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**Financial Irregularities at Nissan:
An Empirical Analysis of Corporate Governance in Japan**

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Abstract

Financial scandals in the 21st century in Japan have shown that independent auditing firms do not always fulfill their duties. News headlines of recent years have contained increasingly frequent reports of corporate scandals. Corporate scandals include financial irregularities which are related to the accounting records, falsification of transactions, the misuse of accounting principles and others financial activities.

Reducing corporate financial irregularity is an important task, especially given its negative impacts on; production, trust within a corporation, shareholders, the quality of service provision, investment and trade, employees and finally, economies. This research describes the largest financial scandal in recent Japanese corporate history, involving the Nissan Motor Company. According to Nissan, Carlos Ghosn had been systematically under-reporting his earnings to security regulators and misusing company assets for personal benefit.

Keywords: Power, Culture, Leadership, Alliance Financial irregularities.

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I . Introduction

Financial accounting irregularity, corporate scandals and fraud, are all forms of corruption and thereby, illegal activities. These activities generally occur when a monopoly decision is made in a corporation, when there is isolation of top management, and when there are ‘communication gaps’ between colleagues. A lack of accountability and transparency (Chowdhury, 2017, 51) are also important factors related to these problems.

In the latest of Japan’s string of corporate scandals, Nissan admitted to financial accounting irregularities for the purposes of personal gain. Financial accounting irregularity is globally one of the most critical issues in the business sector and as a result, have led to serious problems and corporate governance scandals not only in Japan but worldwide. Academics and professionals have look into the reasons for the financial irregularities of many corporations, as corporate failure has led to huge economic losses, job ‘destruction’, bankruptcies, massive restructuring and other (major) problems. Corporate scandals in recent years have shown that, the relevant legislation, regulations, arrangements, social values and accounting ethics are not taken very seriously by many companies and many problems still exist (Kızıllı, *et al.* 2015, 6-31). There have been a large number of high-profile corporate scandals over many years, and in the new millennium alone, companies such as HIH Insurance (Australia, 2001), WorldCom (USA, 2001), Enron (USA, 2001), Kmart (USA, 2002), Arthur Andersen (2002), Healthsouth (USA, 2003), Freddie Mac (USA, 2003), AIG (USA, 2005), Nikko Cordial (Japan, 2006), Siemens (Germany, 2006), AIG (USA, 2008) Lehman Brothers (USA, 2008), Bernie Madoff (USA, 2008), Saytam (India, 2009), Hewlett Packard (USA, 2011), Fuji Xerox (Japan, 2017), Çiftlik Bank (Turkey, 2018), Wells Fargo (USA, 2018) and Samsung BioLogics (South Korea, 2018) have been found out.

In recent years, Japanese companies have been involved in (other) financial irregularity scandals, to name a few, Kobe Steel for falsifying product data, Takata's deadly airbags and Toshiba's damaging accounting debacles (CNN Business, Hong Kong, November 20, 2018). A new crisis in financial irregularity involving the Chief Executive Officer (CEO) of Nissan astonished the world. Nissan's Carlos Ghosn Bichara (referred to as Ghosn and commonly known in Japan as "Go-an", was at the center of it. In response to initial accusations, Nissan undertook an internal investigation with respect to financial irregularity. This paper will examine the nature and causes of Nissan's financial irregularities and also explore its impact on corporate governance in Japan.

II Nissan Automobile Industry

Historically, Nissan's strength has been in technology, and the design and innovation of new products. The Nissan Group consists of the company, subsidiaries, affiliates, and other associated companies. Its main businesses include manufacturing, vehicles sales and automotive parts production. It operates the Global Nissan Group through several regions and sells cars in more than 200 countries and regions.

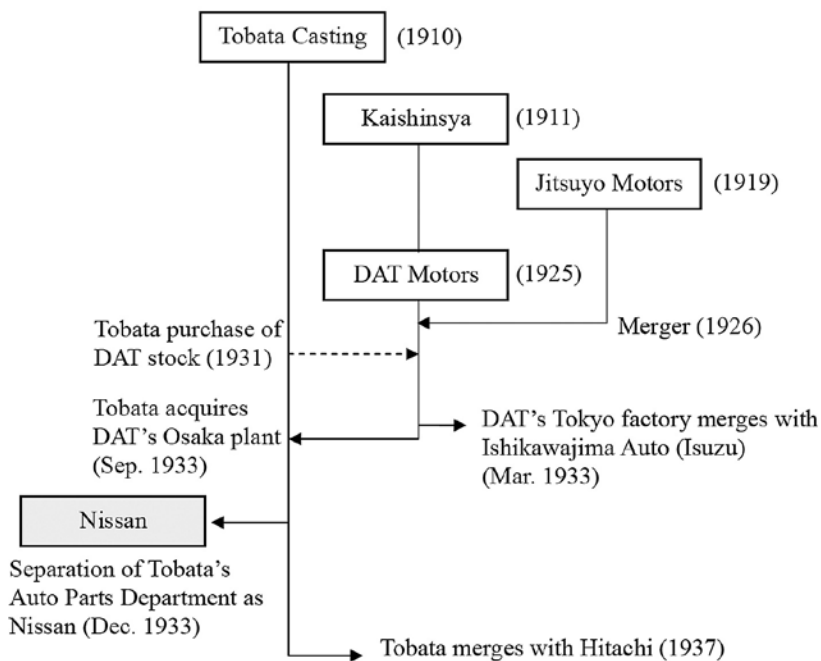
1) A Brief History of Nissan

Nissan was founded by Yoshisuke Aikawa in Yokohama, Japan in 1933 and was originally named *jidosha-seizo kabushiki-kaisha*. As shown in Figure 1, it was a combination of several earlier automotive ventures and the Datsun ⁽¹⁾

(1) The DAT name was an abbreviation of the three company partners' family names: *Den Kenjirō*, *Aoyama Rokurō* and *Takeuchi Meitarō*. In 1931, Dat Motorcar Company produced a new small car named "Datson". In 1934, Nissan took control of DAT and the name "Datson" was changed to "Datsun", because "son" also means "loss" in Japanese. <https://en.wikipedia.org/wiki/Datsun>, retrieved on February 6, 2020.

brand which it acquired from the Tobata Casting Company. The first cars were produced in 1932. Shortly thereafter in 1943, the company name was changed to Nissan Motor Company. During World War II, Nissan stopped making cars and poured its resources into the war effort. After World War II, Nissan grew steadily, expanding its operations globally (Table 1). It became especially successful in North America with a lineup of smaller gasoline efficient cars and small pickup trucks as well as a sports coupe, the Datsun 280Z. However, in the 1990s, Nissan had big financial loses for seven years from 1993 (Nissan, 2012).

Figure 1 : The Historical Background of Nissan



Source: Cusumano, 1989.

Table 1: The Historical Events of Nissan Automobile Industry

Year	Major Events
1933-1944	<p>Nissan Motor Co., Ltd. was established with invested capital of ¥10 million through the joint capital investment of Nippon Sangyo K.K. and Tobata Imono K.K.</p> <p>1934 The Company changed its name to Nissan Motor Co., Ltd.</p> <p>1944 The head office was moved to Nihonbashi, Tokyo, and the Company changed its name to Nissan Heavy Industries, Ltd.</p>
1946-1960	<p>The headquarters moved to Takaracho, Yokohama-shi.</p> <p>1950, the Korean War, the U.S. Army was need to furnish, with munitions and supplies. Japan was supplier to the U.A.</p> <p>1955, the Ministry of International Trade and Industry announced the “People’s Car” Plan, which gave <i>Japanese car manufacturers</i> an excellent opportunity to develop original models of their own.</p> <p>1960 Nissan Motor Corporation in U.S.A. was established.</p>
1961 -1980	<p>The Japanese economy leads to rapid growth in heavy industrial sectors, development of original technologies, expansion of factory capacity and the building of new production facilities; and, the expansion of international business through overseas sales and manufacturing subsidiaries.</p> <p>Nissan Mexicana, S.A. de C.V. (currently a consolidated subsidiary), a joint venture with Marubeni-Iida Co., Ltd. was established in Mexico City, Mexico. Nissan Motor Manufacturing Corporation U.S.A. was established.</p>
1981-1990	<p>The Nissan Technical Center was completed. 1981 Nissan Motor Acceptance Corporation was established.</p> <p>1982 Construction of the Aguascalientes plant of Nissan Mexicana, S.A. de C.V. was completed.</p> <p>1984 Nissan Motor Manufacturing (UK) Ltd. (currently a consolidated subsidiary) was established.</p> <p>1989 Nissan Europe N. V. was established in the Netherlands.</p> <p>1990 Former Nissan North America, Inc. was established in the United States of America.</p>
1991 -1999	<p>1994 The business in the North America region was reorganized and Nissan North America, Inc. was newly established.</p> <p>1999 The Company and Renault signed an agreement for a global alliance in automobile business.</p>

Financial Irregularities at Nissan (Chowdhury)

2000 -2010	<p>Nissan North America, Inc. merged with Nissan Motor Manufacturing Corporation U.S.A.</p> <p>2002 Renault increased its stake in the Company to 44.4%. The Company acquired an interest in Renault through Nissan Finance Co., Ltd. The Company established Renault-Nissan B.V., a management organization with Renault. Nissan Europe S.A.S. was established to reorganize business in Europe.</p> <p>2003 Nissan North America, Inc. established a new plant in Canton, Mississippi. Dongfeng Motor Co., Ltd. commenced its operations in China.</p> <p>2008 Nissan International SA began managing sales and manufacturing operations in Europe.</p> <p>2009 The Global Headquarters moved to Yokohama.</p> <p>2010 The Company entered into an agreement with Renault and Daimler AG on a strategic cooperative relationship including equity participation.</p>
2011 -present	<p>The Company established Nissan Motor Asia Pacific Co., Ltd. a regional headquarter in ASEAN.</p> <p>2011 Nissan Motor Kyushu Co., Ltd. was incorporated from the Kyushu Plant of the Company as its parent organization.</p> <p>2016 The Company entered into an agreement with Mitsubishi Motors Corporation on a strategic cooperative relationship including equity participation.</p> <p>2018 Financial Irregularity, former CEO Ghosn was fired due to misconduct of financial affairs.</p>

Source: Nissan Motor Co., Ltd.
<https://www.nissan-global.com/EN/DOCUMENT/PDF/FR/2018/fr2018.pdf>

As a result, the company found itself in a debt trap which rose to US\$19.4 billion by 1998. When the Japanese economy went into recession in the early 1990s, Nissan’s productivity and financial problems took a turn for the worse, and in 1993 it recorded its first loss since going public in 1951 (Nissan, website). The efforts of restructuring of the 1990s did not improve Nissan’s financial performance and by 1998 it had incurred losses for seven of the prior eight years.

To survive and regain sustainable growth, it was essential that Nissan had a strong, long-term partner. With this understanding, L. Schweitzer, Chairman and CEO of Renault in France, and Y. Hanawa, President and CEO of Nissan,

signed a partnership agreement in 1999. With this partnership agreement, Renault acquired a 36.8 percent equity stake in the Nissan Motor Company allowing Nissan to invest US\$5.4 billion and retain its investment grade status (Nissan, website).

2) Corporate Culture in Nissan

Conventional wisdom in Japanese corporate culture is based on cooperation, the key elements to maintaining operational efficiency and group harmony. In Japan, ‘groupism’ or the total commitment and identification to the group is a treasured cultural value. Lifetime employment is an important part of the corporate culture in Japan, and many companies (still) expect employees to stay with them until retirement. In fact, many, if not most Japanese companies hire their employees after graduation from university or high school and those employees often stay in those companies (although it is becoming less common) until retirement. In addition, it is important to mention here, that Japanese labor laws make it difficult to fire full-time employees. The economist Abegglen James C. in 2006, pointed out that a relationship of lifetime mutual reliance exists between Japanese enterprises and their employees. This relationship not only involves the aspect of economic benefits for employers and employees but also includes employees’ loyalty to an organization and the mutual sharing of responsibilities. The corporation promises to provide them with employment for life along with cheap(er) housing, health plans, pensions, education, and recreation facilities for their families in return for loyalty and commitment. Japanese operated enterprises based on the concept of “family”. *Kazokushugi* familalism, which is a basic value underlying many aspects of lifetime employment, since Meiji period (Chowdhury, 2019, 151). The hiring relationship is similar to a parent-child relationship. Such a system, it was strongly believed, would assist corporations in building and maintaining a strong sense of belonging among the workforce, increase harmonious

relationships, and reduce staff turnover.

In Japan, age, education level, and number of years of service to an organization are key factors determining how an employee moves up the career ladder. Seniority-based pay systems and slow promotion, with extensive job rotation throughout a wide range of functions. Due to a cultural tenet called *nennkou-joyoretu*, placing power in the hands of the most knowledgeable and experienced, promotions are normally based on seniority and education. Most of these management practices have become well known across the world (Chowdhury, 2019, 148-154).

In decision-making processes in Japanese companies, members in the process are made to feel that their involvement and participation in a negotiation is important. As an unintended consequence of the emphasis on conscientiousness, Japanese professionals try to avoid making mistakes at all costs, in order to protect their own/individual career growth. This can result in frequent informal meetings and coalitions (called *nemawashi*) that occur between professional departments prior to decision-making meetings. Through these informal contacts, participants try to poll the opinions of other participants beforehand in order to test which positions have the strongest support so that their position is aligned with the position most likely to be influential.

The lower level or subordinates have discussions about certain projects before submitting their ideas or conclusions to a higher level for a final decision. This process works on a basis of sufficient discussions, which lead to easy implementations. However, inefficiency is not uncommon due to excessive time spent on decision-making. Second, agreement in a negotiation has to occur before a final group decision is made. Japanese businesses management often divide their members into several groups in the process of negotiation. No one is held responsible for the overall process of negotiation. The decision requires the opinions given by all of the members. Any decision will be carried out only when all of the meeting members reach an agreement.

Companies usually make employees change departments every two years. This job rotation allows company members to gain a knowledge of the basic job functions in every part of the firm, so by the time they become top managers, they truly know the company inside-out. In addition, as mentioned above, it is not the norm to fire workers. The rotation process is also used as a method of moving employees who may not be working to capacity or causing problems.

III Ghosn's Management Style at Nissan

Nissan is one of the leading powers in the auto industry, with an alliance with Mitsubishi and Renault automobile industry in France. These three separate companies employ over 470,000 people, operate 122 plants around the world and sold 10.6 million vehicles in 2017 (Nissan Annual Report, 2019). The Nissan Company is recognized as the 6th largest automobile company in the world. However, getting trapped in Ghosn's 'financial irregularity' scandal came as a surprise to the business world. Before looking into the financial irregularities of Ghosn, it is necessary to explain his contribution at Nissan.

1) Carlos Ghosn and Nissan

In the late 1990s, Nissan was struggling. It was carrying massive debt, heavy losses, and a badly damaged brand.

Firstly, a massive debt load. To be exact the debt figure often quoted for its automotive business was about US\$21 billion or about 2.5 times equity. In 1993, the company took its first loss and two years later became the first car manufacturer to close a factory in Japan since the end of World War II. It failed to produce a profit for eight years from 1992 to 1999, had decline in market share and was near bankruptcy (Ghosn and Ries, 2005).

Secondly, heavy losses. Specific problems leading to this position included low margins, high purchasing costs and under-utilization of assets. There were

forty-three different models marketed, only four made a profit and the entry level vehicle crucial to sales volume and market share showed a negative profit margin that exceeded 15 percent (Ghosn and Ries, 2005).

Thirdly, a badly damaged brand. Nissan did not have any quantified goals, and information was based on limited data neither was there any product planning. Poor styles and design, infrequent model changes, and high manufacturing and parts costs damaged the brand name (Ghosn and Ries, 2005).

Under these circumstances there was no way of finding a partner for financial support and/or turn-around managerial expertise. Several companies including Ford and Daimler-Chrysler had looked at a possible alliance with Nissan, but were put off by its high debt and Japanese corporate culture. At the same time, Renault was looking for a partner to expand its global reach and improve its quality and productivity. Ultimately, Yoshikazu Hanawa, Nissan's president and Louis Schweitzer, Renault's chairman and CEO signed a Renault-Nissan Alliance and Equity Participation agreement in 1999. Renault took a 36.8 percent stake in Nissan for US\$5.4 billion and in March 2002 raised its stake in Nissan to 44.4 percent. After the alliance Carlos Ghosn⁽²⁾ was appointed to the post of chief operating officer (COO) at Nissan and in June 2001, was promoted to president and CEO of the company (Ghosn, 2002). Under Ghosn, another alliance with Group Renault, Nissan Motor Company and Mitsubishi Motors Corporation, the members of one of the world's leading automotive alliances was established in September 2017. Ghosn realized the above mentioned problems (of Nissan) and decided to make changes to financial reforms, structural reforms, and adopt a more diverse culture as the new corporate culture.

(1) **Financial Reforms:** Financial reforms were introduced to dismantle

(2) Carlos Ghosn, Brazilian born to a French mother and Lebanese father, spoke five languages and was a graduate of the prestigious French Ecole Polytechnique. is a successful businessman, engineer and who holds French, Brazilian and Lebanese citizenship. In 1978, he joined Michelin in France.

keiretsu ⁽³⁾ investments. Despite a widespread fear by some Japanese managers of damaging relationships with suppliers, the *keiretsu* partners recognized that Nissan as a viable customer was more important to their businesses than Nissan as an investor. At the time, Nissan had posted a net loss of about 600 billion yen and accrued more than 2 trillion yen in debt. The decision by Ghosn to dismantle *keiretsu* investments was instrumental in freeing up much needed cash for investment in other areas.

(2) **Structural Reforms:** In structural reform, Ghosn, who was known as a ruthless cost-cutter during his time at tire maker Michelin, was entrusted with the mission of rescuing Nissan from bankruptcy. Ghosn immediately tightened the firm's purse strings and launched a restructuring strategy known as the Nissan Revival Plan (NRP). The plan aimed at growth with increased profits and reduced debts. The business development portion of the plan aimed at developing new products and models, reducing the lead time, which could be achieved by reducing the product development cycle and ordering delivery periods as well as the time to start selling in new markets.

Metaphorically, according to one management philosophy, when a ship falls into a dangerous situation like sinking, a captain gives orders to unload heavy items. In the same way, Ghosn adopted a Revival Plan. Ghosn slashed the automaker's workforce by 20,000 people and closed down five plants (The Japan Times, December 10, 2019). By March 2001, Nissan logged a net profit of 300 billion yen and paid off all its debt two years later. Eventually, Nissan opened 15 more factories worldwide and doubled its workforce to 245,000. Ghosn was promoted to chief executive officer in 2001 (The Japan Times, December 10, 2019).

Despite the fact that the company was back in the black, management in the

(3) Generally, top Japanese companies are tied together through a *keiretsu* relationship: a system of cross-shareholding that was devised during the Japanese rapid economic growth of the 1950s and 1960s (Magee, 2003). Also, *keiretsu* was a kind of substitute for the *zaibatsu* system that was dissolved under MacArthur's direction (Noguchi, 2002).

functional areas of design, marketing, planning, engineering, and finance always pointed their fingers at each other for poor sales and weak financial performance. Moreover, Nissan had many senior managers titled “advisers” or “coordinators” with no operational responsibilities, who hindered and undermined the authority of line managers. Ghosn eliminated all advisory positions and put those individuals into positions with direct operational responsibility and accountability. With these modifications, Nissan managers could see their contributions and when problems occurred, they took responsibility for fixing them. After a thorough study of Nissan, Ghosn drew up the NRP. The plan was implemented with an extensive use of nine Cross Functional Teams (CFT) Table 2.

Table 2. Subjects of Nine Cross-Functional Teams

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

Source: Nakae (2005), 55.

The NRP reduced management involving employees, financial accounting, and accountants, which was misleading investors and shareholders. Nissan’s over-emphasis on profitability, coupled with its lack of regard for corporate governance and its insular organizational structure, were seen to have contributed to the repeated occurrences of financial irregularities.

Not only did the scandal before adversely affect Nissan’s business and financial performance, like on the share market, it also caused problems for customers across various industries as they scrambled to check for compromises

in the safety and performance of products manufactured by Nissan.

Having said this, Nissan made tremendous strides in improving their performance after the merger with Renault. With the Nissan Revival Plan, they trimmed down costs, hired new management, forced employees of both companies to communicate in English, and saw growth in production and sales. Their new body styles and engine designs once again gained popularity globally, especially in North America. With this revival, Ghosn expressed an interest in an additional merger to further advance the global position of the alliance.

(3) **Adoption of a Diverse Culture:** Ghosn embraced the cultural differences between the Japanese and himself, believing fervently that cultural conflict would be detrimental to the company. The cultural challenges at Nissan were some of the most paramount issues facing Ghosn. The communication problem at Nissan meant no shared vision or strategy throughout the company. Staff didn't know what top management was doing and top management didn't know what the other managers and employees were doing. By accepting and building on the strengths of different cultures, all employees, including Ghosn himself, were given a chance to grow personally through the consideration of different perspectives. Nissan is now becoming a (more) multicultural enterprise. Ghosn stated:

...We're crossing cultures and experiences. In my opinion, that's an advantage for the future. The world that's emerging depends on interrelationships. Nissan is building a culture that's well adapted to this new world (Ghosn & Riès, 2006, 168).

Japanese culture that contributed to the rise of Japan as an economic power also plays a role in business culture, which can make fraud detection more difficult. Japanese and Western cultures differ in their attitudes toward right and wrong behavior. The traditional Japanese values of duty, authority, and harmony are so highly valued that individuals are taught to avoid disrupting social tranquility. Thus, it is easy to turn a blind eye to corporate governance conflicts in order to avoid upsetting or destabilizing the social environment (Anita, 2014,176).

2) Leadership of the Organization

Ghosn who was holding the position of chairman of Nissan and Mitsubishi, was also the CEO of Renault. As CEO Ghosn presided over the restructuring of Nissan, and was responsible for advanced research, automobile engineering and development, manufacturing, power train operations and purchasing. In addition, Ghosn stated “I wasn’t putting out a plan I didn’t believe in fully, “ I asked for trust and backed it up by saying that if we did not return to profit after a year, I would resign, as would my executive committee.” (The Japan Times, November 18, 2019). Ghosn was friendly and open and wanted to talk to people and learn. For example, he walked around the entire company to meet every employee in person and initiated long discussions with several hundred managers to discuss their ideas, meeting more than a thousand people in during the survival period of Nissan. Balanced processing was extended into the teams that Ghosn introduced throughout the organization, which had processes that ensured that a range of voices were heard (UKessays, October 29, 2010).

Ghosn believed in having no misconceptions about Nissan or the culture and attempted to learn from experience.

Ghosn also stated that,

“...I asked people what they thought was going right, what they thought was going wrong, and what they would suggest to make things better. I was trying to arrive at an analysis of the situation that would not be static but would identify what we could do to improve the company’s performance. It was a period of intensive, active listening. I took notes, I accumulated documents that contained very precise assessments of the different situations we had to deal with, and I drew up my own personal summaries of what I learned. In the course of those three months, I must have met more than a thousand people. During that time I constructed, bit by bit, my image of the company based on hundreds of meetings and discussions” (Ghosn C, 2006: 93-94).

Ghosn always told his employees he was not “a missionary.” This was very important because he did not want to see his employees ‘get away’ from him.

He wanted to have a good relationship with them. This kept solidarity among the team. This is important in terms of corporate anthropology because he told his team that they were not going to change Japan but to help change Nissan. They would be the ones adapting to Japan and not vice versa. He wanted to let his employees know the goal they needed to work on together was getting Nissan back on track (Sivie, 2012).

There are two things that demonstrated Ghosn's leadership. First of all, he is (arguably) the epitome of cultural diversity. He could speak four languages before coming to Japan. He never asked others to do what they are unwilling to do (themselves). Ghosn easily entered the Japanese culture and studied Japanese, he wanted to have a good relationship with his colleagues. They easily understood his vision and values in relation to the company. Ghosn's multi-cultural background helped him integrate his team into Japan where people like to see effort and respect from foreign workers. He also developed his own culture at Nissan whereby changes evolved for the sake of performance rather than to just change the company.

As a result, too much power was handed over to Ghosn. He became one of the most well known figures in the global automobile industry, and held the rare position of foreign executive. He enjoyed corporate success as one of the world's most influential executives in Japan, for reviving the Nissan automobile industry. He carved out his three-way automobile empire. But in a matter of days, it was ripped from his grasp (The Japan Times, November 18, 2019).

Richard Dasher, director of the U.S.-Asia Technology Management Center at Stanford University, described Ghosn as "an autocratic leader" (Wharton's Business, November 21, 2018) Hiroto Saikawa, Nissan's present CEO, stated that too much power had been given to Ghosn and went on to say "Looking back, after 2005 when he became CEO of both Renault and Nissan, we did not really discuss the implications," (The New York Times, November 21, 2018).

According to Hyatt (2010), authentic leadership must; include insight,

demonstrate initiative, exert influence, have an impact, and exercise integrity. Here is another way to prove Ghosn was an authentic leader. Most frequently observed leadership styles are represented as autocratic or authoritarian, participative or democratic, laissez-faire, narcissistic, or toxic. The autocratic leadership style assumes that the leader makes all decisions. In other words, the decision making process is centralized by one person. Leaders with this style do not have close relationships with their subordinates. This “top-down” approach, creates a corporate culture where “no one can make any objections or say ‘no’ to the performance targets.” This approach, when applied too heavily, is often seen as bossy or dictator-like, but this level of control can have benefits and be useful in certain situations, such as when decisions need to be made quickly without consulting with a large group of people. Bloomberg reported, that Nada and a group of other senior executives, wary of Ghosn’s efforts to strengthen the carmaker’s alliance with Renault, mounted a methodical campaign to unseat the lionized leader almost a year before the scandal (Business Standard, August 29, 2020).

Nissan recovered from the crisis quickly, and through Ghosn’s leadership Nissan’s annual profits increased through producing high-quality, high-priced cars LEAF. He not only brought Nissan back, but also took Nissan on a new journey. But since that recovery, the road has been rockier. For instance, according to Meier’s article (2010) Nissan recalled 2.14 million cars, trucks and SUVs worldwide, Ghosn decided that Nissan should recall the 2.14 million vehicles sold in North America, Europe and Japan for an ignition problem that could cause an engine to take longer to start, and possibly stall and not restart. It was the third-largest recall ever for Nissan.

In recent years, its margins have been hit by declining sales, rising costs and a quality control scandal in Japan. In the six months to the end of October 2018, operating profits fell by a quarter compared with the previous year. Under these considerations it can be proved that Ghosn had already lost his Midas touch on power (BBC, News, December 31, 2019).

One of the most celebrated leaders in the global auto industry, was ousted as the chairman of Nissan Motor over allegations of financial misconduct including under-stating his income by around 5 billion yen (\$44 million) over five years.

3) Financial Irregularity

The financial irregularity of Ghosn is the latest scandal to hit the automotive industry of Japan and developed into one of the biggest and longest-lived, loss-concealing financial scandals in the history Nissan. It sent shock waves through corporate Japan, and it at the time raised, and even now raises new questions about how the country's top companies are run. According to an internal investigation by Nissan it found that Ghosn had lied when he understated his income by about 5 billion yen (\$44 million) over a five-year period ending in March 2015 (CNN, News, November 20, 2018) and misused company assets. Under the investigation Ghosn and another senior executive, Greg Kelly, were accused of offences involving millions of dollars that were discovered during a months-long investigation set off by a whistleblower⁽⁴⁾ which necessitated an internal investigation, in which Ghosn and Greg Kelly, Nissan's first American director, were indicted for violating the Financial Instruments and Exchange Act in Japan, and making false disclosures in five annual reports leading up to the fiscal year which ended in March 2015. Further internal investigations reportedly uncovered three primary allegations: incorrectly reporting of compensation over a period of years, leveraging a company investment fund for personal⁽⁵⁾ use and

(4) The secretive information or activity within a private or public organization that is deemed illegal, or not correct.

(5) According investigation of Nissan find out Ghosn's personal use of corporate funds are, 5,400-square-foot flat in Paris's elegant 16th arrondissement, Zi-A bought an apartment in Rio in 2011 for \$6 million. Zi-A is venture capital the Dutch subsidiary of Nissan created by Kelly that purchased a house for Ghosn in Beirut. In Beirut, there is a salmon-hued mansion on a tree-lined street that Zi-A paid \$8.75 million for in 2012, followed by \$6 million in renovations and furnishings (Forbes November 27, 2018).

inappropriately filing expense reports (Forbes November 27, 2018).

The Securities and Exchange Commission announced on September 24, 2019, that it had reached a deal with Nissan to settle allegations that Nissan concealed from investors a plan to pay more than \$140 million in retirement benefits to Ghosn, a scandal that led to criminal charges against the Japanese carmaker. The company will paid a \$15 million fine to settle the civil fraud charges. The former chairman who was to get the undisclosed compensation package, Ghosn, agreed to pay a \$1 million penalty. The S.E.C. found that Ghosn, Kelly and others at Nissan had concealed more than \$90 million in future payouts to Ghosn and had taken steps to increase his retirement compensation by more than \$50 million.

Nissan alleges that Ghosn and his senior director Greg Kelly under-reported their compensation and used company assets inappropriately. There are also other items of misconduct that have not been made public. The Japanese media has reported that Ghosn and Kelly used company money to fund venture capitalism interests and international property purchases. Penalties could include prison time of up to ten years (Lamont, 2018).

According to US News, Nissan expenses were actually used for Ghosn's personal purposes, such as use of a corporate jet and housing in Tokyo and other places. Ghosn's unreported pay includes eight years' worth of deferred salary adding up to 8 billion yen, and share-price-linked incentive compensation of about 4 billion yen, over a four-year period (Nikkei Asian Review, November 27, 2018).

Ghosn was charged on 19 November in Japan with failing to declare deferred income he had agreed to receive from Nissan, for the five years ending March 2015. In November 2018, Nissan held an extraordinary meeting of its board of directors three days after Ghosn was arrested on November 18 on suspicion of reporting false information on the company's financial statements. In that meeting, the carmaker dismissed Ghosn as its chairman and one of its representative directors, and also removed Kelly as a representative director. In

December 2019 Ghosn escaped after being smuggled onto a private plane inside a music-equipment box from Japan. Justice Minister Masako Mori called Ghosn's departure "presumably illegal," unjustifiable and "extremely regrettable," adding there was no record of him leaving the country (The Washington Post, January 5, 2020).

Based on the results of investigations and the indictments by the Tokyo District Public Prosecutors Office related to mis-statements in the company's annual securities reports regarding director compensation of the company's former director Carlos Ghosn, and other matters, the company admitted to paying out 4,411 million yen in expenses in the fiscal year ending March 31, 2019: These payments included (a) expenses for Ghosn's postponed compensation not booked in prior years, (b) reversal of expenses for Ghosn's invalid retirement allowance, which were incorrectly booked and (c) reversal of expenses for invalid stock-price-linked incentive compensation which were also booked incorrectly. The investigation is still on-going, and the final amount might differ from the estimate. The amount has not been paid by the company (Forbes November 27, 2018).

IV. Nature and Causes of Financial Irregularities and Impact on Nissan

A concentration of power, dealings of weak corporate governance and psychological corruption have destroyed all the fame and the name of Ghosn at Nissan as well as at others automobile companies. Ghosn was widely recognized as an efficient corporate leader in Japan for turning Nissan around when it was on the verge of bankruptcy in 1999. Things couldn't look more different today. Investigations into financial irregularities of millions of dollars that Ghosn acquired are still not over. Ghosn was arrested 18 November 2018, at Haneda Airport in Tokyo and was expelled from all positions by the board of directors of Nissan. The scandal attracted global public attention and Ghosn was strongly

criticized by Nissan's new CEO for accumulating too much power.

Ghosn proved to be a powerful leader in the nearly 20 years from 1999 he joined Nissan. CEO tenure may increase the likelihood of strategic change, as CEOs with longer tenure (may) establish strong power bases for mobilizing resources (Barker and Mone, 1998). After becoming CEO of a struggling Nissan in 2001, Ghosn was hailed as the automaker's savior by implementing an aggressive cost-cutting plan. Known for his flair and confidence, Ghosn won respect for his business acumen and for shaking up Nissan's traditional corporate culture, which may have made it difficult to hold him accountable. Ghosn became CEO of Nissan partner Renault in 2005, chairman of Nissan of 2008 and chairman of Renault in 2009, giving him considerable sway over both companies. If the misconduct continued for years, as Saikawa said, analysts question how this could have passed undetected for so long, unless internal auditors and senior management turned a blind eye and falsified corporate annual reports, thus allowing Ghosn and Kelly to misuse corporate funds.

1) Concentration of Power

The concentration of power in the hands of one person, abetted by a disenfranchised or deferential board, can become a breeding ground for executive misconduct. Power concentration plays a significant role in shaping group dynamics (Mannix, 1993). Pfeffer (1981, 87) observed that: "during the CEO period Ghosn power is concentrated, political conflicts in goals and in definitions of technology are resolved by the imposition of a set of preferences and a view of technology which reflects the position of the dominant coalition controlling the organization."

Concentration of power enables powerful actors to limit the flexibility in interpreting organizational goals and external environments (Clark 2004, Davenport and Leitch 2005) and to develop norms and value systems in organizations that reflect their own preference, resulting in greater capability to

lead organizations to where they want to explore. (Mitsuhashi and Henrichm 2004, 108-109). Such circumstances tend to inhibit constructive skepticism and respectful dissent by the board. A confident (but still powerful) leader will embrace a board willing to challenge and disagree (Forbes, November 27, 2018).

Inconsistent autocratic leaders can quickly lose the respect of their teams. It is clear Ghosn established autocratic leaders and that each person in Nissan was fully aware of him and what he was doing. There was also a failure of checks and balances on Ghosn's power, because he had installed Kelly and "a few particular persons" in key departments in Nissan, including the company's legal division and internal audit office (CNN, Hong Kong, March 28, 2019).

The accounting department was more independent. But even when employees detected problems, they couldn't follow up because of the influence Ghosn, Kelly and others had over other departments, so the committee alleges. "Nissan didn't have any committees whatsoever, it was just Ghosn deciding it," said Zuhair Khan, an analyst at Jefferies Inc in Tokyo. "There needs to be a clear feeling that what is done is correct, and it has to be evaluated by people who have no conflict of interest" (Bloomberg March 27, 2019). It was however stated by CNN that "Ghosn acted at all times with the full authority of the board and its shareholders, and his paramount goal was achieving value for Nissan's shareholders", (CNN, Hong Kong, March 27, 2019).

According to John Paul MacDuffie, management professor at Wharton University in Pennsylvania, "the[re were] unusual governance arrangements where he is [was] the single person at the apex of all three of those companies, and therefore [by] claiming CEO-level pay from all three of those companies." However, because of Ghosn's success in managing the Renault-Nissan-Mitsubishi alliance, "I'm sure that his demands for high pay were probably accepted pretty quickly," (Wharton's Business, November 21, 2018).

According to Tim Hubbard assistant professor of management the University of Notre Dame's Mendoza College of Business, that apparent shortcoming in

transparency occurred against a backdrop of discomfort in France and Japan over CEO pay. “He made four times more than Toyota’s CEO and so he was already making a lot of money,” Hubbard said. “In this case, he was able to make more and hide that in the [regulatory filings] and keep it out of the public eye.” Ghosn’s case represents “an unusual situation, because he has to balance the corporate governance requirements and the expectations of Japanese companies, at the same time as [those of] French companies”, (Wharton’s Business, November 21, 2018).

MacDuffie also [rhetorically] asked, ‘Did Ghosn have far too much control at the three companies?’ Apparently yes, noted MacDuffie, pointing to a Nissan director’s comments at a news conference where “he was critical of how much power is centralized in one person” in the alliance. At Nissan and Renault, many people would have said it’s a little risky to concentrate that much power in one person.” MacDuffie, stated much of the grudging over Ghosn’s pay was because of “the unusual governance arrangements where he is the single person at the apex of all three of those companies, and therefore claiming CEO-level pay from all three of those companies”, (Wharton’s Business, November 21, 2018).

2) Psychological Influences

Ghosn, occasionally complained he could make more money elsewhere even though he was paid more than most Japanese top executives. Thus, cognitive psychology to have influenced him to misuse company funds. Ghosn is suspected of using the automaker as his personal piggy bank in various ways, including living in luxury homes for free and paying a relative for dubious consultation fees, the core issue of the indictment was whether the amount of money Ghosn had deferred for future payment had been set, and at which point he would have been required to report it in the annual report.

As a result, he was charged with professional embezzlement under criminal law, as well as aggravated breach of trust under corporate law.

In Japan, Ghosn was a rarity: a foreign leader at a domestic company, who instituted equally rare layoffs and was paid handsomely compared with other Japanese leaders (The New York Times, November 21, 2018). Ghosn, had the highest salary among companies on the Nikkei 225, while Masahiko Uotani, head of Shiseido Co., has the lowest among companies that disclose CEO compensation levels, according to data compiled by Bloomberg. Companies are only required to publish board member wages when pay levels are above 100 million yen (The Japan Times, January 6, 2016). But conscious of criticism about excessive executive pay, Ghosn is said to have arranged for around 1 billion yen of his annual pay to be received after he retired (Nikkei Asian Review, November 27, 2018).

Although leaders are different from each other, they usually share common characteristics; integrity, honesty, courage, commitment, passion, confidence, wisdom, responsibility, and others. At present there's no single and universal assessment technique for financial irregularities. As for the above, the study makes some suggestions to control such a problem through realistic strategic and psychological strategic practices. Realistic strategies act as 'real site', 'real things' and 'real situation', the (3 Rs)⁽⁶⁾ which are important practices in controlling issues. 'Honesty', 'integrity' and 'morality' are psychological practices. These practices are mainly adoption and adaptation processes, which all corporate members should to overcome problems. These practices have, of course, been accompanied by many difficulties and errors along with success(es). To improve psychological strategies best practices are required to justify the present (real site, real things and real situation) realistic strategies.

(6) 3Rs (real site, real things and real situation) are about taking the time to go on-site and personally verify the facts, then using those observations to make informed decisions. It is about not being satisfied with the current situation, and making informed decisions that will lead closer to solutions. (Bridgestone Website).

3) Transparency

Transparency references are largely synonymous with accountability, particularly financial accountability. During the surviving period of Ghosn's 'join' at Nissan, he considered transparency to be extremely important within the organization. He insisted from the very beginning that Nissan's transparency would be total and that they would speak openly about problems and results. However, for Ghosn himself, transparency could not continue because of his falsifying of corporate annual reports. Transparency over pay is critical, especially for an executive of Ghosn's standing, according to Hubbard. "This is one of those cases where we really expect the board of directors and the public to know exactly what a chief executive officer is being paid," he said. "And when there's a discrepancy of this amount, it's [because] there wasn't this transparency", (Wharton's Business, November 21, 2018).

4) Impacts on Nissan

The deterioration in relations between Nissan and Renault after Ghosn's arrest and an aborted merger with Fiat Chrysler added to the pressure. Long-held tensions between the two car-makers over control of the alliance broke into the open after Ghosn was arrested and worsened when Renault's new chairman, Jean-Dominique Senard, pursued the Fiat deal without telling Nissan (The Japan Times, September 10, 2019).

Over the past decade, following the Olympus Corporation, Toshiba Corporation and other financial scandals, Japan has strengthened its corporate governance regimen. Penalties were significantly increased for violations of the Financial Instrumentation and Exchange Act and a new whistleblower law was enacted (The Japan Times, January 24, 2019). The ongoing Nissan scandal is proving to be even more notorious than earlier cases, and efforts to strengthen Japan's Corporate Governance Code are taking on new urgency (The Japan Times, January 24, 2019). Figure 2 (below), shows shares went down 30 percent after Ghosn's arrest because

of slow sales, which have also been hammered by the Corona virus pandemic.

Early in 2019, Nissan pledged to present a new corporate governance system at its shareholders meeting that would include plans to install a more independent board (The Japan Times, January 24, 2019). It is a system of processes, checks, and balances that covers every function in a publicly listed company from finance and engineering to human resources. It covers the board of directors, auditors, officers and all employees. However, even with this new system in place, the Nissan Motor Company looks to be trouble with stock prices having dropped by 5.45 percent at the close of the market on 20th November 2019, in Japan. The company has also suffered from trade uncertainties, and with President Trump threatening this year to apply a 25 percent auto tariff on all foreign car imports the future is looking very uncertain. Nissan is one of the most prominent Japanese car manufacturers in the U.S., along with Toyota and Honda (Lamont, 2018), but this may very well change if Nissan cannot, once more, be turned around.

Figure 2: Share Falling of Nissan (Yen per Share)



Source: The Financial Times, May 13, 2019.

V Conclusion

Recent scandals in Japan of financial irregularity that have affected Nissan and other major companies have led to a review of the rules and directives of stricter financial supervision in terms of reporting and financial statements and the opening of information to interested parties. Such irregularities, which are often perpetrated by senior management, more often than not involve very large amounts of money. The collapse of an organization, failure of a business or bankruptcy takes place because of such financial irregularities.

This study examined how Ghosn's power concentration influenced corporate diversification, and highlights that greater inequality in top management teams yields large-scale strategic changes. It also exemplified Ghosn's various acts of misconduct including, mis-statement of his compensation and misappropriation of the company's assets for his personal benefit. According to Minister Mori, Ministry of Justice has stated that, "Ghosn had been indicted for allegedly underreporting his remuneration in securities reports, and for allegedly violating the Companies Act through aggravated breach of trust by having a Nissan subsidiary transfer a massive amount of money to a deposit account in the name of a company effectively owned by him, for his own profit" (Ministry of Justice). However, according to Japanese law, the maximum penalty for the charge of falsifying fiscal statements is 10 years in prison in case of Ghosn (The Japan Times, December 10, 2019). It is hard to conclude whether the company's new decision making processes will be effective or not, as a high rate of change may be a liability as well as financially irregular at Nissan. From the above it can be concluded here, that it was the lack of responsibility taken by the governance board, together with weak governance procedures, that contributed to the financial scandal involving Ghosn and others. The Board must review and guide corporate strategy and other important issues. It must

also monitor and make decisions on CEO performance and remuneration and assure the integrity of financial information systems including independent audits. Finally, Nissan investigated and discovered Ghosn was misappropriating billions of yen in liabilities through personal purpose entities, enabling the company to appear profitable even though it was hemorrhaging corporate funds. It was a power concentration, weakness of accounting duties and unethical practices through and by Ghosn that brought on the Nissan scandal, which has led to or is leading to more regulatory scrutiny of accounting practices and a need to have clear, auditable accounts as part of entity corporate management practices. The Nissan scandal is a wake-up call for Japanese companies to rethink and install effective compliance management processes.

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