



## **Globalization: How strategic alliances bring production and market advantages The case of Renault/Nissan**

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### **Introduction**

It is very surprising that when presenting to all employees as well as the press, his “Renault Contract 2009” strategic plan, Carlos Ghosn, the CEO since May 2005, did not emphasize the potential contribution of the deal with Nissan in the future revival of the corporation. Is it because he did not want to upset such a key partner when presenting it as a subsidiary? Is it because he was committed to motivate the Renault employees to contribute to such revival plan? Or is it simply because the alliance did not achieve its main target: gaining market share by acquiring a rival?

Golding (2006) seems to support this last statement when emphasizing that “strategy of growth by conquest has fallen firmly out of favor”. He points out that the trend now is for dispersal and that yesterday’s strategic acquisition is today’s peripheral asset. Consolidation was acclaimed as the best way in the nineties. Organic growth is now the new fashion.

Following the “frantic” wave of so-called mega-mergers & acquisitions (mega-M&A) and mega-alliances in the world automobile industry – Daimler-Chrysler<sup>1</sup>; Renault-Nissan; Ford-Volvo; Hyundai-Kia, GM-Fiat<sup>2</sup> in the late nineties –, there is an obvious need for in-depth analysis of many theoretical as well as practical managerial issues, and in particular to assess their economic impacts in market share, volume, access to new markets, return on investment and profitability, technological innovation, employment, etc. There is no obvious and immediate answer. That is probably why OEMs<sup>3</sup> are today wrestling with crucial decisions on retrenchment and expansion”.

According to the well-accepted basic definition proposed by Yoshino & Srinivasa Rangan (1995) (Figure 1), the Renault-Nissan agreement is a strategic alliance, signed March 27, 1999, with an unequal equity arrangement within existing entities. Renault has taken a 36.8% equity stake and corresponding voting rights in Nissan Motor Co. and 22.5% in Nissan Diesel<sup>4</sup>. Later Nissan took 15% of Renault without voting rights from a disinvestment by the French State and Renault increased its shareholding up to 44,4%.

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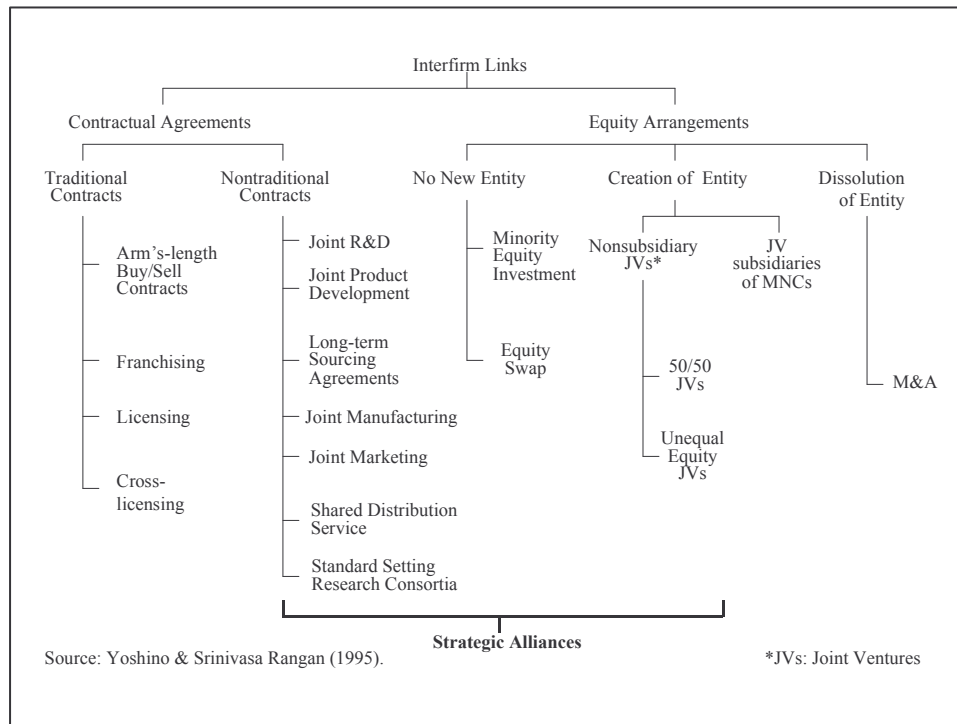
<sup>1</sup> Including Mitsubishi for a while.

<sup>2</sup> Dismantled in 2005.

<sup>3</sup> OEM (Original Equipment Manufacturers) are car and truck makers.

<sup>4</sup> Nissan Motors kept the same equity stake in Nissan Diesel.

**Figure 1. A Typology of Strategic Alliances**



This contribution is based on a previous review (Chanaron, 1999) and a critical analysis of various literature: academic articles and books, corporate documents, consultancy reports and interviews of key industry representatives.

## 1. Rationale for mega-M&A and mega-alliances

### 1.1. Background

According to the recent literature in industrial economics and management science, M&A are driven by several constraints to restructuring:

- The deterioration of financial situation associated to over-capacities and poor profitability;
- Their decreasing share of the industry total added value to the benefits of component suppliers and distribution;
- The increasing liberalization for transnational takeover and agreements;
- The need for organizational learning of new technologies and managerial practices in a context of increasingly tough environmental regulations;
- The pressure for rationalization, integration and differentiation in a context of both globalization and differentiating local market characteristics, in particular non-synchronized automobile business cycles and expansion of markets to new geographical areas;
- The pure financial incentive driven by the stock exchange premium granted by the stock market to the targets of M&A and partners in strategic alliances (Jensen, 1994);

The rationale for mega-M&A and alliances are therefore:

- **Financial**, increasing oligopolistic power and profitability in order to please the stock-exchange;
- **Commercial and industrial** through risk management by sharing a portfolio of markets including a range of vehicles and markets;
- **Marketing** oriented thanks to the worldwide advertising campaign or public relation benefits gained through press and media coverage;
- **Technological and organizational** through complementary immaterial assets such as knowledge base, brand notoriety, corporate image, etc.

The main drivers are **economic** by nature:

- Competitive pressure on price, quality and technology;
- Economies in capital investment costs;
- Economies of scale (volume) and scope (model range) in purchasing, manufacturing, marketing, distribution and after-market;
- Economies in the cost of R&D as well as Design & Engineering of products and processes.

### ***1.2. Characterization***

According to the typology of alliances forged by Yoshino & Srinivasa Rangan (1995), the Renault-Nissan unequal equity arrangement is a mix of a *competitive* intra-industry alliance since the two partners used to compete on the same range of products and of a *noncompetitive* agreement since Nissan and Renault are quite complementary as far as geographical market presence and market niches are concerned. *Competitive* alliances are supposed to have a high conflict potential as well as a high extent of organizational interaction.

When dealing with strategic objectives, *noncompetitive* agreements have a strong potential for learning and creating added value and a lower one for flexibility and protection of core competencies. Competitive alliances are well adapted to protection of core competencies and learning, less adapted to flexibility and value adding.

According to the Alliance Charter, "while preserving respective brands and identities and ensuring profitable growth for each partner, Renault and Nissan seek to build a new culture founded on trust, aiming at building a bi-national group".

### ***1.3. Initial explicit strategic and operational objectives***

Official statements, public discussion as well as press release and analysis related to the Renault-Nissan deal have emphasized the following objectives and targets:

**Table 1 Renault-Nissan, Official Objectives and Targets**

<b>OBJECTIVES</b>	<b>TYPES</b>	<b>TARGETS</b>
<b>OVERALL STRATEGY</b>	Building a global corporation with critical size	<ul style="list-style-type: none"> <li>To be amongst the 4 million units global player (6 leading OEMs)</li> </ul>
	Demonstrating Renault's managerial ability to the French and the worldwide automotive lobby	<ul style="list-style-type: none"> <li>Achieving a reputation for excellence in managing survival, recovery, then aggressive growth in applying previously implemented managerial techniques</li> </ul>
	Geographical coverage	<ul style="list-style-type: none"> <li>To be on all major markets</li> </ul>
	Corporate image	<ul style="list-style-type: none"> <li>From a European to a global image</li> <li>Growth strategy</li> <li>Commitment to quality</li> <li>Revenge over recent historical difficulties &amp; failure in previous deals</li> </ul>
<b>COST SAVINGS</b>	Synergies in purchasing	<ul style="list-style-type: none"> <li>Nissan to develop outsourcing</li> <li>Nissan to adopt modularization</li> </ul>
	Synergies in product strategy	<ul style="list-style-type: none"> <li>The two partners to reduce the number of platforms to 10 (from 26 at Nissan and 5 at Renault)</li> <li>Use of common platforms and powertrains: first</li> <li>Nissan to be the leisure vehicles arm of the alliance</li> </ul>
	Break-even point	<ul style="list-style-type: none"> <li>Reduction to 1.5 million units/year at Nissan by 2002</li> </ul>
	Synergies in research and design	<ul style="list-style-type: none"> <li>Specialization: Nissan to lead hybrid vehicle department</li> </ul>
	Synergies in manufacturing	<ul style="list-style-type: none"> <li>Co-assembly of models</li> </ul>
	Job reduction	<ul style="list-style-type: none"> <li>Management, staff and shop floor workers</li> </ul>
	Synergies in distribution	<ul style="list-style-type: none"> <li>Co-distribution of vehicles in the other partner's main area</li> <li>Specialization in emerging markets</li> </ul>
	Total cost savings	<ul style="list-style-type: none"> <li>US\$ 3.3 billion for the period 2000-2002</li> <li>Nissan's debt reduction by Y 100 billion by the end of December 2000</li> </ul>
<b>LEARNING</b>	Managerial competencies	<ul style="list-style-type: none"> <li>Renault to learn quality management</li> <li>Nissan to learn strategic management</li> </ul>
	R&D innovation and design	<ul style="list-style-type: none"> <li>Renault to learn in high technologies related to safety, environment and communication</li> <li>Nissan to learn in new product design and styling</li> </ul>
	Manufacturing and operations	<ul style="list-style-type: none"> <li>Renault to learn in manufacturing</li> <li>Nissan to learn in out-sourcing</li> </ul>
<b>CORPORATE GOVERNANCE</b>	Overall strategic management	<ul style="list-style-type: none"> <li>Renault and Nissan top managers to enhance/restore their personal reputation within their national lobby</li> </ul>
	Shareholding	<ul style="list-style-type: none"> <li>Nissan to decrease cross shareholding to pay company debt and simplify corporate structure</li> </ul>

According to Renault, the deal with Nissan has been decided because:

- It was feasible and available since both partners were looking for a major strategic alliance;
- It was desirable since there was obvious complementary strengths in international positioning, technological competencies (for product, process and methods) and manufacturing capabilities<sup>5</sup>, towards forming a global OEM within the top six vehicle manufacturers worldwide with a 4 million cars annual output.

According to most analysts of Nissan, the deal has been accepted because the Japanese partner had no real choice to insure its survival but to seek for a deal with a competitor and probably to accept an unbalanced agreement.

Due to the nature of the deal, no target regarding a premium on share value has been mentioned. In practice, due to speculations about the heavy Nissan's debt, there has been a negative impact on Renault's share and a positive impact on Nissan's one.

When looking at the strategic overall motivations, it is quite obvious that Renault has found Nissan's situation quite equivalent to its own situation in the mid-eighties: huge financial debt, diversified portfolio of activities, poor sales due to out-of-date design of model range. Renault then thought it might be very well experienced in recovery strategy and able to apply the same kind of recipe.

Obviously, Renault has a huge experience, with both successful and failed occasions, in strategic alliances as well as mergers and acquisitions:

- It succeeded in implementing engines and gear-boxes joint-venture operations with national competitor Peugeot-Citroën and Volvo. All these plants are still in operation today;
- It successfully managed to merge its Saviem truck subsidiary with Berliet in the early seventies, but, according to industry experts, it took more than ten years to see the two cultures melted into a single one;
- It failed in merging with Volvo Group in 1993 when it appeared to Swedish top management and stockholders that Volvo would lose its soul to the benefits of Renault;
- It successfully managed a joint project with General Motors for the design and co-manufacturing and branding of light trucks for the European market manufactured in France and in the UK;
- It succeeded in taking over and integrating in Renault Group Dacia (99.4%) in Romania and Samsung Motors (70.1%) in Korea.

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<sup>5</sup> Nissan has been seen as being stronger than Renault in key technologies for the future, better in industrial efficiency, in particular in the UK and in the USA (Tennessee), better positioned in key markets with over capacity.

As far as cooperating with Japanese corporations, Renault has also some limited experiences in transferring component subsidiaries:

- SMI (Société Mécanique d'Irigny) manufacturing steering systems in Lyon, to Koyo Seiko, renamed JTEKT in September 2005 when merging with Toyoda Machine Works, through a joint-venture in which its shareholding decreased from 65% at the very beginning to 16.3% in 1999;
- SNT (Société Nouvelle de Transmission), its joints and bearing for transmissions activities in Le Mans, cooperating with NTN since 1998 and fully sold in 2004.

Learning from the Volvo's deal failure, Renault has developed a set of guidelines for successful mergers, acquisitions and alliances putting together in a handbook available to all top managers all potential mistakes and positive attitudes. It has been endorsed by C. Ghosn when he was appointed as executive director and then CEO of Nissan. It remained strictly confidential.

## 2. Key Results

The economic and financial results of the Renault-Nissan deal are obvious. The deal contributed to Nissan revival and to Renault financial figures, increased profit margin and long term debt reduction. The two companies enjoyed a remarkable growth of their market capitalization.

One of the tremendous achievements of the alliance management has been the revival of Nissan under the leadership of M. Carlos Ghosn, today CEO of the two entities. Nicknamed the "cost killer", he is now a "case study" in leadership in many business schools. When he accepted to be appointed as CEO of Nissan, he was indeed looking for international recognition. Since such objective has been met, he is considered as an "excellent manager", i.e. bringing value to the company. He wants now to be considered as a "great manager", i.e. "writing a new history" of the company<sup>6</sup>.

It is widely accepted that one of the key failure factors for synergetic alliances is the so-called "not invented her" syndrome. It is obvious that Nissan's management accepted to share Renault's competencies in global strategic management, international finance and innovative-aggressive design instead of resisting to change on these issues. Within Renault, operational management and total quality management would be particularly inspired by Nissan' practices. It should be emphasized that none of the partners tried to impose its views and rejected to adopt new patterns arguing that they have different structural organizations, rules or cultural norms.

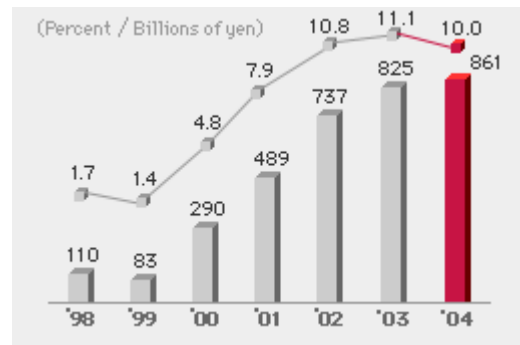
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<sup>6</sup> As stated in a CNN interview quoted by *Les Echos*, 10 February 2006.

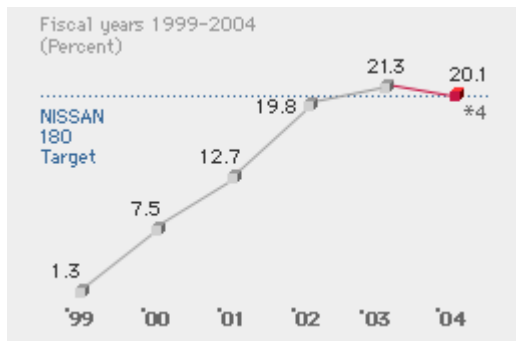
**Figure 2. Nissan Financial Data**



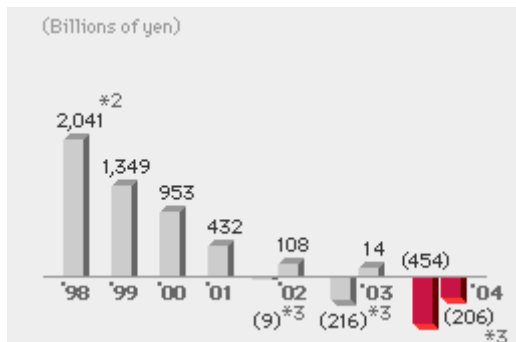
**Figure X. Nissan Share Value since early 2000**



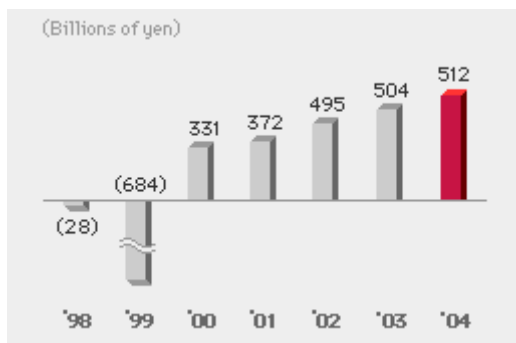
**Consolidated Operating Profit Margin**



**Automotive: ROIC (Return on Invested Capital)**



**Net Consolidated Automotive Debt**



**Net Income (Loss)**

**Table 2. Renault: Key Financial Figures 1998-2004**

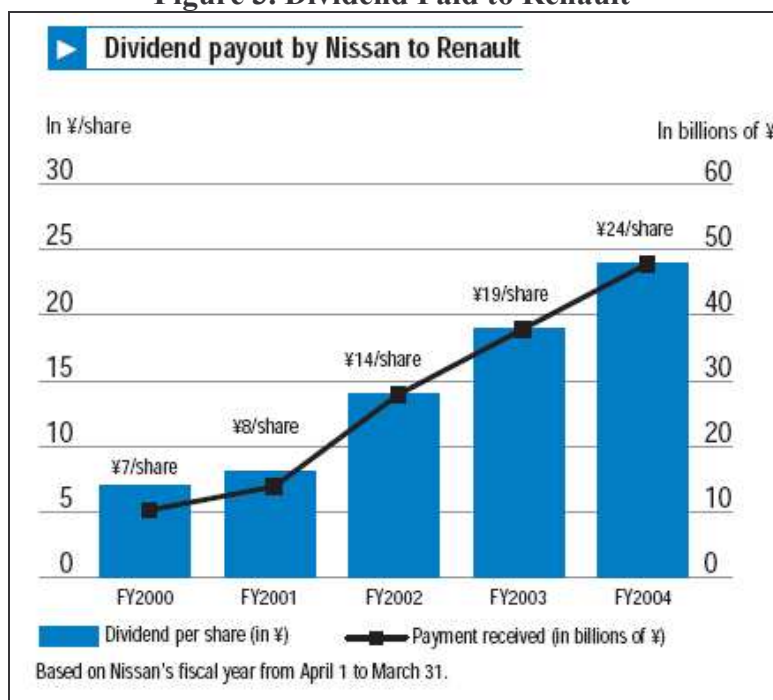
	Key figures (EUR million - excepted if specified)						
	1998	1999	2000	2001 (2)	2002 (3)	2003 (3)	2004 (3)
<b>Total group sales worldwide in units (1)</b>	2,194,724	2,370,684	2,441,801	2,413,038	2,403,975	2,388,482	2,489,401
<b>Revenues</b>	37,187	37,592	40,175	36,351	36,336	37,525	40,715
<b>Operating margin</b>	1,920	2,205	2,022	473	1,483	1,402	2,418
<b>In % of revenues</b>	5.2	5.9	5.0	1.3	4.1	3.7	5.9
<b>Associated income from Nissan Motor</b>	-	-330	56	497	1,335	1,705	2,199
<b>Renault net income</b>	1,349	534	1,080	1,051	1,956	2,480	3,551
<b>Net earnings per share in euros</b>	5.64	2.23	4.50	4.38	7.53	9.32	13.35
<b>Net dividend per share in euros</b>	0.76	0.76	0.91	0.92	1.15	1.4	1.8
<b>Payout ratio in %</b>	13.5	34.1	20.2	21.2	16.8	16.1	14.4
<b>Consolidated cash flow</b>	3,098	3,314	3,412	1,688	3,578	3,560	4,808
<b>Purchases of property, plant and equipment and intangible, assets</b>	2,205	2,437	2,846	3,205	3,390	3,234	3,483
<b>Net financial debt of the automobile division (4)</b>	-1,612	2,700	4,793	3,927	2,495	1,748	541
<b>Shareholders' equity</b>	7,861	8,185	9,652	10,051	11,828	13,591	16,060
<b>Return on equity in % (5)</b>	20.7	7.0	12.6	11.7	19.8	22.3	28.4

(1) Until December 31, 2000, the group worldwide sales included data for the Commercial Vehicles, ie. around 86,000 units in 2000.

(2) As a result of the agreement between Renault and AB Volvo, signed on January 2, 2001, Renault V.I. / Mack was deconsolidated and the AB Volvo Group was accounted by the equity method.

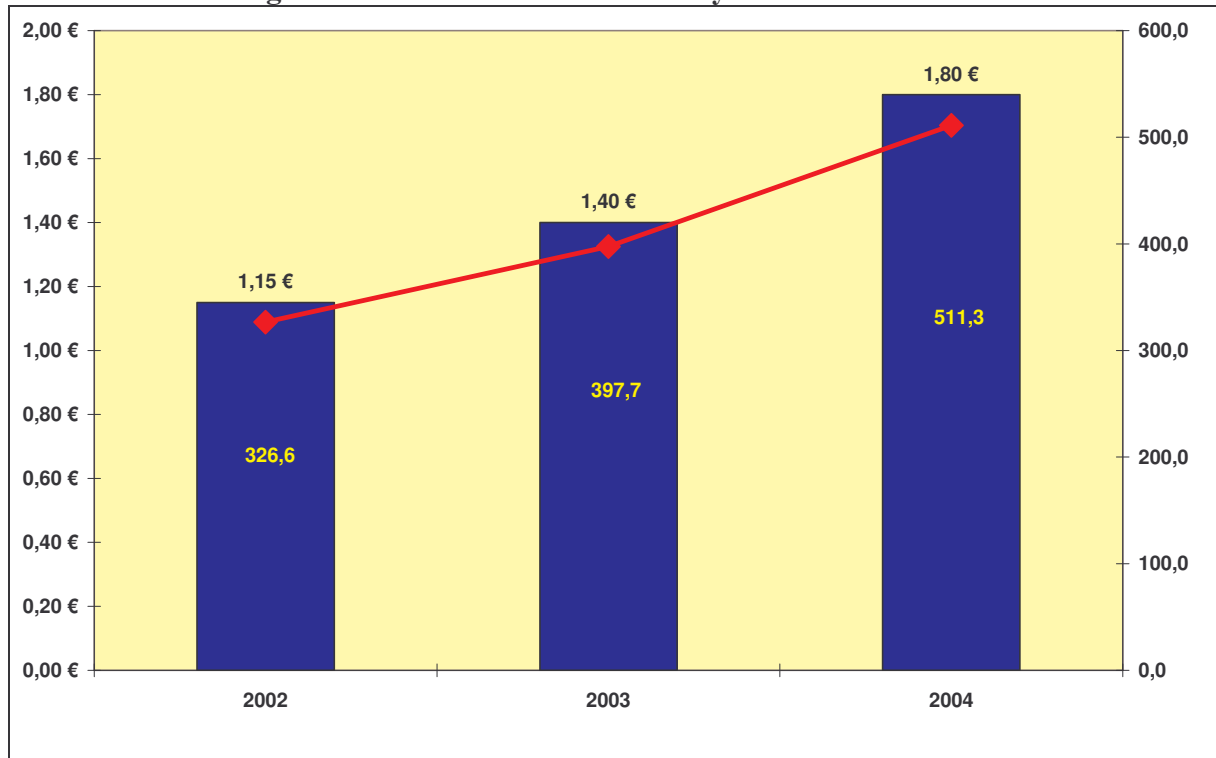
(3) As of January 1, 2002, Renault applies IAS 38 international accounting standards for development costs. The positive impacts for 2004 is EUR541 million (EUR465 million in 2003) on the Group's operating margin, EUR625 million on Renault net income (EUR498 million in 2003) and EUR749 million on capital expenditure (EUR568 million in 2003). (4) Including redeemable shares. (5) Calculated before attribution of net income.

**Figure 3. Dividend Paid to Renault**



One of the main benefits of Renault is the contribution of dividend payout by Nissan to Renault. Renault received 340 millions euro in 2004. For the same year, while this is not emphasized in the partners' annual reports, Nissan should have also been paid a dividend payout from Renault, i.e. 510 million euro. According to the recent press conference by C. Ghosn<sup>7</sup>, Nissan would have paid 1.83 billion euro for 2005, including 450 million euro of recurrent product.

**Figure 4. Potential Dividend Due by Renault To Nissan**



The share values of both partners have increased significantly:

**Figure 5. Renault's Share Value**



<sup>7</sup>Boulogne-Billancourt, 9<sup>th</sup> February 2006.

Figure 6. Nissan and Renault's Share Value

▶ Renault and Nissan share prices between March 27, 1999 and end-December, 2004



### 3. Globalization perspectives

When investigating the impact of globalization at corporate level, several levels and activities are concerned along the value chain:

- R&D and design
- Supply Chain
- Manufacturing
- Markets
- Administration and governance

#### 3.1. R-D & D

##### *Traditional vehicle technology and design*

It seems obvious that the following complementarities have been playing and will play a crucial role in the future:

**Table 3. Complementarities in Design**

Renault	Nissan
Styling and design	4WD vehicles
Innovative concepts of vehicles	Large luxurious vehicles: Infiniti
Sports Formula 1 development	New vehicle quality procedure
Common platform	Common platform
Common components and equipments	Common components and equipments

Many examples illuminates such cross-influence:

- The Renault styling philosophy has clearly transformed the look of the most recent Nissan's models from a very classical style to a more aggressive and innovative one;
- The Nissan new vehicle quality procedure has been implemented for the Renault Modus;
- Renault will launch a 4WD SUV under the Samsung and Renault badges in 2007: Renault is in charge of the vehicle design and specifications, Nissan of the development and engineering, Samsung of the manufacturing.

Common platforms are being developed to keep pace with the renewal of the two partners' model line-ups. Renault and Nissan aim to share 10 common platforms in 2010.

- **B platform:** This was the first common platform launched by Nissan in March 2002 for the March, Micra, Cube, Note, Tiida and Tiida Latio models. In May 2004, Renault introduced Modus, the first Renault model to use the common B platform, followed by Clio III in September 2005. Logan, marketed under the Dacia and Renault brands and released in September 2004, is also built on a derivative of the B platform.
- **C platform:** This was the second common platform launched by Renault at the end of 2002 for its new-generation Mégane. Nissan adapted the platform for use on the new Lafesta minivan in December 2004 and the Serena minivan in May 2005.

The common use and development of powertrains – engines and transmissions – within the Alliance is accelerating at a fast pace. Until 2003, cooperation was restricted to the exchange of components. In 2004, however, Renault and Nissan started joint development of common engines and transmissions. Between 2004 and 2005, three gasoline engines, one diesel engine and one transmission were co-developed by Renault and Nissan:

- A 1.5-liter gasoline engine (S2G) available on Nissan Tiida in September 2004, Nissan Tiida Latio in October 2004 and Nissan Note in December 2004.
- A 2.0-liter gasoline engine (M1G) fitted to Nissan Lafesta in September 2004, Nissan Serena in May 2005 and another Renault vehicle in early 2006.
- A 1.8-liter gasoline engine (M1G) available on Nissan Tiida and Tiida Latio in January 2005.
- The 2.0-liter M9R diesel engine (M1D) fitted to Renault Laguna II in 2005.
- The 240Nm 6-speed MT1 manual transmission on Renault Modus, Mégane II and Clio III.

Nissan designed the new M1 gasoline engine and Renault the diesel version.

#### *Advanced development*

As far as research, development and design are concerned, Renault is supposed to benefit from the positioning of Nissan in Hybrid vehicles technology, even if Nissan is far from being in a leadership situation, lagging far behind Toyota and Honda, and in technologies related to intelligent transportation systems (ITS).

### **3.2. Supply Chain, Logistics and Information Systems**

#### *Supply chain & logistics*

It has been one of the early key actions to be carried out by the two partners when creating the joint company named Renault Nissan Purchasing Organization (RNPO).

The Renault-Nissan Purchasing Organization (RNPO) was established in April 2001 as the first Alliance joint venture. The scope of joint purchasing activities and the geographic responsibility of RNPO were enlarged in January 2004, increasing the annual purchasing volume from \$21.5 billion (at end-2002) to \$33 billion. This represents 70% of Alliance purchasing turnover.

According to official statements, significant cost reductions have been achieved in the Alliance with joint purchasing and a common supplier base.

It is also worth mentioning that Nissan UK and Renault UK share common premises and regional parts warehouse in Lutterworth (UK) and in Hungary. Commonizing the two companies' logistics functions has already shortened delivery times and reduced costs.

#### *Information systems*

Renault and Nissan are harmonizing information systems and R&D information technology. This is crucial to ensure efficient technical cooperation between the two groups and generates substantial cost savings. In July 2002, Renault-Nissan Information Services (RNIS) was

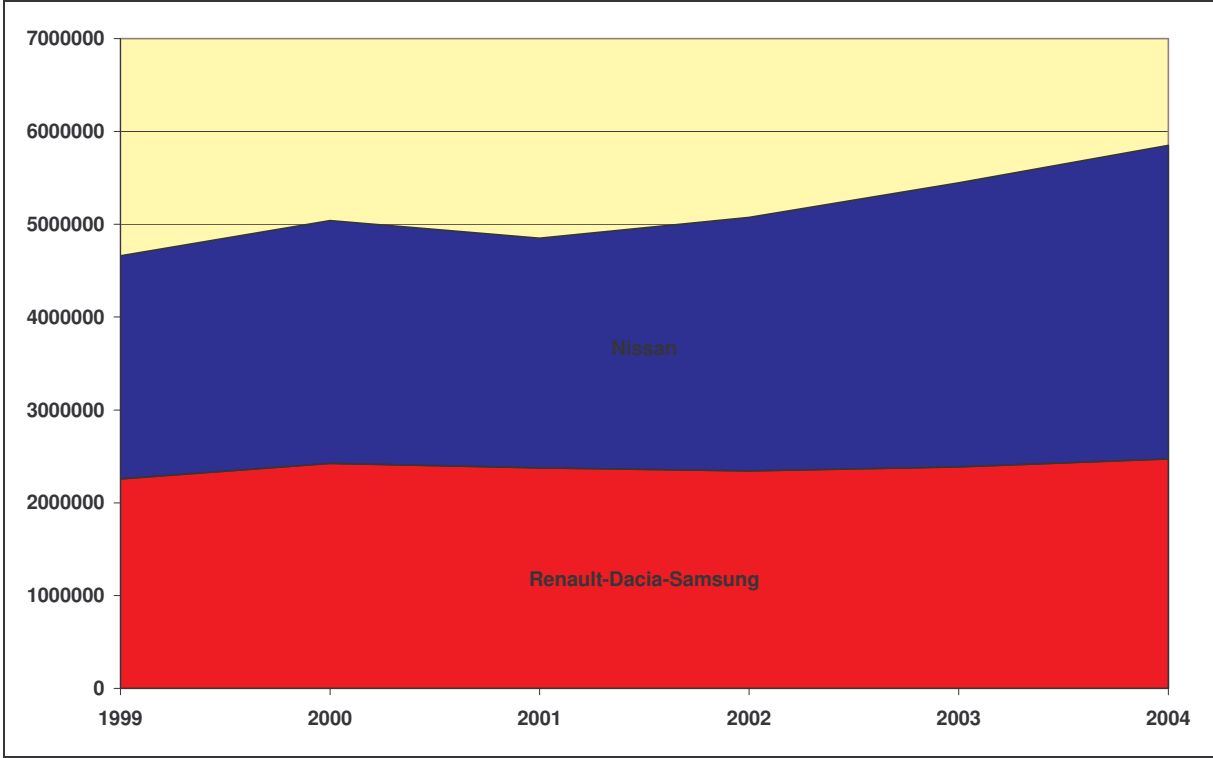
established to deliver cost-effective systems and optimized infrastructure for the two groups' IS/IT departments.

The first achievement is the creation of a three-year IS master plan, which is the repository for Renault and Nissan. Another achievement is the establishment of the “Alliance Worldwide Backbone” (AWB) broadband network, a high-level private network infrastructure for the Alliance. It connects Renault and Nissan's four main telecommunications centres.

**3.3. Manufacturing**

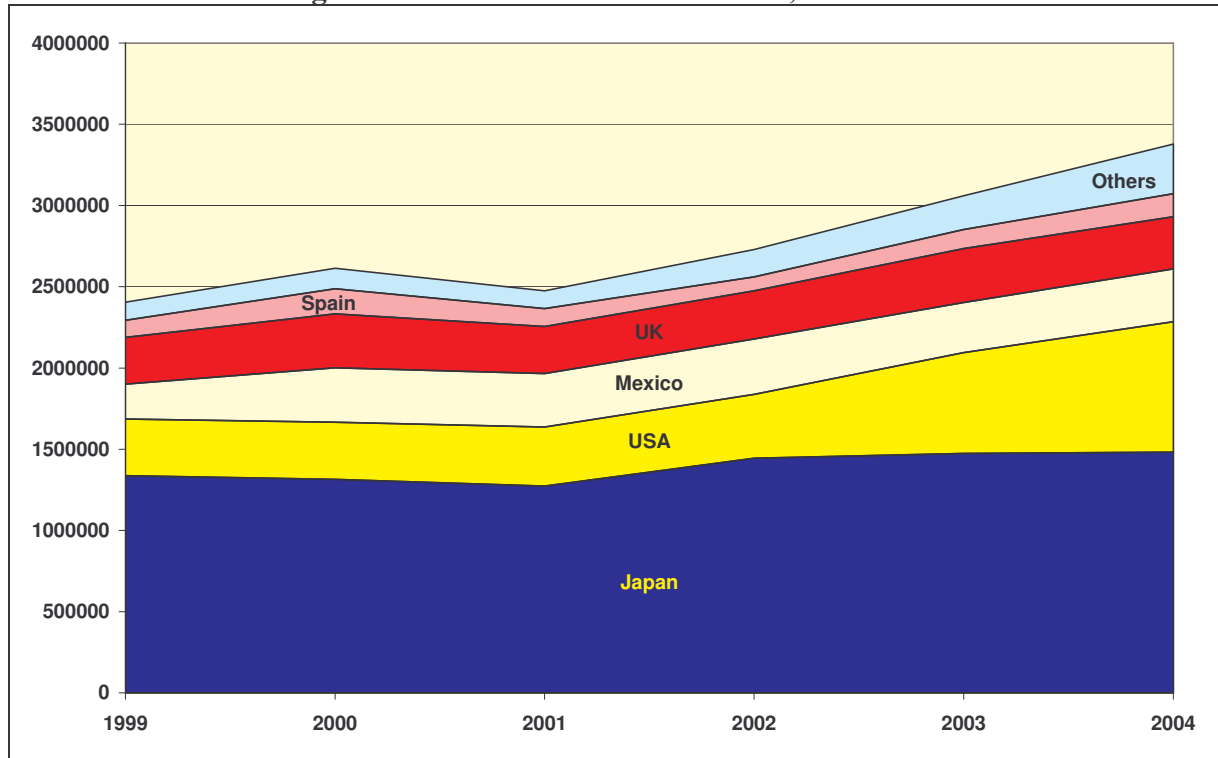
When analyzing the consolidated data of the alliance, it is obvious that Nissan should be designated as the key actor of the growth.

**Figure 7. The Alliance’s Total Production, 1999-2004**



The data show that the growth in production volume is mainly due to the recovery of the Nissan’s operations in the United States of America.

**Figure 8. Nissan's Global Production, 1999-2004**



According to Renault (2005), the six main achievements in co-manufacturing are:

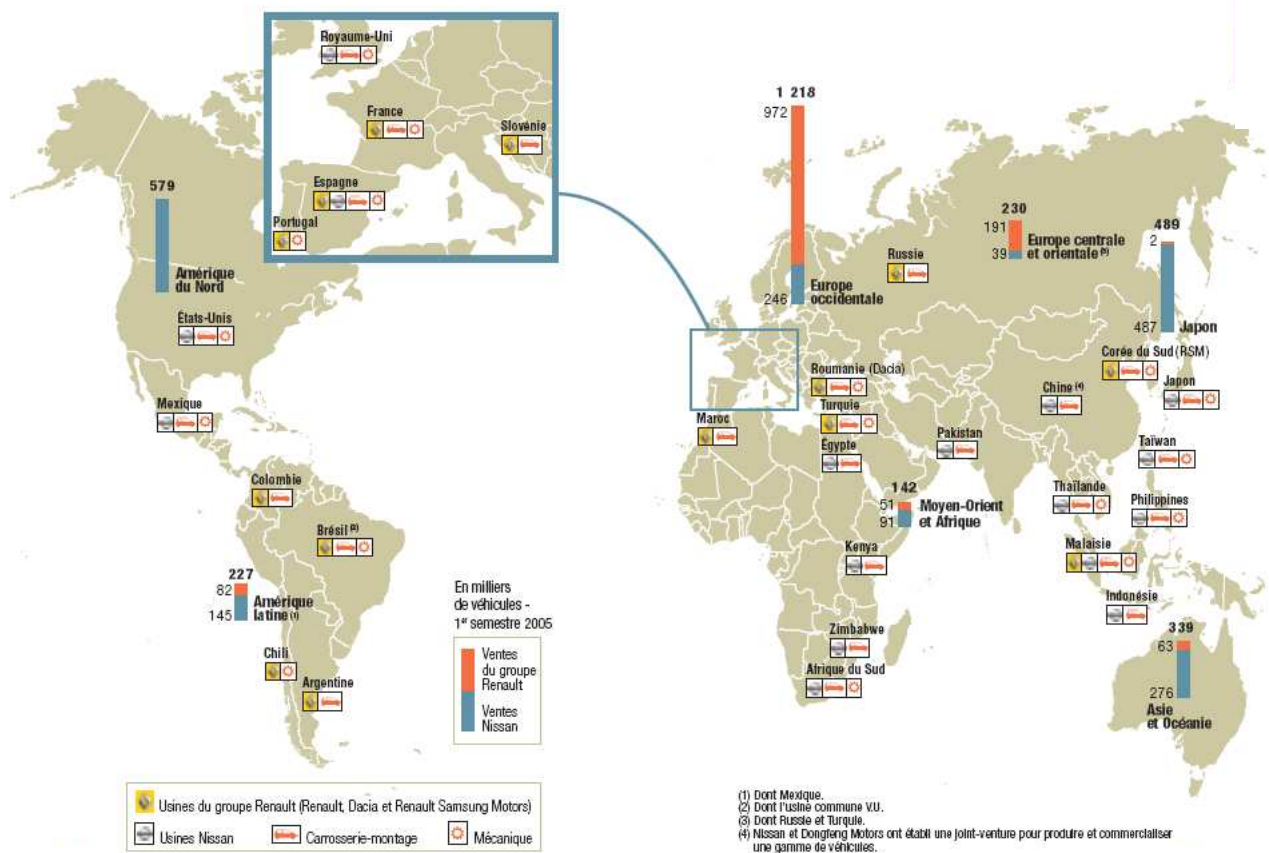
- Cross-production of engines, gearboxes and parts: engines made in Cléon (France) for Nissan Europe; gearboxes and engines made by Renault Chile and Renault do Brasil and shipped to Nissan Mexico; components stamped in Flins (France) for Nissan UK; parts produced by Nissan Mexico for Clio and by Nissan Barcelona for Trafic, etc.;
- The use of Nissan's capacity to manufacture Renault's models: assembling the Scenic at the Nissan Cuernavaca plant and the Clio at the Aguascalientes plant and launching the Platina designed on the Clio platform;
- The use of Nissan's platform Teana for the SM7 and SM5 models manufactured by Samsung Motors in Korea and another Nissan platform for the SM3;
- The co-manufacturing by General Motors in Luton (UK) since 2001 and Nissan in Barcelona (Spain) since 2003 of the panel van Trafic/Primastar/Vivaro for the Renault, Opel/Vauxhall and Nissan brands;
- The co-assembling of LCV in the Renault plant of San Jose dos Pinhais in Parana (Brasil): Renault Master, Nissan Frontier pick-up, Nissan Xterra 4WD which are sold also in Argentina;
- TC Euro Cars, a local partner to Nissan is assembling the Kangoo from CKD in Malaysia.

### 3.4. Markets

When looking at a map, the market complementarities are obvious in principle. But they will apparently be very long to produce real volume opportunities:

- In North American, only Nissan is active and Renault has no plan yet for a come back on this difficult market where the company had already failed twice in the past.
- In Europe, Nissan has already benefited through the dealership re-engineering and rationalization but was already dynamic before the merger;
- In Asia, Renault is still a small player in Japan and China.

Figure 9. Markets for Nissan and Renault



The data are pointing out the difficulties in gaining market shares thanks to the alliance. In fact, since 1999, the most critical achievement by Nissan has been its remarkable come back on the North American market. But its sales are stagnating or declining in Japan as well as Europe. The recovery in the US is probably due to the re-shaping of Nissan's best selling models with the influence of the Renault styling concept.

Once again, the main achievement is the deployment of Renault in Mexico:

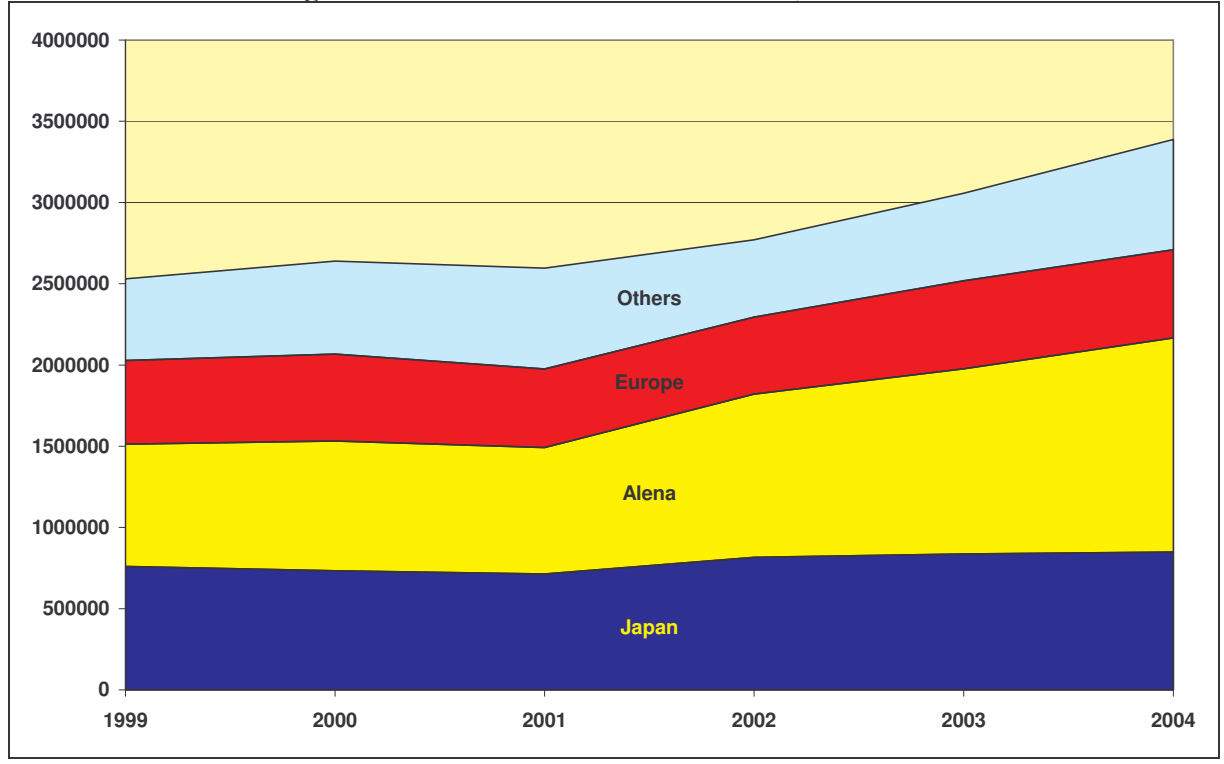
- Getting the "terminal industry" status with its associated tax breaks;
- Creating a dealership from scratch with 60% of the sales outlets operated by Nissan dealers;

- Launching the Scenic and the Clio as well as the Nissan Platina on the Clio platform;
- Creating Nissan Renault Finance Mexico (NRFM) and Nissan Renault Wholesale Mexico (NRWM) for sales financing under the ownership of Nissan Finance US (51%), Nissan Mexico (34%) and Renault RCI Banque (15%);
- Expanding gradually from 2005 the Renault's model range to Megane, Kangoo Express (Argentina) and Laguna.

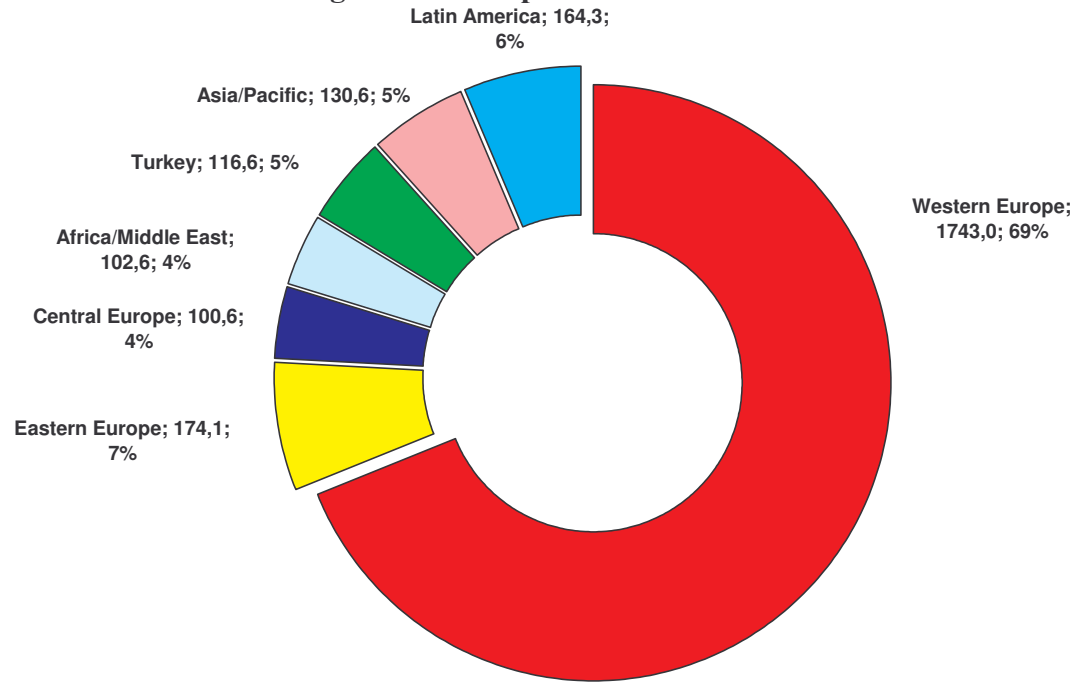
Another contribution of the alliance has been the comprehensive re-engineering of the sales networks:

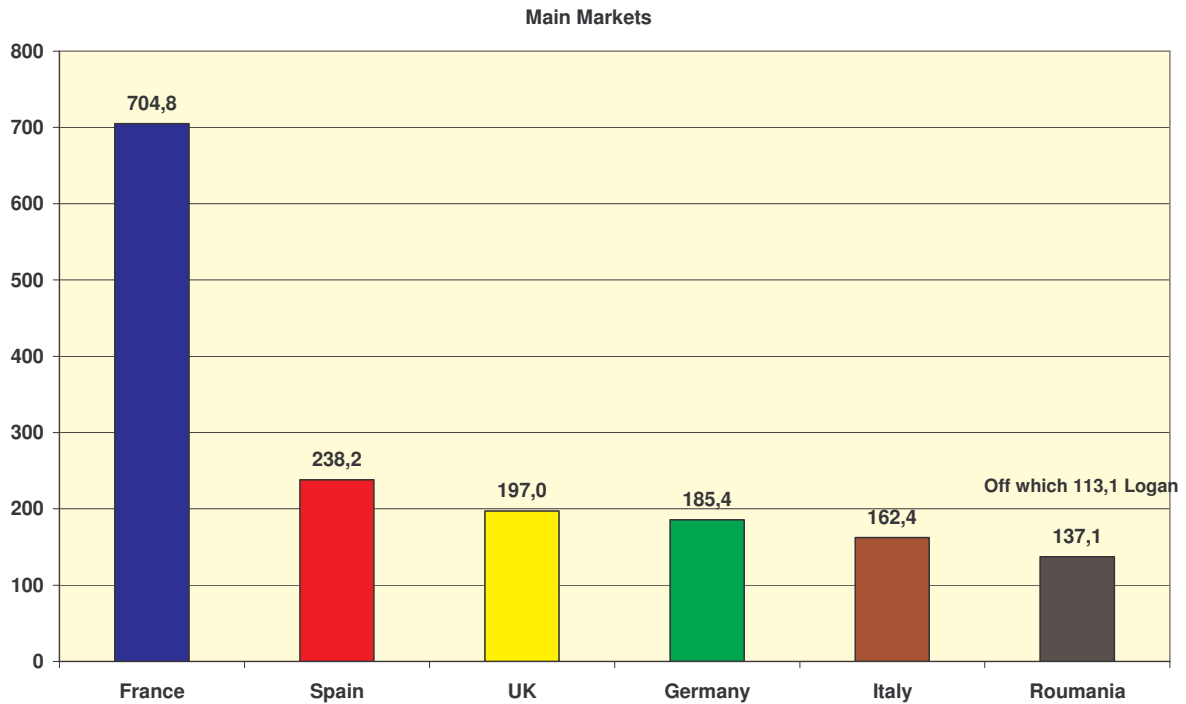
- In Europe, by the end of 2005, nearly 2,800 Renault and Nissan main dealers were restructured, 740 Renault and 600 Nissan regional hubs have been created of which approximately 380 are common;
- In Eastern Europe, Renault is coordinating import and distribution of Nissan models in Romania and the two dealerships are cooperating in Russia;
- In Central America, Nissan Mexico and Nissan importers in Ecuador, El Salvador, Guatemala, Honduras and Panama are running Renault operations;
- In Asia-Pacific, Nissan is selling Renault cars in Japan and importing them in Australia, Taiwan, Indonesia, Malaysia (with TC Euro Cars, a local partner).
- In South Africa and the Middle East (Kuwait, Bahrain, Qatar, UAE and Oman), Nissan logistics support Renault;
- In North Africa, i.e. Morocco and Tunisia, due to its historical presence, it is Renault which is taking the leadership, having taken over Nissan's importer in Morocco, SIAB, in November 2000;

**Figure 10. Nissan's Global Retail Sales, 1999-2004**



**Figure 11. Groupe Renault's Sales in 2005**





On globalization of markets, the alliance did not yet produce what was initially expected, i.e. being present with two brands (at least) on all major markets. Renault is still excluded from North America and marginally present in Japan and China..

### 3.5. Administration & Governance

#### *Global structures*

As pointed out by Booz Allen Hamilton<sup>8</sup>, companies that are the best in managing alliances are creating a string of interconnected relationships. As already described above, it has been done in different stages of the value chain. At corporate levels, the two partners did set up several levels of ties:

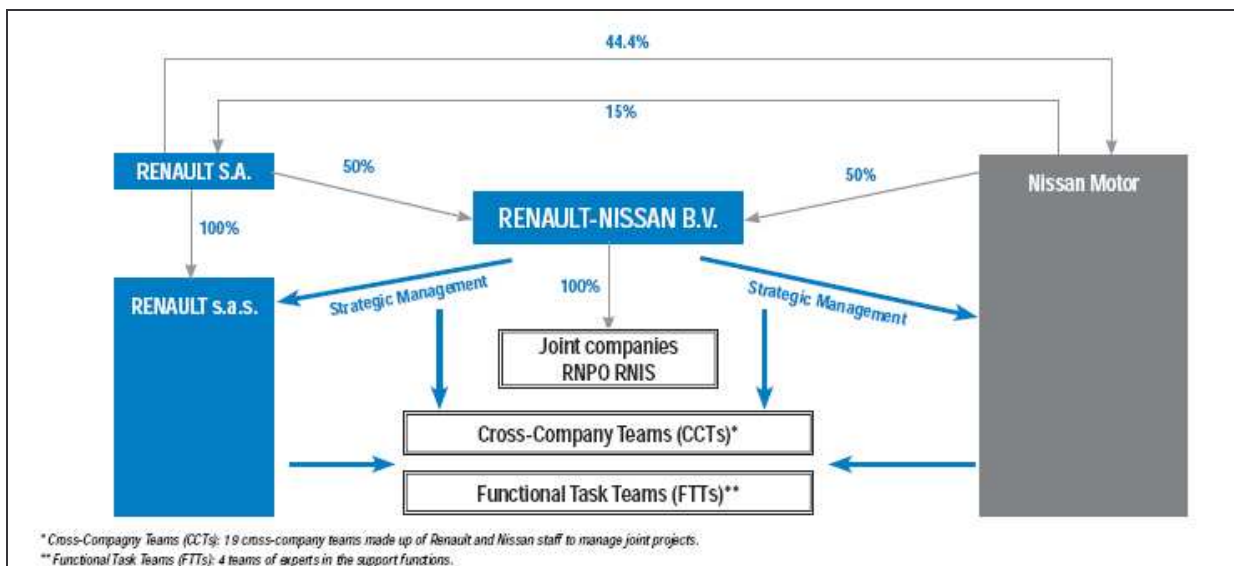
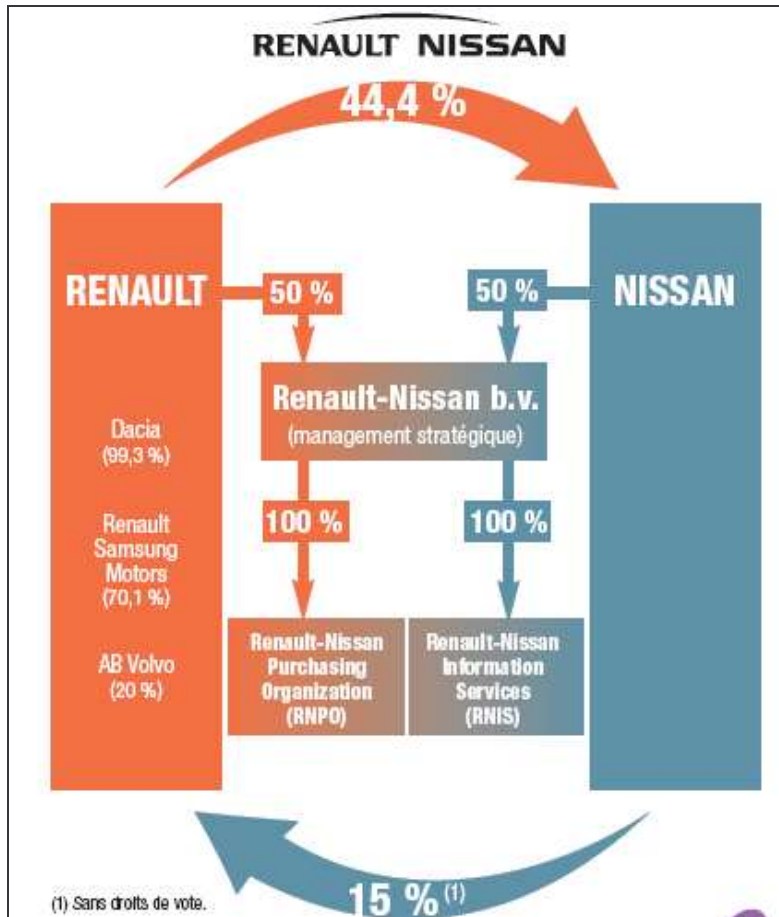
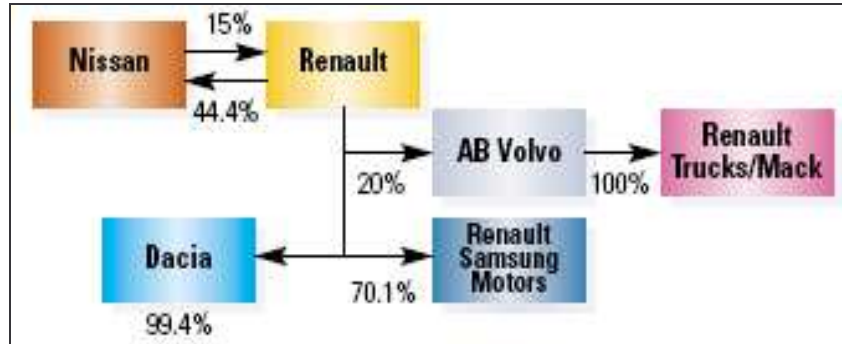
At global level, Renault-Nissan B.V.<sup>9</sup>, the common strategic management structure of the Renault-Nissan group, was founded on March 28, 2002. Incorporated under Dutch law, Renault-Nissan B.V. is equally owned by Renault and Nissan. Renault-Nissan B.V. is the registered office of the Alliance Board, which meets regularly in Paris and Tokyo.

The Alliance Board (AB) steers the Alliance's medium- and long-term strategy and coordinates joint activities on a worldwide scale. Renault and Nissan remain individually responsible for their day-to-day management. The AB is solely responsible for medium- and long-term planning (three-, five- and 10-year plans), joint projects in vehicles and powertrains, and for defining the principles of the two partners' economic and financial policies. It meets eight times per year. The President of the Alliance Board is the President and CEO of Renault and Nissan, Carlos Ghosn. The Alliance Board is completed by three other members from Renault and three other members from Nissan.

<sup>8</sup> On their website in January 2006.

<sup>9</sup> B.V. (Besloten vennootschap) is a closed limited liability company under Dutch law.

Figure 12. Global Structures



Renault-Nissan B.V. is the sole shareholder of the two existing Alliance joint-venture companies: Renault-Nissan Purchasing Organization (RNPO) and Renault-Nissan Information Services (RNIS).

The Cross-Company Teams (CCTs) and Functional Task Teams (FTTs) develop joint Alliance projects and report to the Steering Committees.

The Steering Committees (SC) steer Alliance operations. They meet roughly once a month, select priority topics for Alliance Board Meetings (ABMs) and speed up the decision-making process. They also coordinate Alliance-related activities in their area of responsibility and steer the CCTs and FTTs.

In November 2005, there were seven SCs:

- |  |
|--|
| <ol style="list-style-type: none"><li>1. Planning</li><li>2. Product Development and Manufacturing</li><li>3. Control and Finance</li><li>4. Sales and Marketing</li><li>5. Information Systems</li><li>6. Support Function</li><li>7. General Overseas Market</li></ol> |
|--|

### *Cross-Company Teams*

Cooperation structures are primarily based on the work of the 19 Cross-Company Teams (CCTs), made up of employees from both companies. CCTs explore opportunities for synergies between Renault and Nissan, draw up joint projects and monitor their implementation.

As in November 2005, the nineteen CCTs are:

- |  |
|--|
| <ol style="list-style-type: none"><li>1. Product Planning</li><li>2. Research and Advanced Engineering</li><li>3. Vehicle Engineering</li><li>4. Powertrain</li><li>5. Process Engineering</li><li>6. Manufacturing</li><li>7. Logistics</li><li>8. Purchasing</li><li>9. Light Commercial Vehicles</li><li>10. Parts and Accessories</li><li>11. Europe</li><li>12. Eastern Europe</li><li>13. Korea</li><li>14. China</li><li>15. Asia and Oceania</li><li>16. Africa and Middle East</li><li>17. Mexico</li><li>18. Central America</li><li>19. South America</li></ol> |
|--|

It is significant that there is no CCT for North America. It is apparently considered as a Nissan's monopoly.

### *Functional Task Teams*

Functional Task Teams (FTTs) assist the work of the CCTs and contribute to synergies between Renault and Nissan in support functions (processes, standards, management and information tools, etc.) in legal and tax, cost management and control, quality and research and development.

As in November 2005, the nine FTTs are:

1. Quality
2. Cost Management and Control
3. Research and Development
4. Legal and Tax
5. Corporate Planning
6. Communication
7. Human Resources
8. Marketing
9. Sales and Services

### *Task Teams*

Whenever a specific subject arises, a task team is set up and assigned to work on it until its accomplishment:

As in November 2005, there were four TTs:

1. Industrial Strategy
2. Custom and Trade
3. Business-to-Employee (B2E)
4. Home Market

The approach to the structural organization of the bi-national entity has been deliberately soft and cautious with project-based management orientation and a strong culture for results-based assessment.

### **Conclusion**

It is difficult to assess if the Renault-Nissan alliance is a success. According to Kwintessential Ltd<sup>10</sup>, “statistics show that the failure rate of most mergers and acquisitions lies somewhere between 40-80%. If one were to define ‘failure’ as failure to increase shareholder value then statistics show these to be at the higher end of the scale at 83% (Cnnfn.com 1999)”. And many business commentators are now acknowledging that failure does not have its roots simply in financial, monetary and legal issues but in lack of intercultural synergy. Research suggests that up to 65% of failed mergers and acquisitions are due to ‘people issues’, i.e. intercultural differences causing communication breakdowns that result in poor productivity. Morosini (1998) and Morosini & Steger (2003) emphasize that misunderstood national cultural differences have been cited as the most important factors behind the high failure rate of global JVs [joint ventures] and alliances.”

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<sup>10</sup> As published on its website.

In a survey carried out in December 2005 by Thomson Financial, and according to private equity professionals, the two primary reasons for failure of mergers and acquisitions is overpaying and poor post merger integration follow through.

**Table 4. Reasons for Failure of Strategic Alliances**

<b>Reason for Failure</b>	<b>Rate</b>
Overpaying	36%
Poor post-merger integration follow-through	26%
Poor pre-merger integration planning	16%
Lack of due diligence	9%
Lack of management buy-in	7%
Lack of shareholder buy-in	3%
Lack of employee incentives	1%
Others	2%

As the study points out, most of these reasons for failure have been avoided in the Renault-Nissan case. The only questions marks, largely unknown externally because obviously highly sensitive, are on three issues: diligence, management and shareholder buy-in. This might explain why visible achievements might be seen as relatively modest after nearly seven years.

It should be pointed out that it might prove to be a clever strategic choice for cautiousness and pragmatism in driving the operational side of the alliance. It is clear that the traditional “command and control” organizational model would have been inadequate to manage the complex set of relationships forming outside the direct control of the corporation, in particular to pay respect to cultural differences. From the failure of the merger with Volvo, Renault knew that misunderstanding national cultural differences would led to another failure since such differences are even higher between Japanese and French traditions than between Swedish and French cultures.

When looking at what has been achieved so far, one could make the following comments:

- The alliance-merger does not dramatically underperforms the industry after seven years;
- Unlike more than 60% cases, as cross-buyers, they did not destroy their own shareholders' wealth": they created value.

But as far as globalization is concerned, the alliance has not yet produced substantial tangible results. Most of the achievements in term of geography of sales are in the logic of each partner’s strategy. Nissan revival in North America is due to C. Ghosn’s revival plans. Renault’s scores in emerging markets are due to its industrial presence. The only remarkable growth that Renault owes to Nissan is its come back in Mexico.

On the paper, the alliance looks like forming a global OEM. The assessment of such a capability depends on the real integration of the two companies into one entity. Which is not yet the case! Which is not even the intent of the stakeholders! Each of them probably want to preserve their chance for an independent future. And they all know that a divorce is always possible – as demonstrated by GM-Fiat and DaimlerChrysler-Mitsubishi – when the

integration has not gone too far. In any case, if such a true merger would become a shared objective, it would take years!

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