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Professor Dr. Peter Fung

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**Market Entry Strategy
For Renault in Japan**

John Mortensen

Student ID No.:2134211

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1. Executive Summary

The automotive industry is highly capital intensive. Transformations come at a high price and the industry now is undergoing the biggest transformation since the invention of the assembly line, the change to electric and autonomous vehicles. For manufacturers with limited capital in reserve, the transformation will be unachievable on their own, they will have to form partnerships to share the costs. Partnerships offer a means of sharing the heavy costs of research and development. But partnerships are difficult to manage, there have been many failed mergers and acquisitions: British Leyland, Daimler/Chrysler, Renault/Volvo, Jaguar/Ford, Nissan/Daimler. However, a successful merger or alliance, (Peugeot/Citroen/Opel, Fiat/Chrysler, Tata/Land-Rover/Jaguar, Volkswagen/Porsche) optimizes synergies, expands market geographies, develops new technologies and reduces costly manufacturing and marketing programmes.

Renault is a mid-sized French auto-maker. With a strong reputation for design innovation in Europe, but without a presence in the important markets of the US and Asia. Renault has been through a ruthless cost cutting programme and improved manufacturing efficiency and profitability. Renault is anticipating the industry transformation and knows that it can't afford the billions of dollars required to transition to electric vehicles. They know that an acquisition, merger or alliance is essential and that time is running out as they have wasted 3 years negotiating with Volvo, who reneged at the last minute.

Renault needs to act quickly while its performance is strong and they have cash on hand. If Renault can find a manufacturer in Asia who has already invested in electric vehicles, they will gain access to the valuable Asia markets, and the transformational technology.

Nissan is on the verge of bankruptcy with debts of over \$30 billion USD. Its designs are out-of-date, sales are declining year on year. It has invested heavily in developing the Leaf, Japan's most popular electric car. Nissan has a big global network.

2.0 Background

In the three decades up to 2020 the transport sector in the EU was expected to reduce CO₂ emissions by 40% to meet Kyoto Protocol commitments. In fact, emissions increased by 32%. Cars contributed 43% (Pardi 2022). Renault is a mid-sized European manufacturer, but its investment in emission limiting technology lags behind the auto giants, Daimler Benz, PSA and Volkswagen. Renault needs to partner with a manufacturer who has already made the big investment in engine efficiency improvements and achieved the necessary emission reductions.

2.1 The Failure of The Renault-Volvo Merger

Volvo was an early partnership target. Financially struggling, but with a reputation for quality design and manufacturing, a merger with Volvo would create the world's 6th largest auto maker. Negotiations progressed for three years, until suddenly, Volvo terminates discussions. The fear of losing the Swedish crown jewel to a state-owned French enterprise is too much for Volvo's Board, who have been kept at arm's length from the negotiations by a CEO eager to make a deal. Renault is majority owned by the French state, the Volvo Board doesn't believe the welfare of Swedish workers or the Swedish supply chain economy, will be protected if there is a drop in the market (Stevenson Richard 1993). Volvo cancels negotiations.

The failure of the Volvo merger leaves Renault without a suitable partner to compete in a global market dominated by mega-merger partnerships. The industry is confronting the huge costs in technology development required to address the strict emission controls and environmental pressure on the automotive industry.

2.2 The Importance of Electric Vehicle Development

The transition to electric vehicles requires an even bigger investment in research and development than the low emission vehicles. The combined budget announced by German manufacturers, Daimler Benz, BMW and Volkswagen is \$185 billion USD through to 2030. A Reuters survey of all car makers calculates a global spend of \$515 billion USD is collectively budgeted through to 2030, with no likelihood of a return to profitability for several years (Lienert and Bellon 2021). Renault is a medium sized manufacturer by comparison with its European competitors, it does not have the financial capacity to develop an electric vehicle alone.

2.3 The Technical Superiority of the Japanese Auto Industry

The Japanese auto industry transformed global auto manufacturing. Japanese manufacturing processes enabled the production of cars faster, at lower cost and higher quality than its American and European competitors. Expanding overseas, Japanese manufacturers, led by Toyota, had pioneered 'transplant' manufacturing capability to overcome the protective regulations which had been imposed in Europe and America. The Japanese automakers were able to produce cars up to \$800 USD cheaper than their competitors in the US. In 2021 Japanese manufacturers held a 38.5% share of the American market, up 8.6% from 2020. In the US, years of competitive price cutting has left the US car manufacturers with thin operating margins.

Ford CEO, Jim Farley, expects there will be further consolidations necessary in America to meet the extraordinary costs of transition. Farley sees the Chinese manufacturers winning the race to profitable EV vehicles (Wayland 2022). In Europe, Q1 2023 car sales have rebounded year on year, up 12% from 2022, with EV sales up 30% (Bekker 2023) . Renault Groups market share has declined to less than 10% 2022, a drop of 2.9% from 2021 (Bekker 2023).

Japan poses both a threat, and an opportunity for Renault. Japanese manufacturers offer the opportunity to improve zero emission engine design and manufacturing efficiency. For Renault the Japanese carmakers also offer the opportunity to enter the growing markets of Asia and the Middle East that are dominated by Japanese manufacturers. And, critically, Japanese car makers like Nissan are ahead of their European and American competition in research and development of electric and zero-emission vehicles. As new regulations were being introduced by governments around the world to reduce CO₂ emissions. Europe has been approximately 10 years behind the US in reducing emissions (Pardi, 2022).

2.4 Nissan's Adversity, Renault's Opportunity

In Japan, Nissan was facing bankruptcy with debts of up to \$35 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 suffered losses for 6 out of 7 years. Sales had been declining year on year due to an outdated product range and over 37 models which was too complicated for consumers. Nissan was a leader in manufacturing quality and technical research. The attention to quality created a premium cost, but the out-of-date designs were not popular. Nissan's US sales have been in decline for years. Nissan has robust production

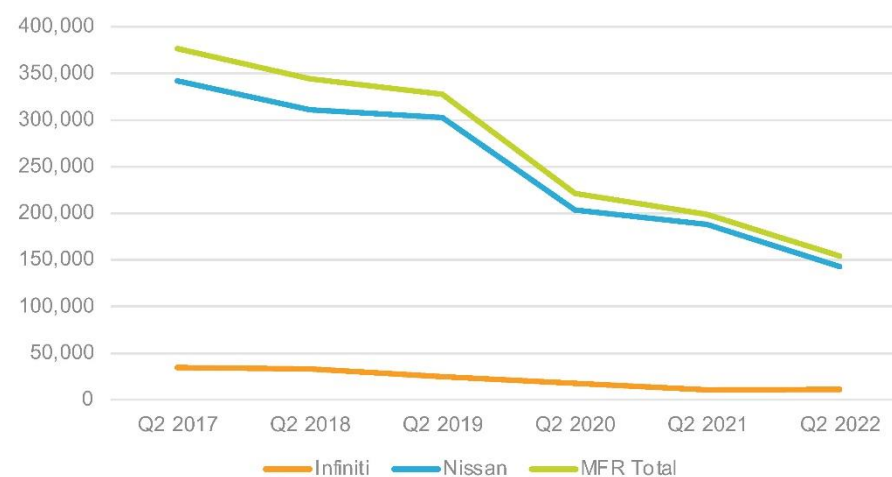


Figure 1 Nissan Quarterly Sales

capability in the US in three assembly plants in Tennessee and Mississippi supported by a robust distribution network. However, the Nissan brand still languishes in 100th position well behind its main

competitors: Toyota, 10th, Mercedes Benz 11th, and Honda 49th in brand awareness (SyncForce,

2022). Forbes highlight that the Nissan brand message has become, “Let’s Make A Deal” (Light, 2019). Previous CEO Carlos Ghosn, stated that Nissan needed to offer incentives of \$1,300 USD to attract a buyer.

Nissan had also been in acquisition discussions for the sale of Nissan’s heavy-truck manufacturing unit (New York Times, 1998). The discussions with Daimler-Benz failed, leaving Nissan without options and facing potential business failure.

Nissan needs cash to avoid bankruptcy, Renault needs a partner to co-develop electric and zero emission vehicles.

2.5 An Appropriate Form of Agreement

Both parties are bouncing off failed M&A negotiations, this relationship must work. Choosing an appropriate form of partnership will be critical to maintaining the support of stakeholders who include the Governments of Japan and France and historically conservative Board members. A merger or an acquisition may take months, or even years to finalize. An acquisition by a foreign entity would be very difficult to sell to Nissan shareholders.

An alliance provides structure without the constraints of a merger or acquisition. An alliance can be agreed quickly and will provide sufficient flexibility to adapt to a diversity of geographic and economic conditions. An alliance would allow both parties to maintain greater autonomy but at the potential cost of a unified single strategy (Akama Kenya and Shimizu Naoshige 2022). Leadership will be critical to overcome barriers to the alliance.

2.6 Overcoming Barriers: Strong Strategic Leadership

Nissan is part of Japanese institutional culture. It is intrinsically tied to the government through the Ministry of International Trade and Industry. Management of Nissan is bureaucratic, conservative and, some have said, complacent (Millikin & Fu, 2005). Carlos Ghosn is a central figure in Renault’s strategic entry to Japan and building one of the most powerful alliances in the automotive industry. Ghosn arrived at Renault with a pedigree in corporate turnarounds of struggling manufacturers. He had taken over leadership of the Michelin Tyre Company’s South American operation and turned heavy losses into one of Michelin’s its most profitable centres in under 3 years. Through judicious cost-cutting and the introduction of operational efficiencies. Ghosn then led the \$1.5 billion merger of Michelin’s US merger with Uni Royal-Goodrich, 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. The turn-

around required several plant closures across Europe, which were politically sensitive for a state-owned enterprise. The successful execution of the strategy would prove to be valuable experience for the man identified as the best person to lead Renault's entry strategy into Japan. Ghosn had both the political experience and the technical skills 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.

Carol Gill (Gill 2012) draws a useful comparison between the leadership styles of Carlos Ghosn at Nissan and Rolf Eckrodt of Daimler who was led the Daimler Mitsubishi merger in Tokyo, 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 silo-busting cross-functional teams (CFTs), Eckrodt remained aloof. Eckrodt didn't introduce cross-functional teams to the extent Ghosn did, and he didn't empower them (Gill, 2012). For the turn-around strategy of Nissan to be effective it is critical that a revival is in the hands of the Nissan staff, not coming at the direction of a new team of foreigners.

3.0 The Problem Statement

3.1 Disruptive Technology

The car industry has been facing considerable pressure from the environmental lobby, which has been effective in proposing government regulations on CO₂ emissions to reverse the impact on global warming. Renault accurately predicted that the future of automotive manufacturing would be in zero emission vehicles. They understand that the cost of transforming from petrol engines to electric vehicles, will be prohibitive, but essential if they are to survive. Renault needs a partner with advanced technical capabilities and existing research and development in electric vehicles.

3.2 Market Expansion

In Europe, Renault had established a 10-11% market share (Susini 2004). In the Mercosur countries of South America Renault's business was struggling to gain market share. Renault lacked a presence in Asia and America, two of the most important global markets. Without strength in these markets, Renault would have difficulty growing the business.

4.0 Internal Audit

4.1 VRIO Analysis

Renault VRIO Analysis					
Strategic Capability/Function	Valuable	Rare	Imitable	Supported by Organization	Competitive Implications
Renault Brand	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Design Innovation	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Purchasing Supply Chain	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Cost Efficiency	Yes	Yes	Yes	Yes	Sustained Competitive Advantage
Euro Market	Yes	Yes	Yes	No	Unused Competitive Advantage
Global Presence	Yes	Yes	No		Temporary Competitive Advantage
Manufacturing	Yes	Yes	No		Temporary Competitive Advantage
Culture and Leadership	Yes	Yes	No		Temporary Competitive Advantage
Human Resource Management	Yes	No			Competitive Parity
Technology	Yes	No			Competitive Parity
Electric Vehicle Development	No				Competitive Disadvantage

Figure 2 VRIO Analysis Renault

A VRIO study of Renault indicates that there are several areas of sustained competitive advantage which the manufacturer enjoys. The Renault brand, which is over 120 years old, is one of the oldest brands in the car industry. The Renault brand has always been associated with design innovation.

4.2 Product Differentiation

Renault introduced the concept of the “Living Car”, which was focused on lived experienced and conviviality, rather than speed and power (Freyssenet, 1998). The “Living Car” concept attracted premium pricing without the expense of technical upgrades. The concept is synonymous with the Renault brand and in the transition to electric vehicles it is the ‘software’ not the ‘hardware’, which is differentiating car makers. We are seeing partnerships between tech giants such as Google partner with car makers Daimler Benz and Renault to produce auto-super-computers to compete with Tesla and other advanced EV manufacturers.

4.3 Cost Competitiveness

Under Carlos Ghosn's cost cutting management, Renault's balance sheet was returned to full health. Renault was again profitable and over-took Volkswagen as the number one manufacturer, by sales, in Europe.

4.4 Vulnerabilities

Renault's vulnerabilities lie in its dependency on the Western European market, its low investment in technology and specifically in the lack of electric vehicle development. Human resource management has been an area of constant adjustment and experimentation stemming from its time as a state-owned entity. The move to privatization refocused the business on performance-based work agreements, which will be important in the alliance with bureaucratic Nissan.

5.0 External Audit

5.1 Porter's 5 Forces

5.1.1 Competitive Rivalry: High

Renault operates in a highly competitive and very complex international environment. Renault competes in Europe against VW, Mercedes Benz, Fiat PSA, Toyota, Nissan and Honda. In South America Renault competes with American brands Ford, GM, Chrysler and the Japanese brands. Each geography presents unique challenges of consumer demand. The industry is undergoing a considerable transition to zero-emission and electric vehicles and autonomous,

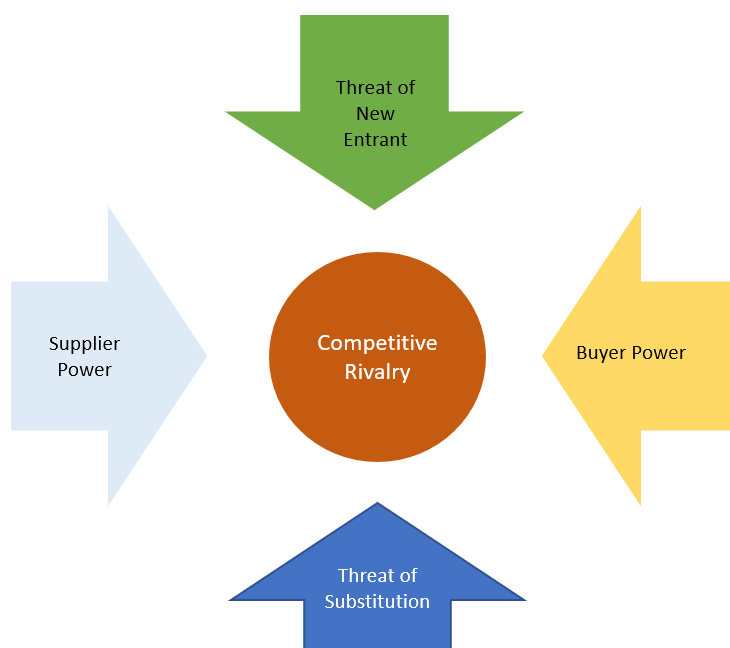


Figure 3 Porter's 5 Forces

driverless vehicles. The cost of research and development in these fields requires the collaboration of major manufacturers. Joint ventures and alliances provide technical advancement and, also opportunities for geographic expansion. Alternatively, failure to form an alliance with a suitable partner could result in an inability to compete.

The capital cost of car manufacture is high and the social

impact is big. Provincial and federal governments frequently provide tax and resource incentives for car makers to develop plants in specific locations to provide employment and the infrastructure required to support the industry. This makes exiting a location financially, politically, and socially difficult.

Buyer loyalty is critical to maintaining market share. In 2022 Toyota ranked highest in loyalty in the mass market and SUV categories with 62.2% and 63.8% respectively. Results are based on whether a consumer purchases the same brand after trading in a vehicle (Effler and Smith, 2022).

5.1.2 Threat of New Entrants: Medium

The car industry is highly capital intensive. Construction of a 300,000 unit/year manufacturing plant will cost in the order of \$3 billion USD. This makes challenges from new entrants ‘normally’ a low threat. However, the industry is undergoing transformation to electric vehicles we have seen the creation of a new entrant in the form of Tesla. Manufacturers in India and China are introducing new electric vehicle brands which pose a threat to traditional internal combustion car vehicles.

5.1.3 Threat of Substitution: Medium

Traditional threats of substitution to cars come from public transportation, trains, taxis, Uber, buses etc. Renault’s strategy to address the competition from substitutes is to focus on the journey in its living car campaign. However, as the industry becomes increasingly digitized new threats are appearing from autonomous vehicle developers from outside the traditional car industry. Google, Apple and other technology companies are now developing autonomous driverless cars which will result in connected car alternatives that relieve the ‘driver’ of the responsibility of driving and will result in more efficient urban transportation as vehicles will be digitally coordinated with each other.

5.1.4 The Bargaining Power of Suppliers: Low

A car has over 30,000 parts. The parts are generally standardized and not unique. This makes changing suppliers relatively uncomplicated, if necessary. Traditionally, the contracts with suppliers have been long term with declining pricing built in, reflecting the long life-cycle of a vehicle and the big volume usually in the order of 300,000 cars per plant per year. Because the volume is so large, there is active competition from suppliers. Covid created a very different supplier environment. Incumbent contracts were not equipped to deal with the supply chain

disruption and labour shortages which Covid created. Suppliers traditionally absorbed all risks. They were exposed to the cost escalations of inflationary economies and liable for risks caused through unstable supply chain conditions (Uetz et al. 2022). The result has been a reconsideration of a more flexible contract, which includes provisions for inflation and shared risk. Contracts are expected to become flexible-priced, shorter-term contracts to reflect the uncertainty of the global economy.

5.1.5 The Bargaining Power of the Buyer: High

The car buying consumer exercises a great deal of power in a highly competitive market, with multiple brand options to choose from and, variable financing incentives which may spread payments over several years. Bargaining power is also exercised through the low cost of switching between brands. Technical performance information, buyer reviews and pricing information is freely available on the internet, which removes any asymmetric advantage the seller might otherwise enjoy. The car is usually the second biggest family purchase after the house. Each manufacturer's product is unique and financing deals can be customized to the specific needs of the purchaser, giving the buyer a high degree of purchasing power. To mitigate the buyer's power, Renault developed an effective 'living car' marketing strategy which focused on building brand loyalty through focus on human experience (the enjoyment of the trip) and not on vehicle technical performance (speed and power).

6.0 Japan PESTLE Analysis

6.1 Political

The Japanese Government has taken a progressive initiative to incentivize and encourage car manufacturers to develop zero-emission, electric and autonomous vehicles. They have directed that all vehicles sold from 2035 onwards will be environmentally safe (International Trade Administration 2021). Tax incentives for vehicles below 2000cc have also resulted in more competitive pricing to encourage sales. Various property and transaction tax incentives exist for enterprises and, also staff remuneration tax benefits to support enterprise growth in Japan.

Of particular relevance to Renault are the trade agreements which Japan has with countries in the Asia Pacific region which would provide beneficial access to growing markets in the region, including China, Indonesia and Australia for example. The Regional Comprehensive Economic Partnership (RCEP) provides access to the 15 member states which constitute 30% of the global GDP and 30% of the world's population.

6.2 Economic

The Japanese economy grew by 1.1%, the second year of growth after Covid, but real GDP grew by only 1.3% to total 546 trillion yen (\$4.1 trillion USD), making Japan the 3rd largest economy in the world. Household consumption also grew by 2.2%. Imports of goods and services grew by 7.9%, following the inflationary effect

Japan's GDP growth

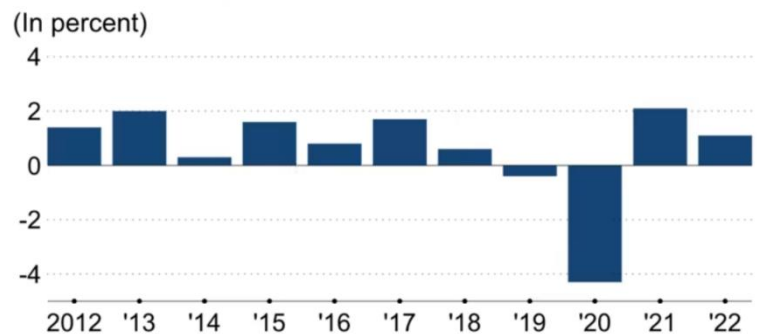


Figure 4 Japan's GDP Growth

of the war in Ukraine and the disruption to supply chains, exports grew by 4.4%. Moderate

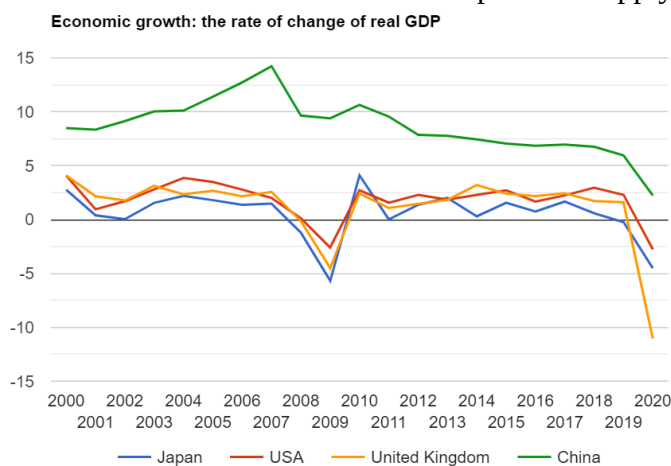


Figure 5 Japan Comparative GDP Growth

growth is expected to continue but may not reach the growth rates experienced before Covid. By comparison with regional neighbours, China grew at 3%, South Korea at 2.6%, Indonesia at 5.3% and Singapore at 3.6% (Iwamoto 2023). Real GDP growth compares favourably in comparison to that of the UK, for example but lags behind the China and the US.

Unemployment in Japan is consistently low, usually at under 3% where it sits in 2023 and pre-pandemic at around 2.5% for several years.

Inflation in Japan is typically low. Japan underwent several years of deflationary pressure following the end of the 'economic bubble' as companies cut spending, held salaries and

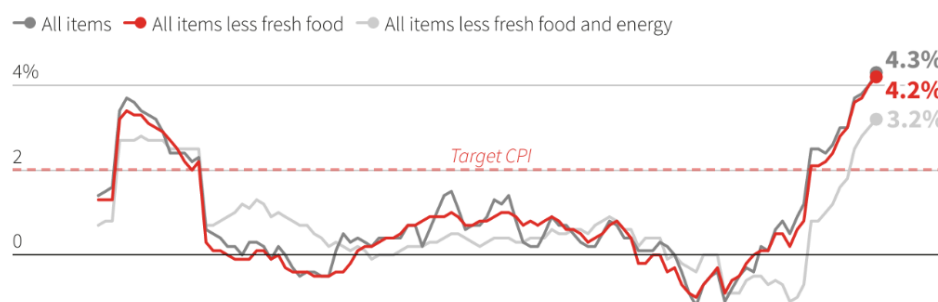


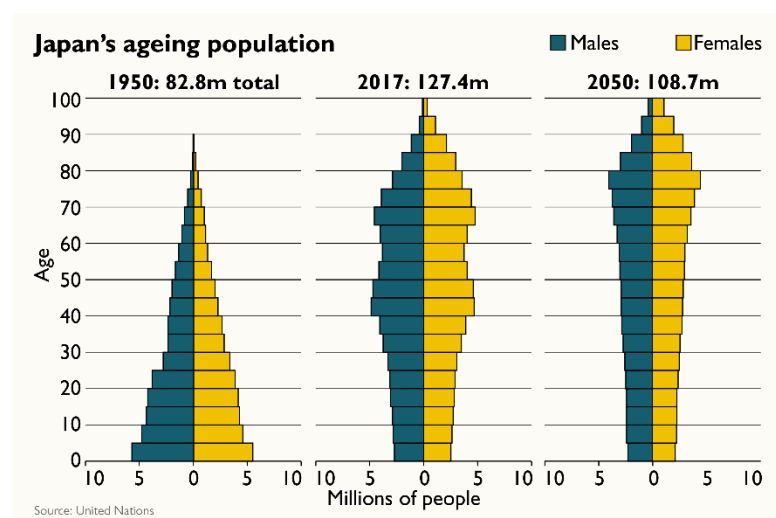
Figure 6 Japan Inflation-CPI

delayed capital expenditure to focus on debt repayment. In response the Government undertook a

program to stimulate the economy with easy access to money at close to zero interest rates the net effect has been years of price stability and cheap money (Dooley 2022). Historically low currency valuation has been positive for export driven manufacturers such as the automotive industry. Debt stands at 260 times economic output which is multiples higher than any other industrialized nation. Inflation in Japan is now at 40 year highs, well above the Government's target of 2% (Yamaguchi and Kihara 2023), as manufacturers pass on the additional costs caused by the falling value of the yen, disruptions to supply chain and increasing global fuel costs.

6.3 Social

Japan has become synonymous with issues of the aging society. In the industrialized world, Japan was the first to experience the implications of declining fertility rates which fail to reach replacement levels. Prime Minister Fumio Kishida has stated that Japan may be unable to function as a society if the population continues to



decline at its current rate (The Guardian 2023). In Japan more than 28% of the population is over 65 years old, only the tax exile of Monaco has more aged people. The stagnant growth of

Nationality	Number	Percentage of	
		Foreign citizens	Total population
China	778,112	32.3%	0.73%
South Korea + North Korea ^[note 1]	454,122	17.7%	0.40%
Vietnam	448,053	15.5%	0.28%
Philippines	279,660	13.0%	0.23%
Brazil	208,538	7.5%	0.17%

Figure 7 Japan Foreign Population Ratio

the population has implications sustaining social services of health and education in an environment of declining tax revenue from the smaller population of workers. The shortage in labour can only partly be resolved through immigration.

Japan has a very low proportion of foreign workers. Foreigners make up 2.3% of the population in 2022, of whom, six countries constitute 1.8% of the total Japan population. By comparison, Germany has a foreign population of 13.1% and Singapore with a foreign population of close to 30%. Post covid,

Japan has embarked on a government strategy of appeal, encouraging foreign tourism on one hand (31 million visitors in 2019, up from 7 million in 2009), and trying to encourage families to have more children through financial incentives. But Japan needs permanent population as well as transient tourism. The immigration of 1 million foreigners/per year would offset the population decline through death, which currently is twice the rate of natural births (Tateishi 2023). The government needs to focus its attention on increasing sustainable demand rather than only complementing the decline in workers. In addition, Tateishi (2023) stresses the need to encourage the development of start-ups as this will create the necessary eco-systems which are capable of sustaining economic and social growth. Smaller family sizes correlate with higher disposable income, which has been observed in the growth of families with wealth of over 100 million yen (fig 9) or \$750,000 USD (Nippon.Com 2021). There is potentially a positive aspect for manufacturers of luxury vehicles with an increased demand for high value, rather than mass market goods, as the population becomes wealthier, but smaller.

6.4 Technical

Japan's advanced manufacturing capabilities have been facilitated, in part, through its progressive approach to robotics and its dominance of robot technology since the 1960s

Number of Households with More than ¥100 Million

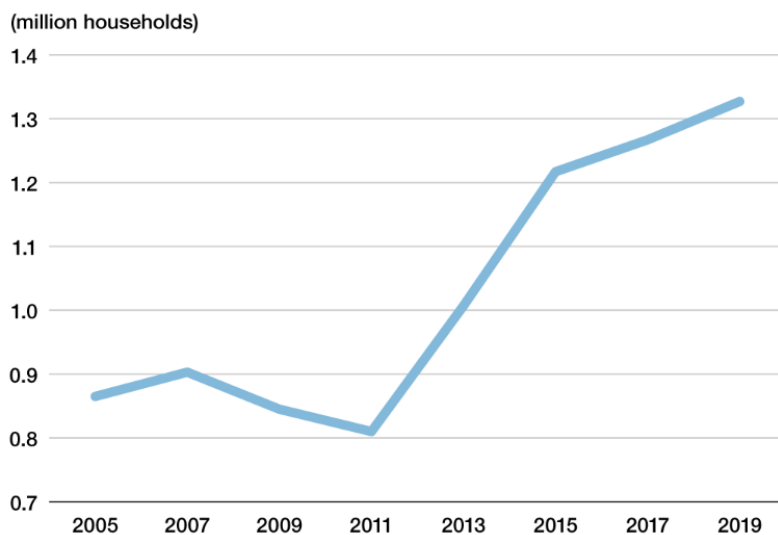


Figure 9 Japan Household Wealth-Nippon.com

(Jaghory 2022). The rise of semiconductor applications and, the need for high precision wafer fabrication, drove the increased demand for robotics. In 1990 Japan provided 90% of the world's industrial robots. Demand for industrial robots has been driven by a global shortage of labour, and the transition to electric vehicles, pushing sales

year on year growth (Tsuge 2023). Japan ranks 13th in the world for innovative technology applications according to the World Intellectual Property Organization. Covid exposed weaknesses in Japan's technical infrastructure, digital transformation and skills gaps due to the aging population.

6.5 Legal

Japan is a civil law environment, following legal practices of European countries, including France. Japan's legal environment protects the development of intellectual property and provides a 20-year patent period. Japan has mature and internationally recognized legal practices in the application and protection of intellectual properties and copyrights and incorporates the international treaties and conventions respected around the world such as: Paris Convention, Berne Convention, Trademark Law Treaties and others. Protection of design and trademark of authentic parts is critical to the automotive industry which continues to accept liabilities for the performance of its products through a 3 year/60,000km warranty period.

6.5.1 HR issues

In 2019 Japan experienced its worst employment statistics in 30 years, there were two job openings for each job seeker. Japan is leading the world in discovering the costs and opportunities of an aging society. Japan needs to focus on productivity, and employing those currently under-represented in the workforce: women, senior workers and foreigners (Haghirian 2022). One aspect of significant change in the Japan labour market is the move to a more flexible labour force. 2012 changes to the labour laws, which were intended to encourage normal work contracts, had the opposite impact, and have encouraged the growth of freelance workers who now constitute over 5% of the labour force. There has been a parallel growth in union representation for freelancers, who now constitute over 13% of all union workers (Haghirian 2022).

6.6 Environmental

Japan is dependent upon imported natural resources: energy, food and raw materials, which leaves Japan exposed to supply chain risks on several levels. The rapid growth of the economy in the post war era resulted in high concentrations of industrial pollution. In 1971 strict pollution abatement laws were introduced which required manufacturers of plants over a certain size, or producing a certain volume of waste, to engage a Supervisor of Pollution Control, a Chief of Pollution Control, and or specialists in various areas of environmental pollution (OECD 2001). Japan currently recycles 84% of its plastic waste. In 1997, Japan led the Kyoto Protocols which set strict targets to reverse the effects of global warming (Mheta 2023). The greatest threat to the environment comes from: industry, transport, agriculture and specifically from the increasing demand for energy.

7.0 Strategic Options SWOT Analysis

STRENGTHS	OPPORTUNITIES
• Innovation: Recognized for innovative design • Financials: Strong Balance Sheet • Experience: Pragmatic management programme • Efficiency: Renault undertook fundamental cost cutting which produced over 54% savings • Safety: 7 vehicles rated 5 star by NCAP Crash Tests	• South America: Brazilian Plant under Construction • LCV Production: Negotiations for acquisition of Dacia in Romania for East Europe LCV production • Poor Financial Condition of Nissan • Global Market Development
WEAKNESSES	THREATS
• West Euro Centrist: Only 16% of Revenue is generated outside Europe • US Market: Failed in previous market entry attempts • Car and Light Van: Dependency on Cars and Light Vans both facing market contraction • Low-Cost Vehicle: No low-cost vehicle (LCV) for the growing Eastern European market • Asia: No production, little marketing capacity • No electric vehicle	• Electric Vehicles: The Future of the car industry • Technology: Move to autonomous vehicles • Global Transition Costs: over \$500 billion USD • Scale: Increased global M&A activity • Decline of W. European Market: 0.2% CAGR predicted for next 5 years

Figure 10 SWOT Analysis

7.1 Strengths/Opportunities Strategies

Renault's financial strength must be employed to take advantage of Nissan's weakened financial condition.

An alliance with Nissan will expand Renault's global reach and relieve Renault of the dependency on the Western European market, which is forecasting year on year declines in growth. The alliance will give Renault a high-quality manufacturing foot-hold in Asia, and propel the alliance to 4th place in manufacturing scale after Toyota, PSA and Hyundai/Kia. Importantly it will provide the access to electric vehicle technology which will guarantee the sustainable future of the car maker.

7.2 Weaknesses/Opportunities Strategies

Renault's weaknesses lie in three areas: firstly, dependency on Western European sales. Secondly, Renault's lack of an electric car. Thirdly, they lack access to the important markets of Asia and the US where Nissan has multiple production plants and an existing distribution network.

At their peak, Japanese manufacturers established highly efficient manufacturing capabilities overseas and took market share in Europe, America and Asia with more efficient vehicles and generally lower priced vehicles.

In Nissan's case the combination of six years of financial losses and a subsidized consumer leasing plan in America, left Nissan holding an inventory of unsold vehicles at the end of their lease periods (Nauss and Magnier 1999). Nissan's need for operating capital was an opportunity that Renault could not afford to miss.

7.3 Strengths/Threats Strategies

The Renault balance sheet is stronger than it has been for many years. Exec VP Carlos Ghosn has overseen a \$3.3 billion cost cutting exercise following 3 years heavy losses. The plan is ahead of schedule. The plan required 8% cuts to manufacturing and procurement. This requires reducing head-count and closing plants which are running below capacity. Renault's 11% market share of the competitive car sector, places the car maker as #1 in Europe ahead of Volkswagen (Carreyrou, 1999). Renault's strength is in the innovative design of its leading passenger cars, the Megane and Clio, and light utility vehicle, Kangoo which has 13% market share in Europe.

However, the industry is confronting looming existential threats which will disrupt global car manufacturing. Zero emission and electric vehicles. The transformation will be costly and beyond the financial reach of a medium sized manufacturer like Renault. A competitive race has started to form alliances with the financial reserves and technical ability to develop an electric vehicle. The big 3 automakers had all formed or were negotiating alliances: DaimlerChrysler/Mitsubishi, Ford/Volvo, GM/Suzuki, and later Fiat/Chrysler. In India, Tata/Jaguar/LandRover. In France Groupe PSA Peugeot Citroen was preparing for international expansion through acquisitions of Opel and Vauxhall.

An alliance with Nissan will address the threat of disruptive technology with the strength of Renault's balance sheet.

7.4 Weaknesses/Threats Strategies

Renault is facing the dual threats of mega-manufacturers with globalized manufacturing and distribution and, the threat of technical disruption, from electric cars. Renault lacks the time to develop organic responses to both of these challenges. To expand geographically on their own would redirect capital from investment in the critical development of an electric vehicle.

Renault needs to address both the threats and weaknesses simultaneously to maximize its available capital and time available. A strategic alliance with Nissan would provide a solution to both the technical disruption and the need to expand geographically. The Asian financial crisis presented potential solutions to both the issues.

8.0 Strategy Generation

8.1 Quantitative Strategic Planning

QUANTITATIVE STRATEGIC PLANNING MATRIX FOR RENAULT						
Key Factors	Alternative 1			Alternative 2		
	Merger, Acquisition or Alliance			Organic Growth		
	Weight	Attractiveness Score	Total Attractiveness Score	Weight	Attractiveness Score	Total Attractiveness Score
Strengths						
European Market Leadership	0.08	2	0.16	0.11	3	0.33
Strong Balance Sheet	0.15	5	0.75	0.12	5	0.6
Innovative Design	0.11	3	0.33	0.11	4	0.44
Cost Efficiencies	0.09	3	0.27	0.09	4	0.36
Safety	0.06	1	0.06	0.06	2	0.12
Weaknesses						
Euro Centrist	0.11	1	0.11	0.11	3	0.33
No US Market Presence	0.11	3	0.33	0.08	1	0.08
Dependency on Cars and Vans	0.09	0	0	0.11	2	0.22
Low Cost Vehicle	0.08	2	0.16	0.09	2	0.18
Asia Production Capability	0.12	4	0.48	0.12	1	0.12
sum weights	100%			100%		
Opportunities						
US Market	0.09	3	0.27	0.11	2	0.22
South America	0.08	3	0.24	0.11	4	0.44
LCV Production	0.09	2	0.18	0.09	2	0.18
Competitor Financial Crisis	0.15	4	0.6	0.05	0	0
Competitor Technology	0.12	3	0.36	0.05	0	0
Threats						
Electric Vehicles	0.12	4	0.48	0.15	2	0.3
Autonomous Vehicles	0.1	3	0.3	0.05	3	0.15
Manufacturing Technology	0.08	2	0.16	0.12	2	0.24
Competitor M&A Activity	0.08	2	0.16	0.12	1	0.12
Declining Euro Market	0.09	0	0	0.15	1	0.15
sum weights	100%			100%		
Sum Total Attractiveness Score			5.4		>	4.58

Figure 11 Quantitative Strategic Planning

8.2 Strategic Alliance: not Merger or Acquisition?

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 response.

The key benefits of an alliance relationship include:

- Scalability and access complementary capabilities at lower risk
- Access strategically important partners which cannot be acquired.
- Existing ecosystem of strategic relationships.

- Flexibility in fast changing disruptive market conditions.

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 is strong in Europe and South America, Nissan in Asia, Middle East and US. 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.

Renault recognized the leverage they have over the negotiations, but they were no doubt cognizant of the role the French Government’s ‘Golden Share’ in Renault, played in the failure of the Volvo merger. Carlos Ghosn claimed they were more interested in a long-term partnership than in potential short-term gains and they needed to acquire an electric vehicle which would take time.

8.3 Why Nissan Motor Co.?

“One rule: no sacred cows, no taboos, no constraints.” Carlos Ghosn

Nissan was formed in 1933 and received government contracts and incentives during and after WWII (Stevens 2008). Nissan developed a bureaucratic management and employment practices guaranteeing life-time employment. The tight Government relationship made it difficult to reduce head count or close inefficient. Renault recognize these obstacles as an opportunity, based on their own experience in cost cutting, and Ghosn’s experience in turn around and mergers in America

Nissan was on the verge of bankruptcy. Nissan has over \$5 billion USD tied up in over 1,000 non-performing shareholdings with suppliers in the keiretsu eco-system network

The company is \$35 billion USD in debt, manufacturing plants are operating at 50% capacity and sales falling year on year.

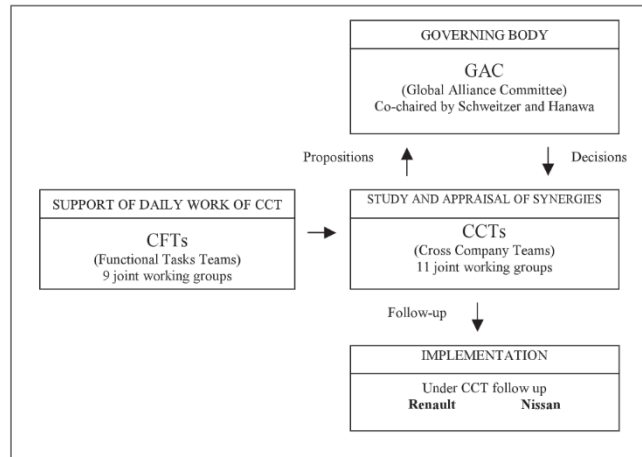
8.3.1 The Keiretsu

Nissan's keiretsu relationships locked up urgently need cashflow. The payback was a secure supply chain for which Nissan is paying a 20-30% premium over industry standards. Ending most of the keiretsu relationships released over \$4 billion USD.

9.0 Strategy Execution: Generating Synergies

9.1 The Importance of Cross Functional and Cross Country Teams

Cross-functional (CFT) and cross-country (CCT) teams are introduced to remove the inter business unit siloing. These are teams of 9-10 people which are overseen by 2 executives each of whom is outside the task of the CFT, forcing communication between otherwise competing business units. The alliance is a collaboration *within*, rather than *between*, multinational enterprises (Mikami et al. 2022). The CFTs and CCTs address a pressing issue of lack of accountability.



Source: Corporate web site of Renault.

Figure 12 Renault CFT CCT Structure - Renault

9.2 Boundary Spanning Activities

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

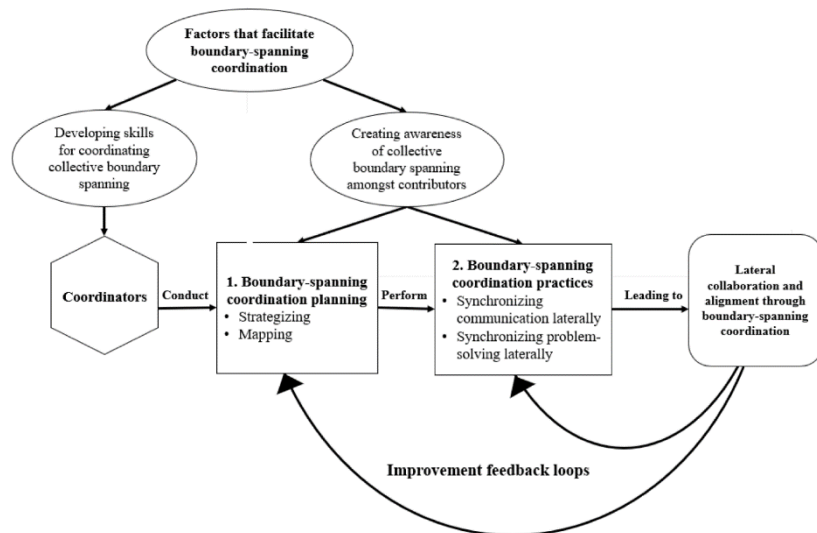


Figure 13 Renault Boundary Spanning-Renault

is the lateral bond which facilitates synergies to be realized within organizations. 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. The objective is to ensure maximum knowledge transfer throughout the firm and articulated in a manner which is comprehensible to the whole

business. 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.

9.3 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,

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

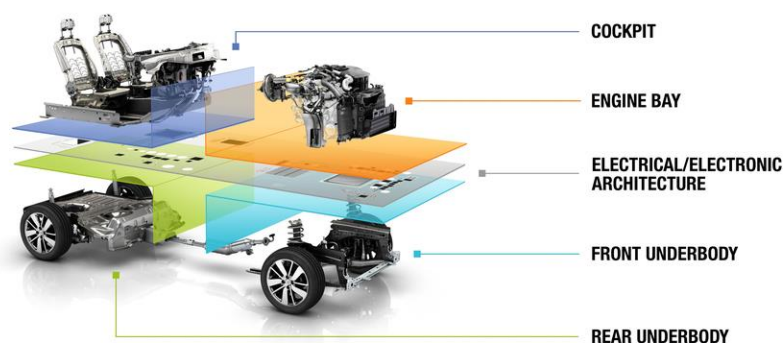


Figure 14 Common Family Module-Renault

engine bay, electronics, and under-body. To achieve inter-operability with such a complex system requires very fine tolerances in design and manufacturing.

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).

10. Recommendations and Conclusions

10.1 Maintaining Trust

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 (2001) 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, the highest risk to maintaining performance trust

is at CFT and CCT level as this is the point at which knowledge transfer is shared. It is critical for the sustainable future of the relationship that these functions are well governed.

China will be a test of the relational trust between Nissan and Renault. Both companies need the China markets huge demand. Renault has already started discussions with Geely over an electric car. Nissan already suspects it's superior electric vehicle designs will be shared with Geely (Shirouzu et al. 2022).

10.2 Knowledge Transfer within Renault-Nissan

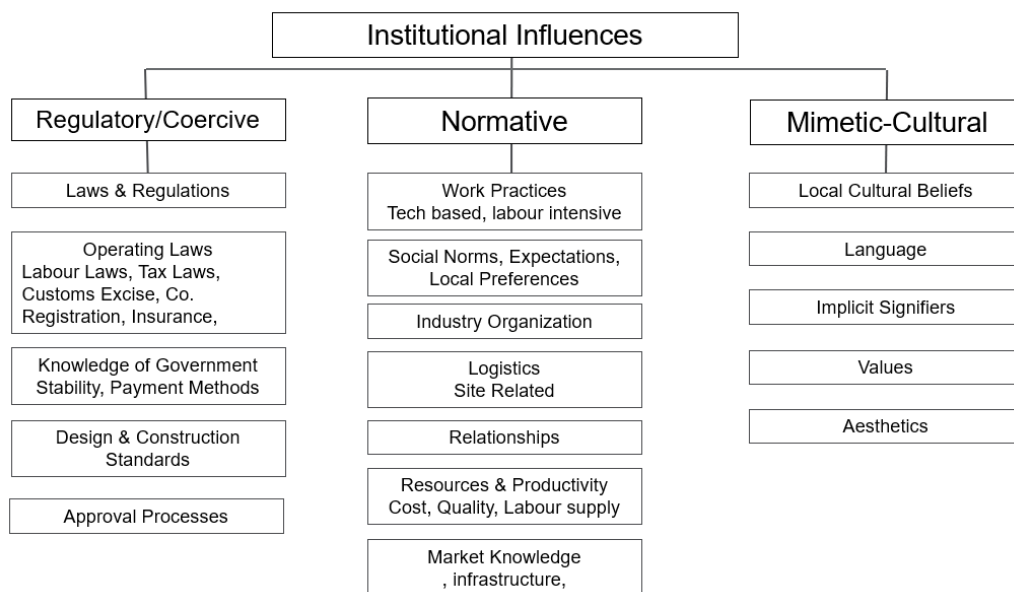


Figure 15 Institutional Theory Structure

Institutional theory addresses the importance of knowledge transfer between and within institutions. “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” Argote et al. (2000). Potential synergies are easily lost. Cultural forces of association work even at the business unit or departmental level, despite the incentives of higher productivity and lower risk.

10.3 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 (Hofstede, 2023). 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 16), "In corporate Japan, you see that employees are most motivated when they are fighting in a winning team against their competitors." (Hofstede 2023) In Nissan that meant competition between business units. Communication between business groups and between international teams deteriorated, creating a critical lack of knowledge transfer that delayed delivery schedules and created the risk of abortive work. It is 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.

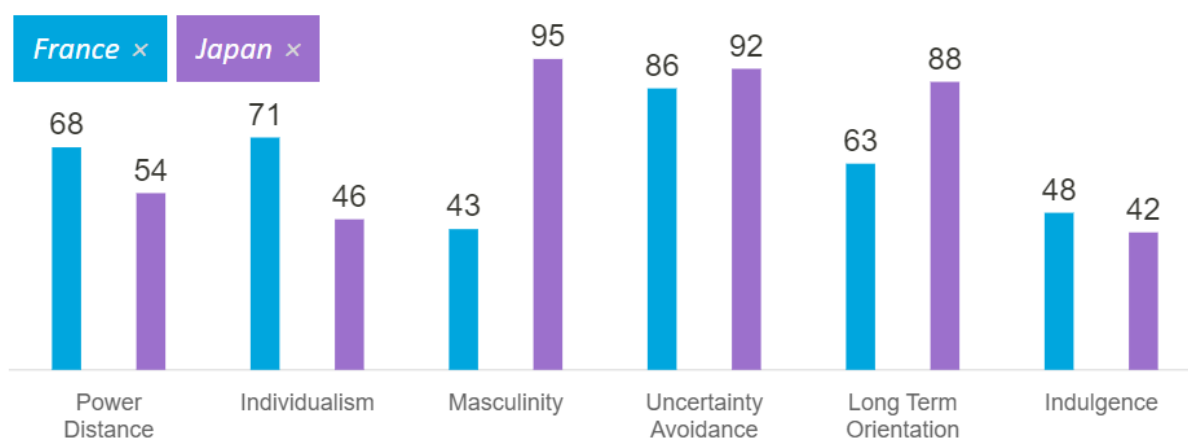


Figure 16 Hofstede's 6 Dimensions

10.4 Listening to the Next Generation of Customers and Managers

The loss of life-time employment has seen young Japanese start more entrepreneurial careers which enjoy more personal control. Japan's population continues to shrink and to age. Attracting youthful talent into positions of management and operations is a task incumbent upon all major employers. 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.

10.5 Balanced Score Card

Both Nissan and Renault are committed to an Alliance, but the flexible structure of an alliance requires metrics of success to be clearly defined and regularly assessed. The Balanced Score Card provides a model to evaluate the performance of key performance indicators (KPIs).

	Objectives	Measures	Targets	Initiatives
Financials	Expand Market Penetration Reduce Manufacturing Costs Increase Service Revenue Customer Finance	Global Revenue Budgets Cost/Vehicle Worker Productivity Vehicle Life Cycle Revenue	% revenue increases % costs decreases Assembly line revenues After Sales Revenue	Exploit Alliance Footprint Share Nissan Manufacturing Living Car Journey Analysis Exploit combined scale
Customers	Pre-sales decisions After Sales Feedback Digital feedback Real-time journey feedback	Surveys and Group Studies Online feedback loops Connected vehicles	# of Group Studies % of Sales # Studied Revenue/km driven	Joint Group Sessions Online Feedback Install Journey Tracking
Internal Processes	Enhance communication Remove siloing Unify vision Increase Sense of Urgency	Collective Comms Venues Intra BU purpose Inter BU Activities Share Goals and Timelines	# of team and group comms Inter BU activities Design timeline Execution timeline	Scheduled group comms Introduce CFTs and CCTs Detailed Execution Schedules
Future Growth	Knowledge Transfer (KT) between Nissan/Renault KT between BUs	Reduce Errors Reduce Development Time Stakeholder Satisfaction	% defect levels % schedule reduction Feedback Results	Cloud Based Data Access Integrated Functional and Country Teams

Figure 17 Balanced Score Card – Kaplan Norton 1996

The Balanced Scorecard provides: greater consensus through clarification of the vision, goal setting and reward for achievements, alignment of goals with resources and schedules, ensuring future growth through feedback and learning from experience. Car making is an immensely complex process. Psychogios & Garev 2012 maintain that complex systems are in a constant state of adaptive evolution. The alliance introduces another level of complexity to which the system must adapt. Pye (2005) states that leaders who are flexible in their ability to evaluate a complex situation know when to rely on the input of others and when to trust their own judgement

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