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Renault-Nissan: East meets West

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Over the past fifteen years or so, the global automotive industry, whether in assembly or component manufacture, has witnessed a series of takeovers and cross-border mergers as it consolidates. Outstanding examples of these have been Ford's takeovers of Aston Martin, Jaguar, Land Rover, and Volvo, and General Motors' similar moves with Saab, Suzuki, Subaru, and Isuzu. This paper intends analysing the logic behind the partial merger between France's Renault and Japan's Nissan. In particular it will focus on the merger process itself and the outcomes since these two automotive firms merged in 1999. A key element of this was the cross-continental nature of the merger as no one had predicted a European firm to be the main driver in such a merger.

What makes this study important is that, foremost, it represents the first time that a European car company gained control of a Japanese counterpart. Secondly, it was part of Renault's attempt to embark on a fast track to becoming a global player to escape its dependence on its Northern European market through a series of mergers in 1999-2000, when it also acquired Dacia of Romania and Samsung of Korea, as well as trying to expand its activities in the Mercosur markets of Argentina and Brazil. Thirdly, Nissan was weak even in its domestic market where it lagged considerably behind Toyota. Indeed, in 1999 its consolidated balance sheet debt stood at Y4.3 trillion yen (US $22 billion), to say nothing of suffering from excessive overcapacity. In other words, Nissan was in need of a turnaround strategy. Finally, some commentators saw such a merger as an act of desperation for both parties. Both had tried previously to merge with other firms, but their overtures had been rejected, leaving them exposed and vulnerable to competition and possible predatory approaches from rivals. In the global automotive world, size and product variety are important, as is access to all major markets, and so the two were left with little choice but to pool their assets and build on their respective strengths of Renault's European design and flair, Nissans's strong engineering and production technology, and their respective competitive positions in world markets.

In many ways these two firms were quite different. Renault had been nationalised after the Second World War because of alleged collaboration with occupying German forces. For almost the next four decades until partial privatisation in 1996, the firm was seen more as an arm of France's social services, and was there to provide jobs rather than function under strict commercial disciplines. Its reputation was that of a state-dominated bureaucracy, which had to be rescued from virtual bankruptcy in the 1980s before returning to profit. Nissan, by contrast, was a highly conservative and traditional Japanese firm. It was wedded to the *kereitsu* system, which ultimately proved singularly inefficient, and was thought to be responsible to a goodly proportion of its heavy losses. It was in these differences that many thought that there would be a considerable culture clash between the two firms and that the merger would either be an enduring international love affair or a marriage made in hell.

The main reasons for the merger have already been referred to above and need not be of concern here. Of crucial importance to the success of this venture was speed of action. Success here was due largely to the appointment of Carlos Ghosn as Chief Executive at Nissan's own request. So desperate was the situation considered, that Ghosn was given almost carte blanche by Nissan to save the company. Ghosn already had a proven track record as a "cost cutter" at Renault. At Nissan, he showed an aptitude for getting to the heart of problems and put the "Nissan Revival Plan," described as *une therapie de choc*, into operation. The Plan was predicated on three promises:

- Nissan would be profitable by the end of 2002
- Business debt would be reduced by 50 percent by the end of 2003
- The return on equity would be at least 4.5 percent by the end of 2002

Ghosn immediately recognised the need to reverse Nissan's financial position and deal with its hopeless cost structure, overmanning, and high unit costs. Here lay a potential opportunity for cultural clash through traditional Japanese resistance to change. However, in the 1990s, the company had drawn up no less than seven rescue plans, none of which was implemented. This left the way open for ruthless action. The first step lay in persuading Nissan management first to close down several

plants, and second, to overthrow the Japanese concept of lifetime employment for many workers. Nobody was made redundant with workers being offered alternative posts at other Nissan plants or given generous severance packages. The third prong in Ghosn's attack lay in dealing with the problems of Nissan's suppliers. Their being wedded to the *kereitsu* structure bred inefficiency and high costs which forced Ghosn to break with tradition by reducing the number of suppliers, forcing the remainder either to reform themselves, achieve real costs reductions of up to 60 percent by 2002, cooperate with foreign partners, or their contracts would be terminated and much more outsourcing introduced.

Of high importance in post-merger behaviour is the bringing together of the two firms concerned to act in concert. Almost as soon as he arrived in Tokyo, Goshn formed nine cross-functional teams (CFT) and eleven cross-company teams (CCTs) consisting of French and Japanese executives, to explore the development of the newly created entity and search for possible synergies. His reason for such haste was that Nissan was in crisis and speed was of the essence. The CFTs were charged with putting flesh on the revival plan and to deal with a wide range of issues ranging from joint model development, purchasing, platform reductions, the use of common engines and technologies and complementary assistance in market penetration. Renault, for instance, was weak in the Far East and the United States, where Nissan had a strong presence, whereas Nissan was correspondingly weak in the Mercosur, where Renault was strong. Similarly, in Europe a joint marketing organisation was formed to reduce backroom costs for both "firms." This was, however, more than an attempt to extract positive synergies. It was designed to effect swift integration between the two both physically and mentally, so that a genuine partnership emerged, which in the short- to medium-term would achieve stability and bring a great deal of reassurance to many Nissan staff, who perceived the French of being there to dictate policy almost unilaterally to Renault's benefit and Nissan's cost.

It has been argued that, besides initiating sensible strategies and policies, much of the success of the post-merger implementation period was due to Ghosn's own personality and "workaholic" style of management. His was an open and direct, driving style with a highly visible presence. He made a point of being hands-on and communicating directly with the various tiers of management and the workforce. All of this helped to impart the

impression of positive activity to engender an atmosphere of confidence in the hope of real results.

Space precludes a full discussion of what was achieved, but by 2001 Renault-Nissan was beginning to be regarded as dynamic. Much had been achieved. The merged entity was number six in the world production league tables. An overall global presence was gradually being established with Renault being able to return to the Australian market and getting a foothold in Indonesia, for example. Sales, especially of Nissan products, rose and there were signs of a return to profitability by the Japanese. As Ghosn said, "the patient had moved out of the emergency room into the recovery room" (Ibson & Burt, 2001). So strongly did Nissan recover, that it was able to acquire a 15 percent stake in Renault. Finally, by 2003 all three of Ghosn's promises had been kept.

Finally, the main importance of this exercise is that it illustrates a relatively successful takeover of a Japanese carmaker by what was formerly an extremely parochial European firm. More importantly, however, it demonstrates the importance of leadership and policymaking and implementation in a situation where the culture of the two firms involved was extremely different and yet yielded a fruitful outcome.

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