Designing Durable Alliances: Lessons From Renault-Nissan

An alliance should continually enable mutual value creation. Otherwise, it's just a disguised merger.

Renault has been on both sides of strategic alliances. In 1993, Renault had to digest the **humiliating failure** of its strategic alliance with Volvo. The final blow to the three-year-old alliance came when the French government, Renault's main shareholder, raised the expectation of a controlling "golden share" in the possible merger of the two companies. Three years of intense cooperation with significant effort from both Volvo and Renault, underpinned by cross-shareholding, ended in a clumsy, costly and hasty disentanglement. Both automakers incurred significant opportunity costs due to reduced strategic manoeuvrability at a time when competitors, e.g. **Daimler-Benz**, were preparing their own moves.

Charging back into the fray, Renault formed an alliance with ailing Nissan in 1999. The Japanese carmaker's dire status led to a cross-participation in which dominant Renault injected US$5.4 billion for 36.8 percent of Nissan. By 2001, Nissan had gone from nearly bankrupt to raking in record profits.

The success story continued almost without pause until 2015, when the French state increased its **shareholding** in Renault to more than 19 percent and sought to double its voting rights. Since Renault held 43.4 percent of Nissan stock by that time, with full voting rights, whereas Nissan held 15 percent of Renault stock, without voting rights, tension within the alliance immediately spiked. In 2016, Nissan rescued a struggling Mitsubishi, tying that firm to the alliance and creating the **world's biggest carmaker**. Yet the alliance finds itself in a contentious state.

In light of the recent developments around the Renault-Nissan-Mitsubishi Alliance – including the controversies and allegations around its iconic leadership – several relevant observations emerge for other strategic alliances.

Alliances vs. acquisitions

After an early period of success, strategic alliances can falter when a transactional mentality sets in among senior management. Partners focus more on extracting value for themselves and less on creating mutual value – the ostensible purpose of the alliance. This is more likely to happen when the design of the alliance is too rigid or fails to consider how the alliance might later be dissolved by common agreement.

If the design of the alliance is too much of a straitjacket from the outset, it may well become irrelevant from the perspective of ongoing mutual value creation – i.e. an M&A in disguise. The key success factors for stimulating cooperative behaviour and mutual value creation don't mix well with the transactional aspects of ownership and control. Power struggles among the various partners-in-name-only are a probable outcome.

Revisiting mutual strategic dependency

Companies enter into strategic alliances bound by their respective strategic assessments of how their corporate structures and values may mesh. The strategic fit, the resource fit, the organisational fit and the cultural fit are important areas of consideration when assessing potential alliance partners. That being said, the economic reality of the alliance partners is explicitly intended to change *because* of the alliance. As the strategic dependency evolves, the potential for turning-table effects is inherent and prominent, necessitating an adjustment in governance and processes, without which the foundations of the alliance may be undermined.

In Renault-Nissan's case, the strategic goals of the two partners were divergent from the start. Nissan required emergency surgery, which it received with Carlos Ghosn's Nissan Revival Plan, while Renault wanted access to the Asian growth markets where Nissan was already well entrenched. These goals do not add up to a recipe for long-term harmony. Indeed, Renault's response to a revitalised Nissan becoming the larger of the two companies was to reinforce its own power position within the alliance.

Transitioning to alliance leadership

In the early days of the alliance, Carlos Ghosn clearly understood how to translate the differences and gaps between Renault and Nissan into **highly successful** management practices. His **boundary spanning** approach was a textbook example of how inspirational leadership can create common goals and lift the parties over and beyond the mere sum of the parts. The strategic, operational and management challenges for all layers in both organisations generated cohesion and commitment.

Yet once an alliance has achieved its "obvious" goals – and in the absence of strategic re-adjustments – leadership legitimacy tends to be challenged. After all, the success of the alliance proves it has served its purpose. The implicit expectation of both parties is often a return to a more classical management model, including a self-effacing, humble role for alliance leadership. Further, the shift from visionary to collaborative leadership is a prerequisite for strategic re-adjustment, enabling senior executives on both sides to redefine the governance equilibrium.

It is a strong possibility, then, that Renault-Nissan has long outgrown Ghosn's famously autocratic leadership style.

Cultural awareness and trust

Cultural fit is instrumental to the success of strategic alliances. It is probably the most complicated dimension in the overall relationship as it tends to surface in unexpected places at unexpected moments. Company culture and national culture are inevitably intertwined and tend to reinforce one another in dire times.

Japanese culture is sensitive to honour and its opposite, shame. This is especially true with affairs that are highly public, such as the fortunes of a prominent (and emphatically Japanese) firm like Nissan. In 1999, Renault had offered a cooperation model by which the two companies would retain their own identities, have their own corporate strategies whilst cooperating with each other as global partners. After seven consecutive years of losses and two failed internal turnaround attempts, Nissan's alliance with Renault brought renewed success and, consequently, a restored sense of national-corporate pride. However, frustration has been building up among Nissan's management in recent years, because of Renault's refusal to equalise power relationships within the alliance.

Any unilateral attempt to alter the core philosophy of the alliance can be seen and exploited as a token of disrespect and create a trust breakdown. Ironically, the same abhorrence of dishonour that initially cemented Nissan's compact with Renault now threatens to poison relations between the pair.

Alliances must be revisited

Strategic alliances are perhaps more important than ever in today's world of fast-changing market conditions and rapid innovation. In these disorienting times, two (or more) heads are better than one for finding strategic advantage. But the dizzying rate of change requires that partnerships, once formed, are routinely revisited to ensure they are still generating value for all parties. If the benefits are no longer distributed evenly, or one or more partners have undergone a serious shift since inception, big changes may be necessary. And that is where the once-exemplary Renault-Nissan alliance now stands.

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