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Management of a Complex International Alliance:

The Renault-Nissan Alliance Case

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1. Executive Summary

The Renault Nissan Alliance is one of the longest running and most successful alliances in history, in an industry in which many have failed. This paper analyzes the antecedents which brought Renault and Nissan together, kept them together despite turbulent economic and competitive conditions and the synergies which have resulted from the alliance. The decision to opt for an Alliance rather than an acquisition has its roots in previous relationships and in deference to cultural artifacts. The post-merger synergies which have been generated have justified and continue to justify the efforts made to make the marriage work. This is a story of a traditional post-war Japanese industry on the verge of collapse being forced to adopt international management practices to survive. Despite over 20 years of successful integration, it was the threat to cultural autonomy which has nearly torn the alliance apart. The Alliance is now facing fresh challenges as opportunistic behaviour has introduced mistrust between the parties and Nissan resorts to cultural embedded responses to protect itself from perceived threats and relational risks. It must now reinvent itself and address the pressing challenges of aging society, climate change, and autonomous vehicles.

2. Background

The Renault-Nissan Alliance (RNA) started in 1999 and through various evolutions continues today. It is one of the largest and longest running alliances in the automotive sector and as such provides a rich source of data on the nature of alliances, their success factors, and challenges. Studies of alliances, mergers, and acquisitions frequently open with a statement that between 50-80% of M&As fail [ref]. Revenue targets are not met, cost savings are not achieved, projected synergies fail to be realized. Attributes of failure range from corporate cultural dissonance, national cultural conflicts, and management failures.

An alliance is a “union, or association, formed for mutual benefit, between countries or organizations” (Oxford Languages), it suggests an equitable commitment between allies.

Although the relationship between Renault and Nissan is an alliance, not a merger or acquisition, the cross-shareholdings gave Renault the majority shareholding in Nissan (Renault acquired 43% of Nissan stock at a cost of \$5 billion USD, Nissan acquired 15% of Renault), which it exercised by installing Carlos Ghosn and several Renault Executives to the Nissan Board with voting rights, in May 1999. Nissan at the same time acquired 15% of Renault stock and received one non-voting Board position. Technically, the alliance was an acquisition, based on the shareholding and the allocation of power.

2 a. Motivated to Succeed

In early 1994 it was announced that Renault's plans for a merger with Volvo were terminated by Volvo. The merger would have made the new entity the 6th largest auto maker in the world, the negotiations had been ongoing since 1991. The failure was due to fears in Sweden that it was selling control of its state jewel to a French state-owned enterprise that might lack the concern for Swedish workers and the Swedish economy (Stevenson Richard 1993). The failure of the deal left Renault without an appropriate partner to compete in a global market which was becoming dominated by mega-merger partnerships confronting the huge costs in technology development required to address the environmental pressure on the automotive industry with strict emission controls.

Nissan was facing bankruptcy with debts of over \$19 billion USD in 1999 (Muller and Follow 2006). The state-owned Japan Development Bank extended an emergency loan of \$ 731 million to prevent the collapse of the firm. Nissan had suffered losses for 6 out of 7 years. Its product range was complicated with over 37 models offered, it was dated, and consequently, Nissan's sales had declined from global market share of 6.6% to 4.9% between 1991 and 1998. Its inventory in the US had reached such a crisis it was selling cars for \$1,000 USD less than comparable competitor vehicles.

Nissan's Japanese manufacturing plants were working at 50% capacity. Nissan's management structure did not compel accountability for performance, neither did it reward innovation for cost cutting. In 1998 Nissan was in discussions with Daimler regarding a 'business tie-up' to sell Nissan's heavy-truck manufacturing unit (New York Times 1998), but the discussions failed, leaving Nissan without options, facing potential business failure.

What were the perceived benefits which prompted the decision to form an alliance over a full merger or acquisition? Nissan desperately needed cash to maintain operations and Renault needed a partner to co-develop zero emission vehicles and to help the expansion into the US market it had exited 10 years earlier. and both were bouncing off failed negotiations. An alliance between Renault and Nissan, therefore, was the least problematic solution which would expedite an agreement with the least probability of failure, it wasn't necessarily chosen because it was the most beneficial solution for both parties. In many ways alliances are more difficult to manage than acquisitions. Both parties maintain greater autonomy and discretion over strategic direction. In the case of Renault Nissan, years later, the two entities still struggle to find agreement on critical issues (Akama Kenya and Shimizu Naoshige 2022).

Alliances facilitate shared investment in expensive technological development and geographic market expansion, for example, within a structured framework which allows each party to respond with more flexibility to the dynamic changes taking place in their key geographies. Renault was very strong in Europe and South America for example and Nissan's strength was in Asia Middle East and United States. Each jurisdiction is subject to different economic and political forces. There are salutary examples of acquisitions undertaken in locations in which the acquirer is unfamiliar, which have ended badly, such as the Toshiba acquisition of Westinghouse which has forced the once powerful Japanese titan into takeover discussions (Abe Tetsuya and Hosokawa Kotaro 2018).

"The greatest change in the way business is being conducted is the accelerating growth of relationships based not on ownership but on partnership." Peter Drucker, Keynote Presentation, Collaborative Commerce Summit, 2001.

After the failed attempts at merger and acquisition with Volvo and Daimler, Renault and Nissan were eager, or anxious, that these discussions were successful. The alliance structure provided an alternative with a higher probability of success. What is it about an alliance which made it a more appropriate model for the collaboration of two global automakers? The constraints of timing were clearly an issue for Nissan, they no longer had the luxury of time to negotiate a full or a partial merger which would have provided the investment required. KPMG (International 2017) identify speed to respond to disruption as one of the key benefits of an alliance, over a merger and Nissan were in urgent need of a quick solution. Renault recognized the leverage they had in the negotiations, but, according to Carlos Ghosn, they were more interested in a long-term partnership than in potential short-term gains and no doubt cognizant of the role the Golden Share played in the failure of the Volvo merger.

Other key benefits include:

- A lower risk option to achieve scale or access complementary capabilities.
- Access to strategically important partners which cannot be acquired.
- Ability to create an ecosystem of strategic relationships.
- Flexibility in fast changing disruptive market conditions.

The automotive industry is highly capital intensive, transformations come at a high price and the industry now is undergoing a major transformation to electric and autonomous vehicles. For manufacturers with limited capital in reserve, major transformations are unachievable.

Alliances offer a means of sharing the heavy costs of research and development and maintaining brand identity. The automotive industry is scattered with the wreckage of failed alliances and mergers: British Leyland, Daimler/Chrysler, Renault/Volvo, Jaguar/Ford, Nissan/Daimler. Successful mergers and acquisitions (Peugeot/Citroen/Opel, Fiat/Chrysler, Tata/Land-Rover/Jaguar, Volkswagen/Porsche) optimize synergies, expand market geographies, develop new technologies and reduce costly manufacturing and marketing programmes.

A standard car is composed of over 30,000 components, grouped into approximately 1,700 component groups. Some of those parts are manufactured by the car company, most are manufactured by outside manufacturers who, in turn, subcontract the componentry to smaller parts manufacturers. Car manufacture is technically complicated, requiring the collaboration and coordination of numerous parties working synchronously towards a common objective.

Car design is constrained by strict regulatory requirements and influenced by fickle consumer expectations. Strict safety and environmental laws which vary from country to country and between states within a country.

Cars are a social status symbol, a critical means of commuter travel and a source of pleasure. Car manufacturing is an important source of employment, a source of income for a city or state, a source of export revenue, and a symbol of a developing nation's right-of-passage as an 'industrialized nation'. Car manufacturing is technically, politically, economically, and socially complex, it involves multiple stakeholders across many countries who are directly and indirectly involved at every stage in a vehicle's life cycle.

In the context of this multi-layered complexity, the alliance of two major car companies, from different national and corporate cultural origins, is a major event with the potential to be a rich source of information on the management of complex international alliances.

2 b. Historical Context

The historical antecedents of the two firms have a bearing on their conduct many years later it is therefore important to review the origins of both firms.

i. Nissan Motor Co.

The Jidosha-Seio Kabushki-Kaisha Co. was formed out of several automotive ventures and the Datsun brand, in 1933 and soon became known as Nissan Motor Co., Ltd. (Millikin and Fu

2005). Leading up to the Second World War, Japanese industrial manufacturers were provided with financial incentives to support the military build up to war (Stevens 2008a). Nissan grew with the support of Government contracts during the war, and following the war continued to expand as Japan rebuilt and Government contracts continued. Unincumbered by the need to compete for contracts, financial profitability was neglected in favour of quality engineering and manufacturing processes. Nissan was old-school traditional Japanese corporate with a cosy relationship with Government. Nissan maintained life-time employment, promotion-by-attrition and, to maintain the Government relationships, it provided 'advisory' roles to retired members of parliament or fallen angels as they are known in Japan. Prior to Renault's appearance Nissan had been unable to swallow the bitter medicine that was required to turn the business around, because the social consequences: the necessary dismantling of Kieretsu, making workers redundant and closing under-performing plants, were too unpalatable. Its dependence on Government funding and support came at the cost of providing an iron rice bowl to the community that supported the firm. Renault's \$5.4 billion changed the balance of power.

ii. The Keiretsu Network

Car manufacturing requires the coordination of multiple sub-contracted manufactures supplying parts and semi-assembled components. In Japan the car manufacturer may have a vertical network of hundreds of contracted suppliers, known as a keiretsu, and named after the lead manufacturer, Nissan keiretsu. It will also have a horizontal keiretsu composed of a main bank, insurer, and trading companies (Stevens 2008a). The vertical keiretsu is hierarchical and rigid. The relationship first tier of the keiretsu will provide assembled componentry supplied by parts from second and third tier suppliers. The first-tier suppliers form sophisticated financial and resource relationships with the carmaker. Relationships from car maker to first tier supplier are reinforced on many levels by: loans for capital up-grades, equity share holdings, managerial and staff transfers, lending equipment for parts manufacture and long-term commitments to buy the supplier's output. In return, in Nissan's case, the car manufacturer could command exacting quality standards and punishing defect ratios. Consequently, Nissan was paying a 20-30% premium price for parts. With the multiple minority equity stakes in suppliers, Nissan had \$4 billion USD locked up in underperforming shareholdings and real estate assets (Stevens 2008b). During Japan's post war years of growth, to the end of the 1980s, the relationships ensured the supply of high-quality parts in an industry defining just in time supply chain. As the Japanese economy faltered and receded into the 'lost

decade’, the rigid dependencies of the vertical keiretsu network became a burden from which it was socially unable to resign. With a history of support from Government contracts, Nissan management lacked the business acumen and sense of urgency required to survive economic adversity without state support (Stevens 2008b) That support finally crumbled as Japan went into the economic crisis of the 1990s. The Nissan management structures, like the supply network, were rigid and hierarchical after years of reliance on relationship management rather than financial prudence. Management promotions were based on service longevity and relationships, rather than performance contributions [ref]. the engineering was still based on technological advancement, which is capital intensive, rather than cost cutting and increasing sales. By the company’s own account, Nissan focused on being the “Nissan of Technology”, as opposed to the “Toyota of Marketing” whose sales were in a prolonged period of growth from the mid-1990s to the global financial crisis of 2007-08. Nissan’s long collaborative relationship with the Government, regarded as the ‘darling’ of the Ministry of International Trade and Industry (MITI) (Stevens 2008b), is important in that it informs the management practices and perceived limitations on corrective actions necessary to save the company.

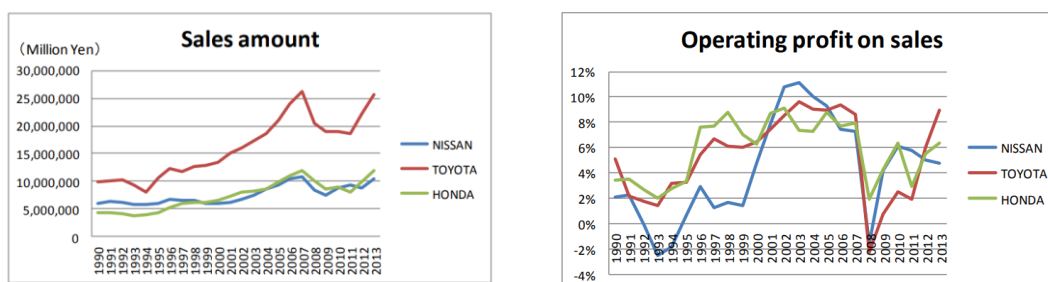


Figure 1 Sales and Operating Profits

Nissan’s focus on technology, such as low and zero emission vehicles, their disregard for normal financial performance metrics, and their conservative management practices, meant the company had limited means of controlling costs when Japan’s long period of post-war growth stalled in the late 1980’s and through the so-called Lost Decade of the 1990s. The firm had amassed considerable debt with its keiretsu partner banks. By 1998 Nissan faced 6 years of losses over 7 years and was facing potential bankruptcy with a debt of \$35 billion USD (Fig 1).

iii. Regie Nationale Des Usines Renault

Renault was formed in 1899. It gained the attention of the French Government during the First World War providing transport for soldiers and using its industrial factories to produce artillery

and weapons. After the Second World War, Renault's assets were confiscated and nationalized in response to 'detrimental' wartime activities (Sheahan 1960). Production was started of an inexpensive vehicle for workers and provide a critical source of work for the returned soldiers. In contrast to the support provided by the Japanese Government to Nissan, which contributed the lack of competitive practices, the French Government maintained a distance from Renault's operations, so long as the business was profitable and encouraged to export vehicles (Sheahan 1960). Renault was recognized for its robust profits even during the recession of the early 1990's Renault maintained a profitable business and was able to fund its automotive operations through its cashflow, which was rare in Europe and in stark contrast to Nissan's performance during the same period. In 1993 Renault's CEO Louis Schweitzer was awarded the prestigious CEO of the Year in the Prize of Industry Awards, after an increase in earnings of 85% from revenue increase of 8%.

Carlos Ghosn arrived with a pedigree in corporate turnarounds of struggling manufacturers. He led Michelin's South American operation from heavy losses to become one of its most profitable centres, through judicious cost-cutting and operational efficiencies. Ghosn then led the \$1.5 billion merger of Michelin's merger with Uni Royal-Goodrich in the US, to create the biggest tire manufacturer in the world. Ghosn was then head-hunted by Renault to turn around the struggling European business after the failed Volvo merger in 1991. That required several plant closures which were difficult for a state-owned enterprise. Ghosn had the experience necessary to lead a multi-national recovery plan of the 2nd biggest car maker in Japan. In addition to his automotive industry experience he had lived, studied, and worked in over 5 countries and was fluent in multiple languages.

The car industry has a long list of powerful and innovative leaders. Henry Ford, Gottlieb Daimler, Lee Iacocca of Chrysler, Enzo Ferrari, Louis Renault, Kiichiro Toyoda of Toyota to name a few prominent leaders. Among the notable leaders, Carlos Ghosn stands out not for developing a new car, or a faster car or a better manufacturing technique, but for one of the scale and speed of the turn-around of Nissan one of the world's biggest car makers, and the formation of an alliance which was in the top 5 manufacturers in the world by volume. Ghosn gave himself a 50/50 chance of success, others, even less (Mackintosh James 2004).

iv. Early Alliance Experience

In 1991 Renault and Volvo entered into an alliance agreement of shareholdings, joint production, research and development, board level participation. There was perceived potential

for synergy optimization in the areas of product development, purchasing, manufacturing and quality control. The synergies were estimated to have a value of \$10.5 billion USD over 9 years. The two firms share complementary competencies in market position, product lists and geographic locations. Additionally, the alliance would give the two firms sufficient scale to compete with the major carmakers in a global market which was becoming dominated by large scale M&A activity. The alliance was founded on cross shareholdings and a ‘poison-pill’ structured to discourage termination of the alliance. The French Government was planning to privatize 49% of its shareholding in Renault in 1994, but to maintain a Golden-Share which ensured a majority voting right. Because of the impact the sale of shares would have had on the value of the alliance cross-shareholding, the alliance was advised to prepare for the privatization which accelerated discussions of a full merger. The presence of the Golden Share caused the Board of Volvo to reject the merger proposal, ending the alliance and leaving Renault looking for an alternative partner to ensure their global growth strategy.

3. Literature Review

The success of the Renault Nissan Alliance (RNA) has been upheld as a model for international corporate alliances, in the context of the high rates of failure in M&A activity. After 24 years the relationship still survives, albeit in a new stage of evolution as the power balance changes to reflect the changing status of each party in changing economic times, this makes a contemporary analysis of the relationship very timely. The Renault Nissan Alliance takes place in a complex economic political, social, and cultural environment. Both companies are major international automotive manufacturers with extensive networks of manufacturing and sales across diverse geographic and cultural jurisdictions.

Studies of RNA fall into the broad categories of leadership (Millikin and Fu 2005; Stahl and Brannen 2013; Toma Sorin-George et al. 2016), post-merger integration (Ovseiko et al. 2015; Teerikangas and Thanos 2018; Yang et al. 2019; Schweizer et al. 2022), corporate and national culture (Stevens 2008a; Mikami et al. 2022), competence and resource-based theories (Das and Teng 2000; Čirjevskis 2021).

a. Leadership

The story of the Nissan Renault alliance and the Nissan turn-around, is the tale of two eras of leadership. On the one hand, Nissan, bound by tradition, at the centre of a complex keiretsu arrangement, once regarded as the ‘darling’ of the Ministry of International Trade and Industry (MITI) during the post-war re-building of Japan (Stevens 2008a), trying and failing to

implement change, for fear of conflict with strong unions, the keiretsu upon which local communities were dependent and a Government that would not disrupt social harmony. And, on the other hand, Renault, recently shaken by the failure of an anticipated merger with Volvo, desperate to find a partner with the technical capabilities necessary to address transformations shaking the 21st century automotive industry (zero emissions, autonomous vehicles, digitization) and a partner who can support Renault's need for geographic expansion.

BCG's study of 1,400 turn arounds over a 13-year period emphasize the need for bold CEO actions to overcome the high rates of M&A failure. Speed on action is the single biggest determinant of M&A success. Their study indicates that turn-around actions taken within the first 12 months of an M&A closing results in 12% greater value in total shareholder returns (TSR). Fast action releases capital and boosts investor confidence (Faeste et al. 2019).

Carlos Ghosn understood the need for decisive action, and he needed the staff to develop the recovery plan to ensure that they were committed to the firm's future. In preparing the revival plan he spent a lot of time listening to staff, not only the executive management, which had presided of the imminent failure of the firm, he preferred to listen to the designers and engineers who were making the vehicles upon which the future of the business depended. Nissan was in a precarious position in early 1999 when the Alliance agreement was signed. The company was \$19 billion USD in debt, manufacturing plants were being operated at 50% capacity and sales falling year on year. In empowering the contribution of staff to the development of a Revival Plan, Ghosn established, *"One rule: no sacred cows, no taboos, no constraints."*

The impact of Ghosn's actions on Japanese culture and business resonated well beyond Nissan. Ghosn announced the Revival Plan within six months of arriving in Japan. The plan outlined: closing five plants in Japan, eliminating 21,000 jobs, issuing stock options to incentivize good performance and the sale of underperforming assets.

The Revival Plan was simple but shocking in its impact on critical pillars of Japanese culture: life-time employment, the social contract of a Japanese corporation with its local community, and the critical keiretsu network of affiliated suppliers (Tiberghien 2007)

Ghosn realized that Nissan was suffering from a lack of vision and persistent failure of the firm to listen to the voice of the customer. The negligent management that he observed which led to the firm's fragile condition were included: the absence of a profit motive, an obsession with beating the competition to the exclusion of addressing customer's wants, no sense of urgency, no long-term planning or shared vision, siloed relationships between businesses and between

geographies (Millikin and Fu 2005). Ghosn's leadership of the revival addressed these critical weaknesses in Nissan management and his philosophy of leadership can be summarized in the following five principles:

1. Listen, meet the workers on the ground
2. Analyze in depth
3. Intra-company silo busting through Cross Functional/Cross Company Teams
4. Removing all obstacles to performance
5. Ambitious goals in a multi-year plan which is clearly articulated to staff and shareholders

Carol Gill (Gill 2012) draws a useful comparison between the leadership styles of Carlos Ghosn at Nissan and Rolf Eckrodt of Daimler who was leading the Daimler Mitsubishi merger in Tokyo at the same time, which lasted only 69 months and ended in failure. Where Ghosn was able to empower and engage with staff from the design studios and the factory floors through the introduction of the cross-functional teams (CFTs) to ensure that revival was in the hands of the staff, Eckrodt remained aloof. Eckrodt didn't introduce teams to extent Ghosn did, and he didn't empower them (Gill 2012).

b. Complexity Theory and Leadership

Complexity Theory posits that all systems are in a continual state of evolution, which are not predictable, and are prone to patterns of fluctuation (Psychogios and Garev, 2012). Complexity Theory regards organizations as complex adaptive systems, of which construction projects are a class of temporary organization in which numerous actors are engaged in 'non-linear, unpredictable and constantly emergent behaviour' (Baruti, 2015). The study of complexity brings a vital perspective to the dynamic interactions which are fundamental to leadership in a complex context (Uhl Bien et al 2007). Complexity Leadership Theory, as presented by Uhl Bien et al (2007), differentiates between leadership and leaders. Leadership being an emergent interactive dynamic which facilitates necessarily adaptive outcomes, and leaders as the individuals who act in ways that influence this the interactions and the outcomes.

Complexity demands higher levels of leadership. Complexity Leadership Theory (Uhl Bien et al 2007) acknowledges that leadership is more than the interaction of one or more individuals, it is the interplay of multiple dynamic forces. The ability to identify and interpret complex data and respond in a contextually appropriate manner. A contextually appropriate manner may mean not responding with instinctive impulse, but through the balanced consideration of the data and resources available, learning quickly, and responding at the pace required of the time.

Pye (2005) refers to the adaptive leader's ability to respond flexibly and to utilize the resources, as 'sensemaking' (Pye, 2005). Leaders who are flexible in their ability to evaluate and assess a situation know when to rely on the input of others and when they can trust their own judgement. The strong emphasis on organizational commitment of authentic leadership make the construct an attractive proposition for the study of leadership of complex projects.

c. Post-Merger Integration: Generating Synergies

i. The Importance of Cross Functional and Cross Country Teams

The introduction of the silo-busting cross-functional (CFT) and cross-country (CCT) teams was a central feature of Ghosn's Nissan Revival Plan, introduced in March 1999. These teams of 9-10 people were overseen by 2 executives each of whom were outside the task of the CFT. This forced communication between otherwise uncooperative business silos. It is also said that the alliance is a collaboration *within*, rather than *between*, multi-national enterprises (Mikami et al. 2022). The CFTs addressed a pressing issue of accountability that Ghosn uncovered within the first 90 days. Business units were never held to account for poor performance. Sales would blame marketing; marketing would blame design and nobody could blame the heavily empowered engineering team who were given free rein to act with impunity. The CFTs are a significant synergy that Ghosn has exploited, which was based on his experience with Michelin in Brazil and which he also refined at Renault in Europe.

ii. Boundary Spanning Activities

Boundary spanning is a set of communication and coordination activities performed by individuals and groups within and between organizations to integrate activities across institutional, cultural, and business functional contexts (Santistevan 2022).

Boundary spanning is the lateral bond which facilitates synergies to be realized within and between organizations. It is critical to the success of merger activity, but it is difficult to achieve and requires planning and constant governance. The outcome of effective boundary spanning is the ability to achieve highly technical operations which can only be achieved if activities are being synchronized to work consecutively, and not sequentially, as occurs in a dis-integrated environment. The synergies are measurable in time and money saved, the reduction of re-working and in the finer tolerances which can be achieved in engineered solutions.

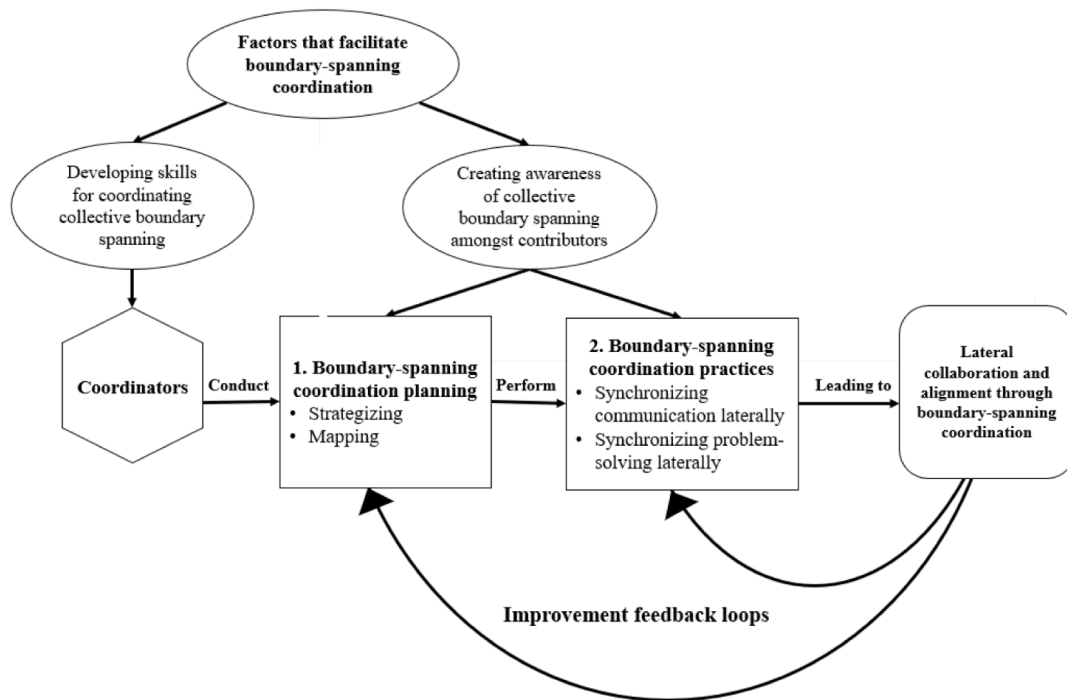


Figure 2 Boundary Spanning-Santistevan 2022

In boundary spanning (fig 2) between multi-national organizations operating in a project based economy, that is, a business that is reliant upon continual renewal of product line and all of the upstream, design and development, and down stream marketing and sales that are required to coordinate around the launch of a new product, it is critical to maintain constant governance over the activities of the network to ensure that it maintains flexibility and agility in both creating new solutions and responding to solutions created by others(Santistevan 2022). Ghosn recognized that the structure alone was not sufficient to achieve the continual feedback and

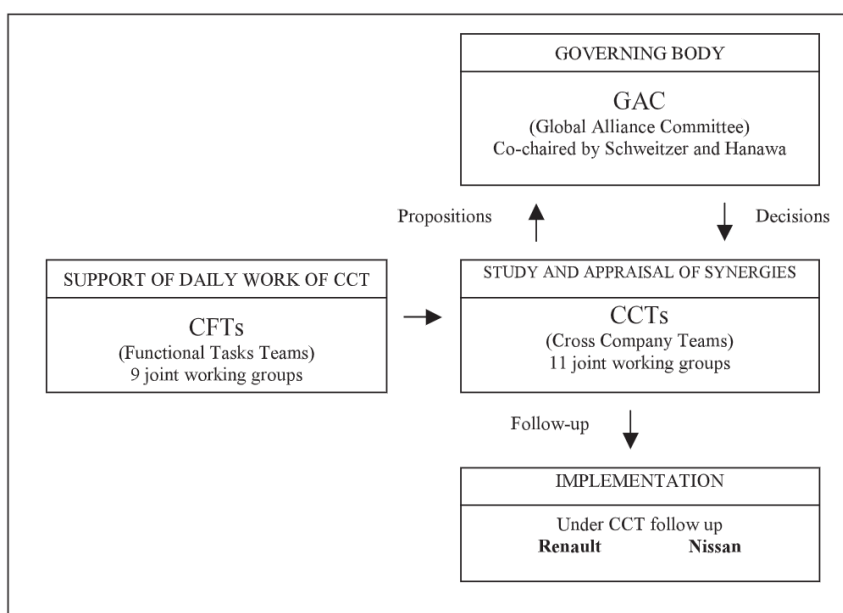


Figure 3 Nissan Renault CFT/CCT Structure

improvement necessary to extract synergies from a very complex operational process. To address this, he created nine cross-functional and eleven cross company teams, each composed of 9-10 staff. Each CFT and CCT was overseen by 2 executive managers neither of

whom were from the teams they oversaw. Those executives reported monthly to the COO and the whole CFT CCT team network would meet with the CEO/COO on a quarterly basis, understanding that the knowledge transfer is a two-way process and that information from the executive would also be passed down to the working teams. The objective was to ensure maximum knowledge transfer throughout the firm and articulated in a manner which is comprehensible to the whole business.

Figure 3 describes the CCT/CFT structure which Ghosn implemented in the Alliance shortly after taking office. Consistent with (Santistevan 2022) boundary spanning concept, Ghosn has implemented both a feedback loop and a governance mechanism. The feedback loop ensures the alignment of CFT and CCT activity with the overall corporate strategic plan and the follow-up governance ensures that the outcome is executed in accordance with the agreed proposal. However, it is important to note the absence of a two-way arrow between the CFT and the CCT, which would be a more accurate representation based on Ghosn's own description of the team functions. Another important feature of the RNA Alliance, which defines it as being intentionally different to an acquisition is the maintenance of brand identities of both car makers, despite the success in pursuing synergies of sharing parts and components, RNA was able to clearly differentiate between the two brands. During the failed Volvo Renault merger, it was revealed that Volvo Board members had expressed concerns that Volvo was being subsumed into the state-run Renault entity (Carlos Ghosn 2003). As the crown jewel of Swedish industry, the potential loss of brand identity was unpalatable to Swedish stakeholders.

iii. Maximizing Inter-company Synergies: The Common Module Family

The development of the common module family (CMF) is an example of the synergies achieved through the improvement in communications. The CMF is a platform which allows for multiple vehicles to be developed using not only a common chassis but modularized cockpit, engine bay, electronics, and under-body (Fig 4). To achieve inter-operability with such a complex system requires very fine tolerances in design and manufacturing.

In 2012 when the CMF system was introduced annual cost savings jumped 54%. Engineering and process cost savings were estimated to be 30-40%. And spending on parts reduced by 20-30%. The two companies planned to reach 50% sharing of car parts of within 7 years (Mathieu Rosemain 2013).

COMMON MODULE FAMILY (CMF) : 4+1 BIG MODULES

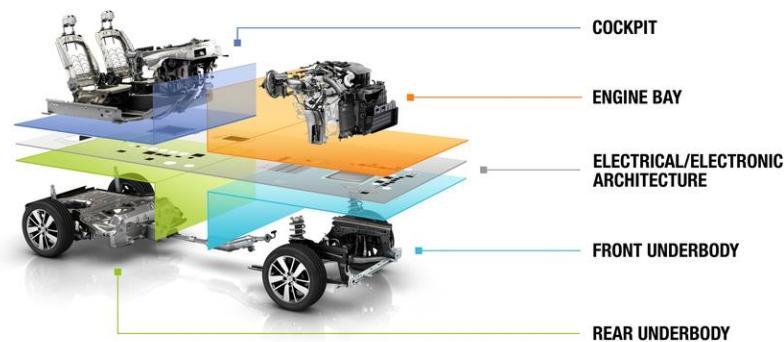


Figure 4 Common Module Family-Nissan Renault

By 2014 the CMF programme together with the convergence of synergies in the four key functions of: Engineering, Manufacturing and Supply Chain Management, Purchasing and

Human Resources were generating US \$3.8 billion annually in savings, up 32.4% from 2013.(Green Car Congress 2015)

iv. Institutional Theory: Knowledge Transfer between and within the Renault-Nissan

Multi-national organizations confront a multitude of institutional forces. To operate with legitimacy an organization must understand regulatory requirements of each jurisdiction it operates in. To attract and retain key staff it must understand the normative forces that will influence staff decision making processes, for example. To be competitive, the organization must be able to transfer knowledge from one location to the next.

In an international environment, an organization might be interacting, co-operating or partnered with various organizations which follow different and possibly conflicting institutional regulations and norms. To enable efficient operations a firm must be able to understand the institutional foundations of its partners and adapt to them.

Institutional theory maintains that institutions are subject to three forms of pressure and influence: Regulative or Coercive, Normative and Cognitive or Mimetic influence (Fig 5). Institution theory posits social circumstance and environment can significantly affect the development organizational structure in a more significant manner than market influences (Koh and Ebrahimi 2021). Ghosn's observation that Nissan was paying more attention to its competitors than it was to its customers supports an understanding of how much influence institutional forces, as opposed to market forces, will impose on institutional behaviour, even if that behaviour is detrimental to the members of that institution.

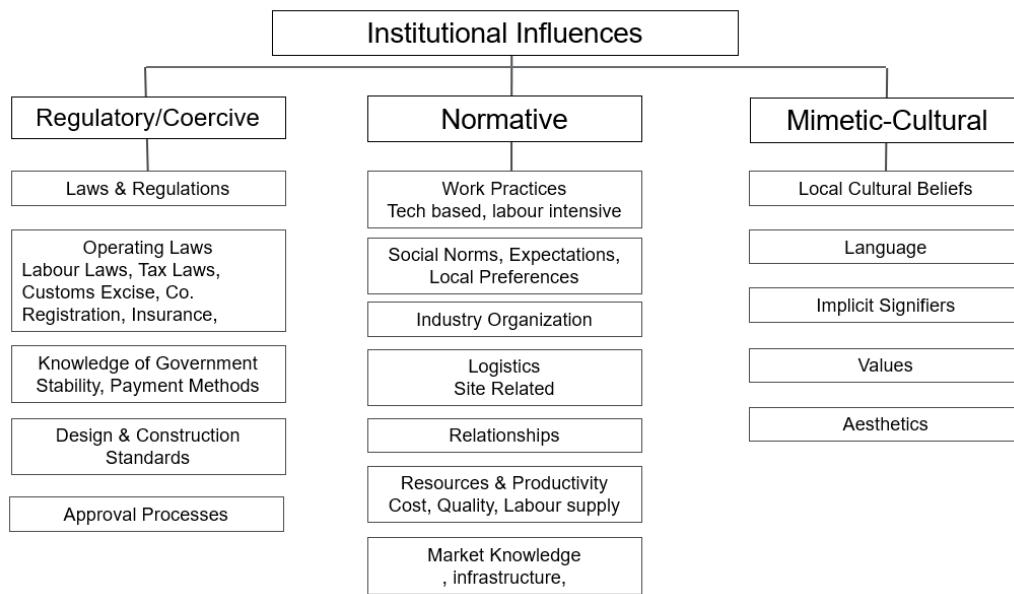


Figure 5 Institutional Influences

Central to the premise of institutional theory is the importance of knowledge transfer within or between institutional entities. Argote et al. (2000) note that, “Organizations that are able to transfer knowledge effectively from one unit to another are more productive and more likely to survive than those that are less adept at knowledge transfer.” Despite the incentives of higher productivity and lower risk, knowledge transfer is difficult to achieve even within a single organization because the cultural forces of association work even at the business unit or departmental level. It is easy for potential synergies to be lost.

In the case of a corporate merger the potential gains which can be made if inter-corporate knowledge transfer can be achieved early in the process are a key consideration in the pricing and approval of M&A activity. Ghosn recognized the potential well before the alliance took place, it was a key driver of Renault’s failed Volvo proposal, the need for Renault to partner with an automaker with advanced technology in zero emissions and in efficient manufacturing. Nissan was renowned for its electric car development, which later would appear as the Leaf, the best-selling EV in Japan. Nissan’s factories were also the models of efficiency from which Renault was hoping to revitalize its own manufacturing plants. But to achieve these synergies there needed to be some considerable improvements in knowledge transfer and communication.

v. National Culture and Corporate Behaviour

Hofstede suggests that Japanese collectivism is expressed in corporate loyalty, unlike other Asian cultures in which collectivism is expressed within the family. The longevity of service and the perceived difficulty in terminating staff are demonstrations of this concept. The intense focus on beating the competition, to the exclusion of listening the voice of the customer, is a further example of Hofstede's dimension of masculinity (Fig 6) "In corporate Japan, you see that employees are most motivated when they are fighting in a winning team against their competitors." (Hofstede 2023)

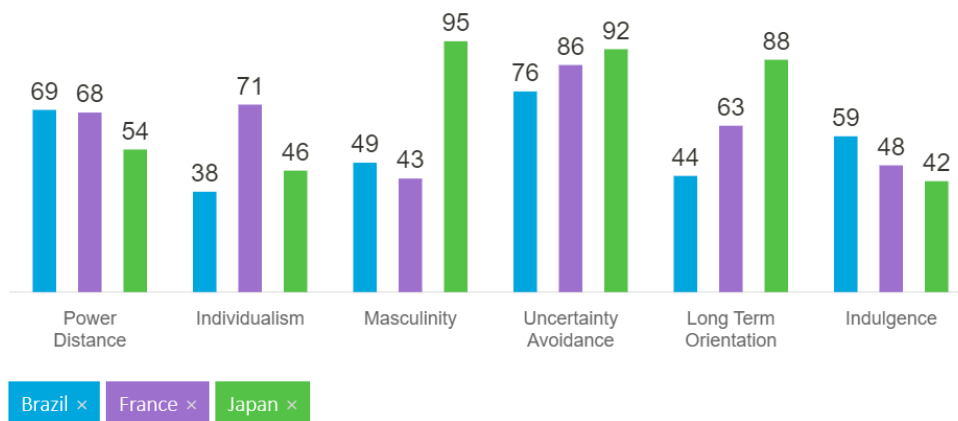


Figure 6 Hofstede's 6D Model

Although Nissan was losing the race with Toyota and Honda, none-the-less, the sense of competition was deeply instilled, both internally and externally. Communication between business groups and between international teams had deteriorated, creating a critical lack of knowledge transfer that delayed delivery schedules and created the risk of abortive work. It was clearly a major risk to Renault's plans to learn from Nissan, if information could not be effectively circulated within Nissan, there was no chance it was going to be shared with an outside party. Ghosn moved swiftly to implement cross-functional teams (CFT) which ensured that synergies which existed within Nissan were being captured. He also implemented the cross-company teams (CCT) which created a pipeline of communication across international borders and ensured that both Nissan and Renault would benefit from the exchange of information.

The consequences of cultural differences that influenced the Alliance may best be seen in the aftermath of the 2018 expulsion of Carlos Ghosn from the CEO role. It is one of the most stunning reversals of fortune in modern corporate leadership. Ghosn occupied a special place in Japanese culture as the saviour of a national treasure. As described by Jean-Baptiste Duzan,

Renault's corporate controller, "When I am walking with him, I feel like I am walking with a demi-god, especially in Japan. People will touch his clothing as if to cure an illness." (Muller and Follow 2006).

There are two conflicting consequences from this for which Hofstede provides some explanation. Ghosn was known for his punishing work ethic and the rigorous pursuit of results. Both characteristics which are highly respected in Japanese culture, but Japan saw Ghosn also as 'on their side, fighting and winning for them', consistent with Hofstede's analysis. That adoration and respect comes with a condition that 'we are all on one team', everyone is contributing equally to the best of their abilities and taking only according to their needs. Ghosn saw himself in a bigger global context as the most accomplished CEO in global automotive manufacturing, and in accordance with Hofstede's analysis of Brazilian cultural indulgence, unlike Japanese, Ghosn liked to display his status and wealth publicly.

Ghosn was the highest paid executive in Japan, by a large margin, but he was not in the same income league as the top American executives with whom he compared himself. Finally, it was this cultural conflict which was used against Ghosn when he was arrested for trying to conceal personal income in a sophisticated structure. During the very public discovery process it was revealed that he had rented the Palace of Versailles for his wedding anniversary, at Nissan's expense, had homes in multiple countries and that he had commissioned the design of a large yacht. Standard activities of the very powerful in the US or Europe, but expressions of greed and selfishness which are not accepted in Japan. The personal cultural dissonance however, obscured the even bigger cultural misalignment which was the Renault's plan to fully merge the Renault and Nissan entities into one to facilitate the next stage which was integration of the Alliance with a major American automaker and become the biggest manufacturer in the world.

Nissan, like Volvo before them, balked at the possible loss of Japanese identity and took umbrage that the man they had revered as saviour and 'one of them' was planning a grand scheme, the primary beneficiary of which would have been Renault's majority shareholder, the French Government. Nissan, under advice from the Ministry of International Trade and industry, ensured that was out of the question. As of January 2023, Renault has been forced to reduce its stake in Nissan from 43% to 15% to match Nissan's stake in Renault (Economist 2018). Trust has been undermined, and the charismatic leadership of Ghosn has been lost. It will take a great effort to maintain the synergies the Alliance once enjoyed.

4. People Management: Strategies and Recommendations

There is an American saying, “You can’t unscramble the egg.” Referring to a point in a merger at which the performance of both parties cannot be separated from the performance of the alliance. Renault and Nissan reached that point around 2012 when purchasing, logistics and parts were fully integrated in the modular platform, common modular family platform.

The Nissan acquisition of a 34% stake in Mitsubishi in 2016 further complicated the relationship and provided Nissan with another anchor to its Japanese cultural roots.

a. Trust: Maintaining Focus

The aftermath of the Ghosn dismissal and the end of the full merger plan has taken the Alliance to a new stage which is potentially a step backwards. Trust has been undermined. Das and Teng (2001) stress the two primary sources of downside risk in a strategic Alliance-relational risk and performance risk. Relational risk relates to partner co-operation and performance risk to the alliance performance. Relational risk is a consequence of insufficient cooperation arising from opportunistic behavior on the part of the partners (Das and Teng 1998). Perceived relational risk can be reduced by the development of goodwill trust, which can be developed over time. Das and Teng suggest that relational risk can be mitigated by the introduction of behaviour controls, otherwise known as process controls, as the process focuses on eliciting the desirable output. To this end, it is important that Nissan and Renault maintain the close governance of the CFTs and CCTs, as it is at this level that information is shared and therefore the consequences of misplaced trust are highest. There have already been concerns raised by Nissan regarding Renault’s use of Nissan IP in relationships between Renault and Geely, for example. To reduce the level of relational risk and the threat of opportunistic behaviour, which is felt by Nissan, and which Renault must now overcome, it will be critical that Renault demonstrate that they can be trusted to respect the covenants of the Alliance. It will also be important that Renault demonstrates goodwill towards Nissan. The first tentative steps have been taken in inviting the investment of Nissan in Renault’s EV programme, Ampere, with a long-term goal of having Nissan become a strategic shareholder.

b. Removing Indecision

Indecision is frequently a consequence of a lack of control, or the ceding of control to a more powerful force. Japan is famous for its slow deliberations and implied consensual decision-making process. The concept of *nemiwashi* or ‘homework preparation’ before decision making

is critical to reaching consensus. This writer spent 20 years in management in Japan and I question the notion that decision making is consensual, it can also be construed as coercive, and the critical *nemawashi* period before a major decision is important in ensuring that the desired response is elicited from the constituency by the most powerful in the room. The *nemawashi* process is a very positive process which is effective in ensuring that all parties are well versed in a subject before moving to a following stage. Tiberghien (2007) describes MITI's (METI)'s attempts to influence government reform. Their influence is ubiquitous in Japanese industry. France, on the other hand, 'acts first, and justifies later'.

Between the two diametrically opposed positions there is an opportunity for a hybrid and very powerful process which incorporates aspects of both cultures in the timely, and informed, process of decision making. The French education system traditionally emphasizes individual critical thinking and philosophical discourse. Typical questions in the public *bac* exams at primary level, would be, "Is human freedom limited by the necessity to work?" The emphasis on individuality encourages the spontaneous and self-confident decisiveness. Japan on the other hand, emphasizes the collectivist harmony of society, and the repression of self-interest to the benefits of the group.

Both communities would benefit greatly by sharing in the education system of the other. A greater focus on the interests of the group in France and the encouragement to express a personal opinion in Japan would be to the collective benefit of the Alliance.

c. Safeguarding the Achievements of the Alliance

Before the alliance was formed, Nissan was managed as a series of fiefdoms. Siloed business units, hierarchical management, promotion by seniority and little or no acknowledgement of contribution made by the individual. As Nissan tries to reduce the influence of Renault, it will be important that the gains made in design initiatives and innovation are not lost if Nissan recedes back into its old ways of working. This is a critical point of focus for the mixed Nissan Renault Board. To maintain a focus on meritocratic management practices the inclusion of an HRM as a permanent Board position provides the level of gravitas and attention required of the position.

d. Listening to the Next Generation of Customers and Managers

Japan's population continues to shrink and to age. Finding the next generation of leaders in Japanese business should be at the front of every CEO's mind. The loss of life-time

employment and security has seen young Japanese turn to more entrepreneurial careers over which they have greater personal control. It is a task incumbent upon all major employers to attract youthful talent into positions of management and operations. Advanced manufacturers such as Nissan and Renault are now partnering with metaverse and social media giants to develop the next generation of vehicles. A criticism of Nissan has been its failure to listen to the customer. As the customer for the next generation of vehicles, is also the pool of future management resources, it is important that Nissan establishes a working relationship with the education sector to both attract and try to understand the future generations upon which it is dependent.

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