STRATEGIC ALLIANCES: THE CASE OF RENAULT-NISSAN

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Abstract: *In the last decades the automotive industry has witnessed profound transformations all over the world. On the one hand, the markets have become increasingly fragmented and the main producers have tried to be present in every major geographical area. On the other hand, the manufacturing methods have continuously evolved in order to meet the changing demands of consumers. The fierce competition has led to the concentration of the automotive industry as several mergers, acquisitions and alliances have emerged. Collaboration between automotive producers has become a fashion. The Renault-Nissan Alliance was created in 1999. For the first time in the automotive history a French car company gained a major interest in a Japanese car company. The aims of our paper are to carry out a review of the definition of a strategic alliance, to present the history of the Renault-Nissan Alliance and to briefly analyze its strategy. Our research is based on a literature review.*

Keywords: *strategic alliance, Renault, Nissan, automotive industry, company*

JEL Classification: L1, M1

1. Introduction

In the last decades the automotive industry has witnessed profound transformations all over the world. On the one hand, the markets have become increasingly fragmented and the main producers have tried to be present in every major geographical area (Donelly, Morris and Donelly, 2005). However, in 2015 "record sales in the U.S. gave the sector a much-needed boost, but growing economic malaise in much of the rest of the world, particularly in emerging markets, led to a flat year overall, dampening prospects for global automakers and suppliers" (Hirsh et al., 2016, p. 4). On the other hand, the manufacturing methods have continuously evolved in order to meet the changing demands of consumers. As the idea of fully autonomous and self-driving cars is more and more debated huge opportunities have appeared for automakers. The intelligent car has imposed auto companies to allocate considerable resources both in their design rooms and on factory floors. Digitalization and connectivity are on the top of the executives' agenda in the automotive industry (KPMG, 2016) as tomorrow's car will be increasingly connected and digital (ACEA, 2016). Embedded electronic devices and software are used in order to extend the capabilities of cars. A new revolution driven by "the convergence of connectivity, electrification and changing customer needs" (Barra, 2016, p. 1) has begun in the auto industry that promised "a new era of safe, efficient, comfortable and environmentally-friendly mobility" (Jonnaert, 2016, p. 1).

The fierce competition has led to the concentration of the automotive industry as several mergers, acquisitions and alliances have emerged in the past decades. Competition has shifted from interfirm rivalry to rivalry among networks of companies (Banerji and Sambharya, 1998). Therefore, collaboration between automotive producers has become a fashion because "within a more complex and diversified mobility industry landscape, incumbent players will be forced to simultaneously compete on multiple fronts and cooperate with competitors" (Mohr et al., 2016, p. 13). Increased interdependence among companies has conducted to the multiplication of strategic alliances (Zineldin and Bredenlöw, 2003; Furrer, Tjemkes and Henseler, 2012; Das, 2012a), especially in the automotive industry.

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The aims of our paper are to carry out a review of the definition of a strategic alliance, to present the history of the Renault-Nissan Alliance and to briefly analyze its strategy. Our research is based on a literature review.

In the second chapter of the paper the literature review about the concept of strategic alliance is presented. The third part of the paper is devoted to the Renault-Nissan Alliance. Paper ends with conclusions.

2. Defining strategic alliances

The size of the business literature on strategic alliance is impressive. An important stream of research has focused on the concept of strategic alliance, especially in the last decades (Shenkar, and Reuer, 2006; Zamir, Sahar and Zafar, 2014). The concept of strategic alliance has been defined as:

- "voluntary arrangements between firms involving exchange, sharing, or codevelopment of products, technologies, or services" (Gulati, 1998, p. 293).
- "long-term, trust-based relations that entail highly relationship-specific investments in ventures that cannot be fully specified in advance of their execution" (Phan and Peridis, 2000, pp. 201-202).
- "a link between two or more firms that enhances the effectiveness of the firms' competitive strategies" (Inkpen and Ramaswamy, 2006, p. 80).
- "trading partnerships and new business forms that enable participating firms to achieve strategic objectives beyond their existing capabilities by providing for mutual resource exchanges (technologies, skills, or products)" (Todeva, 2007, p. 1).
- "an agreement, preferably formalized, with another organization" (Thompson and Martin, 2010, p. 785).
- "a trading partnership which links certain business processes of two or more companies which may augment effectively the competitive strategies of the firms involved while providing mutual benefits by exchanging technologies, skills, resources, or products" (Nishimura, 2010, p. 2).
- "two or more separate organizations share some of their resources and capabilities but stop short of forming a separate organization" (Henry, 2011, p. 245).
- "cooperative arrangements aimed at achieving the strategic objectives of two or more partner firms" (Das, 2012b, p. ix).

The above mentioned definitions show that the concept of strategic alliance has several characteristics. Thus, strategic alliances:

- represent a contractual relationship between a limited number of companies that remain independent;
- occur across vertical and horizontal boundaries;
- aim at achieving the partners' strategic objectives;
- reflect the logic of collaboration and embrace a diversity of partnership forms (Grant and Baden-Fuller, 2004) as they are established for a variety of reasons, motives and goals (Cravens, Piercy and Cravens, 2000);
- involve a sharing of common destinies (Vyas, Shelburn and Rogers, 1995);
- establish specific performance requirements (Hamel, Doz and Prahalad, 2002);
- do not involve the creation of another company;
- are embedded in a company's strategic portfolio (Koza and Lewin, 1998);
- imply a complex decision-making process regarding the selection of an alliance partner (Bierly III and Gallagher, 2007);
- require investments in both financial capital and relationship capital (Cullen, Johnson and Sakano, 2000);
- are seen as "a race to learn" (Hamel and Prahalad, 1994, p. 183).

Strategic alliances have gained a prominent role in the strategy of numerous companies, large and small. During the time many authors (Devlin and Bleackley, 1988; Brouthers, Brouthers and Wilkinson, 1995; Varadarajan and Cunningham, 1995; Glaister and Buckley, 1996; Inkpen, 1998; Tsang, 1998; Miles et al., 1999; Hutt et al., 2000; Phan and Peridis, 2000; Dyer, Kale and Singh, 2001; Thomas, 2014) have revealed the main reasons behind these alliances (Figure no. 1).

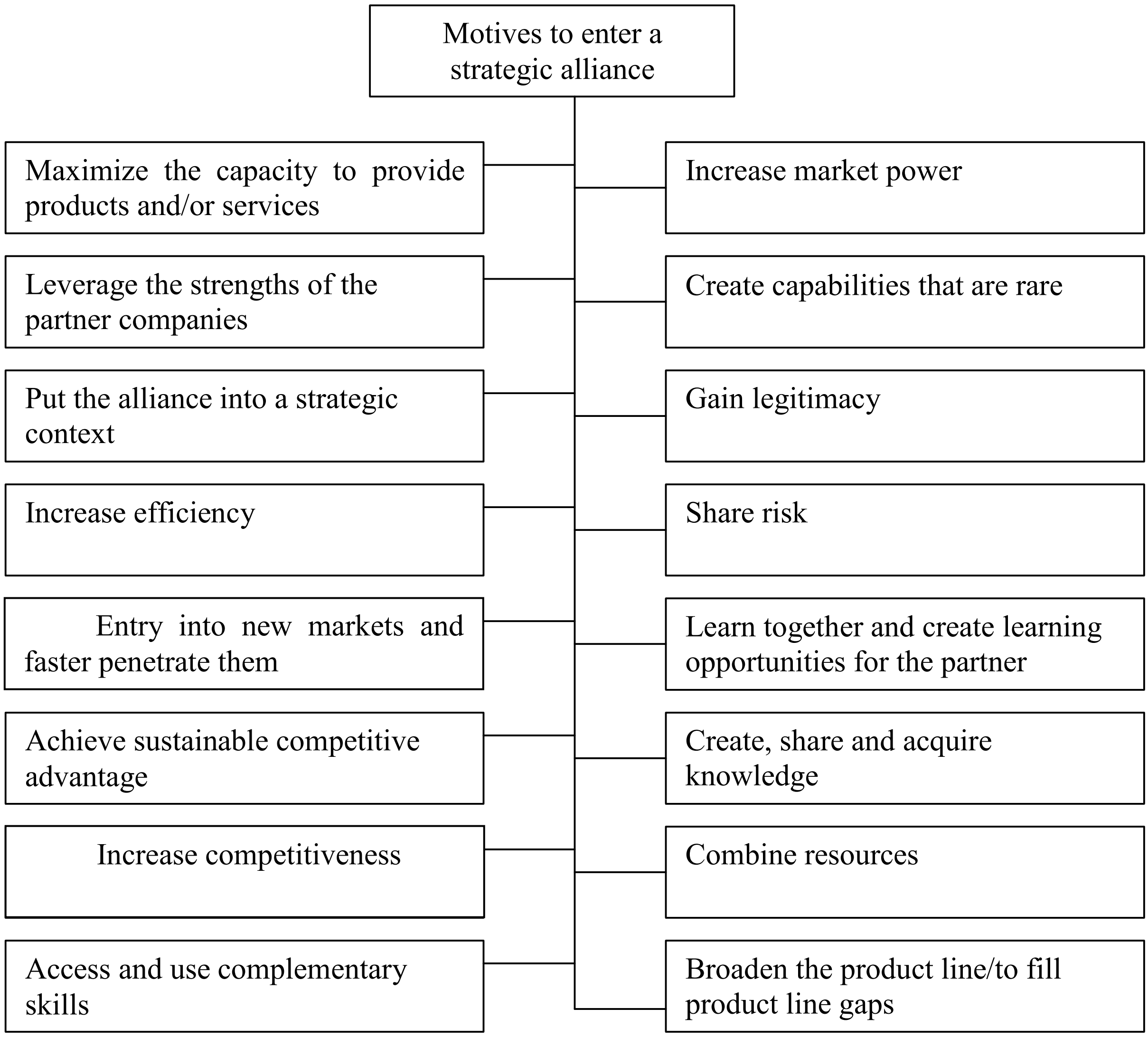

Figure no. 1. Main motives to enter a strategic alliance

In order to become strategic, an alliance has to meet one of the following criteria (Wakeman, 2003, p. 1):
"1. Critical to the success of a core business goal or objective.
2. Critical to the development or maintenance of a core competency or other source of competitive advantage.
3. Blocks a competitive threat.
4. Creates or maintains strategic choices for the firm.
5. Mitigates a significant risk to the business."

In this respect, the Renault-Nissan Alliance constitutes a valuable example.

3. The Renault-Nissan Alliance

In 1898 Marcel and Fernand Renault founded the Société Renault Frères company, but their brother, Louis, was the first who drove his Voiturette in Paris. Renault succeeded in designing its first two-cylinder engine in 1902, but opened its Ile Seguin plant in Boulogne-Billancourt outside Paris in 1929. At the end of the Second World War, the French State decided to nationalize the company under the name of La Régie Nationale des Usines Renault (RNUR). Renault was privatized in 1996.

Nissan Motor Company was established in 1934 when the Tokyo-based Jidosha-Seizo Kabushiki-Kaisha (Automobile Manufacturing Co., Ltd.) took the new name. In 1935 the Japanese company produced the first Datsun at its Yokohama plant. In the postwar period, Nissan became the first Japanese automaker gaining the Deming Prize for engineering excellence in 1960. In the last quarter of the twentieth century Nissan began to develop overseas manufacturing operations and succeeded to produce four of the top ten selling cars worldwide in 1991 (Chau and Witcher, 2008).

The Renault-Nissan Alliance was created at the end of the 1990s. On March 27, 1999, Nissan and Renault signed an agreement concerning the making of a global strategic alliance aimed at achieving sustainable growth for both automakers. Once again, a Japanese company has shown its ability in the field of strategic alliances (Lincoln, 2009). For the first time in the automotive history a French car company gained a major interest in a Japanese car company. Moreover, C. Ghosn was appointed Chief Operations Officer of Nissan. Renault took 36.8 % equity stake and corresponding voting rights in Nissan Motor Company and later Nissan took 15 % of Renault.

Created on March 28, 2002, in the Netherlands, Renault-Nissan BV is responsible for the strategic management of the Alliance, being equally owned by the two automakers (Figure no. 2). Today, Renault has a 43.4% stake in Nissan, and Nissan a 15% stake in Renault. Some of the key reasons that led to the emergence of the alliance were the following:

- Renault's attempt to become a global player;
- Nissan's huge indebtedness;
- ferocious global competition in the auto industry;
- obtaining access to design, technology, and production processes;
- penetration of new markets;
- achieving economies of scale (volume) and scope (model range) at a global level.

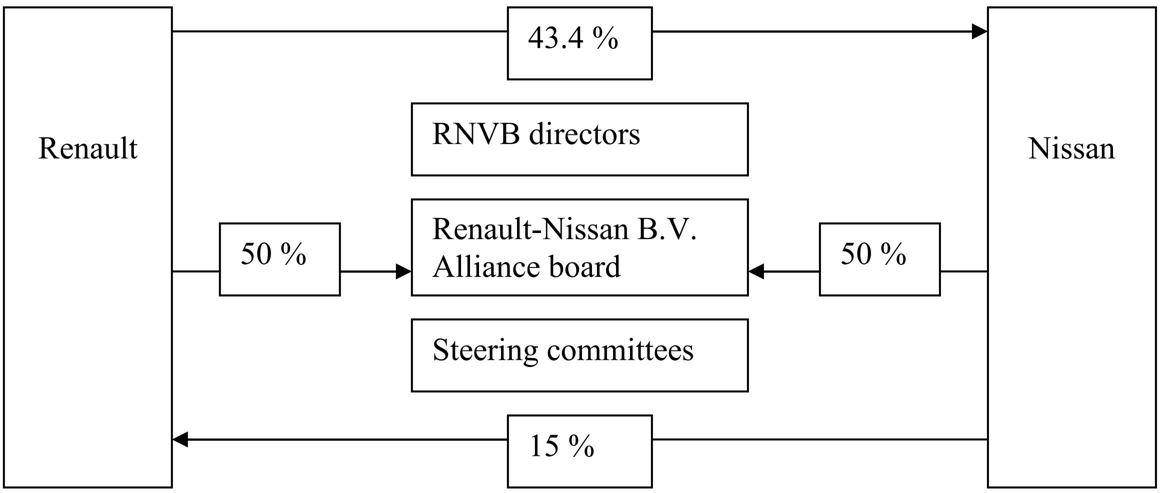

Figure no. 2. The structure of the Renault-Nissan Alliance
Source: Groupe Renault, 2016

Since the beginning Renault has understood the need to form a common culture for the two companies because a cross-border alliance had to face several challenges. This is why it decided to invest massively in “cross-cultural training, team-building and consultancy for managers at all levels” (Pooley, 2005, p. 30). Ghosn’s multicultural identity proved to be decisive in balancing the needs of the two companies (Fitzsimmons, Miska and Stahl, 2011). Also, Renault had to deal with the Japanese management model which is significantly different as against the Anglo-Saxon model (Table no. 1).

Table no. 1. Differences between the Anglo-Saxon management model and the Japanese management model

Anglo-Saxon management model	Japanese management model
Market regulation	Governmental guidance
Shareholder interests	Employees’ interests
Capital markets	Bank loans
Constant profits	Long-term market growth
Differentiation from competitors	Imitation of best practices
Embracing radical change	Incremental steps toward change
Open, global, geocentric mindset	Insular, domestic, ethnocentric mindset
Flexible transnational alliances and supply chains	Rigid, national keiretsu structures
Proactive top-management	Delegation of decision making to middle management

Source: Pudelko and Mendenhall, 2007, p. 275

At the end of the 1990s Nissan recorded a debt that reached around US$ 20 billion and had no other option to insure its survival but to seek for an agreement with a foreign competitor. By using the financial and managerial resources provided by Renault Nissan regained its profitability in 2001.

As the two companies had similar interests and aims, the management of the alliance established a two-fold strategy: profitability and growth (Cisco Systems, 2005). In order to pursue its strategy Renault-Nissan Alliance have designed and implemented several projects, measures and plans such as:

- creation of the Global Alliance Committee that defines joint strategies (Susini, 2004);
- sharing competencies in global strategic management, international finance and innovative-aggressive design (Chanaron, 2006);
- cost-cutting measures (e.g., decreasing the workforce, reducing the number of production platforms, rationalizing parts purchasing, closing factories) (Morrison and Floyd, 2000; Yukl and Lepsinger, 2005);
- production plans of synchronous delivery;
- setting up of the Global Alliance Logistics Committee, Global training center, Global production engineering center, and Global package design center (Jindal, Jee and Thakur, 2011), Renault-Nissan Information Services, Renault-Nissan Purchasing Organization (Segrestin, 2005; Cisco Systems, 2005);
- implementing the Nissan Revival Plan, a recovery plan for the Japanese automaker (Douin, 2002);
- full transparency and communication of alliance direction and priorities;
- setting up cross-functional teams (Millikin and Fu, 2005) supported by functional task teams (Susini, 2004);
- implementing the project Workforce Integration at Nissan (Cisco Systems, 2005).

Last year, Renault-Nissan held the fourth place in the world and proved therefore to be a very successful alliance (Table no. 2). Today's automotive industry is so highly concentrated that the top five companies account for more than 60 per cent of world sales.

Table no. 2. The five largest automotive manufacturers by sales in 2015

No.	Corporation	Sales (million cars sold)
1.	Toyota	10.15
2.	Volkswagen	9.93
3.	General Motors	9.80
4.	Renault-Nissan	8.22
5.	Ford Motor	6.64

Source: McGrath, 2016

4. Conclusions

The proliferation of strategic alliances in the automotive industry gave place to numerous studies and researches. This is why considerable progress has been made in the field of strategic alliance literature in the past decades.

Our paper provides a comprehensive theoretical framework in order to better understanding alliances. Also, it shows that strategic alliances are cooperative partnerships aiming at achieving common goals and encouraging companies to adopt win-win strategies beneficial to them.

Signed in 1999 the Renault-Nissan agreement became one of the most successful strategic alliances in the automotive industry. The alliance highly contributed to Nissan revival and strengthened Renault position at a global level.

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