based salaries/promotions** (Nenkō joretsu) and the **Unions** (Kigyō kumiai) (Haak & Pudenko 2005, pp. 24-25).

In this thesis I will focus on how the Japanese management system and especially the three core pillars mentioned above have transformed from the time when the bubble burst around the 1990s, which makes the time-frame of this thesis slightly longer than 20 years.

### **1.1 The origin of Japanese management**

Theories on the origin of the Japanese management system vary. However, the first of the two main theories stands for the argument that history and culture do not play a significant role when it comes to contemporary Japanese management system and most of its characteristics were developed during the last sixty years and especially after the second World War when management practices from the U.S. were adopted and modified by some Japanese businesses. Another theory emphasizes the importance of culture and history. This theory affirms that current management practices are an amalgamation of the values and traditions of pre-modern Japan. Both theories have their supporters and compelling arguments, but most likely the truth lies somewhere between these two. It has also been suggested that rice farming villages in historical Japan represent possible roots for many important characteristics in the Japanese management system (Firkola 2006, p. 116).

Business historian Kunio Odaka argues that history and culture play an essential role when it comes to the development of the traditional Japanese management system. Odaka's theory states that the current values and practices come from pre-modern Japan. It has been suggested that business practices have connections with Confucianism, Bushido, Buddhism and old farming villages (Odaka 1993, p. 20). Many business historians believe that farming villages in the Edo period from 1602 until 1860 created the values and behavior which are still common in today's Japanese companies. Such features as lifelong participation and status based on age were also main characteristics of farming villages. It is worth noticing that these values are very similar to the three core pillars of the traditional Japanese management system (Ibid.).

### 1.1.1 Lifelong membership

Most people who lived in a village were born there and worked in the village for their whole life as well. This meant that the prosperity of the villagers was tightly bound together and in this living environment villagers wanted to commit their life to the village (Odaka 1993, p. 22). This can be seen as one possible root for lifetime employment in the Japanese management system.

### 1.1.2 Seniority-based roles

In pre-modern rice villages, experience and age were the most important factors in determining one's status. From a very early age on, village members grew up under strict discipline so that they could reach the goal of becoming respectful and qualified community leaders. Individuality, personality, ambitions and such similar values did not play a role. These characteristics were seen as a risk towards the community's well-being. In the beginning, young people started as helpers, and when they got older and had gained more experience, they were placed in charge of more difficult and responsible tasks. Village leaders were old men who took care of decision-making in the village as well (Ibid.). This reminds one a lot of later seniority based salaries/promotions in the Japanese management system.

### 1.1.3 Collectiveness

One of the most important duties was to be selfless towards the community. This meant that the well-being of the village was prioritized before individuals' well-being. It is probable that there were people whose personal success and happiness were put before those of the village, but these desires were put down for the sake of the village's peaceful and prosperous continuity. It was crucial to keep harmony and avert conflicts among villagers (Ibid.). Similar collective behavior is still highly respected in Japan and important in union relations, for instance (Firkola 2006, p. 117).

These main characteristics of historical Japanese rice villages are very similar to the three core pillars of the traditional Japanese management system: lifetime-employment, seniority based salary/promotions and the unions.

## **1.2 Why study the management system in Japan**

I have worked in recruiting industry both in Finland and in Japan and in my mind major Japanese businesses do not differ from Western businesses as much as I thought as far as their employment practices are concerned. This experience raised doubts as to the uniqueness of Japanese companies and their management system these days and the consequent question of there being a possibility for Japanese companies moving towards the Western style management due to increased global competition? After reading academic articles on the issue, I concluded that I was on the right track about this change and decided to delve more into it in this thesis.

## **1.3 Aim of the thesis**

The aim of this thesis is to investigate whether or not the mentioned three core pillars have transformed after the 1990's and if so, how? By taking one major Japanese business, in this case Nissan Motors as a case study I try to find out if this company has moved away from the Japanese management system and if there have been significant changes in these three core pillars.

## **1.4 Research questions**

The research questions of this thesis are:

*-Have the core pillars of the Japanese management system transformed after the 1990s?*

*-How has Nissan Motors, my case study company, changed the three core pillars after the bubble burst in the 1990s?*

## **1.5 Contribution to the research field**

Much divided opinions have been put forth in reference to the changing Japanese management system and in many cases it has been a yes or no conclusion. Some researchers have concluded that the traditional Japanese management system is dead while others argue that not so much has been changed. Pudielko and Mendenhall state that: *“Japanese companies increasingly reinforce*

*individual performance as a key criterion for promotion and compensation, reducing the focus on seniority” (Pudelko & Mendenhall 2007, p. 278) and they also argue: “[...] most companies appear to be moving gradually away from lifetime employment” (Ibid.). While for instance Saito and Vuszkun find that: “[...] our general conclusion is that as long as the demand-supply law is supporting the existence of LTE, it will certainly remain in practice” (Saito & Vuszkun 2010, p. 22).*

I believe the most convenient and practical way to study the proposed change in the Japanese management system is to investigate whether those three, well-known core pillars are still present in big Japanese companies. They have been the cornerstone of the traditional Japanese management system for decades, thus if I am able to find out that they are not implemented to the extent they used to be, it means that the Japanese management system has indeed undergone a change in this respect.

I also argue that the research questions as formulated above support the aim of this research, which is to study the changing Japanese management system from the time of the economic crisis in the 1990s.

## **1.6 Disposition**

The first chapter makes the reader familiar with the background of the thesis and the topic, it also explains why this specific topic was chosen. It covers the aim of the thesis and research questions as well. The second chapter is about the methods as well as the materials used in the thesis, not forgetting the research design, metatheories, the thesis' validity and reliability, ethical considerations, demarcations and operationalization of the methodology. The third chapter consists of the literature review. The fourth part deals with the theoretical framework and the fifth chapter introduces the traditional Japanese management system and its recent trends. Chapter six introduces the case study, viz. Nissan Motors, whereas the seventh focuses on the analysis and at the end of the thesis, in the conclusion, the essential arguments and findings are summarized.

## **2 METHODOLOGY**

Since the thesis focuses on written material, and is not statistically oriented, as I have not conducted any statistical tests, the qualitative option was chosen instead of adopting a quantitative point of view. Neuman states that there are two ways to collect data, quantitative and qualitative. The former refers to concentrating on numerical data, while the latter focuses on gathering information in a form of words or pictures (Neuman 1997, p. 30). The aim of the thesis is to investigate, concentrating on the three core pillars, whether or not the Japanese management system has moved away from its traditional form it used to be famous for. I believe my choosing qualitative approach is justified and also gives me an opportunity to analyze my topic from a wider cultural perspective, which, in my opinion, is needed. However, I also understand that personal experience and understanding of the Japanese management system may shape the interpretation of the data that I have had at my disposition.

### **2.1 Metatheoretical choices**

In this thesis, I will follow the constructivist approach. Constructivism is based on ontology and it means that knowledge will be shaped socially among people and is continuously in a state of revision. Constructivism challenges the idea that an organization or a culture, for example, is pre-defined. This means that what the researcher presents, is his or her personal interpretation of the social reality and not definitive as a universal truth (Bryman 2004, p. 17).

The research problem can also be approached from another angle, namely within the framework of symbolic interactionism (Anderson & Taylor 2009, pp. 20-21), that is, not in terms of the researcher's personal interpretation as maintained in constructivism in the previous paragraph, but in terms of how people interpret objects, events and behavior in society. Thus it is subjective meanings that count because the symbolic interaction perspective holds that people's behavior is based on what they believe and not on what can objectively be construed as truth; society is socially constructed through shared human interpretation. If a change is called for, it is the definition of the situation, i.e. the socially shared set of behaviors in a given case, which ought to be altered (Ibid.). In other words, the traditional Japanese management system can consequently be construed as a socially shared set of behaviors which by the relevant participants in this subsection of the Japanese culture is believed to constitute the correct behavioral code. If I, in my second research question,

argue that there has been a change in the three core pillars at Nissan Motors, in other words, the situation has been successfully redefined in this respect, it remains my duty as a researcher to verify the change, to make it explicit, which in turn necessitates the application of an explanatorily adequate model of change to the phenomenon in question. Such a model is suggested and introduced in chapter 4.

Becker (1982) proposed that *"People create culture continuously .... No set of cultural understandings ... provides a perfectly applicable solution to any problem people have to solve in the course of their day, and they therefore must remake these solutions, adapt their understandings to the new situation in the light of what is different about it"* (Bryman 2004, p. 17). Since all human achievements can be considered variable expressions of human culture, automobile factories can naturally also be regarded as organizational cultural artefacts rather than totally different phenomena standing aloof from the concept of culture.

## **2.2 Research design**

The case study on Nissan Motors in this thesis can be called *intrinsic case study* (Stake 1995, p. 3), which implies that I will concentrate exclusively on Nissan Motors and its core pillars.

Case studies are rather common in qualitative research and their purpose is to investigate a specific social object, for example individuals, groups or societies (Pitkäranta 2010, p. 23). According to Flyvbjerg: *"[...]the case study is a necessary and sufficient method for certain important research tasks in the social sciences, and it is a method that holds up well when compared to other methods in the gamut of social research methodology"* (Flyvbjerg 2006, p. 241).

## **2.3 Written materials**

In this thesis I have used written material as a source for data: official documents provided by the state, official documents provided by private companies, documents produced by mass media and books as well as academic articles related to the topic at hand. These have helped me understand the changing Japanese management system and also what happened at Nissan Motors. No interviews were set up nor were questionnaires sent. Thus the thesis is based on secondary sources.

## **2.4 Demarcations**

The author has a limited knowledge of the Japanese language especially with reference to academic texts, thus all the material that have been used in this thesis have been written either in English or in Finnish, the native language of the author. Furthermore, the thesis uses exclusively written material and one case study, thus it cannot be described as being an inclusive research on the topic. It is also clear that the core pillars investigated in the thesis are only a part of the Japanese personnel management system, and there are also several other issues which could have been included here.

## **2.5 Ethical considerations**

When thinking of the topic and the research design, this research cannot be said to be very sensitive. However, ethical issues should be considered. When it comes to ethics in social research, according to Diener and Crandall (1978), there are four main areas which the author should take into account: harm to participants, lack of informed consent, invasion of privacy and deception (Bryman 2004, p. 509). The author has carefully considered all these main areas and there are no infringements of these areas in the thesis.

## **2.6 Validity & Reliability**

The quality of qualitative research can be evaluated by validity and reliability (Bryman 2004, pp. 272-273). LeCompte and Goetz (1982) divide reliability and validity into four different areas: External reliability, internal reliability, internal validity and external validity (ibid.). External reliability means the replicability of the research, which is a rather challenging criterion when it comes to qualitative research since the social setting is changing continuously. However, it is presumed in this thesis that if sufficient information about the research methods of the original study is provided, replicability of the findings in the said study is, to a non-negligible extent, feasible. Internal reliability stands for the suggestion that if there are more members than one in a research team, they should concentrate on a mutual agreement about their observations. As the thesis is an individual study, a challenge such as this is, quite understandably, not involved. Since I have only used written material, questions of validity do not play a relevant role in the thesis. The

literature review and case studies observe a situation in a certain time setting and in a limited business environment, thus the results should be reliable under these conditions.

## **2.7 Operationalization of the methodology**

The key concept of this thesis is the traditional Japanese management system and I will scrutinize it with the aid of the following measurable variables: The core pillars of the traditional Japanese management system: Lifetime-employment, seniority based salaries/promotions and the unions, which have already been defined earlier in the study. By investigating each variable with the help of Kurt Lewin's 3-step model I will try to find whether or not they have changed over a certain period of time, starting from the 1990s, when the bubble burst, until present. If my case study does not follow a variable, in this case core pillars, which they used to follow earlier, I can conclude that a change has taken place.

## **3 LITERATURE REVIEW**

### **3.1 Japanese management system**

When it comes to Japanese management system, as mentioned, opinions are very much divided. However, several researchers have stated that the traditional core pillars of Japanese personnel management system are transforming (Firkola 2006, p. 121; Wolff 2010, p. 86; Pudelko & Mendenhall 2007, p. 278).

Peter Firkola writes in his article Japanese Management Practices Past and Present how due to many factors “[...] *Japanese companies have been forced to change their management system*” (Firkola 2006, p. 121). Companies have cut the costs, especially labor costs and they have moved many of their factories abroad, which has caused quite a few Japanese companies to re-evaluate the practices of the traditional Japanese management system: life-time employment, seniority system and enterprise unions (Firkola 2006, pp. 121-122). However, Firkola also emphasizes the importance of tailoring personnel management to fit local working culture. For example Canon, which is one of the biggest companies in the world in terms of electronic products, faced challenges in the 1990s and Fujio Mitarai was appointed president. He did not believe in seniority system, but had trust on lifetime employment (Firkola 2006, p. 126). As Mitarai puts it: “*there may be global*

*standards as far as financial management and other scientific skills are concerned, but personnel management is local. I never considered it outdated to take good care of our employees.*” (Firkola 2006, p. 127), Mitarai mixed the best practices of the Japanese management system with those of the Western management system and accordingly, the Canon case is a good example on where the management system was changed, but at the same time the traditional Japanese management system was respected, not totally removed. Firkola's conclusion is that there are Japanese companies, for example Canon, which have been able to change crucial parts of their management system while retaining some traditional management practices as well, and has succeed in taking this new direction for their management system (Firkola 2006, pp. 127-128).

According to the studies in Leon Wolff's article Lifelong Employment, Labor Law and the Lost Decade: The End of a Job for Life in Japan? (2010) Japanese management system is transforming: “[...] studies have concluded that lifetime employment is not just eroding; it is facing extinction” (Wolff 2010, p. 86). A study, which was executed in 2003 and investigated lifetime-employment practices among large Japanese companies from the 1960s until 2000, revealed that the majority of these companies kept their lifetime-employment practices until the 1990s. After this, according to the study, many companies have not been able to maintain these practices and have decreased their engagement in offering job security to their employees (Wolff 2010, p. 87). However, Wolff also introduces studies, such as Naohito Abe's and Satoshi Shimizutani's work Employment Policy and Corporate Governance – An Empirical Comparison of the Stakeholder and the Profit-maximization Model (2007), which finds out that there has been a general rise when it comes to job tenure among full-time workers until the year 2000 (Ibid.). Furthermore, a number of studies on recruiting practices among sizable Japanese companies have indicated the maintenance of life-time employment practices. For instance, a survey made by Japan Institute of Labor, realized in 1999, pointed out that 690 out of 2370 companies (33,8 percent) which have 1000 or more workers, had plans for retaining the lifetime employment practice, 1062 (44,8 percent) companies would modify it when necessary and 405 (17,1 percent) would not apply the practice anymore (Ibid.). This goes against predictions of lifetime employment being on the verge of extinction. Thus, due to the complexity of empirical evidence, Wolff describes the change by using such terms as *"intensification"* and *"flexicurity"* (Wolff, p. 91) rather than either or -conclusions (Ibid.).

Another important study in this field is Markus Pudelko's and Mark. E. Mendenhall's What Western Executives Need to Know about Current Japanese Management Practice. It is worthy of note mostly because their approach to this study was very practical. They simply decided to ask Japanese executives and managers what they thought of the evolution of the management system.

This is very understandable since these people are the key agents when it comes to changing the management system in practice. They sent questionnaires to 500 large Japanese businesses and got 68 responses, which meant the response rate of 14 percent. According to Pudelko and Mendenhall, this rate was better if compared to other, similar questionnaires which have been conducted in Japan (Pudelko & Mendenhall 2007, p. 275). The results from this questionnaire clearly showed that Japanese managers and executives themselves think that the traditional management system is in a crisis and that the Western management style, particularly the American one, was an essential source of encouragement with reference to new management practices (Pudelko & Mendenhall 2007, p. 276). In conclusion they suggest that “*The evolutionary options for the Japanese management model can be subsumed under four categories: total replacement, traditional survival, Japanized hybridization and major reform*” (Pudelko & Mendenhall 2007, p. 281). Pudelko and Mendenhall recommend Japanese companies to seek also Japanese solutions at the same time when looking encouragement from the Western management practices (Pudelko & Mendenhall 2007, p. 283).

However, as mentioned at the beginning of this chapter, there are also researchers whose opinion is reserved and who state that the traditional management style has not changed significantly. For example, when it comes to lifetime employment, e.g. Saito and Vuszkun state: “*Recent data and studies prove that LTE is still practiced in Japanese companies, but its practioners are more restricted in their numbers and career options*” (Saito & Vuszkun 2010, p. 608). Also Abe and Shimizutani's study, already discussed earlier, shows rise in job tenure until 2000 (Wolff 2010, p. 87). This mixture of empirical evidence suggests that this question cannot be answered by yes or no, and is thus a more complex issue.

### **3.2 Japanese management system in automotive industry**

Since Japanese automotive industry has been enormously successful all around the world, it is not surprising that it has been under several studies as well. The management system, especially Just-In-Time, Lean Manufacturing and Kaizen, just to name a few, have played a big and even trendy role in management studies during the last few decades.

However, this thesis focuses only on one aspect in the Japanese management system, viz. its personnel management seen through a case study related to an area of automotive industry. There are studies in this specific field as well and I would like to take up a case study by Aoki et al. (2012),

which was published in The International Journal of Human Resource Management. In their study they go through the core pillars as well and have altogether eight case studies from the Japanese automotive field for which they have collected data concerning HRM practices and developments. In their study, the case companies are anonymous, thus it is impossible to make any clear connection to specific companies.

However, although their results are rather mixed: *"The evidence from the cases presented here shows the complexity of contemporary developments with regard to Japanese HRM practice. In summary, each plant reports some continuity and change in the light of both macroeconomic and more specific corporate developments"* (Aoki, Delbridge & Endo 2012, p. 2569). Their study supports my hypothesis of a kind of a hybrid model of the Japanese management system: *"Our findings add to the evidence of continuity and change in the three pillars of Japanese employment relations. They also suggest that there is increasing differentiation in company practices even between firms operating in the same industrial sector and exposed to the same institutional environment"* (Aoki, Delbridge & Endo 2012, p. 2552). I argue this differentiation is a sign of a transforming process of the three core pillars. Each company is seeking the best management practices to suit their needs rather than following the former consensus of the Japanese management system.

Another interesting study from Japanese automotive industry overall and personnel management system is Japanese Automotive Industry's Labor-Management relations and International Competitiveness (2005) by Ishida et al., and their study included two companies as case studies, each case study consisting of three interviews respectively. The interviews were conducted at their labor union head offices, one of the topics being changes in human resources, for example.

In this study, their findings emphasize that the seniority based salaries and promotions have altered: *"Within the wage range, a zone-by-zone wage hike system is adopted to allow performance evaluation ratings to have a greater impact on wages than the length of stay in a zone"* (Ishida et al. 2005, p. 3) and they argue that *"Japan's wage and personnel management systems have gone through a storm of "performance-related" reforms"* (Ishida et al. 2005, p. 2). Furthermore, they found out that, what used to be considered a "role" in employee gradation has changed to "job performance" (Ibid.).

However, on the other hand, unions still seem to have an important role in these case studies. An example from another company states the importance of the union: *"The biggest issue between labor and management at the development sector is the reduction of working hours (or labor load).*

*The labor union regulates working hours through labor-management consultations from the viewpoint that working hours can represent working style problems” (Ishida et al. 2005, p. 6).*

### **3.3 Nissan Motors case studies**

There are several case studies on Nissan Motors, e.g. Redesigning Nissan (2003), which includes two parts (A: Carlos Ghosn Takes Charge and B: Leading Change) by Kathryn Hughes, Jean-Louis Barsoux and Jean-Francois Manzoni, all at INSEAD business school, and Japan, Nissan and the Ghosn revolution (2003) by Tim Larimer at Columbia business school. These case studies cover well the time when Carlos Ghosn took over at Nissan and the reasons why the situation was so desperate and how Ghosn changed it. Because of this change project and especially since Ghosn was a foreigner, the Nissan case has received more attention by scholars than the vicissitudes of other large car manufacturers in Japan.

In the first study, the authors cover the Ghosn and Nissan story in a chronological order and it gives a well-established review of Nissan's change and the critical years. All the way from the beginning of Ghosn's period in 1999 until the year 2002 when all the targets, which had been set up in 1999, were reached. They describe well the time of depression at Nissan and how before Renault, many bigger automotive manufactures had already decided Nissan to be a waste of money. As one insider from Chrysler described Nissan's bailing out as *"putting \$5 billion into a steel container and throwing it into the ocean"* (Hughes, Barsoux & Manzoni 2003, A, p. 1). This was due to Nissan's poor financial situation: for instance six out of the last seven years resulted in losses globally as well as domestically: 39 out of 43 car models were unprofitable and DaimlerChrysler, for example, was afraid of the lack of will for change at Nissan (Ibid.).

In the B-part, they continue to review the change year by year until 2002 when Ghosn achieved the targets. This achievement was commented, for example, by Norio Matsumura (VP and a Board member): *"His greatest performance is that he was able to restructure people's mindsets"* (Hughes, Barsoux & Manzoni 2003, B, p. 10) and by another high level Nissan leader: *"He is not Japanese, clearly. But he is not Brazilian or French either. He is a leader. If his personality reflected a strong nationality, he might not have been very successful"* (Ibid.). In their study Hughes et al. (2003), introduce discussions of doubts as to Ghosn's achievements as well. Some observers challenged Ghosn's achievement and called it *"little more than kitchen-sink accounting"* (Ibid.) and others

emphasized Ghosn presenting talent: *"These things are often in the packaging and final touches"* (Ibid.).

In his work *"Japan, Nissan and the Ghosn revolution"* (2003) Tim Larimer goes through the reasons for the need of change at Nissan, particularly the poor financial situation and the atmosphere at Nissan before Carlos Ghosn took over: *"This new CEO hadn't earned the nickname 'Le Cost Cutter' for nothing. The year before, in a breathtaking press conference, he had announced a corporate restructuring that journalists and analysts compared to Hiroshima because of the scale of destruction on the drawing board"* (Larimer 2003, p. 1). He also introduces Nissan's revival plan (NRP) clearly with numbers and discusses the new management model, touching on the three core pillars as well: *"Ghosn also made it clear that Nissan's seniority system of promotions (typical of Japanese companies) would soon be history and replaced by a merit system. The traditional respect given to age would be abandoned in favor of competency"* (Larimer 2003, p. 6). The rules were clear: *"If people didn't get it, they would have to step aside"* explained one senior executive" (Ibid.). Larimer also introduces a term *"Ghosn-ing"* and discusses if Carlos Ghosn changed notoriously inflexible Japanese business culture permanently. At the end of his article he raises a good question *"Can Japanese companies maximize their performance without changing their culture?"* (Larimer 2003, p. 8). This is a challenging question, but it seems that Nissan could, under the supervision of Ghosn, change their management culture, if not totally, at least to a non-negligible extent.

These both studies introduce Nissan's story quite well and present Ghosn as a leader with clear targets. As Larimer points out in his work, to achieve his goals, Ghosn couldn't afford to neglect the core pillars, and in this thesis I will study how he changed or modified them.

#### **4 THEORETICAL FRAMEWORK**

*"Change is the law of life. And those who look only to the past or present are certain to miss the future."* John F. Kennedy.

#### **4.1 Selection of theoretical approach**

*“Most companies have to deal with the common challenge of "change" which affects all businesses, no matter the size, age or industry”* (Burnes 2004b, p. 309). However, identifying the change process is not always so simple. This is why I have decided to use Kurt Lewin’s 3-step Model of Change - a model which has been the dominating theory of change management for decades.

Lewin has divided the change process into three different and distinct stages. By comparing these three stages to my case study I can show that all of them have taken place at Nissan Motors and the change has indeed happened.

#### **4.2 Emergent change and planned change**

There is a well agreed consensus on two kinds of organizational changes: *emergent change* and *planned change* (Akan & Medley 2008, p. 486).

Emergent change is categorized as a change which was not intended and supporters of this approach state that if an organization wishes to survive, it should be able to change itself constantly and essentially. Many scholars who support and avail themselves of this idea, base their work on such complexity theorists as Boje and Bechtold, for example (Ibid.).

The theoretical roots of planned change are essentially in the field of organizational development Kurt Lewin being referred to as its progenitor. Lewin, with his researches, created the basics for understanding organizational change (Ibid.). Thus, Lewin’s 3-step Model of Change can be categorized under planned change.

#### **4.3 Nissan Motors, a planned change**

With reference to Nissan Motors, based on the literature, one may conclude that the change which took place there belongs to the latter category and thus was indeed a planned change led by Carlos Ghosn and his group. Consequently, I have decided to use Kurt Lewin's 3-step model, a widely recognized model of planned change. There are other well-known models for organizational change of management as well, for example John P. Kotter's 8-step process for leading change (1996).

Kotter's process includes the following steps:

- Establish a sense of urgency
- Form a powerful guiding coalition
- Create a vision
- Communicate the vision
- Empower others to act on the vision
- Plan for and create short-term wins
- Consolidate improvements and produce more change
- Institutionalize new approaches

(Kotter 1996, p. 33)

However, Kotter's model is rather complex compared to Lewin's and does not, to my mind, give as clear-cut an overview with its 8-steps as to how to achieve a successful change. With Kotter's model, moreover, it can be challenging to identify all the eight stages in the case study this thesis is concerned with. Furthermore, I think having more steps in the identification process does not give any additional value to my goal of proving the existence of a concluded change. As Appelbaum et al. conclude in their article concerning Kotter's model: *"Some transformations do not require nor are able to go through certain steps. A simple example is the replacement of major software used to process operation, or the change of equipment on a manufacturing line. In these cases the changes are often irreversible, and so Steps 7 and 8 might not be as relevant. Other examples could include changes with need for a great deal of secrecy, where Steps 1 and 4 will be significantly undermined"* (Appelbaum et al. 2012, p. 775). Thus, besides being very individual-centered in its scope – individuals do not exist nor do they act in a social vacuum – Kotter's model, more than doubling the number of phases supposedly conducive to a profound change, makes, to my mind, the understanding of the process of change unnecessarily complex (Occam's razor!), which does not serve the purpose of this thesis. Lewin's model, on the other hand, in addition to its conceptual lucidity, is explicitly aware of the social context of individuals and their (re)actions (Burnes 2004a, pp. 993-994).

Also, the benefit of using Lewin's 3 step-model as a groundwork, in addition to its being the foundation model of planned change, is that this model divides change into three distinctive and conceptually clear stages. If I can show that all these three stages based on Lewin's well-known change model took place in Nissan's personnel management system, which earlier followed the traditional Japanese management style, I can prove indeed that the three core pillars have transformed at Nissan Motors. At the same time I am able to answer my second research question: *How has Nissan Motors, my case study company, changed the three core pillars after the bubble burst in the 1990s?*

#### **4.4 Kurt Lewin's 3-step Model of Change**

There are not many social scientists who have achieved the same level of praise as Kurt Lewin. Edward C. Tolman, for example, stated at the convention of the APA (American Psychological Association) in 1947: *"Freud the clinician and Lewin the experimentalist - these are the two men whose name will stand out before all others in the history of our psychological era"* (Burnes 2004b, p. 311) and even forty years later in 1988, E.Schein described Lewin as being *"the intellectual father of contemporary theories of applied behavioral science"* (Ibid).

The 3-step model was developed by him back in the 1950s, but it is still highly relevant for today's change management as well (Burnes 2004a, p. 997).

According to Lewin's 3-step Model of Change, the initial stage in the change process is to *unfreeze* the current situation. Lewin believed that equilibrium should be shaken in order for old habits to be forgotten and new ones learned (Lewin 1947, p. 34-35). Unfreezing can be reached by using three different approaches. In the beginning, the forces which take behavior away from the current situation should be emphasized. Then, the forces which restrain the change negatively and prefer the current situation should be understated. Finally, the combination of the two methods mentioned above should be found. In this unfreezing stage participants should be motivated by preparing them for change, making them see and realize the need to change, and they should also be made to take part in the process of identifying problems and creating solutions within a group (Kritsonis 2004, p. 2).

The second stage in Lewin's theory is *moving*. At this stage, it is essential to take the system to a new level (Lewin 1947, p. 34-35). In this manoeuvre the employees are convinced that status quo is

not advantageous to them and they are urged to look at the problem from a new angle, work together in the attempt to find new, applicable information, and pass the visions of the group on to dynamic, strong leaders in favor of the change (Kritsonis 2004, p. 2).

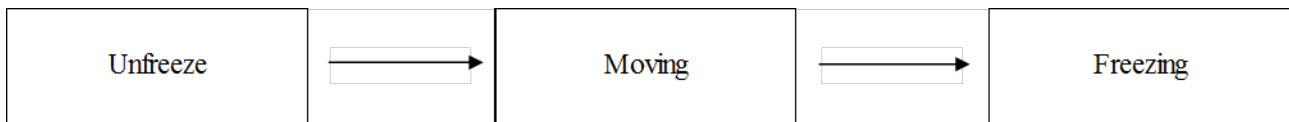


FIGURE 1. KURT LEWIN'S 3-STEP MODEL OF CHANGE. FIGURE MADE BY AUTHOR

The third and the last stage of Lewin's theory is called *freezing*. This stage takes place after the change and its objective is to sustain the change (Lewin 1947, pp. 34-35). According to Lewin's theory, it is possible that the change will not live for long if the organization skips this stage. Refreezing brings the new values and traditions into the daily life of the organization. Therefore, Lewin's model illustrates the effects of forces that either promote or inhibit change. Specifically, driving forces promote change while restraining forces oppose change. Hence, change will occur when the combined strength of one force is greater than the combined strength of the opposing set of forces (Kritsonis 2004, p. 2). FIGURE 1 above demonstrates the process of 3-step Model of Change.

Based on Kurt Lewin's 3-step model, change is also a mix of pressure of change and pressure of stability. According to Lewin's model: *"The reasons of resistance to change are: old mentalities, lack of interests, fear from something new, lack of professionalism, and changes in the power structures of the organization"* (Angel-Sveda 2012, p. 77). Many of these elements, were clearly seen at Nissan Motors and this was a one reason, which led me to avail myself of this theory in my thesis.

Kurt Lewin's planned change prevailed as a main approach to organizational change from the 1950s till the 1980s (Akan & Medley 2008, p. 487). During the past twenty years Lewin's 3-step model has faced critique especially from the supporters of complexity theories. Lewin's theory has been depicted as being *"[...] a static, simplistic and mechanistic view of organizational life"* (Burnes 2004b, p. 319). However, the way how Lewin saw an organization was not static or locked, rather he believed that *"Change and constancy are relative concepts; group life is never without change, merely differences in the amount and type of change exist"* (Sarayreh, Khudair & Barakat 2013, p.

627). He also stated: *"One should view the present situation – the status quo - as being maintained by certain conditions or forces. A culture - for instance, the food habits of a certain group at a given time - is not a static affair but a live process like a river which moves but still keeps to a recognizable form"* (Burnes 2004a, p. 992). Thus, it is evident that Lewin was aware of the limits of stability (Burnes 2004a, p. 993).

There has also been criticism which claims Lewin's model to be: *"[...] only relevant to incremental and isolated change projects and is not able to incorporate transformational change"* (Ibid.). However, this kind of criticism is based more on the speed of change compared to the strength of change and it has been pointed out that after all: *"[...] incremental change can lead to radical transformations"* (Ibid.). It should also be noted that: Lewin's conception of change is broader in its scope than that of Kotter's as it not only encompasses individuals, but also groups as well as organizations while radical, thorough change is evidenced in major structural alterations (Burnes 2004a, pp. 993-994).

However, it is important to notice that both Kurt Lewin's 3-step model and Kotter's model have some limitations because their main issue is to focus exclusively on change behavior. Changing strategy, systems or culture should be important as well. This is why it is good to remember that both these models, like all other models as well, are simplifications and thus cannot be conceived of as constituting an absolute truth (Sarayreh, Khudair & Barakat 2013, p. 628).

## **5 THE CORE PILLARS OF JAPANESE MANAGEMENT SYSTEM**

It has been said that one of the most conspicuous differences between Western management styles and the Japanese management style is that the latter has a holistic perspective. A holistic perspective in the Japanese management style means that the company itself is one unit where workers interact constantly with each other, which makes them dependent on their colleagues. This is why it is believed that a high staff turnover rate does not lead to good results (Abe 2010, p. 2). Workers' performance is strictly linked to certain criteria and if he or she does not achieve these, job transfer or even lay off are the possibilities. The Japanese view is a bit different as Fumikatsu Tokiwa puts it: *"In the progress of decomposing into components, there is a danger that their mutual interdependency and relationships, which are vital for sustaining the system, could be lost. Aggregation of individual components does not reproduce the integrated system. In an organic*

*system, what is critical is the linkage among components. Such a holistic perspective is essential in a corporate organization” (Ibid.). This holistic perspective is crucial to keep in mind when discussing about Japanese management system.*

The Japanese management system, as it is introduced in this thesis was recognized for the first time in 1958 by James Abegglen in his book "Japanese factory". Abegglen noticed long-term commitment to workers to be one of the main characteristics of the management system in Japan and he also acknowledged two other major aspects: seniority based payment/promotions and unions with rather low bargaining influence. These three main business practices came to known as the three core pillars of Japanese management system in the 1960s. Although there are also other viewpoints as to the main elements of the Japanese management system and its connotations to employees, there is a widely recognized consensus that the three core pillars were the fundamental components of the success of Japanese corporations during its economic growth period (Aoki, Delbridge & Endo 2012, p. 2553).

## **5.1 Lifetime employment**

Lifetime employment is the first core pillar of the traditional Japanese management system. If in the Western world one hears that a profit making private company should employ their staff for forty-five years until retirement, or that an employee wants to stay in the same company so long, one might be shocked.

However, the so-called lifetime employment in the Japanese context is a concept that emphasizes “commitment”, which description probably makes it clearer how it is conceptualized in Japan (Jackson & Tomioka 2004, p. 122). Nonetheless, in this thesis it is called “lifetime employment” as in academic literature. When it comes to Japanese management studies, scholars very often discuss how long lifetime employment lasts, is it dying out or has it already done so? It can be said that the exact answer cannot be given since even the term itself is rather vague. We can say that the term "lifetime employment" is not a definite concept since there is no official classification and it is not something that is written in the contract when an employee starts in a new company. (Haak & Pudenko 2005, p. 25). It is more like a (commitment as mentioned above) which allows one to work in the same company for one's whole working life. In the article written by Kazutoshi Koshiro (1984), lifetime employment is conceptualized as follows: *“Workers become employed right after their graduation from school with a particular company. The employer will not lay off his workers*

*if possible even in the course of depression. The employee in turn will not quit his job at this company but tend to continue working there until he reaches his retirement age”* (Koshiro 1984, p. 34). Thus, this concept will represent the idea of lifetime employment in the thesis.

Lifetime employment does not include all workers – often only males who work full-time at large companies and have graduated from high schools or universities, whereas women are usually hired as part-time workers and leave the company when they got married or have their first child (Firkola 2006, p. 118). However, according to Hiroshi Ono there are also women under lifetime employment, but the system disfavors them due their responsibility of taking care of the family (Ono 2006, p. 4).

When discussing lifetime employment, the recruiting system should be included as well since it is an essential part of it. University graduates who are studying their final year are recruited to companies as core workers. The emphasis was to hire graduates from the best universities and focus more on motivation and the personality rather than exact skills and what the candidate was studying at the university. What also differs quite a lot from the Western world is that in this recruiting system, usually, when new graduates start their career, they do not know their position or department. However, in the 1990s, Japan fell into a long recession period and this has had its effect on recruitment processes as well. Many companies did not have any other choice than cut their labor costs and they decided to hire more part-time workers and decrease the number of core workers (Firkola 2011, pp. 60-61). Workers often worked in various fields and they were transferred to various departments around Japan or sometimes even abroad every three to five years. A working cycle of this sort usually continued until the worker was 30-40 years old and these practices were seen as a form of loyalty towards employer, which made lifetime employment possible. This mutual understanding between the employees and the employer is one of the foundations of business management in Japan (Firkola 2006, p. 119).

This pattern, which supports long-term employment and a continuously increasing salary and position, helped companies to hire workers who were very productive and who did not leave the company before retirement: *“The normative pattern that anticipates long-term employment and steadily rising pay and status, enables companies to attract the employees, ex ante, appear to be the most highly qualified and to ensure that most of the who do actually prove to be highly productive will not voluntarily resign until they reach retirement age”* (Debroux 2003, p. 40). The money that companies invest in the recruiting process and especially in training is seen to be wasted if a high staff turnover rate occurs. The knowledge and skills that workers acquire in the Japanese management system is also very company-specific for both blue-collar workers as well as white-

collar workers, and this leads to a situation where changing companies is rather difficult even if one would like to (Debroux 2003, pp. 40-41). According to Jackson and Tomioka, the lifetime employment tradition is not only a long term business strategy in Japan, but it also helps the government to avoid mass unemployment which leads to social instability. This is based on an assumption of lifetime employment being a privilege of full time employees at big private and public sector companies and organizations which have close connections with the government and the capability to commit to lifetime employment (Jackson & Tomioka 2004, p. 122).

### Recent trends

There have been much debate about the disappearing lifetime employment in the media and academic literature probably due to extensive restructure programs among big and traditional Japanese companies: Sony cut 17,000 jobs and Hitachi 20,000 jobs just to name a few (Firkola 2006, p. 122). However, in reality many companies have actually at least tried to maintain this practice as much as possible and still believe in its merits. According to Pudelko and Mendenhall's questionnaire, although many traditional Japanese companies, Toyota and Canon for example, are try to maintain, more or less, lifetime employment, *"[...] most companies appear to be moving gradually away from lifetime employment. Yet, even those companies abandoning lifelong employment are still keeping some form of long-term employment practices"* (Pudelko & Mendenhall, p. 278). It seems that there is a trend to believe and maintain this pillar when it is possible, but in many cases the changed business environment has forced many companies to at least modify this pillar to long-term oriented rather than lifetime employment as it used to be understood.

### **5.2. Seniority based salaries/promotions**

When it comes to human resource management in the Western world, one of the most important aspects is the link between performance and earnings. This incentive should motivate the employees more since they can really influence their salary. The main focus is on pay and promotion. In the Western world the seniority system has been seen as an outdated personnel management practice (Pudelko 2010, p. 157).

However, in Japan seniority based salaries/promotions is the second of the three main pillars of the Japanese management system (Conrad 2009, p. 1). It has been said that this system was extended to apply to production workers as well (earlier only managerial staff) in the 1920s (Debroux 2003, p. 44). It stands for the idea that salaries and promotions are mainly based on the working experience in the specific company or the age of the person instead of expertise or performance. The annual salary is often related to the years spent in the company or age, and sometimes even to quite trivial aspects such as marital status or the number of children (Haak & Pudelko 2005, p. 26). One idea behind this kind system was also to guarantee a stable income for workers since one probably needs more money when one has family (senior) rather than when one is young and without family (junior) (Debroux 2003, p. 44). In addition to the annual salary, an employee gets a bonus as well, and this is given twice a year. The amount of the bonus depends on many factors such as the financial situation of the company, what position an employee has and his/her merits. The promotions are usually determined by the level of education and the age of an employee (Haak & Pudelko 2005, p. 26).

One essential point to notice is that very few Japanese companies recognize past working experience from other companies when one starts at a new company. Thus, although an employee could have a long and impressive working history, but if he/she changes companies, the salary can be equal to a junior position salary. This is why very few people want to change jobs. On the job - training is an essential part of the seniority system, since it basically meant learning from senior employees. New graduates started by watching other people and then they did their job under a senior supervisor until they could manage their work tasks by themselves. This has led to a situation where new employees are very dependent on senior workers. Seniors also ought to share their knowledge with younger workers without fearing that young people should overcome them. It has been said that fast and high salary increases to young high performers lead to a situation where they earn more money when compared to company seniors and this will make them superior. This would cause problems to the company's harmony and thus it is better to avoid it (Pudelko 2010, p. 158). However, even if there were no differences in wage or promotions at the beginning of, for example, a recent graduate's career, the most talented workers usually got the best supervisors or they were transferred to the headquarters to make an important connection for the future (Firkola 2006, p. 119). Talents were usually spotted during the job rotation when company tried to find the best option to each fresh graduate's needs (Rudy & Fratricova 2010, p. 26).

## Recent trends

Among the three core pillars, seniority based salaries/promotions seems to be under a clearest change of these three. According to Firkola, surveys reveal that a majority of companies are moving towards performance based merit system and pay less attention to seniority although there have been some challenges in implementing the merit based system (Firkola 2006, p. 124). In Pudelko's and Mendenhall's questionnaire, putting less emphasis on seniority was the most repeatedly given issue. Also big and well-known Japanese companies, which are considered traditional, like Hitachi, Canon and Toyota to name a few, are all moving away from the seniority system (Pudelko & Mendenhall 2007, p. 278). Based on literature and recent trends it seems that this pillar will not only be modified, but rather replaced by performance based salaries/promotions.

## 5.3 The Unions

The third member of the core pillars, company unions have traditionally received less attention in the literature than lifetime employment and seniority system. However, they have an important role as far as workers' rights are concerned. According to Benson in his article *The Development and Structure of Japanese Enterprise Unions*, the unions have roots in the Meiji Restoration of 1868 when masses of feudal workers were transformed to wage laborers, which led to a lack of skilled workers in some fields (Benson 2008). This difficult situation inspired to start trade unions to improve workers' rights, wages and conditions. After World War II, when Japan was under US occupation and due to the new constitution, the number of trade unions increased fast. Most companies have only one union representing the workers and this applies to 95% of the unions. In this type of structure where unions were related to one company, it was natural that these unions mainly existed in large companies and government-related organizations. The main target of these company-related unions was to secure jobs and negotiate annual salaries; the usual goals for labor unions (Ibid.).

Every union is strictly related to its company and represents the workers of that specific company (Haak & Pudelko 2005, p. 25). In a nutshell, when one joins a company, at the same time one joins a union as well and remains a member until one leaves the company or gets a manager position. This means that even the CEOs of the largest Japanese companies have been union members earlier as well. It has been stated that the membership in the union can increase the feeling of loyalty and common experience, it does not matter whether you are very low or very high in the company

hierarchy (Haak & Pudenko 2005, p. 26). The membership of unions is usually restricted to full-time workers, but recently there have been instances of part-time workers being also allowed to join, and in many cases these have been women. However, a stereotype member of an enterprise union is a full-time male worker (Benson 2008). Being a member of union is highly important since the main task of the union is usually to carry out spring wage negotiations called “Shunto”, when the union tries to negotiate a salary increase for union members (Firkola 2006, p. 120).

Unions have also constant meetings with the management on their business strategies. Japanese unions are also known to be more cooperative rather than uncooperative with the management. The union’s leaders were normal company employees who took up the union responsibility for a specific number of years, and usually after that they were given management roles. Since the company and the union have rather a close relationship, it has been criticized if this could be the best way to promote workers' interests (Ibid.).

#### Recent trends

There are studies which have shown the decline of enterprise union power in Japan and for example from 2003 on Toyota has not negotiated about salary increases with the union anymore, it is all based on workers’ performance. At Toyota, the union could not even stop this evolution although at that time Toyota was commercially the most successful company in Japan (Firkola 2006, p. 124). According to Aoki et al., the unions’ negotiation power has been somewhat decreased after the bubble burst and union membership has drastically dropped from over 30% (1970) to 18,5% (2009). However, they emphasize that there is variation in different industries with regard to unions and their power. For example, in one company in the construction field it took around one year to assure the union about performance-related salary system (Aoki, Delbridge & Endo 2012, p. 2560).

It seems that in the third core pillar variation among industries is noticeable and I argue this will increase in the future. According to various studies the pillar itself has indeed somewhat weakened, but it is not as easy to find a clear trend as it was with the second core pillars. Thus, this pillar could be called “modified” as lifetime employment as well.

## 5.4 Central questions in this field

The central questions in this field of Japanese management are mainly the following: *Does the traditional Japanese management system still exist? And do big Japanese businesses use these core pillars anymore?* The literature review reveals the complexity of the development regarding the Japanese management system. On one hand, there is evidence for its continuity to some extent (Aoki, Delbridge & Endo 2012, p. 2569) and on the other hand, there are some very clear cases away from the system (Wolff 2010, p. 86). Thus, the most likely result will be a model which lies somewhere between the Western management system (particularly American) and Japanese management system. Nonetheless, many management practices which come from the U.S. do not fit well in the Japanese culture and its values, which may sometimes create frustration among workers in Japan (Pudelko & Mendenhall 2007, p. 283). As one Japanese respondent from the executive search firm in Pudelko and Mendenhall's questionnaire (2007) puts it: *"The American model is too drastic, too controversial for us. We Japanese prefer more a middle-of-the-road system. But I am confident. We Japanese are good in adapting foreign ideas to our context and thus in creating hybrids"* (Ibid.).

## 6 CASE STUDY: NISSAN MOTORS & CARLOS GHOSN

*"Changes are an inevitable part of the current market. The current rate of technological advancement and growing global competition lets us foresee a continuing need for change in the future"* (Appelbaum et al. 2012, p. 764).

In this thesis, I have decided to use Nissan Motors as a case study. This is because the change which took place at Nissan happened at the end of the 1990s when critique towards the traditional Japanese management model was very strong and Nissan decided to take an alternative path under the new CEO Carlos Ghosn. Nissan is also one of the biggest and most traditional Japanese companies and was one of the most notable practitioners of the Japanese management system. Before 1999 Nissan had always followed the traditional Japanese business system. This system was a part of the keiretsu system in which companies closely rely on Japanese banks for their funding and the suppliers were Japanese companies as well (Bensley 2010, p. 51). The term keiretsu has two different meanings: horizontal keiretsu and vertical keiretsu. Horizontal keiretsu refers to a group of conglomerates from various industries connected by shareholding, financing and management by high level decision makers. Vertical keiretsu refers to a group of companies that are highly

dependent on a big manufacturer and which create a network of suppliers focusing on the manufacture (Grabowiecki 2006, p. 4). Nissan could be categorized as representing the latter structure.

Nissan Motors was established in 1933 and initially they manufactured airplanes, vehicles and engines for military use in Japan. However, even though Nissan is an independent business these days, during the war it was so-called Zaibatsu Nissan, which afterwards turned into keiretsu networks. Clearly, Nissan was a member of a stereotypical Japanese business network. Nissan's problems started in the 1980s when it committed some mistakes in Japan as well as the U.S. One of them was Nissan's decision to take the Datsun brand off the market and start selling cars under the Nissan brand, which was not given a warm welcome by consumers in the U.S. Things continued to get worse when Nissan, which had gained its reputation through its iconic styling, decided to announce a set of unexciting and lukewarm sedans, which failed to convince U.S. consumers. Such other Japanese car manufacturers as Honda and Toyota took full advantage of the situation. Toyota with its reputation of good quality and Honda with its reputation of relatively good quality at a low cost, took over a sizeable portion of Nissan's market share. Consequently, Nissan's sales decreased by around twenty percent during 1994-1998. Domestically Nissan was engaged in a bitter rivalry with Toyota while at the same time Japan's auto market was decreasing. In the 1990s Nissan tried to get out from the red ink by orchestrating two considerable restructuring programs. However, these actions were not successful mainly due a strong union, Japanese mentality against layoffs and overall resistance to a real change in the company. Nissan's market share of cars sold globally dropped from 6,6 percent (1991) to 4,9 percent (1998). The situation escalated to a point where JDB (Japan Development Bank) had to give an emergency loan of 731 million dollars to avoid bankrupt (Larimer 2003, p. 4-5). Further reasons to Nissan's problems, in addition to the ones mentioned above, were also the following:

- They owned too many plants and some of these operated at half of their capacity
- Excess of car platforms: 25, while Volkswagen, for example, had 4
- Approximately 3,000 suppliers, which was about 10 times Ford's number
- Oversized dealer network in Japan

(Hughes, Barsoux & Manzoni 2003, p. 2)

Adherence to the Japanese management system and its three core pillars, keiretsu system and constant losses led to a situation where financiers and suppliers were gradually losing their trust in Nissan. It became clear that Nissan had to do something. Thus the next leader's mission was to save the company in the next couple of years (Millikin & Fu 2005, p. 122); there wasn't any other choice but to start looking for a foreign buyer to save them. There were some Japanese car manufacturers in which foreign companies had invested, for instance Ford had a share of Mazda and General Motors owned a share of Isuzu, but these companies have always been secondary compared to Nissan and did not involve a feeling of national pride as was the case with Nissan. Finally, it was in 1999 when the French automotive business Renault acquired 37 percent of Nissan for 5,4 billion dollars (Larimer 2003, p. 5). Japanese businesses have traditionally been skeptical towards foreign investments, thus when Renault bought one of the most traditional and largest businesses, the transaction met with strong critique in Japan.

## 6.1 Carlos Ghosn

*"To be able to make changes, it is necessary to do some hard things. If you do those things, it does not mean you do not value people. In my opinion, the reverse is true. People who do not tell the truth, do not respect people. My concept of respecting people starts with telling the truth and establishing the facts of a situation."* –Carlos Ghosn (Larimer 2003, p. 6)

Carlos Ghosn is a French businessman who was born in Brazil in 1954. He has Lebanese roots and has lived in several countries including Lebanon, Brazil, and France and later on Japan. He was trained as an engineer in France and before moving to Nissan had had jobs in four different continents. At Michelin North America, he oversaw a restructuring process which also included the acquisition of Uniroyal Goodrich. After this Ghosn moved to Renault and rapidly changed Renault's fortunes to better by putting a very aggressive cost-cutting plan in action. This led to the closing of a big plant, which had 2700 jobs in Belgium and a significant decrease in the number of suppliers, thus Ghosn was dubbed with the nickname "le cost-killer" (Hughes, Barsoux & Manzoni 2003, A, p. 2).

Ghosn remembers his arrival in Japan and has reminisces about the first day as follows: *"I don't know how I should express my feeling when I took charge of the post as Nissan's CEO. Deja vu? Synchronicity? Or was it a trick of my imagination? I could not get away from the impression that I had been here before. "Here" does not mean the "place" but the "situation". Lack of profitability,*

*excessive penchant to market share, chaos, blurred responsibility. There were numerous problems. However, all these problems were familiar to me. I sat in my office and thought as follows. "What I have done so far was for me to get trained and prepared for this moment. The restructuring, reorganization, transformation of the employees' mind-set, merger of two different cultures and cross-cultural management. If I don't look at the difference in the dimension, I have done all these things"* (Kase, Sáez-Martínez & Riquelme 2005, p. 128). As the quotation above reveals, Carlos Ghosn was not in a new situation, he did have experience of all these problems and “transformation of the employees’ mind-set” was one of his assets and fits Kurt Lewin’s behaviorally focused 3-step model as well.

During this time Nissan was seriously out of cash (22 billion dollar debts) (Millikin & Fu 2005, p. 122) and could not invest in new product lines which were very much needed. In Carlos Ghosn's mind, all external reasons like recessions and market changes were not the real reasons since other Japanese car manufacturers, such as Toyota and Honda, were doing good business compared to Nissan. His conclusion was that the principal difference lay in the management system and Nissan's management had failed and had not succeeded in achieving the necessary actions to make profit again. There was no vision presented to employees what Nissan would be in the future (Ibid.).

First of all, Ghosn noticed two principal problems:

- The market share of Nissan had decreased for eight years in a row internationally, and for 28 years domestically
- Inability to make profit

After this, Ghosn introduced five main causes for these problems:

- No focus on profitability
- No focus on consumers
- No co-operation across different departments
- No knowledge of crisis among the employees
- No future vision among employees

(Kase, Sáez-Martínez & Riquelme 2005, p. 129)

In Ghosn's mind, Nissan was doing poorly because they had a weak brand image and this was mainly because of the car portfolio which, for example, included much older models than those of Nissan's competitors (Millikin & Fu 2005, p. 122). The purchasing costs of Nissan were from 15 up to 25 per cent higher than Renault's at the time. Despite Nissan's acute cash shortage, they had a significant amount of capital invested e.g. in real estate and finance, particularly among the so called keiretsu partnerships. Ghosn also realized that many of Nissan's operations were seriously disarranged. For instance, a person who was responsible for manufacturing, told Ghosn about the increase in productivity, but he did not have any idea if it improved the total cost. Purchase cost was not the manufacturing department's duty, it was the purchase department's responsibility. Ghosn realized that the whole Nissan was in a chaotic situation. Before Ghosn arrived in Japan, Nissan had tried various actions to improve their business. These actions included the following, among other things: cut overheads specifically in communications and personnel. When traveling overseas, travelling in business class was prohibited. The amount of paper that one could use and other office materials were limited and even the air conditioner had to be turned off after normal working hours. Ghosn thought that these saving methods were not correct and were only implemented to punish employees and did not help Nissan in their real problems (Kase, Sáez-Martínez & Riquelme 2005, p. 130).

In 1999, around the time of a major motor show in Tokyo, they presented the Nissan Revival Plan (NRP). The main goals of the revival plan were:

1. Be a profitable business again by April 1 2001 → 4.5 percent operating margin achieved in September 2000
2. Achieve a 4.5 percent margin in the sales by April 1 2001 → 4.75 percent operating margin achieved by March 2001
3. Decrease their net automotive debt from 14 000 billion yen → 700 billion yen. → Debt reduced by 52.3% by September 2001

(Hughes et al., p. 13)

Ghosn bet his pride and position that if he and his team could not make Nissan profitable during the financial year 2000, the whole management team would resign. Ghosn knew that achieving their goal meant sacrifices in reference to human resource management. A lot of people would lose their jobs and a considerable number would be transferred to other locations. Nissan's factories were famous for having a high productivity rate: however, this did not always mean high cost efficiency

or operational efficiency. *"Nissan's overall capacity utilization was only 50 per cent in Japan in the financial year 1999. Such a drastic capacity reduction was vital for Nissan's survival"* (Kase, Sáez-Martínez & Riquelme 2005, p. 133).

When it comes to Ghosn's success at Nissan, it is difficult to disagree with it. The three main goals of the revival plan were achieved even one year ahead of the planned schedule (see above) and Ghosn had made Nissan profitable company again. After that Nissan has prospered and has been a profitable business ever since, except the year of financial crisis in 2008. See FIGURE 2 below, which shows the operating profit margin from 2002 until 2013:

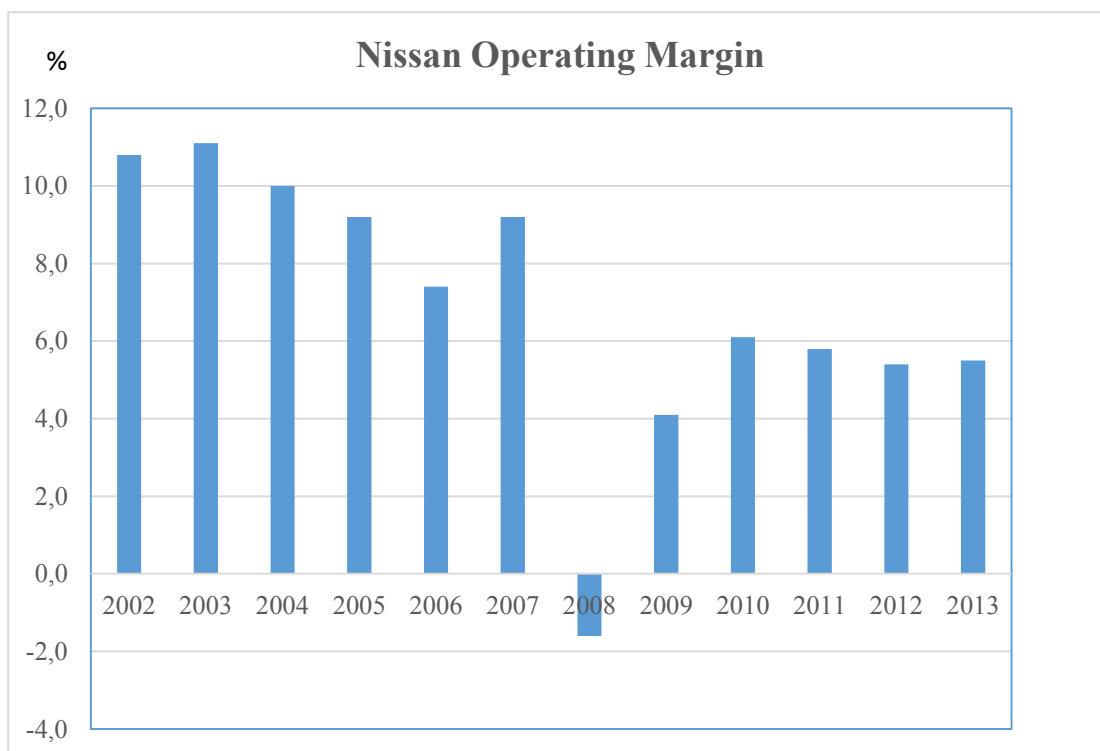


FIGURE 2. NISSAN OPERATING MARGIN. MADE BY AUTHOR BASED ON NISSAN'S ANNUAL REPORTS (Nissan Annual Reports, 2002-2013)

Furthermore, FIGURE 3 below shows the evolution of Nissan Motors stock price during the peak of the restructuring process, starting from the date when NRP was officially started. It increased from a weak 409 yen to 695 yen at the year-end 2001. This meant an impressive surge of 70 percent. What makes it an even better achievement, is the fact that Nikkei stock average was 45 percent during the same period (Hughes, Barsoux & Manzoni 2003, B, p. 10).

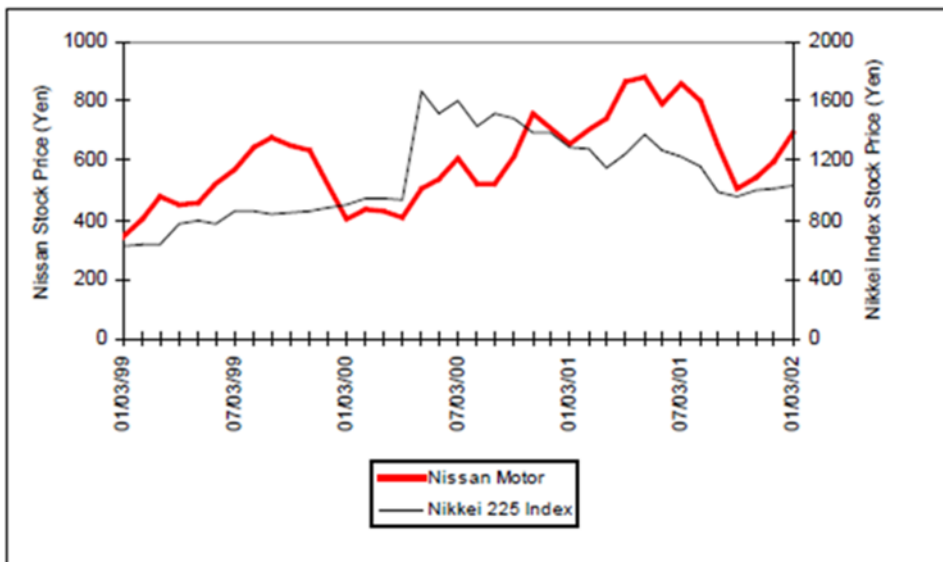


FIGURE 3. EVOLUTION OF NISSAN MOTORS STOCK PRICE. FIGURE FROM “REDESIGNING NISSAN (B): LEADING CHANGE” (Hughes et al 2003, (B), p. 15)

As mentioned earlier, Nissan was a stereotypical large business in Japan and it was considered to be prime example of a company entrenched in the traditional personnel management system. Thus, it is interesting that such a traditional Japanese company as Nissan could make so drastic a change. However, it is important to remember that when Nissan presented their revival plan in 1999, it was announced by Carlos Ghosn, a foreigner, not by the Japanese CEO, Yoshikazu Hanawa. This has been said to be symbolic for the start of changes which took place at Nissan, and it was also a necessary action to deal with toughening market conditions brought on by globalization, and especially the increased competitiveness of the United States and China, for instance. The Japanese economy had also been in an unstable condition after the bubble burst (Bensley 2010, p. 51).

## 7 ANALYSIS

Based on the written material of the three core pillars and the case study of Nissan Motors, this chapter will analyze within the framework of the chosen model of change how Nissan has altered the core pillars of the Japanese management system.

## **7.1 Lifetime employment at Nissan Motors**

Ghosn thought that the idea of lifetime employment was good and he wanted to retain it as much as possible. He agreed that the company should show loyalty towards employees in order to secure their loyalty. Although he cut around 21 000 jobs of global payroll (approximately 14 percent), much effort was made to secure as many jobs as possible. For example, when a plant was put down, many employees could be transferred to another plant and help was offered to find new jobs (Firkola 2006, p. 125). Other practices took place, too: pre-retirements and golden handshakes were offered as well. Thus, it can be said that Ghosn did not destroy the lifetime-employment system totally, he rather modified it in response to business requirements and Nissan's needs.

## **7.2 Seniority based salaries/promotions at Nissan Motors**

This aspect of the traditional management system was replaced. Ghosn strongly believed that the seniority system was not productive and could not face the challenges of the modern business world. He decided to change it radically and introduced a new system for Nissan's employees by revoking factors which were based on seniority when determining salaries and bonuses, and replacing them with a merit-based pay and promotion scheme (Kyodo News 2004).

One of the profound factors of the new system was clear goals always at the beginning of the New Year. Now, Nissan's employees had definitive targets which to achieve, this was a considerable change compared to the past (Firkola 2006, p. 125).

## **7.3 The union at Nissan Motors**

Immediately after Nissan's revival plan had been introduced, they started to negotiate with the union to win their trust on their side. Ghosn writes in his book *Shift: Inside Nissan's Historic Revival* (2004) that he had heard the union describe him with worrying words, but the meeting with them went well. Union members were worried about the company's situation as well and promised to support Ghosn's plans as long as it takes Nissan to be on a profitable road again. Ghosn describes the situation as follows: *"I was very relieved by this first meeting. The union leaders were playing their proper role. They weren't exactly obliging, but what they had to say was basically quite*

*constructive. They left me reassured and encouraged. I knew I'd have to win their trust, but I also knew they were prepared to grant it"* (Ghosn 2004, p.95), Thus, in the end, the union decided to approve the plan. It is important to emphasize the role of the union. These changes were radical in the conservative Japanese business environment and all support was needed. However, during the time when Nissan's competitors were limiting annual salary increases, Nissan chose to agree with a wage increase which the union was requiring (Firkola 2006, p. 125). Ghosn could not be said to be pro-union, but he understood the importance of winning it on his side although during the past few years the importance of the unions in some other Japanese companies has decreased. For example in 2003, a major car manufacturer, Toyota, declared that they will not negotiate about salaries with the union anymore and salary increases are based on performance (Firkola 2006, p. 124). It can be said that in Nissan's case, the role of the union was more or less respected.

#### 7.4. Outcome at Nissan Motors

How the three core pillars were changed at Nissan:

Lifetime employment	<b>Modified</b>
Seniority based salaries/promotions	<b>Replaced</b>
The union	<b>Unchanged</b>



#### HYBRID MODEL

FIGURE 4. CHANGES OF THREE CORE PILLARS AT NISSAN MOTORS. FIGURE MADE BY AUTHOR

Since lifetime employment was modified, seniority based salaries/promotions replaced and the role of the union remained unchanged, I argue this could be called some sort of hybrid model where some parts of the three more pillars were more respected while others underwent change to a variable degree. This conclusion would support my hypothesis of a changed, but not eliminated management system where some traditional aspects are mixed with new management ingredients for the best of the company, not only for the sake of change itself nor fascination for something new. The most important goal is to make the company profitable, and to attain this all that is required has to be done. This hybrid model is similar to the case of Canon, which was introduced in the literature

review, viz. tailoring the management system locally by mixing best practices from the Western model with Japanese ones. This conclusion of a hybrid model would also agree (see orange box in FIGURE 5 below) with Markus Pudelko's overview of the principal possible alternatives that the Japanese management system might have in the future. In FIGURE 5, he describes four different driving forces which could support continuity or change (Pudelko 2009, pp. 442-443) and analyzes what the outcome would be. According to Pudelko, this third scenario would mean inspiration from the foreign management model, for instance the U.S., but the framework would be provided by the Japanese context (Pudelko 2009, p.445). I argue that this would be the right category for Nissan as well.

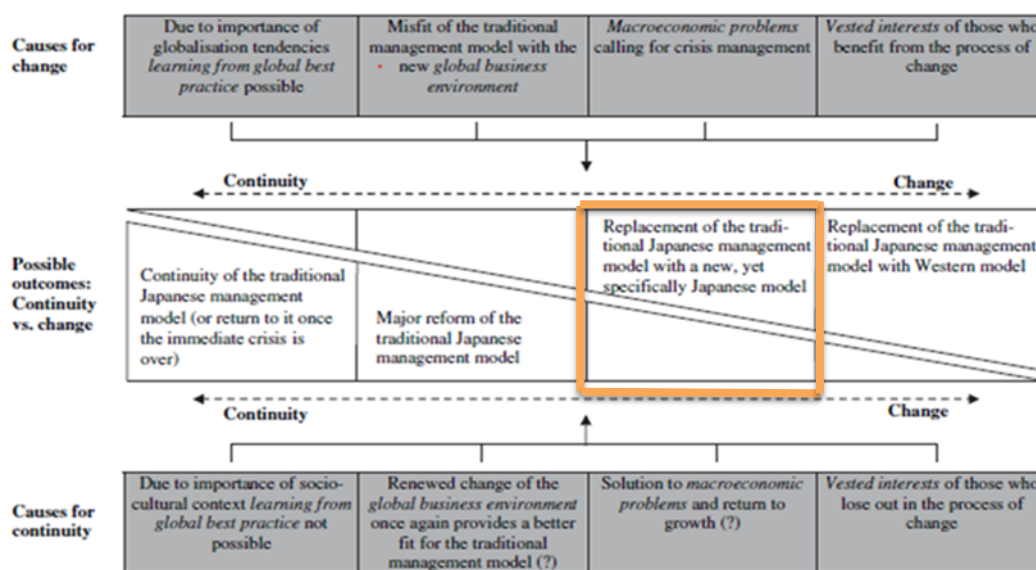


FIGURE 5. POSSIBLE OUTCOMES FOR FUTURE JAPANESE MANAGEMENT SYSTEM. BASED ON DEFINITION BY PUDELKO (Pudelko 2009, p. 442)

## 7.5 Kurt Lewin's 3-step model and Nissan Motors

Next, following Kurt Lewin's 3-step model, I will identify the three stages in the change process at Nissan Motors:

### Unfreeze

The first stage, "unfreeze", started by Carlos Ghosn was to plan how to make Nissan Motors profitable again. This planning step was crucial and Ghosn prepared it carefully as he wanted to have full control: in this case it meant that all VPs reported directly to Ghosn but he did not have to

get an approval from France for every decision. He wanted to decide on the make-up of his team by himself and chose around 20 executives who would help him in this mission. The people he chose were mainly young experts around their 40s who had an open mind and were good team players. In May 1999 Ghosn's team got together and had a three days' planning session where their goal was to get familiar with Japan, and the crucial message that Ghosn emphasized was: *"We are not going there to teach the Japanese [about] the role of women in Japanese business. We are going there to help fix Nissan, that's all. Any issue that does not contribute to that is of no concern to us"* (Hughes, Barsoux & Manzoni 2003, A, p. 3).

One of the most important phases in the planning step was to listen to workers in the company and hear their opinions. Thus Ghosn made several visits to production plants and research & development facilities; he met engineers, salesmen, managers etc. He asked simple questions about the main problems in each department, what should be done and what the specific department's contribution to Nissan was. Answers that he got from the field made him understand the practical problems of Nissan (Ibid.). I argue this stage can be translated as the first stage, "unfreeze", in Lewin's 3-Step model.

## Moving

The second stage, the action step can be interpreted as an implementation of restructuring measures at Nissan. These measures were presented in a big motor show in Tokyo on October 18, 1999.

The actions which should be taken were:

1. Cut out staff by 14 percent from 148 000 → 127 000 by 31 March 2003.
2. Reduce capacity of production by 30 per cent. This could be achieved by closing three assembly factories. Decrease the amount of platforms from 24 to 15 by 31 March 2002.
3. Decrease Nissan's purchase cost by 20 percent and the amount of supplies from 1145 → 600 by 31 March 2002.
4. Selling away shareholdings in non-core businesses.
5. Upgrade annual investment level from 210 billion yen → 310 billion yen.

(Kase, Sáez-Martínez & Riquelme 2005, p. 133)

Carlos Ghosn also presented a specific change plan to Nissan's human resource practices as well.

- Performance-oriented salary for management will take place from the year 2000.
- Stock options and bonuses will be part of new performance-oriented incentives as well.
- Career progress, based on performance, will be implemented as well.

These goals were very clear and this can be regarded as the movement stage in Lewin's model. This second stage "implementing" is a very challenging phase and as Ghosn said himself: *"Establishing the plan represents at most five percent of the challenge. Ninety-five percent of the challenge now lies in its execution"* (Hughes, Barsoux & Manzoni 2003, A, p. 9).

### Freezing

Determining the third stage is more challenging and I believe it is not crucial to decide upon a specific time for it. It was clearly understood at Nissan that the post-implementation review was seen on a day-to-day basis on the stock-market. However, March 2001 could be regarded as an important day to review the Nissan revival plan. Results were very good and the operating margin, for instance was 4,75%, which meant that it exceeded the target of the revival plan. On that day Carlos Ghosn proudly announced that *"Nissan is back!"* (Hughes, Barsoux & Manzoni 2003, B, p. 8).

As shown by the FIGURE 6 below, all the three steps of Kurt Lewin's 3-step Model of Change can be identified in the Nissan Motors case:

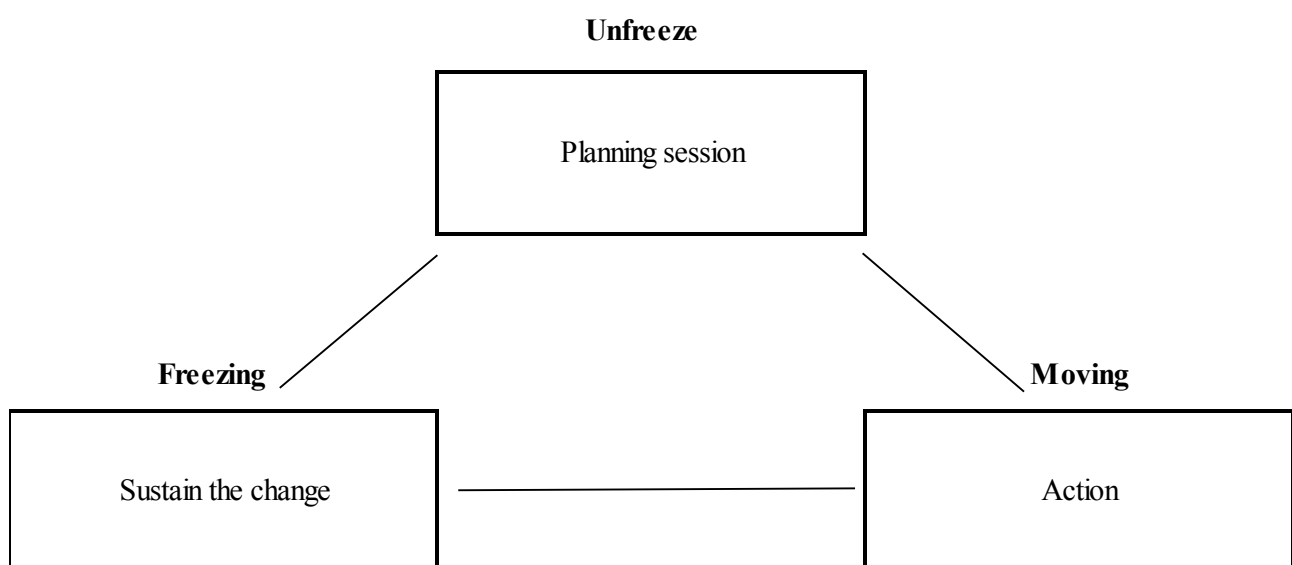


FIGURE 6. APPLICATION OF KURT LEWIN'S 3-STEP MODEL TO NISSAN CASE. FIGURE MADE BY AUTHOR

Consequently, I presume it possible to conclude that a change has indeed taken place at Nissan Motors. Via these steps, Nissan Motors can be said to have undergone a process of change and thus the traditional Japanese management system in its traditional form has not prevailed due to the changed configuration of the three core pillars.

## **8 CONCLUSION**

What can we think about the three core pillars of Japanese management system and the case study on Nissan Motors? In this thesis, based on the literature and the case study, I have proved that the Japanese management system has indeed transformed and many companies, including Nissan Motors, have replaced or modified some of the core pillars, which were known as the corner stones of the traditional Japanese management system. However, it can be stated that the change has not been as radical as suggested by some sources in the consulted literature. For example, in Nissan's case, one of the pillars was modified, one replaced and one remained pretty much unchanged, which suggests a hybrid model in which Japanese management practices and Western management practices have been combined.

Based on the literature and my case study, it seems that the most conspicuous change has taken place with the second core pillar, seniority based salaries/promotions. Companies seem to have paid specific attention to this pillar and performance based salaries and promotions have become more and more popular. At Nissan Motors, for example, the second core pillar was totally replaced. The lifetime-employment system has not been regarded as outdated as has happened with the seniority system, and quite a few companies, including Nissan Motors, believe in this pillar's benefits and have tried to respect it, but due to a changed business environment, they have been forced to modify it to some extent. With reference to the literature, the role of the unions has decreased as well, and a lot of companies, including Toyota, to take an example, do not negotiate about salaries with the unions anymore. However, at Nissan, the role of the union has been respected and it was neither altered nor replaced while other core pillars were touched. The role of the unions in the future is rather unclear and I believe that there may emerge noticeable differences among big corporations as far as the third pillar is concerned.

It seems that the contemporary management system in Japan could be labelled as a hybrid system since various large corporations have replaced or modified the core pillars, but there is variation

among companies as to which of the core pillars have changed and to what extent. I argue, due to globalization and China's rapid development, that this type of "intermediate" model will gain more and more ground among big Japanese companies in the future, as companies have to modify their management system to respond to the challenges in their specific business environment. It would be fascinating to study whether it could be possible to identify "*the new Japanese management system*" among these companies.

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