Managing the Cultural Issue of Merger and Acquisition

The Renault-Nissan case

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ABSTRACT

Renault-Nissan, Daimler-Chrysler, Ford-Volvo, Daewoo-General Motors...The phenomenon of merger and acquisition within the automotive industry is booming. Just before, it was the take over of Rover by BMW, and the acquisition of Seat, Audi and Skoda by Volkswagen. An unprecedented history.

Tokyo, March 27, 1999 - Louis Schweitzer, Chairman and Chief Executive Officer of Renault, and Yoshikazu Hanawa, President and Chief Executive Officer of Nissan Motor Co., jointly announced today a global partnership agreement that would create the fourth largest automaker in the world, while achieving profitable growth for both partners. One year before this alliance it was Jürgen Schrempp, chief executive of Daimler-Benz, who started the story by risking with Robert Eaton, CEO of Chrysler, the biggest industrial automobile fusion ever. Following that, it is the American Ford that bought Volvo, while the Swedish carmaker was planning few years ago an alliance with Renault. At the same time the German Volkswagen took the control of Audi, Skoda and Seat

However, despite the large amount of M&A among the carmakers, Renault, by merging with a Japanese company, can be considered as a forerunner. The phenomenon of merger is a quite recent one in Japan. Nowadays, the terms 'acquisition' and 'merger' still have unwelcome connotations in Japanese business and legal circles. Indeed, even if there is no doubt that Japan has undertaken in recent years to improve access to its market by removing all the 'visible' trade barriers, its competitors still complain about 'invisible' barriers to the Japanese market based on attitudes, cultures, values, and tradition.

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PART 1 INTRODUCTION

The terms 'acquisition' and 'merger' had and still have unwelcome connotations in Japanese business and legal circles, in which businesses or corporations are not yet subject to sale. According to the Japanese Ministry of Finance (MOJ) and the Legal Affairs Bureau (the MOJ department responsible for keeping the companies register), it seems that it would be against the spirit of law to permit a Japanese corporation to engage in such businesses as selling its own assets or other corporations.[1]

However, even if M&As are still considered to be antisocial activities in Japan, world business, as well as the changing structure of Japan's domestic business, no longer permits the Japanese to confine their economic and industrial activities to traditional behavioural patterns. Michio Watanabe, former Minister of Finance and Minister of International Trade and Industry in Japan, believes that since the end of the eighties and beginning of the nineties there no longer exists any strong obstacle in the Japanese legal system which might prevent foreign firms or investors from acquiring Japanese companies. Watanabe emphasises that there is a need to establish an awareness in the business communities of the free nations, such as the United States and the Western Europe, that Japan is a fully open market; not only for trade but also as a capital and financial market.[2]

Nevertheless it is of great importance to bear in mind that while there is no doubt that Japan has undertaken in recent years to improve access to its market by removing all the 'visible' trade barriers, its competitors still complain about 'invisible' barriers to the Japanese market based on attitudes, cultures, values, and tradition.[3]

One of the most actual examples of alliance between a Japanese company and a European company is the global strategic alliance established between Renault and Nissan. Louis Schweitzer, CEO of Renault, and Yoshikazu Hanawa, CEO

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[1] Ishizumi K., 1990
[2] Ishizumi K., 1990
[3] Hitiris T., 1998, p 237

of Nissan Motor Co., signed an agreement of global partenariat on 27 March 1999. By this agreement, the new group is now the number four car manufacturer in the world and has the capacity to generate strong synergies amounting to 20 billion francs for the period 2000-2002.[4]

1.1 PROBLEM BACKGROUND

During the eighties M&As have been subject of a great expansion. M&As dominated the business and financial press, especially when they proved unsuccessful:

- "An engagement is broken- The collapse of a Dutch-Belgian banking merger"

(Financial Times, 19 September 1989)

- "Marriage brings woe for Wedgwood- Broken dreams: shares nose dive since the perfect marriage in 1980"

(The Mail, 25 March 1990)

Although there exists a growing literature on the area of M&A, it does not form a coherent whole. Instead it is characterised by different researchers studying these phenomena from different perspectives.[5] However two distinct approaches to M&A can be emphasised. The first approach is called the *traditional approach* and explains M&A only as a matter of finance and strategy. While the second approach, the *organisational approach*, is more focused on the human issue of the M&A phenomenon.

1.1.1 The Traditional Approach to M&A

Financial performance has been the traditional measure of success for organisations. It has also been a measure of success in many cases of M&A. In the 80s, economists, strategists and financial advisers were the ones who implemented M&As. M&As were based on financial or value-maximising motives, while the main objective was to increase shareholders' wealth and

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[4] "Avec Renault Flash Info" Direction of the Renault's Communication, April 1999
[5] Vaara E., 1995, p15

financial synergy through economies of scale, transfer of knowledge and increased control.[6]

Actually M&As are renowned for having a high rate of failure. Research evidence has demonstrated that quite often M&As had an unfavourable impact on the profitability. Instead of achieving the expected goals, such as economies of scale, M&As have become associated with lowered productivity and profitability, worse strike records, higher absenteeism. Indeed research evidence provided by Cartwright and Cooper led to the conclusion that around 50 percent of M&As are considered financially unsuccessful. [7]

M&As were considered to fail because of rational economic reasons, e.g. economies of scale were not achieved, the strategic fit was poor or ill-matched, or there were unexpected changes in the market conditions. But making a successful M&A, as many organisations have learnt to their own cost, is more than just "getting the sums right". Indeed, although M&As are thought to be rational and strategic processes, decision-makers are subject to personal emotions and aspirations which tend to override rational thinking, and neglect the organisational implications.

1.1.2 The Organisational Approach to M&As

"Matrimony as the origin of change was always disagreeable"

(Jane Austen)

To the contrary of the traditional approach that emphasises strategic fit, which concerns shared or complementary business strategies and goals, the organisational approach is focused on organisational fit that is related to the degree to which partnering organisations are compatible, in terms of their cultures, administrative systems and procedures, managerial style, decision-making approach, and communication patterns.

A distinction can be drawn between making an M&A decision and doing M&A work. The former concerns more the justification process (i.e. recognising the

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[6] Cartwright S. & Cooper C. L., 1996
[7] Cartwright S. & Cooper C. L., 1996, p24

synergistic potential), while the latter is more about managing the integration process (i.e. realising that potential).[8]

With this approach, M&A researchers, such as Cartwright S. and Cooper C, have considered the theme of whether M&As result in more or less resistance in the organisations involved. These studies have considered such issues as anxiety, change resistance, loss of motivation, loss of productivity, absenteeism, and personal turnover resulting from M&A.[9]

Cultural issues are of high importance in the organisational approach to M&As. One of the most important factors that raise problems in M&As is a clash in corporate culture. One hypothesis relating to the culture match between two partnering organisations is that the extent to which there exists a fit between the culture of the acquiring organisation and the acquired organisation will be directly correlated to the success of the acquisition.[10]

The idea that organisations can be considered as having a culture has its theoretical origins in sociology and anthropology, where the concept is fundamental to the understanding of any society or societal group. Culture is considered as being a powerful and pervasive influence on human behaviour. It is through culture that societies maintain regularity and order. Moreover the core of culture is values.[11]

1.1.3 Failure of the Traditional Approach to M&A

The problem with the traditional approach of M&A is that, by considering M&A only as financial and strategic alliances, it misses a quite important aspect of M&A that is the human issue.

To conceptualise M&A exclusively as rational financial and strategic activities rather than human activities is quite likely to be incomplete. All decisions can be considered as involving two elements: the *rational* and the *affective*. The *rational* element concerns the technical content of the decision, based on

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[8] Cartwright S. & Cooper C. L., 1996, p57
[9] Vaara E., 1995, p16
[10] Cartwright S. & Cooper C. L., 1996, p75
[11] Cartwright S. & Cooper C. L., 1996, p58

available knowledge relating to financial and strategic factors. While the *affective* aspect concerns the emotionality of the decision makers, which is influenced by cultural factors, and the organisational quality of the decision.[12]

Employees' problems are held responsible for between one-third and a half of all M&A failures. A discussion paper done by the British Institute of Management identified sixteen factors associated with unsuccessful M&As. Of these sixteen factors at least half were directly related to people and people management issues. These factors are the following:[13]

- Underestimating the difficulties of merging two cultures,
- Underestimating the problems of skills transfer,
- Demotivation of employees of acquired company,
- Departure of key people in acquired company,
- Too much energy devoted to "doing the deal", not enough to post-acquisition planning and integration,
- Decision making delayed by unclear responsibilities and post-acquisition conflicts,
- Neglecting existing business due to the amount of attention going into the acquired company,
- Insufficient research about the acquired company.

The process of M&A can be considered as a marriage where the compatibility of the partners is of crucial importance. Thus the problem with the traditional view of M&A is that the compatibility of the partners is taken only as a matter of ensuring a good strategic fit, while the compatibility of management styles and corporate cultures is not much considered in the pre-acquisition stage.

1.1.4 Synergy in M&A

It is difficult to find literature on M&As and the underlying reasons without reference to the concept of synergy. The fact that the sum of two parts can be greater than their own separate values, i.e. 2+2=5, is discussed explicitly in the strategic management literature. The presence or the lack of synergy is of

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[12] Cartwright S. & Cooper C. L., 1996, p27
[13] Cartwright S. & Cooper C. L., 1996, p28

considerable interest and is the essential source of inspiration both in finance studies and strategic management research on M&A.

Actually the word synergy can be traced back to the Greek words "sun" and "ergon"; that means "to work together" (Larsson, 1989). Moreover this general definition is further emphasised in the Harper Dictionary of Modern Thought[14]

> *"The additional benefit accruing to a number of systems should they coalesce to form a larger system…More generally, still the term is applied to the generation of unplanned social benefit among people who unconsciously co-operate in pursuit of their own interest and goals."*

Over the time different aspects of synergy have been analysed. According to Matsgård and Pernodd the first writer to use the concept of synergies as a way of understanding strategic issues was Ansoff during the sixties. He discussed sales, operating, investment and management synergies. In this context synergies were associated with economies of scale in production. The idea was that by sharing competencies, such as distribution or R&D, companies would achieve synergies, i.e. more efficient usage of common resources.

Matsgård and Pernodd found out that Lorsch and Allen added financial synergy to Ansoff's classification in the seventies. Then, in the eighties managers focused their analysis more on core activities of companies, which meant a decline for financial synergies.

Larsson, in his attempt to define synergy, gave a synergy typology matrix.

Figure 1.1 Synergy Systematisation

	Synchronic (One point in time)	**Diachronic** (Over time)
Economies of sameness (Interaction of similar parts)	Economies of scale (Less cost per unit as volume increases)	Economies of experience (The learning curve, etc.)
Economies of fitness (Interaction of different parts)	Complementary (Mutually supportive parts)	Economies of speed (Just in time production, etc.)

(Source: Larsson R., Organisational integration of M&A, 1989, p82)

1.1.5 The Integration Process as the Focus of Organisational Literature

In the M&A literature there exists an important fragmentation of the different fields of M&A research. First, the *strategy* and *economics* fields focus on M&A's motives and performance. Second, the *finance* literature has almost exclusively studied the performance aspect. Third, *popular business press* tends to be captivated by the spectacular acquisition process of large, often hostile take-overs. Finally, the o*rganisational* literature deals primarily with the human side of the integration process, such as cultural clashes, psychological aspects, and conflict resolution. This fragmentation of the literature concerning M&A is summarised in figure 1.2.[15]

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[14] Matsgård E. & Pernodd T., 1996, p4

Figure 1.2 Different M&A Aspects Focused by the Literature

Fields of research

M&A aspects	Strategy	Economics	Finance	Popular press	Organisation
Motives	X	X			
Acquisition				X	
Integration					X
Performance	X	X	X		

(Source: Larsson R., Organisational integration of M&A, 1989)

1.2 RESEARCH QUESTION

> How can the way of handling cultural issues in the integration process of an M&A activity affect and contribute to the realisation of synergies; thus leading to a successful Merger or Acquisition?

To be able to answer the main research question, sub-problems questions have to be analysed and answered at a first stage. Indeed in order to reach good conclusions and answers to the main problem of my Master Thesis I have found some concepts, fields and problems that have to be analysed and understood before getting into the main problem of the thesis. Thus the sub-problems that are going to be taken first are the following:

- Need to define and explore the concepts of the integration process of an M&A, national and corporate cultures, potential synergy and synergy realisation, and employee resistance.

- Develop a theoretical framework to be able to analyse the practical case.

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[15] Larsson R.,1989, p3

- Describe the Renault-Nissan case, i.e. the reality.
- Analyse the case within the theoretical framework in order to answer the research question and to achieve the purpose of the Master Thesis.
- Analyse the potential synergies (economic side) that are created by the alliance.
- Finally, assess and analyse the cultural and human influences on the realisation of the potential synergies.

1.3 PURPOSE OF THE MASTER THESIS

Develop a better understanding of the correlation between cultural issues and synergy realisation within M&A with the aim of giving recommendations to Renault in its way of handling its alliance with Nissan.

1.4 STRUCTURE OF THE MASTER THESIS

Figure 1.3 Structure of the Master Thesis

How can the way of handling cultural issues in the integration process of an M&A activity affect and contribute to the realisation of synergies; thus leading to a successful Merger or Acquisition?

| Definition of the Key Concepts | Explore the influence of cultures and human factors on synergy realisation | Explore the characteristics of the French and Japanese cultures | Explore the sources of the employee resistance in the integration process |

Theoretical synthesis framework for the analysis of the practical case

Description of the Renault-Nissan case

Analysis of the case study within the theoretical framework

| Assess the potential synergy | Compare French and Japanese cultures | Analyse the influence of employee resistance on synergy realisation |

Develop a better understanding of the correlation between cultural issues and synergy realisation within M&A with the aim of giving recommendations to Renault in its way of handling its alliance with Nissan.

Figure 1.4 General Outline of the Master Thesis

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│      INTRODUCTION       │
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┌─────────────────────────┐
│      METHODOLOGY        │
└─────────────────────────┘
            │
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│      THEORETICAL        │
│       FRAMEWORK         │
└─────────────────────────┘
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┌─────────────────────────┐
│   DESCRIPTION OF THE    │
│          CASE           │
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│        ANALYSIS         │
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│    RECOMMENDATIONS      │
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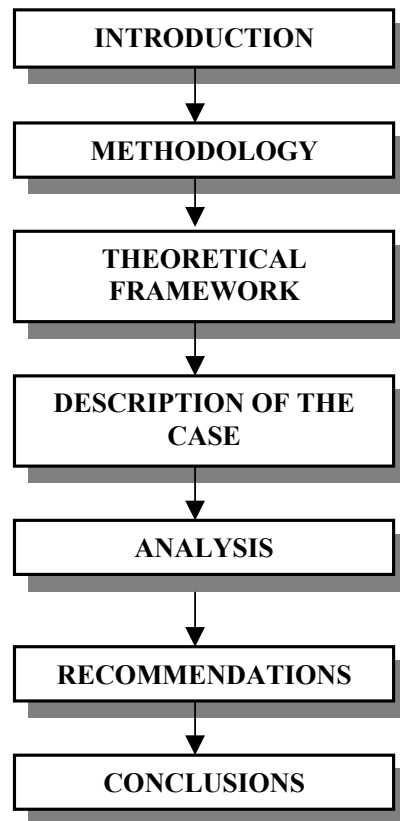
1.5 LIMITATIONS

The choice of analysing only one case company is mainly due to the time limitation. Indeed to study more than one acquisition would have taken much more time for the gathering of information and the analysis than the time that is allowed to us. Moreover I believe that the conclusions and recommendations that would be given at the end of the analysis can be generalised to other cases of merger between a French, or even a Western company, and a Japanese company, due to the validity and reliability of the information collected.

The emphasis of the thesis is put on the importance of cultural issues upon the integration process of an M&A. This choice is motivated by the fact that I believe that this is a crucial phase in M&A. The integration process, where

cultural differences play a crucial role, can totally change the future of an M&A whether it has been well carried out or not.

Moreover, given the purpose of the thesis that is on cultural issues of M&As, I have limited my studies by not including the financial and economic sides of M&As in the theoretical framework. Yet in the analysis part I have briefly listed the potential economic and financial synergies of the Renault-Nissan alliance. Indeed this is the realisation of these potential synergies that will be influenced by the cultural differences in the integration process.

PART 2 METHODOLOGY

The aim of the methodology part is to explain the methods used to accomplish the thesis. It permits the reader to have a clear view of how the thesis has been conducted. The two first sections of this part will motivate the choice for the research strategy and the research method. The data collection will be then described; after follows an assessment of the validity and reliability of my findings. And finally the choice of the case company will be presented.

2.1 RESEARCH STRATEGY

There exist five different ways of doing social science research. These are experiments, surveys, histories, the analysis of archival information, and case study.

2.1.1 The Case Study as a Research Strategy

I have decided to use a case study as the strategy for my thesis. Indeed I believe that it is the best method to reach and fulfil the purpose of the thesis, which is to develop a better understanding of the synergy realisation in M&A. Thus to achieve the purpose, I needed to study a merger or acquisition that occurred recently.

The case study, as well as each of the other research strategies, is a way of collecting and analysing empirical evidence. All these different types of research strategy have their own advantages or disadvantages. According to Yin this depends upon three main factors or conditions that are: the form of research question, the control an investigator has over actual behavioural events, and the focus on contemporary. The different situations for the choice of either one research strategy or another one are illustrated in figure 2.1.[16]

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[16] Yin R., 1994, p6

Figure 2.1 Relevant Situations for Different Research Strategies

Strategy	Form of Research Question	Requires Control Over Behavioural Events?	Focuses on Contemporary Events?
Experiment	how, why	yes	yes
Survey	who, what, where how many, how much	no	yes
Archival analysis	who, what, where how many, how much	no	yes/no
History	how, why	no	no
Case study	how, why	no	yes

(Source: Yin R., "Case study: Designs and Methods", 1984, p17)

Thus as we saw in the previous figure, the focus of the case study is on the *how* and *why* questions. This explains the formation of the research problem, which is "how can the way of handling the human side in the integration process of a M&A activity between two organisations affect and contribute to the realisation of creative and powerful synergies".

Moreover the case study was chosen because it is preferred in examining contemporary events on which an investigator cannot have any effect. Now, the focus of my thesis is on a quite recent event that happened less than one year ago. And I do not pretend to have any control over the alliance that took place between Renault and Nissan. Thus I will make use of the case study as research strategy.

Another motivation for the choice of the case study is that it is an empirical inquiry that makes use of multiple sources of evidence.[17] I have used several different sources of evidence, such as interviews, survey, documents and observations, when carrying out my study.

One definition of the case study as a research strategy has been given by Yin in these words,

> *"The essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decisions: why they were taken, how they were implemented, and with what result."*

2.1.2 Case Study Design

A case study design can be defined as a framework for the empirical data collection in order to develop questions and, ultimately, draw conclusions to the initial question. Research design has been simply defined by two writers as a plan that:

> *"Guides the investigator in the process of collecting, analysing, and interpreting observations…the research design also defines the domain of generalisation, that is, whether the obtained interpretations can be generalised to a larger population or to different situations".* [18]

It is quite important to keep in mind that a research design is much more than just a workplan. Its main purpose is to avoid evidence not addressing the initial questions.

For case studies, there are four main types of design that are relevant. These four types of design derive from a 2x2 matrix (figure 2.2). The matrix is based on the assumption that single and multiple case studies reflect different design considerations and that within these two types, there also can be a unitary or multiple units of analysis. [19]

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[17] Yin R., 1984, p23
[18] Nachmias and Nachmias, 1976, p77-78
[19] Yin R., 1994, p39

Figure 2.2 Research Design Types for Case Studies

	Single-case Designs	Multiple-case Designs
Holistic (single unit of analysis)	*TYPE 1*	*TYPE 3*
Embedded (multiple units of analysis)	*TYPE 2*	*TYPE 4*

(Source: Yin R., "Case study: Designs and Methods", 1984, p41)

For the case study strategy, the four types of design are single-holistic case, single-embedded case, multiple-holistic case, multiple-embedded case.

I have decided to use a *single embedded case study design* for the conducting of my thesis; type 2 of figure 2.2. The single-case study is a relevant design when the case represents an extreme or unique case or when it represents the critical case in testing a well-formulated theory. [20] Indeed the Renault-Nissan alliance case is a unique one; Renault is the first French, and even Western, company to have acquired a Japanese company just after the Asian crisis. Moreover the purpose of my thesis is to get a better understanding of the theory by applying it in the analysis of the case.

For the case study design I have chosen an embedded design, i.e. with multiple units of analysis, because there are lots of factors and events that can have an influence upon the Renault-Nissan alliance. These factors are for instance both the corporate and societal cultures of each group, the companies' environment, and the employee resistance against the alliance.

2.2 RESEARCH METHOD

A case study can be both a quantitative and a qualitative analysis. Qualitative researches are more inductive while quantitative researches are more deductive. Case studies can be a mixture of the two methods, qualitative and quantitative.

Qualitative studies are based on data and information that cannot be quantified. This method is used when the investigator collects a lot of information about a few units in order to get a global perspective of the problem. The kind of data needed for qualitative research, also called "soft data", can be cultures, attitudes, beliefs, values, emotion, socio-professional differences, etc. I have used a qualitative study as I have gathered information by conducting personal interviews among Renault's employees. The aim of these interviews was to go deeper into the analysis of the perceptions and feelings of the employees within Renault about the acquisition of Nissan. I interviewed employees who were already working for Renault before the alliance and who are still in the company since this date. It is an important issue to grasp the employees' perceptions of the alliance to make some recommendations on how Renault should handle the human side of the alliance.

On the other hand the data collected for a quantitative research are data that can be quantified. But this time, the research is based on a large amount of units on which less data are collected. Thus this makes the research broad. I have made used of quantitative research in order to broaden my analysis. Indeed I have carried out a survey among Renault employees via Internet. The survey allowed me to obtain more information and perceptions of the alliance from the employees. However the answers that I gathered by means of the survey were less detailed than the ones got with personal interviews.

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[20] Yin R., 1984, p43-44

2.3 DATA COLLECTION

According to Yin (1984) evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant observation, and physical artefacts. Given the different sources for data collection it is important to emphasise the distinction that exists between primary data and secondary data.

2.3.1 Primary Data

The primary data are the data that the researcher has to collect himself. This new data can be collected from either interviews, or observation, or surveys. To collect the primary data I have conducted several personal interviews and a survey among the Renault's employees. The questionnaires used during the interviews and for the survey were the same. The questionnaire, which is divided into three main sections, is presented in Appendix 1.

The first part of the questionnaire is about the phenomenon *acculturation* and comprises eight questions. One purpose of this part is to analyse the compatibility of the French and Japanese cultures and management methods, and as well to leverage the level of mutual understanding between the two combining groups, according to the respondents. Yet the main purpose of the first part of the questionnaire is to emphasise the level of acculturation created within both organisations. An explanation of the term acculturation is given in the theoretical synthesis part.

The second part, which is more related to career implications, comprises eight questions too. The aim of this part is to show the perception of Renault's employees about the changes that occurred in the atmosphere of the organisation and in their work contribution, due to the alliance. Do they fear more for their job security, and do they consider to have lost value because of the alliance?

Finally, the last part of the questionnaire deals with the assessment of the employees' hostility and comprises ten questions. The purpose of this part is to

assess the willingness of the employees to co-operate with their counterparts from the other group, as well as to find out if there exits a true communication about the alliance within Renault. This last part of the questionnaire will underline if the employees have the feeling of being more under pressure since the alliance.

2.3.1.1 Personal Interviews

To collect the primary data I have conducted several interviews at Renault. The persons interviewed were only engineers and managers from Renault. It is during these interviews that I have collected the most interesting and detailed information about the alliance. These interviews was of a *semi-structured* nature. This means that the questions asked were rather focused but the answers from the respondents were free and open. The interviews took place mostly in the office of each respondent and were conducted for roughly 45 minutes. I have interviewed 9 people, of whom 6 were engineers and 3 managers, all of them were men.

The fact that the alliance between Renault and Nissan is a quite recent event raised some obstacles to my attempt to interview a large number of employees. A study about the alliance is already under-way in the socio-economic department of Renault and all information is confidential. All the same I had the opportunities to interview some managers and engineers, but sometimes their answers were rather fuzzy because of the confidentiality of the information asked. To not mention the name and exact position of the interviewed employees was a condition for me getting these personal interviews. A compromise that I easily accepted because the nomination of each person is not important, what is important is that they are engineers and managers from Renault.

The language was not a problem because all the people interviewed were French, like me.

2.3.1.2 Survey

To carry out my survey correctly and extensively, I have made use of Internet to distribute my questionnaires to the largest amount of employees possible. I

believe that the use of Internet to carry out my investigation was a good and quick way. Indeed through Internet it is quite easy and fast to reach a large amount of people. 21 employees from Renault answered my questionnaires and replied it to me by email. Even if the questionnaires were the same as for the interviews, the information collected with the survey were of lower quality and less detailed than the information got from personal interviews. Actually I sent the questionnaires with an introduction letter describing my educational background and explaining that I was carrying out this survey as part of my thesis. I had to promise them the confidentiality of their name and position.

2.3.2 Secondary Data

The secondary data is data that already exists. This data has been previously collected for other purposes or studies than that of the research problem. There is a distinction that is made between the sources of secondary data. Indeed data can come from either internal sources or external sources.[21] Internal data is collected within the organisation or company, while on the contrary external data are found outside the company.

For the internal data I have mainly resorted to Renault's Internet site (www.renault.com) that is very well structured and contains lots of important and current information. Renault provided me with newspapers and articles such as *"Avec Renault Flash Info"* or *"Direct le journal du Management Renault"* that are internal to the Renault organisation.

For the collection of external secondary data, my sources have especially been different sites on Internet, books, articles, and public investigations. The books have been very useful for the methodology part as well as for the writing of the theoretical framework. While the different internet sites, public investigations and newspapers have been more used for the description and analysis of the case study. I carried out my research in the different sites of Renault and Nissan, but also in sites of research. For the newspapers I have found lots of articles referring to the alliance mainly in French newspapers, but in international economic newspapers too.

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[21] Lekvall P. & Wahlbin C., 1993

2.4 EVALUATION OF THE QUALITY OF THE RESEARCH

Whether one is doing case studies or other types of research, three tests are relevant to judge the quality of the research. These tests are the following: validity, external validity, and reliability.

2.4.1 Validity

Validity allows the researcher to find out if his research fits the reality and if he is measuring what he really wants to measure, in accordance with his research questions and the purpose of the study. There exist different tactics to increase construct validity when doing case studies. One of them is to use multiple sources of evidence. While another tactic is to have the report reviewed by the informants. Moreover, for case study research the concern over validity may be extended to the broader problem of making deductions. When the investigator is inferring about particular events, the problem is to know if these inferences are correct or not. Therefore the validity of these inferences should be questioned.[22]

To increase the validity of my thesis I have used several sources of evidence to collect the needed data. The sources that I have used for my research comprise personal interviews, surveys, international press releases, books and Internet. Renault gave me internal information such as internal newspapers and documents about the alliance. Renault's homepage site was also of great help and rich in information.

Moreover, after each personal interview I have reviewed briefly, with each respondent, my notes in order to be sure that I got the right view about their perceptions and feelings about the alliance. Thus I got feedback on my notes and the respondents could clarify some points that I could have misunderstood. By this method I could increase the validity of my research. Besides, as I interviewed and investigated Renault's employees about their own perceptions about the alliance, the information obtained from the interviews and the survey describes the real feelings of Renault's employees upon the alliance.

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[22] Yin R., 1994, p34-35

Of course the validity of my inferences about the analysis could be discussed because the phenomenon analysed is the first of its type. Renault is the first French company to buy a large stake in the capital of a Japanese company. Yet the results and findings of my research fit well with my theory and to the reality of the case company.

2.4.2 External Validity

The external validity is about knowing whether a study's findings can be generalised beyond the immediate case study. In analytical generalisation, the investigator is striving to generalise a particular set of results to some broader theory. Actually, due to the fact that this generalisation is not automatic, a theory must be tested through replications of the findings in a second or even a third case, where the theory has specified that the same result should occur.[23] Thus when the external validity is obtained, the results are applicable to other studies.

Since this thesis is about developing a better understanding of synergies in a M&A process, I believe that it is possible to generalise the findings to others merger or acquisitions that could occur between a French, or even European company and a Japanese company. However it is important to bear in mind that the cultural differences are of great importance when M&As are occurring between two companies from two different countries. Each company has also its own corporate culture, which differs from other companies. Due to the fact that I have used a single-case study as my research strategy, the possibility to generalise the conclusions and the findings of my thesis are more limited. However, I believe that even though my theories have been applied to a single case study, they are applicable to other studies. Thus the reliability of my research should be quite high.

2.4.3 Reliability

Reliability is about making sure that a new investigator should arrive at the same findings and conclusions than an earlier one, by following the same

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[23] Yin R., 1994, p 36

procedures described by the earlier investigator. The objective is to minimise the errors and biases of the study as much as possible.

It is difficult to be sure that my interviews and survey do not include any biases or errors. Moreover it is impossible to be sure that another investigator would interpret my data in the same way that I did. However I have used procedures that are rather easy to follow. During the interviews I wrote down important notes to the answers given by the respondents. Furthermore, to ensure that everything said during the personal interviews was saved, I wrote down all that was said as well as my own perceptions after each interview. As well, all the emails received in answer to my survey were kept on discs for latter analysis.

Once again I would like to emphasise that the language has not affected my investigations during the interviews and the survey, given that all respondents are French, like me. Therefore I can say that the reliability of the data collected from the interviews and the survey is quite good.

2.5 CHOICE OF THE CASE COMPANY

I have decided to investigate the cultural differences between France and Japan and what influence can they have over an M&A that would occur between a French and a Japanese company. My purpose was not to develop a new theory but rather to use existing theories in real life. I thought that it would be interesting to see if theories created about ten years ago would still be valid nowadays after the Asian crisis. Indeed my choice for the theories has been to use general theories about cultural concerns and M&As, as well as more specific theories for Japan and France. I decided to study M&A, and especially the integration process within them, because I believe that most of cultural issues arise when companies from different cultures get involved into a M&A process. Hence studying the alliance between two firms is the best way to focus on cultural differences and issues.

The Renault-Nissan merger was officially announced in March 1999, while the choice of the thesis' subject was around June 1999. At this time, especially in

France, specialised newspapers investigated and discussed much about this alliance. I started to get a strong interest in this alliance by reading many documents and investigations about it. Being French increased even further my interest in analysing the cultural differences existing between France and Japan. Moreover this alliance between a French and a Japanese company is a first. Renault is now considered as a forerunner in the co-operation with the Japanese for a French multinational. Hence I decided to choose the merger between Renault and Nissan as my case study.

PART 3. THEORETICAL FRAMEWORK

3.1 SYNERGY POTENTIAL VS SYNERGY REALISATION

The word synergy can be traced back to the Greek words *sun* and *ergon,* which means 'to work together'. Synergy is the name often given to the concept by which two firms combine and increase their value. In other words 2+2=5.

Yet it is important, in the context of M&A, to make the distinction between potential synergies and synergies that are actually realised. Indeed this distinction is crucial because the fact that the two joining groups have a high amount of potential synergies does not mean that by combining their efforts they will realise the same amount of synergies, most of the time the amount is smaller. This phenomenon is due to the existence of obstacles and resistance to the alliance within the partners.

3.1.1 Synergy Potential

Synergy potential is the potential benefit from the interaction between the joining companies given their optimal integration. There are some pre-conditions of the merger or acquisition that suggest that synergy potential is more likely. These pre-conditions can be for instance the less geographical distance between the joining firms or the more similar operations of the merging firms.

Yet it is important to bear in mind that potential synergies refer to the actual potential and not to false beliefs and perceptions that later can turn out to be surprising underestimation or overestimation impossible to realise no matter how good the integration.[24]

3.1.2 Synergy Realisation

Synergy realisation can be defined as the actual benefits created by the integration between the joining firms. If the integration was done very well,

then the amount of synergy realisation should at least almost correspond to the synergy potential. However it often happens that synergies potential were overestimated and that the amount of synergy realisation is less important than the one of synergies potential.[25]

It is during the integration stage that the success of synergy realisation will be mostly determined. Indeed cultural issues have actually their strongest impact over the M&A once the integration has really taken place. Thus it is why the integration process is such an important stage in an M&A process. I am now going to describe the integration process in the next section by emphasising the difference between potential synergy (pre-acquisition) and synergy realisation (post-acquisition).

3.2 THE INTEGRATION PROCESS OF AN M&A

Before the integration actually takes place both companies that are involved in the process make analysis and investigations in order to determine the amount of potential synergy. This is this amount that will either encourage the companies to make the merger or acquisition, or refrain them to do it. In fact the potential synergy can be considered as the justification to realise an M&A. The potential synergy motivates the companies to get involved into the integration process, while it is the integration process that will determine the realisation of synergy through the way of handling cultural issues.

Figure 3.1 From Synergy Potential to Synergy Realisation- M&A Process
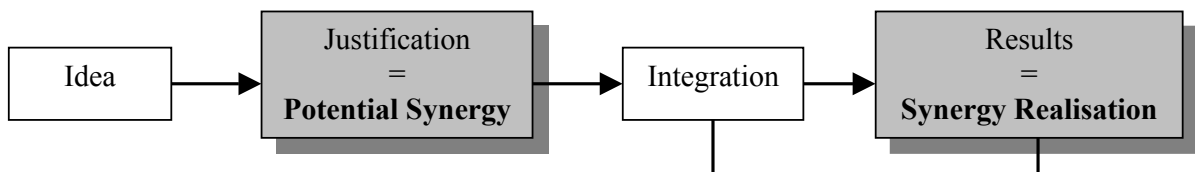
The integration process is the key to making acquisitions work. Not until the two organisations come together and begin to work toward the acquisition's

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[24] R. Larsson, 1989
[25] R. Larsson, 1989

purpose can value be created. The integration process is of great importance in M&A. However it is important to underline that the integration process is a very difficult stage within M&A process where cultural issues take an important place. Managers consider this stage as being time consuming, uncertain, and fraught with risks and setbacks.

There does not exist a general consensus on what the integration process is and how to define it. For some managers integration means "making them like us"; other managers believe that "nothing should change" in either company. Some see integration as a "black box" in which things just seem to happen after the acquisition.

3.2.1 Fundamentals of the Integration Process

Although Managers acknowledge the importance of the integration process, negotiators often bypass detailed discussion of integration because of its uncertainty, its complexity and because of other pressures during the decision process. Yet, according to Haspeslagh and Jemison, there exists a common set of elements in the integration process that remains the same regardless of acquisition type or differences in integration needs. Figure 3.2 points out the dynamics involved in the acquisition integration process.

Figure 3.2 The Acquisition Integration Process
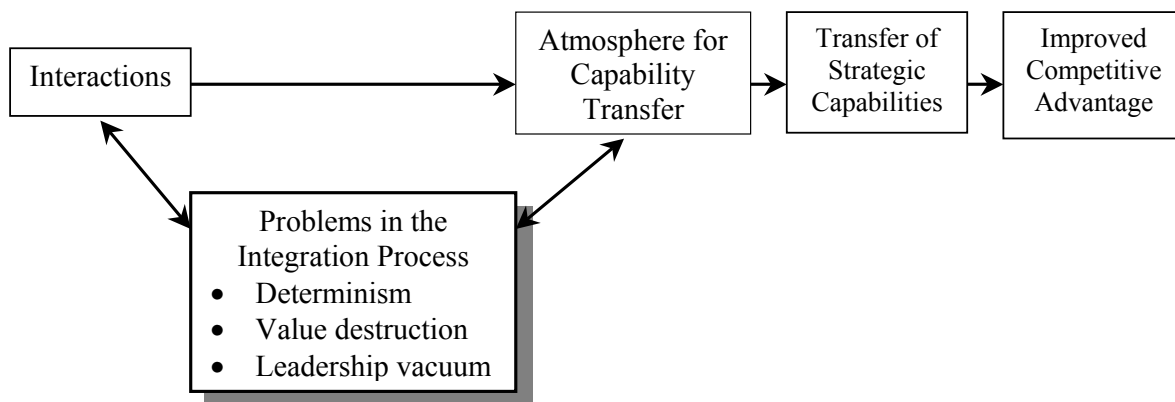
(Source: Haspeslagh & Jemison, "Managing Acquisitions", 1991)

Integration is an interactive and gradual process in which individuals from two organisations learn to work together and co-operate in the transfer of strategic capabilities. The figure above emphasises the problems that can arise in the integration process. It is likely that these problems prevent the creation of a good atmosphere for capability transfer. Actually, shaping such an atmosphere is especially difficult because problems within the integration process itself tend to subvert its creation. Thus in the following section I am going to describe more in detail these possible problems.

3.2.2 Problems in M&A Integration

Just as there are problems related to the decision process before the agreement, there is a range of problems afterwards during the integration process. Haspeslagh and Jemison found out three main problems that tended to hamper the combined firms' ability to create an atmosphere appropriate for capability transfer (figure 3.2):

- *Determinism* is the tendency of managers to stick to the original justification in the face of a different or changing reality confronting the acquisition. In front of these increasing external events and shocks, managers may stick to the original justification instead of trying to adapt to the changes. In fact this inflexible behaviour is rooted in a false sense of security created by the original justification and conditioned by a cycle of confusion and frustration resulting from the justification's inability to survive in the real world. This false sense of security prevents the managers from realising that changing circumstances can affect their prior assumptions and the M&A's success.

- *Value destruction* determines the impact of the acquisition on individual managers and employees themselves. Every M&A changes the established order and pattern of activities at both organisations. These changes foster uncertainty, fear, and a tendency towards self-preservation on the part of the employees. Therefore, as a consequence, the people who are expected to create economic value for the shareholders have value destroyed for themselves. Value destruction can affect the atmosphere for capability transfer in several ways. It affects seriously the willingness and capacity of

the employees to participate in capability transfer, and employees can become unwilling to participate in the work of the organisation. Actually the value destroyed for employees can be either economic or psychic. Economic value is destroyed if they lose their job, job security, rewards system. The destruction of psychic values results from the rumours, presumptions, decisions (real or imagined) that directly affect the lives of the employees.[26]

- *Leadership vacuum* defines the lack of appropriate leadership to articulate a new purpose for the combined firms. Because of the tendency for value to be destroyed, leadership becomes even more important after an acquisition, when employees in the two organisations are brought together and are supposed to embrace a new and often badly defined concept. Leadership helps people from both companies to develop, understand and embrace the acquisition's purpose and see their role in it. Without this understanding managers and employees in the combined organisation return to their former, more familiar behaviour. If the senior executives do not provide the middle managers and employees with this new vision, there is a high risk of misunderstanding by the latter of the acquisition's purpose.

Taken together, these problems can explain to a large extent some failures in M&A integration. In successful M&As the forces that brought these problems about were present, but management had been able to recognise and deal with them.

3.2.3 Cultural Integration

Acculturation is considered as the development of a jointly shared meaning fostering co-operation between the joining firms. If there still exist lots of cultural clashes between the two combining firms, it means that acculturation has been poorly achieved. In fact acculturation diminishes collective resistance by creating a common language, mutual consideration, better understanding of the other, and so on.[27] Actually reaching a high degree of acculturation is one of the main achievements in an M&A process. Without acculturation created

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[26] Haspeslagh P. & Jemison D., 1991, p131
[27] R. Larsson, 1991, p4

between joining companies there are small chances for the M&A to be successful.

Sales and Mirvis have identified three main stages of the cultural integration the last of which is acculturation. The first stage, labelled "threat against the own culture", is very important because it is during this phase that employees from the acquired firm perceive feelings such as fear, uncertainty and chock. These feelings are the feelings that the employees have about the M&A.

The second stage, "cultural confrontation", occurs when people from different cultures meet and start working together. Individuals have difficulty to accept and listen to things that are different from their point of view and culture. In this stage feelings such as insecurity and anxiety can be found.

Finally, according to Sales and Mirvis, the last stage is "acculturation". This third stage is the stage that companies should strive to reach because by reaching this phase companies would decrease cultural clashes within the M&A and create joint meanings.[28]

3.2.4 Cultural Compatibility

Cultural compatibility of corporate cultures between combining organisations would seem to imply cultural similarity. In which case, making a successful merger or acquisition depends on the ability of decision makers to identify a potential merger partner or acquisition target, which represents both a good strategic and cultural match, i.e. that its value and organisational practices are approximately similar in type. However, no previous empirical evidence has verified the assumption that combination between two organisations that are similar automatically makes a successful M&A.

Allen and Siehl have drawn a model that describes and focuses on strategic and cultural fit and its role for an M&A. Their model is presented in the following figure.

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[28] Sales & Mirvis, 1984, through Friberg & Persson, 1999

Figure 3.3 Strategic and Cultural Fit

Culture

	Similar	Different
Complementarity	**Success** Cultural Similarity Strategic complementarity	**Failure** No cultural similarity Strategic complementarity
Unrelated or similar	**Failure** Cultural similarity Poor strategic complementarity	**Failure** No cultural similarity Poor strategic complementarity

Competencies (vertical axis label)

(Source: Allen & Siehl, "Joint Ventures and Other Alliances", 1989)

Thus according to Allen and Siehl companies should have a similar culture if they want to merge successfully. Yet if they do not have a similar culture they still can merge but have to adjust their culture towards each other. Moreover some modifications have to be made within both organisations' cultures. [29]

3.2.5 The Institutional Network Theory

The environment of a company comprises many agents and factors that are either economic or non-economic. The distinction is made between organisational fields that directly affect the multinational company (MNC), and societal institutions that indirectly influence it. Whereas in the societal institutions the influence is only in one direction, from the societal field to the MNC, in the organisational field the influence is in both directions. This means that the participating companies interact. All the decisions and actions of a firm are influenced by its environment. A firm responds to its environment by taking decisions and doing operations. What is highly important and can make the difference between companies within the same industry is their ability to analyse, understand, learn and adapt to their environment.[30] Nowadays most of the companies leave their national borders, which makes the environment more complex. Thus it increases even more the importance of the environment; it is crucial to pay attention to and understand the new environment. Since the Asian crisis the environment in Japan has experienced lots of changes and

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[29] Allen & Siehl, 1989, through Friberg & Persson, 1999
[30] Jansson H., 1999

upheavals, which is very important to learn when a company wants to enter the Japanese market or merge with a Japanese company.

Hans Jansson has made the distinction between the societal and the organisational fields in its institutional network model, which is presented in figure 3.4. The different actors in the fields can affect each other both inside-out and outside-in. The organisational field is made of links between different networks, while institutions are the rules of the game.[31]

Figure 3.4 The Institutional Network Model
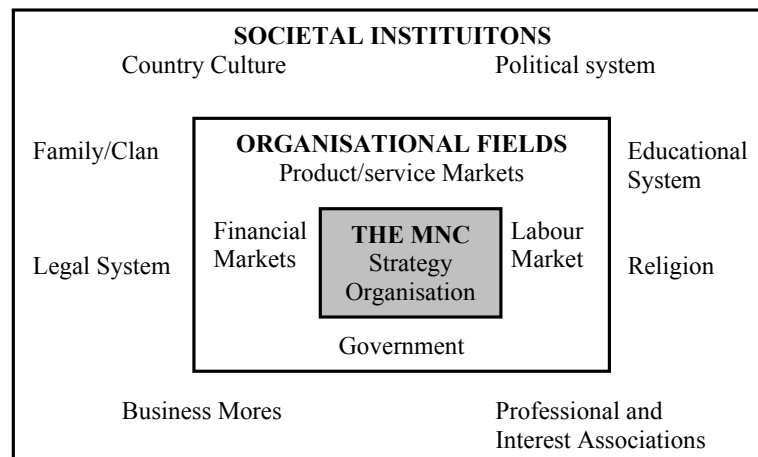
(Source: Jansson H., "International Strategic Management in Emerging Markets", 1999)

Culture is an important external institution and how well a company understands it and adapts to it is a very important factor that will influence the performance of the company. Indeed as shown in the above model, cultural differences are obvious when it comes to an M&A between two companies from different countries. Yet even if the M&A is possible, the identification of cultural problems that are likely to arise is greatly important.

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[31] Jansson H., 1999

3.3 CULTURES

Nowadays the business environment comprises different cultures that influence the actions and behaviour of companies. Thus it has become highly important for the managers of multinationals to learn and be aware of these values, traditions and customs of foreign cultures. The awareness of cultural differences has to be developed in order to avoid cultural clashes or misunderstandings.

3.3.1 Definition of Culture

It is very difficult to find or give only one definition of the term culture. Many definitions have been formulated for culture, it is a fuzzy and abstract notion. Indeed, mostly in anthropologic literature but also in economic literature, many different definitions of culture can be found. There are many candidates for the ultimate definition. Kroeber and Kluckhohn have established a list of 164 definitions for the term culture.[32] A general consensus about the term has not been reached yet. Whereas some definitions can be very large, i.e. culture is everything, others are more narrow. Hofstede has defined culture as being "the collective programming of the mind, which distinguishes the members of one group or category from another". Moreover according to him, culture is learned, it derives from one's social environment; it is not inherited. Indeed, the sources of one's mental programs lie within the social environments in which one grew up and collected one's life experiences.[33]

Another definition of the term has been given by Hampden-Turner as "Culture comes from within people and is put together by them to reward the capacity that they have in common". Moreover they stress that culture gives continuity and identity to the group. It works as a pattern of information and can greatly facilitate the exchange of understanding.[34]

Goodenough considers that individuals can share different cultures with several different groups. Indeed its definition of culture is "Culture is a set of beliefs or

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[32] Usunier J.C., 1991, p4
[33] Hofstede G., 1994, p4-5
[34] Hampden-Turner C., 1990, p21

standards, shared by a group of people, which help the individual decide what is, what can be, how to feel, what to do and how to go about doing it". Therefore according to this definition culture is not inevitably assimilated by the whole of one specific society.[35]

3.3.2 Cultures Provide their Members with Continuity and Identity

For instance, without a shared culture Volvo would not be recognisably Volvo and companies like British airways could not be distinguished from other carriers in terms of service. Nor would employees seek to identify themselves with these companies. Only if beliefs are shared, affirmed, and retain distinctive meanings over time despite changing environments, can a corporation retains its purposes, values and sense of direction, even if it is blown off, damaged or temporarily disabled. In an emergency everyone will realise that the 'ship' needs to be saved and needs to reach its destination by whatever route is possible.[36]

3.3.3 The Concept of Culture

Hofstede G. considers that culture is always a collective phenomenon, because it is at least partly shared with people who live or lived within the same social environment, which is where it was learned. According to him, every person carries within him or herself patterns of thinking, feeling and potential acting which were learned throughout their lifetime. Besides, much of it has been acquired in early childhood, because at that time a person is more susceptible to learn and assimilate. Yet Hofstede believes that a person's behaviour is only partially predetermined by her or his mental programs.[37]

As culture is learned and not inherited, and that it derives from one's social environment and not from one's genes, Hofstede distinguishes culture from human nature on one side, and from individual's personality on the other. However the borders between these elements are rather difficult to set. Thus Hofstede distinguishes three levels in human mental programming (figure 3.5).

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[35] Usunier J.C., 1991, p5
[36] Hampden-Turner C., 1990, p14
[37] Hofstede G., 1994

Figure 3.5 Three Levels of Uniqueness in Human Mental Programming
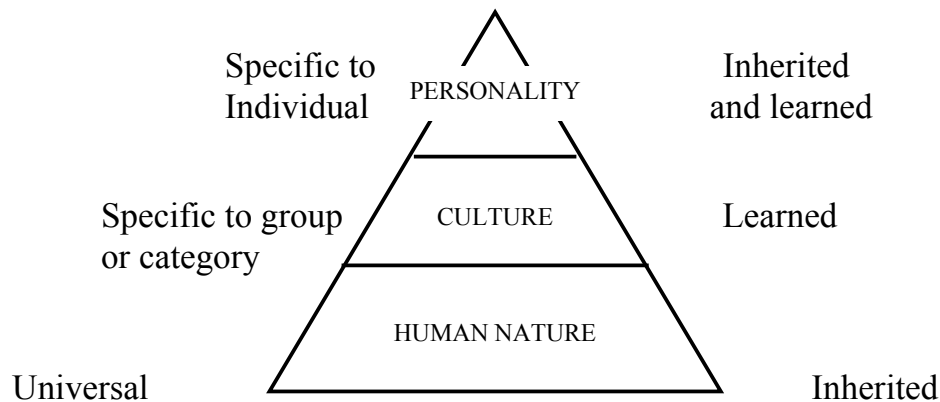
(Source: Hofstede G., "Cultures and Organisations", 1994)

For Hofstede *human nature* is what all human beings have in common. It is inherited with one's genes. The human ability to feel love, anger, fear, joy, sadness, the need to communicate with others and interact all belong to the level of mental programming. However how one interprets these feelings, what one does with these feelings, how one shows or expresses them is influenced by culture. On the other hand, the *personality* of an individual is her/his unique personal set of mental programs. This is not shared. The personality is partly inherited while the rest is learned.

Cultural traits have often been attributed to heredity. Yet the impact of learning and teaching from and to other generations is highly important. Actually some traits are shared with some people but not with all of them. This can be the language, physical distance, the perception of the self and the other.[38]

3.3.4 Corporate Culture

When companies from different countries are involved in an M&A, there is a great chance that they will experience cultural conflicts and clashes. Besides, culture can be defined not only at the national but also at the organisational level. This concept is known as *corporate culture*. The corporate culture is the

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[38] Hofstede G., 1994

culture inside the organisation. The culture of an organisation defines appropriate behaviour, bond and motivates individuals and asserts solutions where there is ambiguity. It governs the way a company processes information, its internal relations and its values. It functions at all levels from subconscious to visible. In the world of increasingly 'flat' companies and sophisticated 'knowledge-based' products, control and understanding of an organisation's corporate culture are a key responsibility of the leaders. Culture is thought to give unique competitive advantages and/or strong limitations. For examples could Westerners be like Japanese if they wished to be? Would it mean losing forever the distinctive aspects of Western culture?[39]

In my thesis I will consider mainly the differences in culture at a national level, but also at the corporate levels. My reasons are that I believe that national cultures are at the foundation and the base for the behaviour of people within an organisation. Thus I will first describe and analyse national cultural characteristics and thereafter see how they affect the organisation.

3.4 THE FRENCH CULTURE VS THE JAPANESE CULTURE

I have decided to analyse the studies carried out by Hofstede, on cultures and organisations, to draw the theoretical framework. The choice of Hofstede theory is motivated by the fact that it has already been studied during lectures and especially because it comprises most of the important characteristics of national cultures.

3.4.1 Hofstede's Cultural Theory

According to Hofstede, people of a certain nation tend to behave in a common way due to the specific cultural program developed in this nation. It is Hofstede who has developed the famous four dimensions of national culture that are the following:[40]

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[39] Hampden-Turner C., 1990, p11
[40] Hofstede G., 1994

- *Individualism versus collectivism*: Individualism is based on the principle of asserting one's independence and individuality. It stresses the smallest unit as being that where the solution lies. Prevalence of the individual interests. Collectivism believes in the combination and joining of parts to achieve a better result than from the parts themselves. It is at the group level that initiative, effort and achievement can be best developed. Prevalence of the group interests.

- *Large versus small power distance*: Power distance measures to what extent a society and its individual members tolerate an unequal distribution of power in organisations and in society as a whole. Where there is low power distance, the members tend to feel equal, close to each other in their daily relationships at work, and where it is high power, distance power is delegated and is not easy to meet and talk with higher-ranking people; the real power is very much concentrated at the top. Superiors and subordinates feel separated from each other.

- *Masculinity versus femininity*: A society is masculine when dominant values favour assertiveness, earning money, showing off possessions and caring little for others. Conversely, in feminine societies, such as the Northern European countries, nurturing roles, interdependence between people and caring for others are favoured. The welfare system is largely developed. In masculine societies weaker persons find much less support than in feminine societies, people learn to admire the strong.

- *Strong versus weak uncertainty avoidance*: There are different attitudes toward risk, some people prefer to deal with risk and manage it whereas other people are risk averse, that is, doing everything they can to avoid risk. It is the extent to which members of a culture feel threatened by uncertain or unknown situations. Where uncertainty avoidance is high, organisations promote stable careers, rules and procedures. Uncertainty avoidance leads also to a reduction of ambiguity, not only a reduction of risk.

I have decided to include more dimensions to Hofstede's four dimensions because I consider them to be quite important too. I consider *time perception* as

being an important characteristic of national cultures. Indeed, even if the time in marketing and management is perceived as linear, continuous and economic, time, in a cross-cultural perspective is probably the area where differences are both the largest and the most difficult to catch, because assumptions are very deep-seated and formally we adopt a common model of time. Individual time perceptions may result from adding or mixing different basic patterns of time. Moreover the concept of time perception can be related to the uncertainty avoidance dimension and explain it in part.

Also, the distinction *truth Vs virtue* will be made for France and Japan. The three Western religions, Judaism, Christianity and Islam are based on the existence that there exists a truth. While in the East, neither Confucianism, nor any major religions (Hinduism, Buddhism, Shintoism) are based on the assumption that there exists a truth. These religions believe in the virtue.[41]

3.4.2 Individualism Vs Collectivism

Individualism is the term appropriate for societies where everyone is expected to look after him or her, while collectivism refers to societies in which people are integrated in strong, cohesive groups where loyalty is very high. France, as most Western societies, has a more individualistic culture, which means that the interests of the individual prevail over the interests of the group. The organisation and the decision processes of most French companies are more influenced by individuals than by a group. In fact the Western companies believe in the adding model, it means that they think that it is better to add different individual thinking than to have only a group thinking method.[42]

Unlike the Western societies, the Japanese have a group society. Being an island, in their isolation they developed a strong and unique sense of group behaviour. It is natural for them to think and act as a group rather than to behave individually.[43] Thus the Japanese society is based on a more collectivist concept. Japanese believe in the power of the group; it is the group that will reach the targets and not just the individuals. They consider individuals as part

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[41] Hofstede G., 1994
[42] Hofstede G., 1991
[43] P. Norbury & G. Bownas, 1980, p109

of a group, not as independent parts. Actually they do not believe in the adding model. Individuals cannot be added, only the group has the power.[44]

Collectivism   ⊢————————↑————|————↑————⊣   Individualism

                 Japan   France
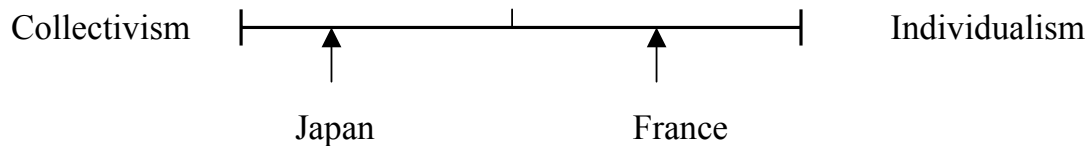
3.4.3 Power Distance

In the Western societies the level of power distance is not always the same. For instance Sweden has one of the lowest power distances in the world while the French society has a power distance that is relatively high. There is a dependence of subordinates on bosses in the French companies; it is the top management that takes most of the important decisions. The different levels of the hierarchy within an organisation are well marked.[45]

The power distance in Japan is also high. The bosses and managers are considered as God in their company, they have the power. They have to know everything and take decisions by themselves without consulting their subordinates. The employees have to obey and follow orders.

Small PD   ⊢————————|————↑—↑————⊣   Large

PD

                           France   Japan
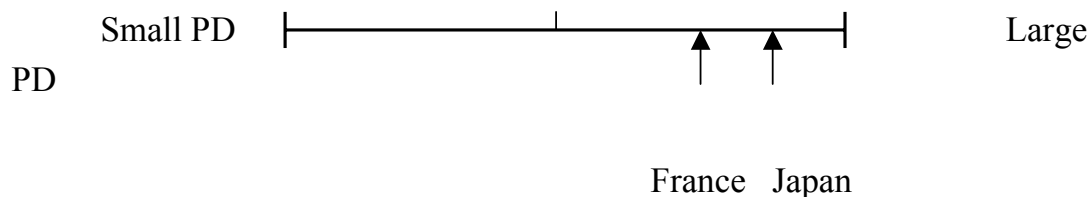
3.4.4 Masculinity Vs Femininity

Nowadays, in France there is not a big difference between male and female, the society is rather equal between the two sexes. This phenomenon of equality between masculinity and femininity is also found in most of the French companies. Actually France gives a bigger importance to equality in the society and in life than Japan. Indeed, the Japanese society is a typical masculine one. In this kind of society, they care less about individuals, what is important is that

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[44] Usunier J.C., 1996, p71-72
[45] Hofstede G., 1991, p26

the group reaches the goals. Actually weaker people find less support from the society; people learn to admire the strong.[46]

Femininity ├──────────▲──────┴──────────▲──────┤ Masculinity

France   Japan
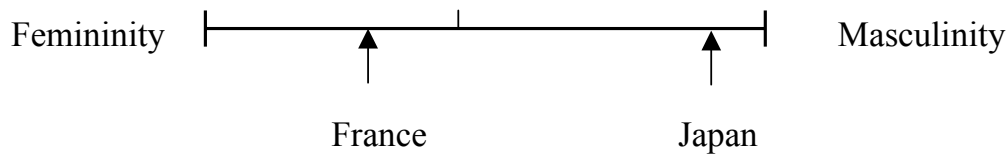
3.4.5 Uncertainty Avoidance

Compared to the Japanese society, the French and Western societies have a rather low level of uncertainty avoidance, while Japan has a very high level of uncertainty avoidance.[47] This difference in the degree of uncertainty avoidance can be explained by the differences in time perception, which we will discuss below. Indeed because of their time perception, "time is money", Westerners take more risks to get short-term profits.

Low UA ├────▲──────────┴──────────▲────┤ High UA

France   Japan
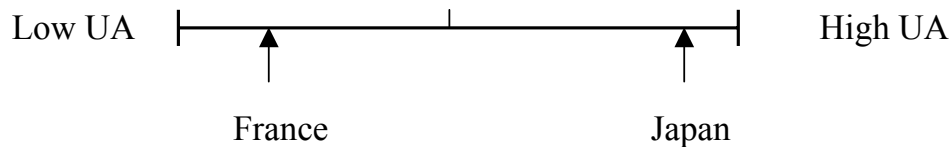
3.4.6 Time Perception

Western societies have a linear perception of time, in contrast with the Japanese that has a cyclical one. This concept allows time to have a past, present and future, and to be sliced into discrete units and then allocated for specific tasks. Hence time can be saved, spent, wasted or even bought, just like money.[48] Thus Westerners perceive time as an economic value, a scarce resource. The concept "Time is money" is a rather central concept in the business life within Western countries. This time perception emphasises the fact that the Western companies are more short-term oriented. Shape of time perception in Western societies:

●───┼──┼──┼──┼──┼──┼──┼──→

Past   Present   Future

Yet, the linear perception of time that is found in the Western cultures does not predominate in Japan. The central notion in Japanese time is the notion of

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[46]J.C. Usunier, 1996, p75
[47] J.C. Usunier, 1996, p78-79
[48] J.C. Usunier, 1996, p37

continuity. A Japanese person would say 'the present is a temporal period that links the region of the past with the world of the future'. The notion of continuity as well as the arrow of the future targeted on the present are central in the *Makimono* time pattern, figure 3.5.[49]

For the Japanese, time is not a scarce resource. They tend to have a longer-term business and economic perspective than the European and the American. Indeed, Japanese managers and employees have long-term goals, while in Europe, and particularly in the US, their counterparts are more short-term oriented. Most Japanese companies look five or ten years ahead of the European or American companies. The pace of business in Japan is generally slower than in Europe; an agreement that might take a week to complete elsewhere may take two or three weeks in Japan, over many cups of tea.[50] Japanese can make big investments that will comprise their short-term profits in order to get profits in a longer perspective.

Figure 3.6 Japanese *Makimono* Time Perception

Past

Present

Future
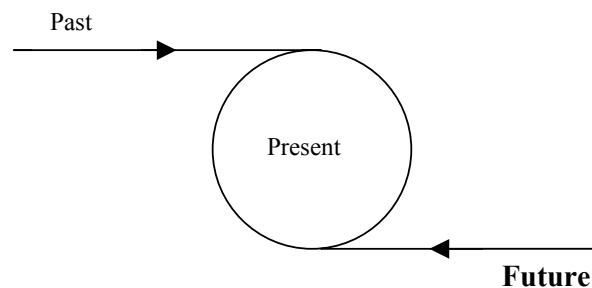
(Source: J-C Usunier, "Marketing across cultures", 1996)

3.4.7 Truth Vs Virtue

The main religion in France is Christianity, a religion that is based on the concept of truth. The Western concern for truth is supported by the Western logic that a statement excludes its opposite. If A is true and B is its opposite, then B cannot be true. The Western thinking is more analytical. In the scientific field the analytical orientation of the Westerners has proved to be a success.

[49] J-C. Usunier, 1996, p38
[50] Touche Ross International, 1980

But management and government are more based on the art of synthesis; art that the Japanese master very well. Moreover this concern with possessing the truth underlines the short-term orientation of the Western companies.

On the other Hand, Confucianism, such as the other major Eastern religions, is based on the concern of virtue. The Eastern concept does not consist of believing, but in ritual, meditation or ways of living. The Eastern logic is different from the Western. Indeed if the statement A is true, its opposite B may also be true, and together they produce a wisdom that is stronger than A or B. This can be called the complementarity of *yin* and *yang*. This concern with respecting the demands of virtue shows the long-term orientation of the Japanese society.

To the contrary of the Western thinking that is analytical, Japanese thinking is synthetic. Japanese management, especially with Japanese employees, is famous for this pragmatic synthesis. For them what is true or who is right is less important than what works and how the efforts of individuals can be co-ordinated towards common goals.

3.4.8 Summary

Culture is the collective programming of the mind, which distinguishes the members of one group or category from another. It is of vital importance for companies, such as Renault, which wants to enter a new market or acquire a company in a foreign country, to understand and be aware of these components of culture in order to be successful in the new country. In the following model I will show a comparison between both cultures.

Figure 3.7 French Culture Vs Japanese Culture

Dimensions of National Culture	French Culture	Japanese Culture
Individualism Vs Collectivism	INDIVIDUAL Focus on the Individual Adding Model	COLLECTIVIST Focus on the group Individuals are part of the group
Power Distance	HIGH Strong hierarchy Dependence of subordinates on bosses	HIGH Power concentrated at the top Separation between managers and subordinates
Masculinity Vs Femininity	EQUAL SOCIETY Importance on equality in the society and in life	MASCULINE SOCIETY Less support for the weaker Admire the strong Group achievement is the goal
Uncertainty Avoidance	LOW	HIGH
Time Perception	LINEAR "Time is money" Short-term orientation	CYCLICAL Long-term orientation Time is not a scarce resource Notion of continuity
Truth Vs Virtue	TRUTH Analytical thinking Short-term orientation	VIRTUE Synthetic thinking Long-term orientation Complementarity of yin and yang

The figure that is presented below is useful to give the reader a clear view of the gap between the French and the Japanese cultures in terms of power distance and individualism.

3.5 BUSINESS SYSTEM IN JAPAN

After having presented the different cultural aspects of both France and Japan, I am going to describe the Japanese business system that is also related to the culture of the country. I have chosen to use the East Asian Enterprise Structure Model by Whitley to analyse the business system of Japan.[51] All the different areas of the model have been analysed because I found that all of them had its importance in the system. The Japanese business system consists of many large

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[51] Whitley, R. (1990)

companies that are called Kaisha. This business system is also characterised by the Keiretsu system, which is the way the Japanese companies co-operate.

3.5.1. Enterprise Specialisation and Development

Under this title three important areas are going to be presented. They are *Business Specialisation*, *Relational Contracting* and *Evolutionary Strategy*.

3.5.1.1 Business Specialisation

Business Specialisation shows the extent to which business activities are specialised around distinctive capabilities of skills, knowledge and experience. The business specialisation in Japan, which is high, can be traced from the pre-industrial era. In Japan the merchants co-operated with each other, which led to their being secure with each other and their being able to specialise on single functions. The Japanese enterprises rely extensively on sub-contractors.

Actually the fact that the business specialisation is high in Japan can be related to the collectivism approach that is predominant in Japan. Indeed Japanese are used to having relationships and strong bonds with each other and with their business partners. Moreover, the fact that Japan has a high level of uncertainty avoidance explains why Japanese companies are quite specialised. Indeed they do not want to take too many risks in different businesses and prefer to share the risks with their partners.

3.5.1.2 Relational Contracting

Relational Contracting is highly dependent on business specialisation and we can see the same pattern as above. The relational contracting of the Japanese system has its roots in the pre-industrial era. In the Japanese villages the people helped each other, there was a sense of security and people could rely on each other, also in bad times. This led to their being able to specialise within different areas. Japanese companies rely on outsourcing; they have a lot of sub-contractors and usually a strong network of relationships. Due to the high degree of specialisation, interdependence between firms is needed.

This high degree of relationships and interdependence between firms is a result of the system of bank financing and the group thinking. The whole structure of the Japanese business is a complex network of relationships and connections, which defies clear analysis. Actually most of the Japanese groups are centred around a bank or a large trading company.[52] Here as well this characteristic of the business is a result of the Japanese cultural concept of collectivism. Because of their high uncertainty avoidance, Japanese prefer to have lots of contacts and relationships in order to minimise their own risks in the business. They prefer to share these risks.

3.5.1.3 Evolutionary Strategy

Evolutionary strategy concerns how long-term strategies are within the business systems.

The Japanese companies prefer to follow a long-lasting, continuous strategy. The Japanese are long-term oriented, which requires long-term strategies. The link between this business characteristic and the Japanese culture can be easily made. Indeed if Japanese companies have long-term strategies, this is due to their cyclical time-perception. The Japanese do not consider time as a scarce resource because of their long-term orientation, thus they can allow themselves to have long-term strategies.

3.5.2 Authority, Loyalty and the Division of Labour

The five characteristics of the business system that are described in this section are: *Personal Authority*, *Enterprise Loyalty, Role Individualisation, Layoff* and *Labour Unions*.

3.5.2.1 Personal Authority of Owners

The personal authority of owners is low in Japan. In Japan there is a clear separation between ownership and control of economic activities and therefore the personal authority is low. The Japanese people blindly follow orders from higher ranked officials. The structure of the families in the pre-industrial era has put its mark on the systems. Indeed, Japan with its feministic values within families and organisations e.g. dual authority in the families, forms a group

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[52] P. Norbury & G. Bownas, 1980, p112

oriented society where no individuals should stick out from the group. Here again the business system characteristic is closely related to the culture of the country.

3.5.2.2 Enterprise Loyalty

The employees in Japan are very loyal to the company they work for and Shushinkoyo (the lifetime employment system) can be seen as proof of this. The employees are expected to stay with the company for a lifelong period and at the same time they can expect lifelong job security. The Japanese organisations have highly paternalistic labour-management relations. The high uncertainty avoidance that characterises the Japanese has led to a situation where they are very loyal to their employer. Loyalty and commitment to the organisation are encouraged by different employment practices such as life-long employment (Shushinkoyo), senior based promotions and salary increases. In Japan the labour unions are very strong and the companies in the country cannot lay off employees in bad times without being in consensus with the union.

Actually, in Japan both management and labour believe strongly that companies belong to them; as much as or more than they belong to the shareholders. It means that labour and management consider that they are bound together by a common destiny. It is also these feelings that make the managers and employees of a Japanese company very loyal to it. In fact the degree of loyalty from managers and employees is quite a lot higher in Japan than in Europe or the States. Even if a European or American company acquires a majority interest in a Japanese company, it would not be too eager to remove existing board members to put in its own personnel instead. It is highly important to maintain the loyalty and sustain morale by avoiding a situation where the acquired company has the feeling that they have been 'conquered' or 'occupied'.[53]

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[53] K. Ishizumi, 1990

3.5.2.3 Role Individualisation

Role Individualisation concerns the degree of work specialisation and the emphasis on individual performance. The role individualisation is low in Japan, which means that group performance is more important than individual achievements. This feature is mainly due to the Japanese culture where collectivism predominates; focus on the group performance. The job specialisation is also low and job rotation is very common. The Japanese companies invest heavily in training and they frequently move staff to new jobs and tasks. In Japan people are hired on the merit of their skills and competence. As they get lifelong-employment, it is important for the company to get the right people. Their first priority is to hire people with the 'right' competence and through this, harmony is created in the group.

The fact that, in Japan, the reward systems is based more on long-term performance has led to a higher willingness of employees to co-operate in group activities. Hence the focus is on the group and not on the individuals. In the Japanese culture, people are highly involved in the group.

3.5.2.4 Layoff

Especially in the US, but also in Europe, it is common that excess labour is laid off after an acquisition. However, in Japan this practice is uncommon. Even more, the labour relation laws prohibit layoff. This phenomenon is mainly due to the high degree of uncertainty avoidance of the Japanese society. It is very important for the Japanese to have the security of their job. Actually, when a Japanese company acquires another Japanese company, the acquiring firm guarantees the continuing employment of the acquired firm's employee. This is a practice that European and American companies have to realise and understand when acquiring a Japanese company. Few of the Japanese employees would take advantage of the situation to improve their position in the organisation. The very high level of loyalty can explain this phenomenon.

3.5.2.5 Labour Unions

Labour unions are very big and powerful in Japan; most of the employees are syndicated. They do demand higher wages at the annual "Shunto time of

making wage demands". At protest meetings they protest their leaders rather strongly. Yet, compared to the Western Unions they are co-operative and conciliatory with their management.[54]

3.5.3 Enterprise Co-ordination

Finally in this third part about business system, the distinction will be made between *Horizontal Co-ordination* and *Vertical Co-ordination*.

3.5.3.1 Horizontal co-ordination

Horizontal co-ordination is the extent to which dominating actors form alliances and groups across major sector boundaries. The horizontal co-ordination between organisations is by tradition high in Japan. The companies within the Keiretsu system have long-term relations of mutual obligation and commitment and they regularly share information and advice, exchange managerial staff, own some of each other shares and borrow from the same bank or other financial intermediaries. Since the pre-industrial era the oldest son in the family took over the family business when the father passed away. As the business was passed on within the family the relations that the father had built were continued through the son. This system has continued in the same way over the years, which has led to high co-ordination between businesses from different fields.

In Japan the Keiretsu system dominates, which is comprised of many major business actors that have created alliances and groups in order to reduce risk and uncertainty. The enterprises within an alliance exchange shareholdings, information and sometimes also senior managerial personnel.

3.5.3.2 Vertical co-ordination

Vertical Co-ordination is mainly accomplished by the state, but the banks also have an important role. In Japan the vertical co-ordination is high. The state has encouraged large companies in Japan. This started in the industrialisation era. Due to the size of the firms, vertical co-ordination is very common. The state has directed the industrialisation process of the companies, which has led to a

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[54] John A.S. Abecasis-Phillips, 1992, p75

situation where the Kaisha are very dependent on the state and need to have greater contact with them. The system also has close contact with the bank, as it is very dependent on them for financing growth. In fact debt capital plays a much larger role than equity capital. The banks supply from 60% to 90% of the required capital. Hence the banks are key factors in the Japanese economy.[55] In Japan this close connection has on several occasions led to an exchange of personnel, e.g. the Mitsui Bank has sent personnel to Toyota to monitor a financial re-organisation.

3.5.4 Business System Summary

As we saw above the business system in Japan is closely related to the cultural aspects of the country. In fact the way of doing business is influenced by the national culture and as a consequence by the corporate culture of the companies. The comparative analysis of business systems presumes that distinctive ways of organising economic activities become established and effective because of differences in key social institutions such as the state and the banks, as well as factors such as culture, values and beliefs. The following model presents a sum-up of the business system in Japan.

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[55] Touche Ross International, 1980

Figure 3.8 Business System in Japan

Aspects of Business System	Japan
Business Specialisation	HIGH Rely on sub-contractors
Relational Contracting	HIGH Rely on outsourcing Interdependence between firms
Evolutionary Strategy	LONG-TERM Long-term orientation and strategy
Personal Authority	LOW Group orientation
Enterprise Loyalty	HIGH Life-time employment system Senior based promotion
Role Individualisation	LOW Focus on the group performance Low job specialisation High job rotation
Layoff	UNCOMMON Life-time employment guarantee Regulations against layoff
Labour Unions	LARGE and STRONG Co-operative
Horizontal Co-ordination	HIGH Keiretsu system
Vertical Co-ordination	HIGH Close contacts with the banks Close contact and dependence on the state

PART 4. THE RENAULT-NISSAN CASE

This fifth part is mainly devoted to acquiring a clear and holistic view of both Renault and Nissan groups and to the description of the development of the alliance and its motives. This part is actually mainly taken from the official Internet site of Renault, thus the information gathered in this chapter will not often be footnoted.

4.1 THE RENAULT COMPANY

Renault produced more than 2.2 million passenger cars, light commercial vehicles, trucks and buses in 1998. The Group, concentrating on automobiles and commercial vehicles, employs more than 138,000 people throughout the world. In 1998, its revenues were FRF 243.93 billion (4,878.6 billion yen or 37.19 billion euros), of which 61.4% were realised outside France. Committed to a strategy of profitable growth, based on innovation, quality, reduction of costs and international development, the Group had a net income in 1998 of FRF 8.85 billion (177 billion yen or 1.35 billion euros).

The activities of Renault Group are focused on the design, development, production and marketing of passenger cars, light commercial vehicles, trucks and buses.

The Group consists of three Divisions that are the following:
- *The Automobile Division* accounts for 80% of total revenues and employs more than 109,000 people.
- *The Commercial Vehicles Division* (Renault V.I., including Mack Trucks Inc. in the United States) accounts for 16.6% of total Renault revenues and has a workforce of nearly 26,000 people.
-   *The Finance Division* accounts for 3.4% of total Group revenues and has more than 3,000 employees.

4.1.1 A Solid Financial Situation

Renault has been continuously profitable since 1987, with the sole exception of 1996. In 1998, Renault had net income of FRF 8.85 billion (177 billion yen or 1.35 billion euros). The operating margin was FRF 12.59 billion (251.8 billion yen or 1.92 billion euros) in 1998.

Renault has an exceptionally solid financial situation, with shareholders' equity of FRF 51.56 billion (1,031.2 billion yen or 7.86 billion euros) on December 31, 1998. Cash flow was FRF 20.32 billion (406.4 billion yen or 3.09 billion euros) in 1998. Renault has totally eliminated the net financial indebtedness of the industrial and commercial activities of the Group, and had on December 31, 1998, a net creditor position of FRF 12.65 billion (253 billion yen or 1.92 billion euros).

Engaged in a very dynamic policy of product renewal, the Group devoted FRF 10.19 billion (203.8 billion yen or 1.55 billion euros) to research and development, equivalent to 4.2% of revenues, in 1998.

4.1.2 Becoming the Most Competitive Manufacturer in Europe

Renault has set for itself the goal of becoming the most competitive European manufacturer in terms of quality, costs and delivery times by the turn of the century. Renault is committed to a FRF 20 billion (400 billion yen or 3.05 billion euros) cost-reduction plan over a three-year period (1998/1999/2000). The goal set in 1997 for 1998, FRF 8 billion of savings (160 billion yen or 1.22 billion euros) was exceeded, with actual savings of FRF 9 billion (180 billion yen or 1.37 billion euros) based on a constant level of activity. The "Technocentre", the Renault research and development centre, unique in Europe, which was put fully into operation in 1998, will result in shortening product development lead times to 36 months by the year 2000, and to 24 months in a subsequent phase, and to generate savings of a minimum of FRF 1 billion (20 billion yen or 152.5 million euros) on each new vehicle.

4.1.3 Fifty Plants Throughout the World

Renault produced 2,283,265 passenger cars, light commercial vehicles, trucks and buses in 1998: 1,942,733 passenger cars, 254,662 light commercial vehicles and 85,870 trucks and buses. Renault has set the objective of production of 4 million vehicles in the year 2010, half of which are to be sold outside Western Europe.

The Group benefits from a robust industrial infrastructure for production of its vehicles. It has 50 assembly and mechanical component production plants world-wide, of which 22 are in France, 7 elsewhere in Europe and 21 outside Europe. European manufacturing facilities are appropriately sized for operations up to the year 2000, thanks to rationalisation measures aimed at having the principal car assembly plants specialise in a limited number of models, and even a single model.

4.1.4 World-wide Sales of More than 2.1 Million Passenger Cars and Light Commercial Vehicles

In 1998, Renault had the second highest level of world-wide sales of passenger cars and light commercial vehicles in its history, an increase of 15.8% over 1997. Unit sales totalled 2,128,639 vehicles, reflecting gains in all geographic areas, in passenger cars as well as in light commercial vehicles. Although the Mégane served as a strong support for the international growth of Renault, the increase in the world-wide sales rests more broadly on the success of a complete line of passenger cars and light commercial vehicles conceived in a perspective of innovation and modernity.

Renault unit sales increased more than the overall market in most European countries in 1998, making Renault the best-selling brand in Europe. The Mégane family made a strong contribution to this increase, becoming the second top-selling car in Western Europe. The Kangoo Express was the leading LCV in Europe.

Outside Western Europe, Renault sold 331,000 vehicles in 1998. The make was the market leader in Turkey and Argentina, and scored advances in Central Europe and Eastern Europe.

4.1.5 The Success of a Young, Strong and Innovative Product Line

Renault, a volume automobile manufacturer, offers one of the broadest product lines in the market, ranging from small cars such as the Twingo and the Clio, to top range cars such as the Safrane and the Espace, and including its expertise in light commercial vehicles. Renault is recognised for its strong capacity to innovate and to anticipate trends in the automobile markets, as is shown by its unprecedented line of monospaces in the world (the Twingo, the Espace and the Scenic), as well as the Avantime.

In the area of powertrains, Renault, which has demonstrated its innovative capacities and its mastery of high technology by winning six consecutive Formula One World Constructor Championships, initiated in 1996 a vast programme of modernisation of the line of powertrains in its mass-produced cars. By the turn of the century, Renault will have thus replaced all its engines and will have adapted its transmissions to the new engines.

After having introduced, in 1998, a line of high-performance and economical multivalve engines, Renault will launch, in 1999, an entirely new direct injection petrol engine, as well as the "common rail" technology on diesel engines. 1999 will also be the year of the across-the-board application of the "proactive" automatic transmission and the launch of the robotized transmission, which unites the features of a new manual gearbox with the comfort of an automatic transmission.

In terms of *research and development*, Renault is committed to the design of vehicles that combine driving pleasure, emission control (Nox, Hc, carbon monoxide, etc.) and reductions in fuel consumption (carbon dioxide) for enhanced respect of the environment. Whether through conventional solutions (petrol, diesel and LPG - liquid petroleum gas) or those of the new generation (NGV - natural gas vehicles, electric or hybrid), the multi-energy Scenic family illustrates this determination. At the same time, the "FEVER" project has led to the acquisition of valuable know-how for the future development of fuel cell powered vehicles.

With the help of a global vision of transportation, Renault is also developing numerous services to facilitate automobile mobility and circulation. After having launched the Carminat integrated navigation assistance system, the company has just placed on the market the first onboard telematics system, Odysline, designed to strengthen feelings of safety and well being for car passengers.

4.1.6 International Development

Today, Renault is represented in more than 100 countries throughout the world, with 18,500 points of sale. Already well established over a long period of time in Turkey and Argentina, Renault took additional steps in 1998 in its international development.

In Brazil, Renault built at Curitiba (in the State of Parana) a plant whose capacity will reach, in a first phase, 120,000 cars per year, with the possibility of doubling that figure in a second phase. Production has just begun, with the Mégane Scenic, which will be joined by the Clio II in 1999. Renault is aiming to take 10% of the market in Brazil by the year 2005. The Curitiba plant is also complementary to the Renault plant in Córdoba in Argentina, the two thus constituting a genuine base of activities in Latin America and making the Mercosur region (Argentina, Brazil, Chile, Paraguay and Uruguay) the company's first market after Europe. Renault is aiming at an eventual 10% market share, with sales of more than 300,000 vehicles per year.

Renault has also arranged the acquisition of a majority position in the Romanian carmaker Dacia, in order to have a second make suitable for the conquest of emerging markets. This acquisition involves an industrial and commercial programme in three phases, over a period of five to eight years, involving capital investments and cost reduction. This programme will eventually make Dacia the pilot plant for a future vehicle, designed specifically for emerging countries, with a large percentage of production to be exported.

Lastly, Renault is preparing, with Russian partners, the production and marketing of the Mégane Classic in a first phase, with the later addition of a

second vehicle. The objective is to eventually produce 120,000 vehicles per year.

4.1.7 Renault V.I. in the Vanguard of International Commercial Vehicle Makers

In addition to passenger cars and light commercial vehicles, the Renault skills and quality, as well as its strong capacity for innovation, are broadly recognised in the commercial and agricultural sectors.

Renault Group, under the Renault V.I. and Mack names, has a strong presence in the world market for commercial vehicles. In 1998, total sales of Renault V.I. were a record 90,750 units, up 25.6% over 1997. The company was in fifth place in Europe, with a market share of 10.8% on the market for trucks over five tonnes, in 1998. Mack Trucks Inc., the American subsidiary of Renault V.I., scored an advance in market share in the United States for the sixth consecutive year, with a market share of 12.8%, reinforcing its position as the third make in the United States. Lastly, sales by Renault V.I. (including Karosa) outside Europe and North America were up 26%, to 12,900 vehicles.

The line of Renault V.I. commercial vehicles in Europe includes road trucks, from local delivery to long-distance transportation, construction vehicles and coaches and buses.
The Renault Agriculture subsidiary, which belongs to the Renault Automobile Division, makes and markets a line of farm and industrial tractors.

4.2 THE NISSAN COMPANY

In this section I will describe the history and some characteristics of the Japanese Nissan. This part will help the reader to get a better knowledge and insight about the company.

4.2.1 History

Jidosha Seizo Co. Ltd., predecessor of Nissan Motor Co. Ltd., was established in 1933. It changed its name to Nissan Motor Co., Ltd. in 1934, and started vehicle production through " the mass production " method. After establishing its technological co-operation agreement with Austin Motor Co. Ltd. of the U.K. in 1952, Nissan began constructing its assembly plants in Japan. Nissan completed its assembly plant construction efforts by the mid-1960's, establishing a strong domestic production system. In 1966, it merged with Prince Motors Ltd. to be prepared for the forthcoming capital liberalisation by the Japanese government. Nissan also established business and capital tie-up agreements with Fuji Heavy Industries Ltd. in 1968. Nissan built its Tochigi Plant (1971) and Kyushu Plant (1976) to further expand its domestic production system.

In the Overseas Markets, Nissan established Nissan Mexicana S.A. de C.V. in 1961, and began constructing its first overseas production plant in Mexico. In the 1980s, Nissan expanded its vehicle production system in Europe and America, and established Nissan Motor Manufacturing Corporation U.S.A. (NMMC) and Nissan Motor Manufacturing (UK) Ltd. (NMUK). To meet customer needs in overseas markets, Nissan established R&D facilities in Europe and the U.S.A. In the early 1990s, Nissan also implemented a Japan-U.S.-Europe Global management system through the establishment of regional headquarters in the U.S.A and Europe. These regional headquarters are responsible for regional business operations including production, R&D, sales, and even financing.

4.2.2 Recent Situation

In May 1998, Nissan announced its " Global Business Reform Plan " aimed at returning the company to profit by focusing its business management and resources on selected areas. As part of this plan, Nissan announced that it would place priority on profitability before increasing sales; shift its priority to models with higher profit margins; and pursue an overseas strategy that places priority on the U.S. market.

As for product strategy, Nissan's goal is to reduce 30% of its current 50 model line-up by concentrating its resources on competitive products. In order to maximise its resources in its sales channels, Nissan also announced that it would change its sales structure to a two-channel sales system from the current four-channel system.

In the U.S., Nissan has already reduced its inventory by 100,000 units. In addition, Nissan Motor Corp. U.S.A. and Nissan North America, Inc. have also been integrated in order to streamline its U.S. management's decision-making process, and make it more market-oriented and more responsive to market needs. To improve profitability for Nissan and U.S. dealers, it set a goal to reduce the cost of locally-assembled vehicles by $1,000 per vehicle at NMMC. In addition, a series of aggressive new model launches are planned for the North American market.

As for its domestic production system, Nissan has improved its production efficiencies by introducing the FMS (Flexible Manufacturing System). Furthermore, Nissan plans to reduce its total production capacity (including subsidiaries and affiliated companies), which is currently at 2 million units/year, to 1.7 million.

Nissan's goal is to improve its overall financial situation and reduce its interest-bearing debt of 100bn yen by the end of FY2000 (March 31, 2001). It will achieve this goal by reducing purchasing costs and inventory and by selling assets.

4.2.3 New Products and New Technologies

4.2.3.1 New Products

In 1998, Nissan launched 7 new vehicles in Japan's domestic market, mainly RV models such as Presage, Liverty and Tino. In the US market, Nissan followed its 98-year model introduction of the all-new Altima and Frontier with a compact truck, the V6-Frontier Truck, and an all-new Quest minivan. In European markets, the Almera, which was released in 1996, is selling well. The

new Primera Wagon and minor face-lifted Micra have also recorded strong sales of nearly 537,000 units (retail sales).

In 1999, Nissan introduced three new models including two sporty models with optimum driving pleasure: Skyline GT-R and the new Silvia. Nissan will launch six more new models, including a traditional sedan and a new concept RV. Reinforcing its commitment to the US market, Nissan will introduce a total of four new models including the 2000 Maxima and the new SUV called Xterra, the Frontier crew cab and Infiniti I30.

4.2.3.2 New Technologies

In order to develop stronger technological capabilities and increase Nissan's competitiveness, the company is focusing its development resources in the areas of the environment, safety and ITS.

4.2.3.3 The Environment

In the environmental area, Nissan's goal is to provide both environmental friendliness and driving pleasure. At Nissan, they are developing new technologies that provide driving comfort and convenience, while fully respecting the environment.

An example of such technologies is HYPER CVT, a continuously-variable transmission that achieves good fuel economy and delivers powerful and dynamic driving performance. Nissan is proud of the fact that it was the first auto company in the world to introduce a Hyper CVT into 2-liter engine cars. Nissan has also developed a NEO Di gasoline engine that incorporates a system for injecting the fuel directly into the combustion chamber, achieving substantially improved fuel economy and power output. Moreover, in 1998, they introduced the Primera and Bluebird with the NEO Di direct-injection gasoline engine and the HYPER CVT continuously variable transmission. These models have achieved 50% better fuel economy than the vehicles they replaced. In addition to the Primera and Bluebird, they have also introduced the new NEO Di diesel engine in the Presage.

In addition to new environment-friendly technologies such as Direct Injection Engines and CVTs, they are putting a high priority on the development of clean energy cars such as electric vehicles, Hybrid cars, CNG cars and fuel-cell cars. In the EV development area, they are working hard to introduce an extra-small EV Hyper Mini within the FY following March 2000, following the Rinessa EV. they are also progressing towards the market introduction of a hybrid car. In addition to these cars, Nissan's goal is to complete the development of fuel cell technologies in 2003.

4.2.3.4 Safety

Nissan's ongoing commitment to safety research focuses on three areas: Vehicles, People and Traffic Environment. To create safer vehicles, Nissan applies its Triple Safety concept: this includes fitting Xenon headlamps, equipping all its models with ABS and SRS airbags and introducing Zone Body Construction, one of the world's safest car bodies. In addition, Nissan is exploring other new safety technologies. The company has been recognised as the most advanced company in safety technology. Four out of six Nissan cars were rated as safest in both driver and passenger seat settings, according to a crash test conducted by the Ministry of Transport (National Organisation for Automobile Safety & Victims aid) in 1998.

4.2.3.5 ITS

The company has been recognised as the most advanced company in 1998, the ITS R&D area developed concept cars that included advanced information technology and vehicle control technologies. At present, they are studying future directions and applications of ITS, and they are actively pursuing the fusion of all ITS technology with an appropriate infrastructure.

4.2.4 Chronology of the Business Outside Japan

1934 : The first Datsuns were exported to Asia and South America.
1952 : Nissan entered into a technology co-operation agreement with Austin Motors
1958 : Export of passenger cars to the United States began.

1959 : Production commenced at Yulon Motor Co., in Taiwan, Nissan's first overseas KD factory.

1960 : Nissan Motor Corporation in USA was established.

1961 : Nissan Mexicana, S.A. de C.V. was established.

1975 : Nissan Motor Manufacturing Co., (Australia) Ltd, was established.

1979 : Nissan Design International Inc. was established.

1980 : Nissan acquired an equity interest in Motor Iberica S.A. in Spain.

1980 : Nissan Motor manufacturing Corporation U.S.A. was established.

1983 : Nissan Research & Development Inc. was established in USA

1984 : Nissan Motor Manufacturing (UK) Ltd. was established.

1988 : Nissan Europe Technology Center Ltd. was established in UK.

1989 : Nissan Europe N.V., a regional head office, was established.

1990 : Nissan North America, the regional head office in USA, was established.

1990 : Nissan acquired an equity interest in Siam Motor Co., Ltd. in Thailand.

1991 : A new distribution company, Nissan Motor (GB) Ltd., was established in UK.

1992 : Nissan commenced US sales of the multipurpose Quest minivan, a joint project with Ford Motor Co..

1992 : Vehicle production at Nissan Motor Manufacturing Co. (Australia) Ltd. ceased.

1992 : Nissan Design Europe GmbH was established in Germany.

1993 : Nissan and Zhengzhou Light Truck Factory formed a joint venture, Zhengzhou Nissan Motor Co. Ltd., for the production of commercial vehicles in China.

1994 : Nissan concluded a technical assistance and license agreement with South Korea's Samsung Heavy Industries Co. for the manufacture of passenger cars. (Samsung Motors Inc. was established in 1995).

1994 : Nissan Middle East FZE was established in Dubai.

1995 : Nissan, Indomobile and Marubeni formed a joint venture, P.T. Ismac Nissan Manufacturing in Indonesia.

1997 : Nissan Motor Manufacturing Corporation U.S.A. commenced production at a new engine and transmission plant in Decherd.

4.3 CHRONOLOGY OF THE ALLIANCE'S NEGOTIATIONS

Under this section I will show the four phases that led to the conclusion of the alliance between Renault and Nissan. The first phase began in June 1998, while the negotiations ended on the 27th of March 1999 with the signing of the alliance.

4.3.1 First Phase June-July 1998, Prospecting by Renault

Exploratory phase with the purpose of identifying the potential advantages of closer links.

June 11: General discussions with Nissan on the possibility of an alliance

July 6: Formal statement of respective motivations By Renault and Nissan

July11: First contacts between Renault and Nissan assessment teams

July 16-17: Discussions between Renault and Nissan teams on various aspects of the alliance

July 22: First meeting between Louis Schweitzer and Yoshikazu Hanawa

4.3.2 Second Phase July-September 1998, Identification of First Synergies

July 28: Meeting between working teams. Confirmation of possible areas of co-operation

August 1: Start of preliminary internal studies in the areas of purchasing, products, international, platforms, distribution, engines and gearboxes

Aug. 31-Sept. 1: First decision making body. Review of preliminary study and confirmation of identified synergies

Sept. 10: Meeting between Louis Schweitzer and Yoshikazu Hanawa. Signing of a memorandum with exclusivity clause up to December 23, 1998, concerning the joint costing of synergies rapidly realisable in view of a global strategic alliance. Definition of a joint economic methodology. Setting up of a Committee for the purpose of validating the status of work in progress

4.3.3 Third Phase September-December 1998, Joint Costing of Synergies

The purpose of this phase was to determine the advantages of the alliance in financial terms and to check its technical feasibility. During this three month period, the Renault and Nissan teams met on a regular basis and demonstrated

their ability to effectively mobilise their forces, meet deadlines, understand one another and overcome technical difficulties.

Nov. 1: Meeting between Louis Schweitzer and Yoshikazu Hanawa

Nov. 11: Meeting between Louis Schweitzer and Yoshikazu Hanawa

4.3.4 Fourth Phase December 1998-March 1999, The Home Straight

Dec. 21-22: Meeting between Louis Schweitzer and Yoshikazu Hanawa

Dec. 23: Signing of a letter of intent between Renault and Nissan, valid until March 31, 1999. Objective of the letter: draw up a proposal for an offer to be made after a prior accounting, financial, legal and fiscal audit of the Nissan group by Renault and its teams of advisors.

Feb. 12: Meeting between Louis Schweitzer and Yoshikazu Hanawa

March 3-4: Agreement on list of potential synergies in the short, medium and long term

March 13: Meeting between Louis Schweitzer and Yoshikazu Hanawa

March 16: The alliance project was approved by the Renault board of directors and presented to the Central Works Council. Renault announces officially its intention to take an equity stake of approximately 35% in Nissan

March 27: Louis Schweitzer and Yoshikazu Hanawa sign the agreement between Renault and Nissan

4.4 MOTIVES OF THE ALLIANCE

Tokyo. March 27, 1999 - Louis Schweitzer, Chairman and Chief Executive Officer of Renault, and Yoshikazu Hanawa, President and Chief Executive Officer of Nissan Motor Co., jointly announced today a global partnership agreement that would create the fourth largest automaker in the world, while achieving profitable growth for both partners.

In order to support Nissan's turnaround, Renault has decided to make a major contribution to reducing Nissan's indebtedness. Renault is, therefore, going to invest 605 billion yen (approximately 4.7 billion euros / FRF 31 billion / US$ 5.1 billion), by taking a 36.8% equity stake (and corresponding voting rights) in Nissan Motor Co., by means of a reserved capital increase at Y 400 per share,

and a 22.5 % stake in Nissan Diesel. Nissan Motor will keep an identical equity participation to that of Renault in Nissan Diesel. Renault's investment also covers a possible participation in automakers, Nissan's South African subsidiary, which will be proposed to the Board of this company. Furthermore, Renault benefits from bonds with detachable warrants for a period of 5 years. These warrants, included in the overall price, enable Renault to maintain the level of its equity participation or increase it within mutually agreed limits.

Nissan has the option of taking a stake in Renault's share capital at a later date. Further, a mutual agreement should allow Renault to purchase Nissan's European financial subsidiaries, for a total of approximately 294 million euros (FRF 1.9 billion / Y 38 billion / US$ 320 million).

In order to strengthen Nissan's management and ensure the return to profit for the year ending March 31, 2001, Carlos Ghosn, currently Executive Vice President of Renault, will be appointed Chief Operating Officer of Nissan. All the Executive Vice Presidents of the company will report to him. In addition, two executives from Renault are appointed to the Board of Directors of Nissan: Patrick Pélata, currently Senior Vice President, Vehicle Development of Renault, is appointed Executive Vice President, Product Planning and Strategy of Nissan. Thierry Moulonguet, currently Vice President, Capital Expenditure Controller of Renault, is appointed Managing Director, Deputy Chief Financial Officer of Nissan.

It also has been decided to propose the appointment of Yoshikazu Hanawa, President and Chief Executive Officer of Nissan Motor Co., to the Renault Board of Directors.

The links between Renault and Nissan will allow each partner to derive maximum benefits from each partner's strengths. These strengths have been carefully determined after eight months of joint assessments and will improve the competitiveness of this new partnership. Renault and Nissan will implement synergies covering the whole scope of their activities, particularly in the areas of purchasing, product strategy and research. They plan to develop a common line of platforms and powertrains. These synergies will also apply to the strong

complementarity of their geographical locations. All expected synergies would represent a global cost saving of US$ 3.3 billion (FRF 20 billion / Y 390 billion / 3 billion euros) for the 2000-2002 period alone.

A transnational organization has been created to define joint strategy and promote synergies within the new entity. A Global Alliance Committee, consisting of the Chairman and Chief Executive Officer of Renault and the President and Chief Executive Officer of Nissan Motor Co., together with five top Renault executives and five top Nissan Motor Co. executives, will be in charge of strategic direction of the partnership.

Eleven Cross Company Teams will be assigned the task of promoting all possible synergies to be implemented by each of the partners. Four of these teams will focus on the following areas: "Product planning and related strategy", "Powertrains", "Vehicle Engineering", "Purchasing and logistics". Seven other teams will be assigned to marketing and sales in different geographical areas: Japan, Asia-Pacific, North and Central America, South America, Europe, CIS -Turkey / Romania / North Africa, the Middle East and sub-Saharan Africa. With the exception of the "Product planning and related strategy" group which will be under joint leadership, each of the other groups will be led by a manager from one company, whose appointment will be based solely on competence and recognized expertise. The deputy leader will automatically be an employee of the other partner.

Nissan and Renault will co-operate and comply with the national and international procedures necessary for the implementation of the agreement signed on March 27. The closing date for a capital transfer of funds is scheduled for the end of May 1999.

4.5   DECISION-MAKING   AND   COORDINATION STRUCTURE OF THE ALLIANCE

The Global Alliance Committee, which met on an informal basis for the first time on June 9, met again in Tokyo on July 28, then in Paris on September 22,

and is now convening on a monthly basis. The G.A.C. is the governing body of the Alliance. It defines joint strategy and decides on the implementation of co-operation or synergies proposed by the Cross Company Teams. Louis Schweitzer, Renault Chairman and Chief Executive Officer, and Yoshikazu Hanawa, Nissan Chairman, President and Chief Executive Officer chair the G.A.C.

The 11 Cross Company Teams provided for in the agreement were all operational by the end of June. A twelfth CCT dedicated to manufacturing was set up in July to make plans for implementation of the major synergies identified in this area. The CCTs work together on an ongoing basis. The Product Planning CCT is under joint leadership from Nissan and Renault. For the other ones, the leaders are from either Nissan or Renault and work jointly with a deputy leader from the other company. Each CCT includes in addition a pilot and a pilot counterpart. Both are responsible for the day-to-day work of their CCT and co-ordination of a team comprising 6 to 15 members. A total of about 150 staff from Renault and Nissan are involved in CCT work.

In each company, the work carried out by the CCTs is co-ordinated by a Steering Committee that brings together, approximately every two weeks, the leaders or deputy leaders of the CCTs in the company. Chaired at Renault by Georges Douin, Executive Vice President, and at Nissan by Patrick Pélata, Executive Vice President, the Steering Committees prepare for the G.A.C. under the leadership of the Alliance Co-ordination Bureau, which centralises information, assesses requirements and co-ordinates CCT work. The Bureau has an office in Paris headed by Yutaka Suzuki, and an office in Tokyo, headed by Akira Ishii. Functional Task Teams also provide everyday assistance to the CCTs, particularly in the area of information systems, engineering standards, quality, and fiscal and legal affairs.

4.6 MANAGEMENT STRUCTURE AND EXCHANGE OF PERSONNEL

The Annual General Meeting of Nissan shareholders approved Carlos Ghosn's appointment to the Nissan Board of Directors on June 25, 1999. He immediately assumed his duties as Chief Operating Officer of Nissan. Patrick Pélata, appointed Executive Vice President in charge of Product Planning, Design and Strategy, and Thierry Moulonguet, named Deputy Chief Financial Officer, also joined the Nissan Board.

The Annual General Meeting of Renault shareholders appointed Yoshikazu Hanawa, Chairman, President and Chief Executive Officer of Nissan Motor, to the Renault Board of Directors on June 10, 1999. Mr. Hanawa has served on the Renault Board since that date. Further, Tsutomu Sawada, appointed Senior Vice President, Adviser to the Chairman, joined the Renault Management Committee (CDR) on September 1, 1999, and Mr Yutaka Suzuki was appointed Senior Vice President, Alliance Co-ordination Bureau.

Seventeen Renault people have joined Nissan at management level and one more is expected in the course of 1999. They have been appointed in the following sectors: office of the COO., international human resources, finance and treasury, corporate planning, product planning, purchasing, manufacturing and engineering, marketing and South American operations. Seven Nissan people have joined the ranks of Renault's management and 14 others are expected to follow before the end of 1999. They have been appointed in the following sectors: Alliance Co-ordination Bureau, quality, project management, marketing and human resources.

4.7 EMPIRICAL RESULTS

In the following part I will describe the results about the post-integration process that I have collected via personal interviews and the survey. Nine interviews have been conducted while the survey was carried out on 21 employees. For both methods the questionnaires used were the same, the only

differences are in the details and depth of the answers. Indeed the information collected during the interviews is richer and more interesting than with the survey. But the survey was carried out on a larger amount of employees. All the answers to the questions from both the interviews and the survey are reported in figure 4.1.

Figure 4.1 Results from the Interviews and the Survey

Questions	Results from Interviews (9)	Results from Survey (21)
1. Shared meanings about the alliance	Yes: 7 No: 2	Yes: 15 No: 6
2. Big differences between French and Japanese cultures	Yes: 9	Yes: 21
3. Cultural differences are a major obstacles	Yes: 3 No: 6	Yes: 9 No: 12
4. Is the language difference an inconvenient	Yes: 6 No: 3	Yes: 15 No: 6
5. Is English required for the managers and engineers at Renault	Yes: 9	Yes: 21
6. Japanese managerial methods are different from the France	Yes: 9	Yes: 21
7. Fear for the appearance of cultural clashes	Yes: 8 No: 1	Yes: 18 No: 3
8. Fear for job security	Yes: 1 No: 8	Yes: 6 No: 15
9. Change in role and work contribution since the alliance	Yes: 5 No: 4	Yes: 5 No: 16
10. Work atmosphere is getting more tense	Yes: 0 No: 9	Yes: 3 No: 18
11. Promotion and reward systems modified	No: 9	No: 21
12. Risk of loss of talents within Renault	No: 9	No: 21
13. Do you feel more stressed or anxious	Yes: 1 No: 8	Yes: 6 No: 15
14. Willing to co-operate with Nissan's employees	Yes: 9	Yes: 21
15. Japanese employees willing to co-operate with Renault	Yes but not all of them: 9	Yes: 12 No: 5 No opinion: 4
16. Have you interact with Nissan employees	Yes: 9	Yes: 11 No: 10

17. Lots of efforts made by both companies	Yes: 9	Yes: 18 No: 3
18. Loss of identity	No: 9	No: 21
19. Campaign of information within Renault about the alliance	Yes: 9	Yes: 21
20. Enough information from the top management	Yes: 8 No: 1	Yes: 15 No: 6
21. good knowledge about the whole Nissan group	Yes: 3 No: 6	Yes: 5 No: 16
22. Forces against wills by the top management	No: 9	No: 21

The interviewed employees consider that cultural and managerial differences exist and that they can be source of conflicts and obstacles to the success of the alliance. Most of them believe that both groups had and still have rather shared meanings about the alliance. Indeed, the study and analysis of the potential alliance have been carried out for almost one year, thus one can suppose that the two groups had the time to reach a common shared point about the terms of the alliance and its objectives.

In terms of cultural compatibility the interviewed employees wonder if the cultures will be compatible. Actually they fear for the appearance of cultural clashes when it comes to working jointly with Nissan. But, apparently, this does not mean that they are not willing to co-operate with Nissan employees and do their best. On the contrary, the willingness of the employees seems rather high.

When it comes to the language difference, the interviewed persons consider it as being a probable source of problems and misunderstandings between employees from Renault and Nissan. The official language of the alliance is English. Nevertheless, this language difference is not perceived as being a major obstacle for the success of the alliance. The employees are ready to make efforts with the language, and if any problem occurs they will get help from translators.

In terms of managerial methods, the interviewed employees see high contrasts between the two companies. According to them there is always a risk that the French do not understand or are not worried about these specific managerial processes. They think that problems are likely to arise when it comes to the decisions-making process. Indeed, they are aware that in Japan the decision-making process is much longer than in France and requires a general consensus.

Renault employees do not seem to fear for their job security because of the Renault-Nissan alliance. As the finances of Renault are good they do not believe that the group will proceed to important cuts in its work-force. Furthermore they consider that the objectives of the alliance are to conceive and produce more and not less; thus Renault will still need its employees and will not get rid of them.

About the role and the work contribution the analysis of the questionnaires did not show any big shift. Most of the employees still have the same place within the organisation, and with the same activity. The employees working on common projects between both companies have seen their roles changed, but these changes are more considered as promotions. Furthermore, the reward and promotion systems are not expected to be modified

The majority of the persons interviewed do not think that there is a risk of loss of talents within the Renault's organisation. On the contrary, according to them, the alliance can attract new talents because it offers very exciting and promising opportunities. Actually, the new perspectives are especially interesting for the managers and engineers. It seems that the working atmosphere and the relationships within the organisation are still the same. They are not tenser because of the alliance. Moreover, the big majority of the interviewed employees do not feel more stressed or anxious than before the alliance.

All the managers and engineers interviewed have already interacted with their Japanese counterparts. Every week French employees from Renault go to Japan

while Japanese employees from Nissan come to France. The willingness seems to be high for both sides.

Within the Renault organisation big efforts have been made for the promotion of the internal communication about the alliance. The day after the signing of the alliance, a video of Louis Schweitzer, chairman and chief executive of Renault, was presented to Renault's employees. This video's purpose was to explain and clarify the alliance to the employees. Moreover several documents and information about the alliance have been distributed to the employees. The employees are considered to be rather well informed about the alliance. For them the objectives of Renault, that are synergy realisation, internationalisation of the group and technological gains, are evident.

However most of the interviewed employees are not considered to have a good holistic view of Nissan group. Even if they know the products that Nissan supplies in Europe -an exposition of Nissan Europe has been organised at the Renault's Technocentre- they have limited knowledge of the vehicles that are specific to the Japanese and American markets. They are informed that Nissan has participation in several of its suppliers but the details remain quite fuzzy.

When it comes to the force against wills it appears clearly that for the employees the demand and the pressure is coming from the top management; but nevertheless the opportunities and perspectives are quite interesting and exciting enough so that the employees do not see the alliance as a constraint.

Of course some employees are against the alliance and are not willing to co-operate with the Japanese but this category appears to be only marginal.

Another characteristic of the alliance that is considered as being important by the employees is that even if both groups are joining they will keep their own identity. Renault and Nissan want to keep their respective personality and characteristics. Therefore the persons that have been interviewed believe that Renault will not lose its identity despite the alliance. Consequently the employees do not fear losing their identity as Renault's employees.

4.8 THE NEW CULTURAL ENVIRONMENT

In the above sections I have described the pre-integration process as well as some major events of the integration process. Renault has already started to implement changes within the Nissan organisation. The main aim for Renault is to take Nissan back to profitability. For that the company wants to change parts of Nissan culture that they find inefficient. Renault is trying to "Renaultise" Nissan. Hence the old environment within Nissan has been changed for a new environment.

I have identified 13 main cultural differences or gaps from the old to the new environment. Now the problem for Renault is to bridge these gaps. Thus in the next part I will analyse these main cultural differences in order to give recommendations to Renault on how to cope with them. These 13 main cultural differences are the following:

- Individualism Vs collectivism   - Decision-making
- Power Distance   - Business specialisation
- Masculinity Vs Femininity   - Enterprise loyalty
- Time perception   - Layoff system
- Truth Vs Virtue   - Reward and salary systems
- Language   - Labour Unions
- Internal communication

PART 5. ANALYSIS OF THE CASE STUDY

In this sixth part we investigate in which ways and to what extent the cultural differences between Renault and Nissan can influence the synergy realisation of the alliance. For that I believe that besides the human side analysis it is also of great importance to analyse the economic side of the Renault-Nissan alliance, i.e. listing the potential synergies, in order to get a good balance and distinction between the influences of the human and economic sides.

5.1 THE ECONOMIC SIDE: SYNERGY POTENTIAL

In this first part I will analyse economic side of the alliance by assessing the potential synergies that exist between the two firms.

5.1.1 Merits of the Alliance

"What's interesting about this deal is that each brings what the other lacks. Renault has financial expertise and, industrially, it knows how to develop successful vehicles", said Patrice Solaro, auto analyst at Julius Baer. "Nissan has world-wide know-how, which Renault is looking for, and it is one of the most efficient manufacturers, along with Toyota, in terms of developing cars rapidly that are inexpensive to assemble", he added.[56]

5.1.1.1 Renault-Nissan Number 4 Car Manufacturer

Combined, Renault and Nissan will become the number 4 car manufacturer in the world with a market share of 9.1%. Indeed before the alliance Renault was ranked number 10 of carmakers while Nissan was the number 8. Thus by the alliance the joining group will get a place among the biggest leading car manufacturers. The three big groups ahead of the Renault-Nissan alliance are General Motors, Ford and Toyota. Together the two groups will produce around 4.8 millions vehicles. Moreover the joining partners are now present on five continents.[57]

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[56] Journal "Le Monde", March 1999
[57] Stéphane Lauer & Brice Pedroletti, Journal "Entreprises", March 1999

Figure 5.1 Merits of the Alliance
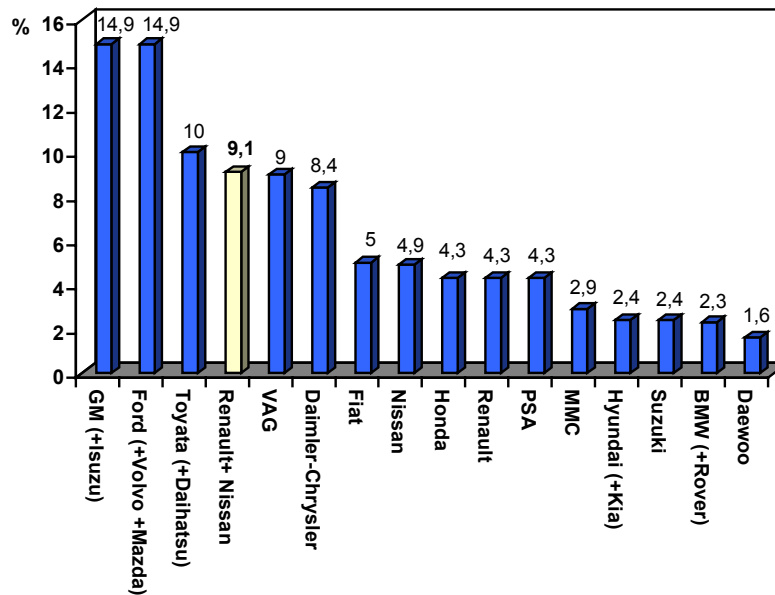
5.1.1.2 Market Complementarity

The Complementarity between Renault' and Nissan's markets is very good. Indeed Renault's best market is Western Europe where it has up to 11% of the total market, the Group is not present in Japan or in North America. While on the other hand the markets where Nissan has its biggest market shares are Japan and North America. Thus by creating an alliance with Nissan, Renault has the opportunity to enter both the Japanese and the North American markets. The entry of Renault in the two last markets can be done under Nissan's mark but with Renault's products.[58] In terms of market shares, the alliance represents 14.1% of the Western European market, 15.3% of the Japanese market and 4% of the North American market. The market shares of Renault, Nissan and the alliance throughout the world are respectively represented in Appendices 2, 3 and 4.[59]

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[58] Journal "La Correspondance Economique", April 1999
[59] www.renault.com

5.1.1.3 Production Complementarity

The product lines of both groups are strong in key segments and complementary in all categories. The two companies complement each other; for instance Renault does not produce 4x4s or pick-ups and produces only a small amount of big sedans (Safrane), while Nissan produces a relatively large amount of cars in these categories. On the other hand Nissan has no small city car such as the Renault Twingo, and produces just few utility-cars while Renault has a large range of utility-cars. The two companies cover the totality of vehicle ranges expect for the vehicles under 6000$.[60]

However in some types of vehicles the two groups are directly concurrent. Indeed Renault is a generalist automaker while Nissan is a hyper generalist automaker. Consequently it is obvious and inevitable that Renault and Nissan have, in their own range, products that are in competition. For instance in France the Nissan Micra is an alternative for the Twingo and the Clio. It is the same for the couple Almera-Mégane, Primera-Laguna and Maxima-Safrane that are antagonist. But this problem is actually only present in Europe, the only area where the Renault and Nissan in direct competition with each other.[61] The different product lines of each Group are shown in the following graphs.

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[60] "Direct", Newspaper of the Renault's Management, March-April 1999
[61] Jean-Michel Normand, Journal "Entreprises", March 1999

Figure 5.2 Nissan Product Line

Category	Models
B	March, Micra, Cube
C	Almera, Sunny
D	Bluebird,
E+F+G	Altima, Maxima,
Vans	Quest, Elgrand,
4x4	Safari, Patrol,
Pick-up	Pick-up
LCV	Atlas Civilian

Figure 5.3 Renault Product Line

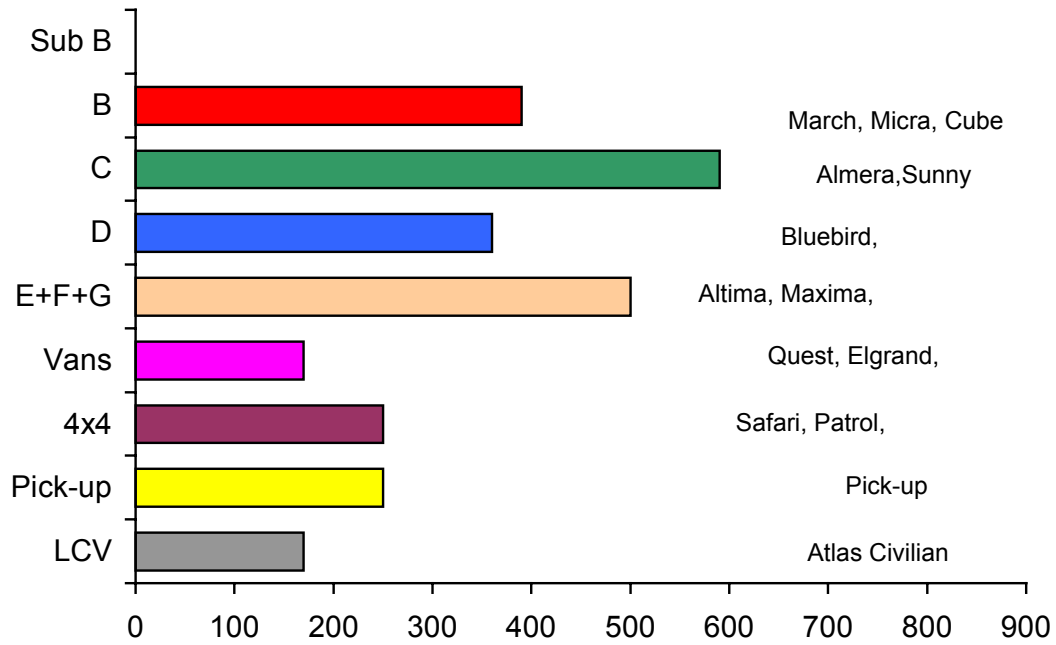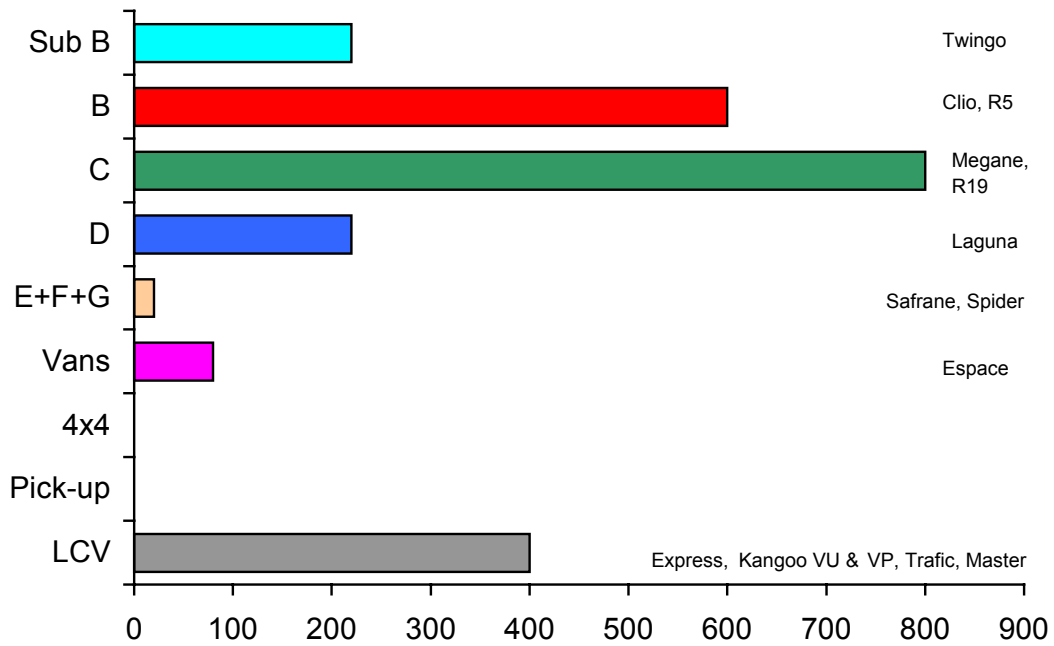| Category	Models
Sub B	Twingo
B	Clio, R5
C	Megane, R19
D	Laguna
E+F+G	Safrane, Spider
Vans	Espace
LCV	Express, Kangoo VU & VP, Trafic, Master

5.1.1.4 Complementary Expertise

Renault and Nissan's areas of operating strengths are complementary and will be exploited to achieve improved revenue and earning growth.[62]

RENAULT

- Cost management
- Global platform and purchasing strategy
- Innovative product and styling

NISSAN

- Advanced Engineering and technology
- Plant productivity
- Quality management

5.1.2 Potential Synergies of the Alliance

"With Nissan we have a remarkable combination of complementarities and commonality," Schweitzer told a news conference after the deal was signed.[63]

Eleven Cross Company Teams have been assigned to the task of promoting all possible synergies to be implemented by each of the partners. Four of these teams will focus on the following areas: "Product planning and related strategy," "Powertrains," "Vehicle Engineering," "Purchasing and logistics." Seven other teams will be assigned to marketing and sales in different geographical areas: Japan, Asia-Pacific, North and Central America, South America, Europe, CIS - Turkey / Romania / North Africa, the Middle East and sub-Saharan Africa. With the exception of the "Product planning and related strategy" group which will be under joint leadership, each of the other groups will be led by a manager from one company, whose appointment will be based solely on competence and recognized expertise. The deputy leader will automatically be an employee of the other partner.[64]

Thus, by joining their efforts and making an alliance, the two groups have created several potential synergies. For he moment these potential synergies are found at different levels. Indeed there are synergies that exist at the regional

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[62] www.renault.com
[63] Journal "Le Monde", March 1999

level with regional co-operation, as well as at the product level with the sharing of platforms. The alliance expect to gain in the long term 1.25% of market shares world-wide. A classification of the potential synergies depending on short term or long term objectives can be found in the Appendices 5 and 6.

The eleven Cross Company Teams are now all carrying out in-depth work assessing and proposing the realization of the synergies between Nissan and Renault. Opportunities for co-operation in the short, medium and long term have been identified and confirm the excellent fit in terms of markets, products, production sites and engineering capabilities. The following are some of the areas in which most progress has been made:

5.1.2.1 Platform Sharing

Common platform is the term used for an inferior base from which it is possible to decline several different models.[65] "Nissan has a huge number of platforms, too many engine factories," said Louis Schweitzer.[66] A huge effort has to be done from both partners in order to reduce the number of common platforms to 10. For the moment the number of platforms for the two groups numbers up to 34 (8 for Renault and 26 for Nissan).[67] This convergence would permit large cost savings and would enable the alliance to achieve strong economies of scale.

The two groups have planned to implement a first common platform for the Renault Clio and the Nissan Micra, called the B platform. This operation will enable the two joining parts to gain large economies of scale in jointly producing the two cars.[68]

Indeed, in the area of vehicle engineering, it has been decided to develop the first common platform, known as the B platform, and work on it is now well advanced. Platform B will be developed by a team of engineers, from both companies, led by Nissan, which will be the first to use it. Respecting the

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[64] "Avec Renault, Flash Info", Newspaper of the Renault's Management
[65] Stéphane Lauer & Brice Pedroletti, Journal "Entreprises", March 1999
[66] Michael Zielenziger, Free Press Japan Correspondent
[67] "Direct", Newspaper of the Renault's Management, March-April 1999
[68] Revue "La Tribune Française", July 1999

specific identities of each brand and particularities of each product, it will be used as a base for the vehicles replacing the Nissan Micra, March and Cube and the Renault Twingo and Clio. The first vehicles to be assembled on this platform will be introduced in 2002. The policy of building common platforms, on which each brand will develop its own specific product range, will be continued in the coming years and Renault and Nissan are looking to have 10 common platforms by 2010. By developing its own vehicles on these platforms, each brand will generate considerable economies of scale, increasing to 500,000 units the average production volume for a platform, compared to 280,000 currently at Renault and 100,000 at Nissan. In the case of a large-volume segment such as the B segment, overall forecast volumes on the B platform will exceed one million a year. The merit of the operation of platform sharing is described in the Appendix 7.

A second common platform is supposed to be created around 2003, for the successors of the Renault Mégane and then the Nissan Almera. In the long term, about 2007, Renault could launch a luxury vehicle on one of Nissan's platforms, with a Japanese V8 engine.[69]

5.1.2.2 Potential Synergies by Region

Depending on the different regions across the world, the alliance will produce different potential synergies. These synergies can be distinguished according to five different regions. The five regions are the following: Europe, US/Mexico, Asia & Oceania, Mercosur, and South Africa. The synergies will be mostly created by the use of factories and plants that already exist in some regions. These potential synergies by region are possible due to the fact that the two groups are internationally complementary. The presentation of the synergies by region is presented in Appendix 8.

In *Europe*, Renault and Nissan are jointly setting up a new policy for their distribution system by using more powerful major joint dealers managing local networks of separate dealerships in a given territory. This strategy will allow each partner to boost its revenues and reduce distribution costs, while

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[69]www.latribune.fr/Searchmachine.nsf, June 1999

maintaining separate brand identities through separate outlets. Renault and Nissan's objective is to restructure and to strengthen the European network by mid-2002.

Reducing distribution costs will not be limited to the dealer network: Renault and Nissan want to identify and implement back office synergies (for instance parts and vehicle logistics) between the two companies at a national and European level which can minimize the structural costs of distribution. Both Renault and Nissan will retain their own sales force and marketing organizations to maximize the sales potential of the Renault and Nissan brands.

At the end of September, the GAC approved a project for co-operation between Nissan and Renault in *Mexico*. The project provides for Renault's return to the Mexican market as well as assembly by Nissan of Renault products in Mexico. A specific Renault distribution network will be developed, with support from Nissan. This project ensures a better utilization of Nissan's industrial capacity and allows Renault to move back into a major high-growth market in the most cost-effective way possible. For the sales area, as Nissan is the only major car manufacturer without a sales finance company in Mexico, both partners are working with Renault Credit International (RCI) to set up a Mexican sales finance company. Renault and Nissan hope to be able to announce a final decision at the Mexico Motor Show in December.

In *South America* (Mercosur), Renault and Nissan are establishing a project that will include wide co-operation in the area of sales, purchasing and manufacturing.

Nissan and Renault have determined a potential future co-operation in *South Africa*, based on automakers, Nissan's South African subsidiary.

In the *Asia-Pacific* region, co-operation will start soon in Australia with Renault vehicles being sold through the Nissan network from the end of 2000. In other countries in the region, such as Malaysia, the Philippines, Taiwan and Thailand, where Nissan is mostly represented by independent companies, Renault would develop its operations with these companies, including industrial and commercial co-operation, and with support from Nissan.

In *Japan*, when the contract between Renault and its current importer, the Yanase / France Motors group, comes to an end on May 1, 2000, Renault's intention, which is under study with the different parties, is to import its own vehicles using Nissan's back-office resources (homologation, preparation, storage, transport…). It would sell them through two non-exclusive distribution networks: the Yanase / France Motors network and a part of the Nissan network. Through this approach, Renault's intention is to sell ten times as many vehicles in the medium term and to target annual sales volumes of 30,000 vehicles or even more

5.1.2.3 Valuation of the Potential Synergies

The estimates based on joint studies by Renault and Nissan gave very good results for the alliance in terms of savings. Indeed the estimates for the alliance are based on the savings in the purchasing activity, and on production cost savings, capital expenditures savings, as well as on profit on additional sales. These estimations show that by 2002, thanks to the alliance, the joining groups will have won 1 570 $ million. Moreover the projections for the year 2005 foresee that the savings will amount up to 3 000 $ million. More details of this valuation are presented in the Appendix 9.

In the area of purchasing, Renault and Nissan are actively establishing a co-ordinated purchasing policy, firstly in Europe, then world-wide. Both partners are aiming for $ 1.7 billion in overall savings between now and 2002. These savings cover all purchases: vehicle and powertrain components (over 60% of the total), raw materials, tooling and equipment, purchase of services and logistics, and spare parts. This co-ordinated purchasing policy is based on detailed benchmarking which could lead to the sharing of certain sub-systems, with a dual advantage: better products and greater purchasing power.

5.1.3 Summary

Thus as we saw previously, synergy potentials of the Renault-Nissan are numerous and well defined. Indeed the fit is quite good in terms of markets, products and production sites. Besides, there is an outstanding complementarity of operating strengths. Nissan and Renault will create synergies that cover the totality of their activities, notably in the sector of purchasing, product strategy

and research. They have planned the development of common platforms and common mechanical components. These synergies will be also based on strong geographical complementarities. The total expected synergies represent a global saving of US $ 3.3 billion (FFR 20 billion), only for the period of 2000-2002. On the purchasing, their co-ordination first in Europe, and then in the rest of the world will generate US $ 1.7 billion in savings before 2002 according to the calculations of both carmakers.

From 2004, the savings should reach US $ 3 billion per year (EURO 2.8 billion).

But, beyond the complementarities that exist between the two groups, several challenges are left to be accepted; especially the one of the cultural settlement of two companies that are doing business in managerial environments and economic contexts that are quite far from each other. Therefore it is now quite relevant to analyse the human side of the alliance in order to demonstrate the chance and the extent of the realisation of these potential synergies. Indeed it is the work force of both groups that will implement the actions to reach the synergy realisation.

5.2 THE HUMAN SIDE: SYNERGY REALISATION

Several potential synergies have been created by the alliance formed by Renault and Nissan. These synergies are based on production, geographical and market complementarities. Yet before their actual realisation by both joining organisations, these synergies are still considered as only potential. It is only once the alliance has started with the co-operation of joining partners that it will be possible to analyse and assess the synergy realisation. Hence, while the potential synergies are more related to the pre-M&A stage and can be evaluated from that first stage; synergy realisation is related to the integration process and integration of cultures. The success or failure of the synergy realisation are actually the main function of the integration process. Indeed it is during the integration process that the cultural issue plays a crucial role when it comes to the success of M&A.

Thus, in the following part I will analyse how the influence of the cultural issue and human factors act on the development of the alliance, and consequently on the synergies. The analysis will be done by using both main sources of information, which are the interviews and survey carried out among Renault's employees and the data found in the international press releases and Renault's internal press releases.

5.2.1. Major Cultural Differences

After analysis of the empirical results, I found 13 main cultural differences or gaps that Renault should bridge in order to succeed in its alliance. I believe that it is these major cultural differences that will have the strongest influence over the alliance. I will analyse the cultural and business characteristics of France and Japan that are likely to have the most influence over the alliance. The analysis will thus focus on the following:

- Individualism Vs collectivism   - Decision-making
- Power Distance   - Business specialisation
- Masculinity Vs Femininity   - Enterprise loyalty
- Time perception   - Layoff system

- Truth Vs Virtue   - Reward and salary systems
- Language   - Labour Unions
- Internal communication

5.2.2 Individualism Vs Collectivism

The Japanese Nissan is based on a collectivist concept. The company believes in the power of the group. Within Nissan it is the group that is the most efficient instrument, which will reach the targets and not just the individuals. However, Renault, like most Western companies, has a more individualistic culture. The French company puts its emphasis on the individual.

By making an alliance with Renault, Nissan has to change its approach to the perception of the self and the other. The fact that Carlos Ghosn has established a new reward system at Nissan, which assesses the managers on their results and promotes them when they reach the objectives, tends and has the objective to increase the individualism within Nissan in order to find new talents. Moreover Renault has implemented at Nissan a decision-making process that no longer requires consensus within the group; individuals will take the decisions quickly.[70]

The new system within Nissan is one that encourages initiative and individual advancements to the contrary of the former system that discouraged initiative from individuals.

5.2.3 Power Distance

A strong example of the managerial difference between the French Renault and the Japanese Nissan is that in Japan it is forbidden that a manager should be commanded by someone younger than him or her. With the new system of promotion, based on performance, which has been established at Nissan, there is a high risk of conflict and rebellion from the older managers seeing younger managers giving them orders. It is why C. Ghosn had to established a system of a double hierarchy in order to get round this problem.[71]

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[70]Baïotti C. & Briquet D., Journal "Avec Renault" Direction of the Renault's Communication, May 1999

The French people of Renault are well aware of the existence of specific Japanese managerial methods and see this differential between the French and the Japanese ways as a source of conflict and shocks. One of the engineers that have been interviewed considered that:

> *"The Japanese have lots of managerial traditions and ways that differ from France; and they attach great value to them. But the problem is that for the French these traditions mean nothing".*

Furthermore, both in France and Japan the power distance is high, which means that the hierarchy is strong and well marked. Nevertheless the contact between the top management and the subordinates is much easier in France than in Japan. In Japan individual initiatives are not appreciated. To inform the top management about problems or ideas, the subordinates have to pass through lots of intermediaries before the idea reaches the top managers. It is against the rules in Japan that simple employees or low managers have direct contact with the high hierarchical level. In France the contact between the top management and the subordinates is much easier; even if the distinction between both groups still remains clear and quite pronounced. Renault is striving to establish the same contacts within Nissan to increase the individual initiatives and improve the decision-making process. The subordinates will get more power when it comes to taking decisions and will be allowed to communicate directly with the top management.

5.2.4 Masculinity Vs Femininity

The Japanese society is a typically masculine one. This feature can also be found within Nissan's organisation. In this kind of company they care less about individuals; the important matter is that the group reaches the goals. Within the Renault organisation no great discrimination is made between male and female; the company is quite equal between both sexes.

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[71] Gallard P. & Mas I., Journal "L'Expansion", September 1999

According to Renault this characteristic of the Japanese system has to be changed. Indeed the employees and managers cannot be assessed and judged only by their sex, they have to be considered according to their performance. The Japanese managers are not used to working and co-operating with females; in Japan males occupy most of the manager positions. A Japanese male manager would not appreciate to receiving orders from a woman.

However, Renault has sent some women managers to Japan to co-operate with Nissan. For instance, Nathalie Gigandet, formerly responsible for Renault's connection office in Tokyo, has been integrated within Nissan as a manager. In fact, she explained that the willingness of the Japanese to follow her orders is quite high and that the communication is well established between them. But the main reason for this success is that the Japanese consider her more a foreigner rather as a woman. N. Gigandet declared:[72]

> *"They consider me a foreigner but not a women. Hence the communication is relatively easy".*

5.2.5 Time Perception

According to C. Ghosn and Renault, Nissan should change its time orientation. Nissan has to move towards a short-term perspective if the company wants to

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[72] The linear perception of time that is found in the Renault corporate culture does not prevail in Japan. The central notion in Japanese time, which is found in the *Makimono* time pattern, is the notion of continuity.

For a western company such as Renault time can be saved, spent, wasted or even bought, just like money. Thus Renault perceives time as an economic value, a scarce resource. The French multinationals believe in the concept "Time is money". This time perception emphasises the fact that the Western companies are more short-term oriented. But for Nissan time is not a scarce resource. The Japanese company tends to have a longer-term business and economic perspective than the French company.

Philippe Gallard, Journal "L'Expansion", September 1999

recover as fast as possible. The revival plan established by C. Ghosn for Nissan has planned the return of the Japanese company to profit for 2001.[73] The main objective is now the short-term profits; the usual big investments of Nissan will be avoided. Moreover the closure of plants and huge layoffs within Nissan's workforce emphasises the will of Renault to take Nissan to recovery in a short period.

5.2.6 Truth Vs Virtue

The culture in France is based on the concept of truth, which is supported by the Western logic that a statement excludes its opposite. This is related to the fact that Renault, such as Western companies, has an analytical thinking. On the contrary, Nissan has a more synthetic thinking. Japanese management, especially with Japanese employees, is famous for this pragmatic synthesis. What is true or who is right is less important in Japan than what works. Thus, thanks to their synthetic abilities the Japanese companies such as Nissan are good at applying the Western technologies.

Nevertheless, even if Renault's employees do not have any doubt about the capacity of the Japanese company to copy new technologies, they fear that Nissan copies Renault's methods without really understanding the process of implementation of these procedures. As an engineer stated during the interview:

> *"Of course the Japanese are very good at copying new technologies, but there is a risk that they do not understand the logic of the process, and they might have difficulties later on to develop these technologies".*

5.2.7 Language

Language is one of the biggest and most obvious differences that exist between France and Japan. The official language of the alliance is English. Yet, there is a big risk of misunderstanding when French and Japanese are involved in a meeting or decision-making. Even if the help of translators is extensively used, there is still large probability of mistakes.

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[73] Lauer S., Journal "Le Monde, Entreprises", 1999

Last spring, before leaving to Tokyo, C. Ghosn had planned to respect the Japanese customs and traditions. Indeed, he even started to learn Japanese. But quite fast, the managers at Nissan made him understand that he was on the wrong track: *gaijin* (foreigner) he is, *gaijin* he has to remain. The Japanese do not want to have a French man that pretends to be Japanese. Since Carlos Ghosn spends only one hour per week learning Japanese. Hence everything occurs in English or French languages, with translators for the ones who do not speak either language. It is an important barrier that can increase the suspicion between the partners. *"I have decided to suspect the person I am speaking to of unwillingness only once I have the proof that they are,* explains Pélata, C. Ghosn's right-hand man, *because I have realised, most of the time, that I was just misunderstood".*[74] This statement from Pélata means that the language barrier can affect the interpretation of orders or action by the employees.

As for the French, in an interview, Yoshikazu Hanawa, chief executive of Nissan, did not consider the cultural differences to be an important obstacle in the alliance. The only problem that he underlined was the language difference, the official common language being English.[75]

For the employees interviewed at Renault, the difference in languages is considered a source of problems and misunderstandings between the employees of Renault and Nissan. However the language difference is not perceived as being a major obstacle for the success of the alliance. The employees seem to be ready to make efforts in the language, and if any problems occur they will get the help of translators. Anyway, a good knowledge in English is required for all the managers and engineers at Renault. Hence it implies that the English level at Renault is rather good. Some employees are quite positive about using English as the official language; they consider it a new challenge. As an engineer stated during the interview:

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[74] Airy Routier, Journal "Challenges", October 1999
[75] Claude Baiotti, Journal "Avec Renault" Direction of the Renault's Communication, May 1999

"I think that using English in our daily work to co-operate with our Japanese counterparts can be quite interesting and beneficial for us".

5.2.8 Internal Communication

Big efforts have been made to promote the internal communication within Renault's organisation about the terms and objectives of the alliance. Just one day after the announcement of the alliance a video of Louis Schweitzer, chairman and chief executive of Renault, was presented to Renault's employees. The purpose of this video was to explain and clarify the alliance. Moreover, several documents about the partnership have gone through the Renault offices.

Hence, the employees actually consider that they have got rather good information about the alliance. According to them the objectives of Renault, which are synergy realisation, internationalisation of the group and a better understanding of Nissan's successes in terms of quality and industrial production, are quite clear. A true communication has been established among Renault's people.

However, when it comes to the specific characteristics of the Nissan group, i.e. its organisation and its international production, most of the interviewed employees are not considered to have a good view and understanding of their partner. The details of the whole group are for the interviewed employees very vague.

On the other hand, the Japanese employees, who are used to always being involved into the decision-making process, feel rejected since the alliance became official. They have the feeling that the company is losing its family atmosphere. Due to their collectivist approach, employees in Japan are closely linked to the functioning of the company and decision-making needs a large consensus. But Renault, by introducing a more individualistic approach and by changing some specific Japanese managerial methods, has created a feeling of

frustration among Nissan's employees. The latter do not feel a true communication within their company.[76]

5.2.9 Decision-making

At Renault, the top management takes quick decisions, which creates an effect of surprise. While in Japan the decision-making process takes a long time and is done through long discussions. The final decision is taken only once a large consensus as been reached at the base. The decisions at Nissan must be shared. But this Japanese method is time consuming and does not fit with Renault's view of time: "Time is money". Since the alliance, Renault is pushing Nissan to change its decision-making approach in order to make the company able to adapt to the fast changing environment.

One of the main reasons for the failure of the Japanese decision-making process was that Nissan's board comprised up to 37 members. This large amount of members prevented the board taking clear and sharp decisions. Yet, thanks to its alliance with Renault, Nissan became with Sony the only Japanese group with a board limited to 10 members. This smaller board, comprising three French, will enable Nissan to take faster and more relevant decisions.[77]

For the Japanese the meetings are used only to formalise the collective decisions that are taken in the corridors or around the coffee machine. This is unmanageable for the French. Thus the Japanese have to follow the rules that are applied in Paris. But the French too must compromise: *"each meeting has to end with decision taking or at least conclusions*, explains Patrick Pélata. *Otherwise the Japanese feel frustrated and disoriented".*[78]

"There's going to be enormous cultural friction," said Tsuneo Akaha, professor of international studies at the Monterey Institute of International Studies in Monterey, California. "The Japanese approach is much more consensual and decisions take much longer than in France, where bosses take control and

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[76] Anonymous, "Courrier International", November 1999
[77] Philippe Gallard, Journal "L'Expansion", September 1999
[78] http://www.nouvelobs.com/archives/, January 2000

others are willing to give up responsibility to one leader. Renault will have a lot to get used to."[79]

Most of the managers interviewed were aware that there exists an important difference between Renault and Nissan decision-making processes. They affirm that problems are likely to occur in this field, because they know that in Japan decision-making takes a much longer time than in Western countries. Moreover in Japan decision-making requires a general consensus. According to them both groups will have to make efforts in this field because they fear the apparition of misunderstandings and confusion when decision-making process involve both French and Japanese. As one manager has stated:

> *"There is a risk of cultural clash when it comes to decision-making, because while some will go fast, the others will need much more time. Hence I believe that each part has to make some compromises".*

5.2.10 Business Specialisation

In Japan the Keiretsu system, which dominates, is comprised of many major business actors that have created alliances and groups in order to reduce risk and uncertainty. The companies within the Keiretsu system have long-term relations of mutual obligation and commitment. Furthermore, the enterprises within an alliance exchange shareholdings, information and sometimes also senior managerial personnel. Nissan is also part of a large Keiretsu, which is one of the main reasons for the high specialisation level of Nissan. The Japanese company relies extensively on sub-contractors and has a strong network of relationships. Due to its high degree of specialisation, Nissan's interdependence with other firms is important.

One of C. Ghosn's main objectives is to break up mainly the horizontal contacts within the Keiretsu system of Nissan. It means reducing the number of sub-contractors, suppliers and subsidiaries. Actually, this breaking up has already started by the cancellation of Nissan's participation in more than fifteen

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[79] http://www.auto.com/industry/qnissan26.htm, November 1999

subsidiaries or sub-contractors.[80] C. Ghosn has divided by two the number of suppliers and broken the relationships with the partner companies. According to Renault, suppliers and sub-contractors are the fields where Nissan can make important savings quite fast. Nissan is not efficient in terms of purchases. It must use more intensively the competition that exists between the best world-wide suppliers. When it comes to the vertical relations that Nissan keeps up with lots of banks, C. Ghosn also intends to reduce them while keeping some. Indeed Renault considers that Nissan should reduce its debt burden towards the banks.[81]

For Renault's interviewed employees the large participation of Nissan in several subsidiaries is rather complex and difficult to delimit. About the Keiretsu, one manager stated:

> *"We do not really know Nissan's activities apart for its automotive activities…they have lots of participation in enterprises but the details are very vague".*

5.2.11 Enterprise Loyalty

The employees within Nissan are very loyal to their company. The Japanese concept of Shushinkoyo (the lifetime employment system) is present in Nissan's organisation. The employees are expected to stay with the company for a lifelong period and at the same time they can expect lifelong job security. But this specific Japanese characteristic does not exist in Western companies.

In 1995, indeed Nissan was the first Japanese carmaker to close one of its plants, the one at Zama, but the totality of the employees has been transferred to the plant at Kyushu. *"When the Zama plant shut down there was no layoff. We ignore the real intentions of M. C. Ghosn. But, in Japan, the life-time employment guarantee is a priority",* affirms Katsuhiro Hagiwara, President of the production sector union (Zen Nissan Roso). This statement by the president of the Nissan's powerful labour union indicates clearly that resistance from the Japanese is likely to arise if the French, and especially C. Ghosn do not respect

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[80] S. Lauer & B. Pedroletti, Journal "Le Monde, Entreprises", 1999

the Japanese traditions on employment. However, C. Ghosn has removed the guarantee of lifetime employment within Nissan.[82]

5.2.12 Layoff System

In Japan layoff is an uncommon practice. Even more, the labour relations laws prohibit layoff. Indeed, when a Japanese company acquires another Japanese company, the acquiring firm guarantees the continuing employment of the acquired firm's employees. This characteristic of the Japanese system is closely related to the notion of life-time employment that is predominant in Japan.

At Nissan one manager out of five will be useless. Moreover a plan to reduce Nissan work force by 30 000 jobs has been established.[83] Nevertheless, the employees from Renault who have been interviewed do not seem to fear for their job security since the alliance. As the finances of Renault are quite good, they do not believe that the group will proceed to important cuts in its work force. Furthermore they know that the objectives of the alliance are to conceive and produce more and not less; thus Renault will still need its employees and will not get rid of them.

Even if they know that, before the official alliance, there was no initial plan for important layoffs and closing of Nissan's plants, that has yet occurred, they do not feel any strong threats for employment and plants at Renault because of the good situation of the company. For them if layoffs occur at Renault they will be negligible.

Thus, during the General meeting of Nissan in April 1999, that marked the entry of Renault to the capital of Nissan with an amount up to 36.8%, Hanawa expected only 5 000 progressive layoffs and no closing of plants. However after the establishment of the French employees at Nissan, during the last summer, the tone changed. In August Hanawa rectified that "*the plan will be drastic"*. Just after, C. Ghosn declared that they would exclude nothing, neither the layoffs nor the closure of plants. The figures that have been submitted for

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[81] Lauer S., Journal "Le Monde, Entreprises", 1999
[82] Correspondent at Tokyo, Journal "Le Monde", July 1999
[83] Gallard P. & Mas I., Journal "L'Expansion", September 1999

discussion within the group have an unknown extent in the kingdom of the lifetime guaranteed employment: it is a plan of about 30 000 layoffs, with at least the closing of one plant in the suburb of Tokyo.

But, Schweitzer affirms that contrary to Nissan, where layoffs will be inevitable due to its actual bad situation, the alliance will not have any negative impacts on the employment at Renault.[84]

5.2.13 Reward and Salary Systems

At Nissan, as well as in all the Japanese companies, the rewards system is dominated by the seniority based promotion system, which means that the employees are not assessed on their performance but rather on the time they have spent in the company. Furthermore, a limited range of salaries reinforces the proximity between Nissan's employees.

Quickly after its arrival at Nissan, C. Ghosn abolished the seniority-based promotion. This action led to a shock among the Japanese.[85] Carlos Ghosn has clearly affirmed that, at Nissan, from now on the managers will be assessed on their results, promoted when they reach the objectives and fired otherwise. The salary will vary according to the competencies, via the stock-options and other forms of reward.[86] The following statement of Carlos Ghosn in June 1999 explains briefly why these changes have been made:[87]

> *"I respect the traditions, but yet I think that we should think more about the talents and wealth that we lose by not giving opportunities to the ones that deserve it".*

Thus with this new reward and salary system, C. Ghosn will increase the distance between employees at Nissan due to differences in salary; distance that employees of a similar category are not used to.

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[84] Stéphane Lauer, Journal "Le Monde, Entreprises", Mars 1999
[85] http://www.nouvelobs.com/archives/, January 2000
[86] Journal "Le Nouvel Observateur", September 1999
[87] Philippe Gallard, Journal "L'Expansion", September 1999

On the contrary, at Renault the rewards and advancement system is not expected to be modified; it will stay unchanged. Thus the investigated employees do not think that on this point they will be negatively affected because of the alliance. As a manager from Renault stated:

> *"I do not think that our system of rewards will be negatively influenced by the alliance".*

Moreover, a survey carried out by the Renault organisation has found out that there exists at Nissan a mode of repartition of the financial rewards, which is analogue to what is done at Renault.[88] Therefore the distribution of these financial rewards will not be too much affected.

5.2.14 Labour Unions

In Japan, most of the employees, if not all of them, are syndicated. Nissan's union is one of the most powerful in Japan and has a strong influence over the employees.

"For the moment I can say only one thing, explains Katsuhiro Hagiwara, President of the production sector union: *at Nissan, all the regular workers are automatically syndicated. If people ignore their point of view, the renovation measures cannot succeed. Thus we can only hope that the existing principles of relationships at work will be respected. From the press, M. Ghosn is a man of communication. We have to wait. He might know that in Japan you have to prove the well-founded of the decisions."* This labour union accounts for up to 58 000 members, which is considerable. [89]

Therefore it appears clearly that in the conducting of its revival plan, Carlos Ghosn will have to face resistance from the union. The declaration of Ikuro Takagi, expert in social relationships, positions well the problem that is likely to occur within the Renault-Nissan alliance and that C. Ghosn will have to cope with: [90]

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[88] A. Dunoyer De Segonzac, Journal "Avec Renault" Direction of the Renault's Communication, May 1999
[89] Correspondent at Tokyo, Journal "Le Monde", July 1999
[90] Philippe Gallard, Journal "L'Expansion", September 1999

> *"If C. Ghosn lays off without any security, there will be resistance".*

Ikuro Takagi believes that if C. Ghosn lays off without making any guarantees, he will face resistance from the unions. According to him despite the fact that Nissan's union is a moderate one, it is still one of the strongest in the automobile sector, just after Honda but before Toyota.

On their side, the French unions are rather prudent. *"We just announced record benefits; we do not have anymore debts. The Nissan's operation calls all into question as we are forced to go into debt. It cannot be without any consequences from the social viewpoint",* stated Philippe Martinez from the CGT (French union). On this side the CGC (other French union) is more optimist. *"AT the time of big changes in the automotive industry, it seems pleasant that Renault is present at the table. Since the failure with Volvo, the Renault CGC did not stop claiming a big industrial strategic project to prevent finishing in the capital of a financially more powerful group",* indicates the CGC.[91]

5.2.15 The Cultural Integration

As we previously saw in the theoretical part Sales and Mirvis distinguish three different stages in the cultural integration between two companies engaged in an alliance.[92] When Nissan employees heard about the acquisition of a large part of their company by Renault they felt scared but also disappointed by their top managers. When the alliance was confirmed, feelings such as shock, fear, uncertainty, anger and insensibility were present within Nissan organisations because the employees started to fear for their own culture. According to Sales and Mirvis this first stage, which is a natural phase in the cultural integration, is called "threat against the own culture".

I believe that, right now, Renault is in the second stage of the cultural integration, which is "cultural confrontation". The different cultures are

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[91] http://www.yahoo.fr/actualite/19990317/lmentreprise/0951_1.html, September 1999
[92] Sales & Mirvis, 1984

confronted. The Japanese find their culture as homogeneous and are quite impermeable to things and ideas that are different from their point of view. Even if some French or Western practices have been established within Nissan, it is difficult to say that the Japanese accept and understand them. They use these practices but do not agree about their efficiency.

Renault has not yet achieved the last stage that is "acculturation". When two companies have reached this phase, cultural clashes are finished and a joint culture has been created within the organisation. According to Allen and Siehl two merging companies must have a similar culture in order to succeed. If this is not the case they have to adjust to each other and change some part of both cultures.[93] Despite the fact that this alliance is quite new, I think that the level of "Renaultisation" within Nissan's organisation is not satisfactory. They have to show to the employees what Renault culture is.

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[93] Allen & Siehl, 1989

PART 6. RECOMMENDATIONS

In this sixth part I will give recommendations on how Renault should handle the cultural issue in its future decisions and actions concerning its alliance with Nissan. I will go through the 13 major cultural differences and give specific recommendations for each of them.

6.1 ACCULTURATION

My first and main recommendation for Renault focuses on the level of acculturation within the alliance. Acculturation is considered as the development of jointly shared meaning fostering co-operation between the joining firms. In fact acculturation diminishes collective resistance by creating a common language, mutual consideration, better understanding of the other, and so on. If there still exist lots of cultural clashes between the two combining firms, it means that acculturation has been poorly achieved.[94]

It is of crucial importance that Renault succeeds in establishing a high degree of acculturation between both companies in order to decrease the employee resistance and to achieve a successful alliance. A positive development of the level of acculturation is reached through the handling in a good manner of some cultural differences, which exist within the alliance. Renault should emphasise the cultural blending strategy and the Renaultisation of Nissan's organisation. Renault should be well aware of both Japanese and western cultures in order to blend them in a good manner. Indeed parts and aspects of both cultures have to be kept, none of the culture would disappear. It is more a question of harmonising both cultures by achieving a good balance between them. Hence the benefits of each culture should remain within the new joint culture and joint meanings. It is also highly important that the Japanese understand and are aware of the Western culture in order to more easily accept the changes within their own organisation.

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[94] R. Larsson, 1991, p4

6.2 INDIVIDUALISM VS COLLECTIVISM

By shifting Nissan's approach from a collectivist to an individualistic approach, Renault has promoted individual performance at the expense of the group performance. Indeed, the new system within Nissan is one that encourages initiative and individual advancements to the contrary of the former system that discouraged initiative from individuals. In the Western companies the emphasis is put on the individuals while in Japan it is on the group.

Yet I would recommend to Renault to not totally get rid of the former system, indeed Renault should use a mix of both approaches, by taking the benefits of each. As we saw above, the benefits of individualism are that they promote individual initiatives and ideas. But I believe that Renault should reward group performance too. Japanese are used to working and co-operating in groups. This group rewarding would also increase the degree of family feeling among the employees. Hence Renault should encourage individual initiatives while rewarding group performance as well.

6.3 POWER DISTANCE

By enforcing its management style at Nissan, Renault risks establishing confusion among the Nissan organisation. With the promotion system based on the performance of employees there is a great chance to see young managers climbing the hierarchical levels faster than the older. But old Japanese managers do not accept being directed by younger managers.

Thus I recommend to Renault to save few Japanese managerial practices, while enforcing its style. It is important that the system of double hierarchy still remains for a while within the Nissan organisation. Indeed the old managers are very important in the company and it is important to keep them and not disrespect them.

I believe that Renault should implement management training at Nissan in order to teach its own method to the Japanese. Indeed the Japanese are not used

to the Western ways; thus in order to avoid confusion among Nissan's employees training has to be given to the managers. The subordinates have to learn how to take personal initiatives and develop direct contacts with the top management; while the older managers and the top management have to become more open-minded and get closer to their subordinates.

6.4 MASCULINITY VS FEMININITY

In Japan, which is a masculine society, it is not common to see females occupying manager positions in the big companies. Most of the managers are male. Yet Renault has sent to Nissan several female managers to occupy positions within Nissan. With this manoeuvring the risk is that the women will not be able to get the respect of their male subordinates and that these men feel offended.

However, I recommend Renault to continue offering women manager positions within the Nissan organisation in order to decrease the gender discrimination that exists in the Japanese company. Yet, in order to not offend the male managers too much, these women must be for the moment not Japanese. Indeed, the foreign females are more viewed as foreigners rather than female. Japanese female managers will be hired later on, when male employees will be used to see women in their daily work.

6.5 TIME PERCEPTION

According to Renault, Nissan has to change its time perception to adopt a short-term orientation. My recommendation is that Renault should continue in this direction. Nissan has to recover and come back to profitability as soon as possible, and it is only by changing its time perception that the company can succeed in doing so. Even if the Japanese culture is to think long-term, i.e. the short-term profits are not important, I believe that Nissan management can understand that it is vital for the company to think short-term from now on, and until the finances of the company become good again.

I recommend that Renault furnish guidelines and schedules for future actions and decisions concerning the alliance. The revival plan implemented by C. Ghosn has to be supported by a clear schedule, which would help Nissan's employees to understand the logic of the new time perception and orientation.

6.6 TRUTH VS VIRTUE

Thanks to the alliance Nissan will have the opportunity to copy and use Renault's technologies and methods, especially in terms of costs savings and management. Yet Nissan may not understand the logic of these methods that can be specific to Renault or to the Western companies.

Therefore I recommend Renault to train Nissan engineers and Managers in order that they obtain the right knowledge. Renault has to implement a structure that will help Nissan not only to copy and take Renault's technologies, but also understand their logic. For that it is recommended that lots of Japanese go to France to visit the plants and offices to understand the functioning of the company. French managers and engineers have also to be sent more often to Japan to train their Japanese counterparts. Yet in order for the training to function well, the trainers from Renault have to be well aware of Nissan culture and management systems. Thus these trainers also need a good formation.

6.7 LANGUAGE

Language is one of the most obvious and important cultural barriers within the Renault-Nissan alliance. Even if the official language of the alliance is English, lots of employees and managers at both companies are not skilled in this language. The difference in language is a source of misunderstandings and misinterpretations when Japanese and French are involved in common projects or decision-making. Therefore it is important that most of managers and engineers at both companies understand the common language, especially those who co-operate directly with their counterparts from the other company.

For this reason I believe that Renault should implement English training for both Renault and Nissan employees, and especially for the managers and those working directly with the partner company. These English lessons should be well structured and frequent. Thanks to these lessons the employees would become more motivated to start learning or improving their English.

Moreover this language difference could create some kind of segregation between those who can speak English and the others. Indeed, English being the official language, most of the information distributed to the employees and the meetings concerning the alliance will be held in English. This can lead to a feeling of exclusion from the group for some employees, especially in Japan where the emphasis is on the cohesion of the group and where employees consider their company as a big family. Thus the development of English training is recommended.

6.8 INTERNAL COMMUNICATION

Due to some major changes, such as shift from a group approach to an individualistic approach, which have been made at Nissan since the alliance, the frustration among Nissan employees has been growing steadily. Moreover, now the Japanese employees feel rejected from the decision-making process and the functioning of the firm. They have lost the feeling of being part of a family or group. This loss is a big problem for Renault in its handling of the alliance, indeed without this family atmosphere the Japanese employees will not feel comfortable within the company and will then become less motivated and efficient. There is also a risk of an important loss of talent. The employees at Nissan do not feel they are getting a true and transparent communication from Renault about the alliance; they feel cheated.

Thus, in order to avoid employee resistance and frustration within Nissan, I recommend Renault to give more attention to Nissan's capacities and capabilities, especially in terms of technology. Discussions between Renault management and Nissan have to be more frequent for the Japanese not to feel excluded. The Japanese have to be included in the decision-making process,

even if it is only at a low level. Besides by giving a bigger interest to Nissan's capacities, Renault would have the opportunity to improve its own technology by coping and understanding Nissan's techniques. Even if at the present moment Nissan is highly indebted, it is important for Renault to bear in mind that in terms of quality and efficiency Nissan is still one of the leading world-wide carmakers. Hence by using more Nissan's capacities, Renault could learn a lot, especially in term of technology.

Furthermore I recommend Renault to show clearly its objectives in its alliance with Nissan and the fact that the company has already invested a lot in its Japanese partner in order that this latter recovers and becomes profitable again. The communication has to be improved to demonstrate to the employees that the alliance has been established in the best interest of Nissan.

6.9 DECISION MAKING

By establishing a new decision-making system Renault is aiming at increasing the rapidity and efficiency of this process. This new system will permit more individual initiatives by reducing the hierarchical levels and facilitating the contact with the top management for the subordinates.

I believe that Renault should continue in this way, which is to improve the decision-making by making the organisation flatter. The board at Nissan should now remain few in number. Renault must teach Nissan's managers the concept of "time is money", especially in the case of a company like Nissan that is indebted. However the changes must be rather progressive and some Japanese specific methods must be kept. For instance the joint meetings shall continue to be ended by decisions or at least conclusions in order to satisfy the Japanese. It is still highly important that a large consensus is reached among the Japanese.

6.10 BUSINESS SPECIALISATION

Nissan, as most of the Japanese companies, is part of a large Keiretsu system, which means that it has lots of sub-contractors, suppliers and subsidiaries. It implies that Nissan do not make use of the competition that exists between the international suppliers and therefore loses money. This is why, since the alliance, C. Ghosn is striving to break up especially the horizontal contacts and relations that Nissan has with its Keiretsu.

The necessity and the benefits of taking Nissan out from its Keiretsu system are rather obvious. By doing so Nissan will have the opportunity to realise large savings by using the international competition between suppliers. Thus I recommend Renault to keep on in this way, i.e. to break up Nissan's Keiretsu. It could also be beneficial for Nissan to deal with Renault suppliers that are supposed to be quite competitive.

6.11 ENTERPRISE LOYALTY AND LAYOFF SYSTEM

I have decided to include enterprise loyalty and layoff system together because I believe that they are quite related. Indeed the layoff system that Renault is implementing within Nissan is likely to have a strong impact upon the enterprise loyalty.

The degree of employee loyalty in Japan is very high compared to Western companies. This high loyalty is both due to the family atmosphere that is created within the company and to the existence of the Shushinkoyo concept (the lifetime employment system). However, since his arrival at Nissan, C. Ghosn has already closed down several Nissan plants and laid off a large amount of employees. Moreover, he has also removed the guarantee of lifetime employment within the company. C. Ghosn's aim is that Nissan should come back to profitability by 2002. This explains why according to Renault, Nissan can no longer afford to keep all its employees and has to get rid of a large part of them.

The loss of job security for Nissan employees can have a strong impact on their loyalty towards the company. Thus Renault takes the risk of decreasing greatly the level of loyalty within Nissan. Consequently if the loyalty decreases the employees will become less efficient and less motivated, they will no longer feel as part of the same family, i.e. their company.

The problem is that these layoffs are necessary for Nissan to take over, thus it is impossible to avoid them. Hence I recommend to Renault to continue with its layoffs within Nissan's workforce, but at a slower pace and by using different methods such as anticipated retirement that can be easily accepted by the employees and the syndicates. Another recommendation that I believe to be highly important is that besides the inevitable layoffs, Renault should strive to create a strong family feeling within Nissan, in order to offset the loss of Shushinkoyo and for the employees to feel more secure. The creation of this feeling would increase the loyalty of the employees towards their company. To show the employees that their company cares about them and is listening to them is crucial to establish the family atmosphere.

6.12 REWARD AND SALARY SYSTEMS

Since the alliance, the reward and promotion system at Nissan has changed from a seniority-based system to a performance based system, thus leading to the possibility of a widening of the range of salaries. In Japan managers and employees are assessed on the time they have effectively spent in the company; their real performance is not really taken into account when it comes to the rewards and promotions.

By implementing this shift, Renault has faced resistance especially from the older managers, who do not accept being directed by younger managers. But with the new promotion system established it is quite likely to happen now. Hence I recommend Renault to keep the double hierarchy that has already been created in order not to offend the old managers. This double hierarchy should be kept for a while until these managers have changed their way of thinking; though it is quite unlikely to happen. Thus if these older managers pose too

much resistance to the alliance, they should be fired or put into anticipated retirement. I believe that Renault should continue to promote and reward Nissan's employees according to their performance because this practice could attract new talents, that are ambitious and want to climb fast into the hierarchy, something impossible in a typical Japanese company.

However I would recommend as well that Renault base the salary and reward system not only on individual performance, but also on the group and corporate performance. Indeed this new system would help Renault to create a family or group spirit within the company, which is very important in Japan. Furthermore, the salaries should be set at a rather high level compared to Nissan's competitors in Japan, in order not to lose talents to the benefits of the competitors, and to attract new employees.

6.13 LABOUR UNIONS

Given that most of the employees in Japan are syndicated, the unions have a strong power and can have an influence upon the decisions of the top management within the company. Besides, Nissan's union is one of the strongest in Japan. It is quite likely that Renault and C. Ghosn with their revival plan for Nissan will face resistance from the labour unions, especially because of the numerous layoffs and the changes in the managerial and promotion systems that they have accomplished.

Thus I recommend Renault to open and develop the communication with Nissan's unions in order to find compromises. It is highly important not to neglect and offend the Japanese labour union, due to its power and influence over the employees. Trust and close contacts must be established between Renault management and Nissan's unions. Renault should discuss with the unions the objectives of the alliance and show them that it is in the best interest for Nissan to follow Renault's methods and advices.

6.14 SUMMARY OF THE RECOMMENDATIONS PART

In this part I give a sum-up of the above recommendations. This sum-up is represented in figure 6.1. The aim of this sum-up is to allow the reader to get a good and fast view of my recommendations.

Figure 6.1 Recommendations sum-up

ISSUES	RECOMENDATIONS
Acculturation	Blend the cultures Achieve harmonisation of the cultures by keeping benefits of each Develop the Renaultisation within Nissan Learn more about both Western and Japanese cultures
Individualism Vs Collectivism	Promote the individual according to their performance Keep the benefits of the old system Promote group and corporate performance Create family feeling
Power Distance	Keep the double hierarchy within Nissan organisation Develop training in Western management style for the Japanese Promote individuals initiatives Promote contacts between the top management and their subordinates
Masculinity Vs Femininity	Offer more manager positions to females Give the same salary to male and female for the same job
Time Perception	Develop a short-term orientation within Nissan organisation Create clear schedule and guidelines about the objectives
Truth Vs Virtue	Train and teach managers and engineers from both companies Send more French to Japan and more Japanese to France Create a mutual understanding
Language	More English courses for the employees Good frequency of these courses Motivate especially the top managers to attend these courses
Internal Communication	Give more attention to Nissan's capacities and capabilities Develop the frequency of discussions between Renault and Nissan Include the Japanese in the decision-making process Clarify the objectives and inform about the investments
Decision Making	Make the organisation flatter to speed up the decision making process Develop an understanding of the changes Keep some Japanese methods, achievement of a general consensus
Business Specialisation	Reduce Nissan keiretsu system, less suppliers and sub-contractors Use the international competition among suppliers to save money
Enterprise Loyalty and Layoff System	Reduce the pace of the layoffs within Nissan work force Use other methods such as anticipated retirement instead of layoff Create a strong family atmosphere with more social activities
Rewards and Salary Systems	Keep the double hierarchy

	Promote and reward more employees according to their performance Reward group and corporate performance too Set salaries at least as high as at the competitors
Labour Unions	Develop the communication with Nissan labour unions Create a feeling of trust between Renault and the unions Show the unions the benefits for Nissan in the alliance

PART 7. CONCLUSIONS

This last part, the conclusions part, includes specific conclusions for Renault as well as more general conclusions for latter M&As that may take place between a French company and a Japanese company. I will give also conclusions about the convergence between the theories and the case study, before concluding with some propositions for future research.

7.1 MY CONCLUSIONS

The first objective of the analysis was to classify and assess the *potential synergies* that exist in the Renault-Nissan alliance. This first stage of the study is an important one; indeed it is the potential synergies that are likely to be realised once the alliance has effectively started. Then, the second and main aim of the case study analysis was to point out the influence of the cultural issues over the alliance. This assessment is necessary to permit the forecast of the chances that the potential synergies have of being realised.

7.1.1 Potential Synergy Conclusions

By establishing an alliance and joining their strengths and capabilities both Renault and Nissan have created potential synergies. Actually the synergy potential is the potential benefit from the interaction between the joining companies, given their optimal integration. There are the pre-conditions of the alliance that encourage two companies to be involved in an M&A process.

The analysis showed that there exist numerous potential synergies within the Renault-Nissan alliance, which are well defined. The fit between the two companies is apparently good. The fit is good in terms of markets, products and production sites. The potential synergies are also based on strong geographical complementarities. We can say that there is an outstanding complementarity of operating strengths. Nissan and Renault have the opportunity to exploit synergies that cover the totality of their activities, notably in the sector of purchasing, product strategy and research. For instance, the development of

common platforms and common mechanical components has already been planned.

But, beyond the complementarities that exist between the two groups, several challenges are left to be accepted; especially the one of the cultural settlement of two companies that are doing business in managerial environments and economic contexts that are quite far from each other.

The results from the analysis in term of synergy potential are very promising for the alliance. Indeed, even if potential synergy does not imply synergy realisation, it is true that the more potential synergies, the greater the chance of achieving synergy realisation. Yet it is crucial for Renault to keep in mind that numerous potential synergies between two companies does not necessarily mean realisation of at least the same amount of synergy. This uncertainty is due to the perturbations made by the cultural issues and the employee resistance during the integration process. Hence Renault should not mix up synergy potential, which exists and is high, with synergy realisation, which is uncertain.

7.1.2 Cultural Issues Conclusions

Several potential synergies have been created by the alliance established between Renault and Nissan. Yet before their actual realisation these synergies are still considered as being only potential. It is only once the alliance has effectively started that it is possible to analyse and assess the synergy realisation. However, the post-merger reality can appear to be totally different from what was expected before the alliance. This phenomenon is attributed to the action of cultural differences on the employees of both companies. The cultural integration is not always as easy as the managers think from the beginning. Hence the managers must be formed and ready to adapt to the changing environment. Determinism is a concept that defines the problem of managers sticking to their original plan even in front of changing conditions. It is vital in an M&A to have the right managers in charge; otherwise a leadership vacuum would exist. Since the start of the alliance, Carlos Ghosn and his team have been in charge of the operations, and thus took place within Nissan's board. For the moment it seems that C. Ghosn is responding rather fast to the problems and changes that he has to face. A leadership vacuum is not a

problem so far. Yet this does not mean that C. Ghosn has not to face problems and resistance from the Japanese employees.

Before the alliance, Nissan was rather a typical Japanese company with a collectivist approach. Within Nissan only the group performances were supposed to create values, individual performances were discouraged. The board of Nissan comprised more than 30 members, and thus was very slow to take efficient decisions in a fast changing environment. Besides, the communication between the top management and their subordinates is quite difficult, direct contacts are not common. There are lots of intermediaries between the subordinates and the top management, which is also a means to avoid individual initiative. Nissan, as most of the Japanese companies, was part of a large Keiretsu, which implies several sub-contractors, subsidiaries and suppliers. This system allows the company to share the risks with others; in fact this phenomenon is related to the high level of uncertainty avoidance of the company. A strong family atmosphere was present within the company to encourage the group performance. Moreover this feeling was increased by the existence of the life-time employment security within Nissan. Thus enterprise loyalty was also considered to be high. Employees were supposed to stay all their lives within the same company. As the Japanese society, Nissan has a male organisation, which means that manager positions are offered to males.

However, due to the alliance lots of upheavals have been made within the Nissan organisation. The arrival of C. Ghosn and his team at the board of Nissan has lead to several important changes in the whole company. One of the first actions of Renault was to reduce especially the horizontal contacts that Nissan has within its Keiretsu. Nissan had to get rid of many of its sub-contractors and suppliers; this will allow Nissan to realise lots of savings. Nissan's board has also been reduced to ten members in order to make it faster and more efficient to take decisions. According to Renault the board should be limited to a small number of members. Since the alliance, Renault is striving to shift Nissan's approach to a more individualistic one. Renault has changed the seniority-based promotion system for a performance-based system. By this means, Renault hopes to encourage individual initiatives that were not common with the old system. Also, to encourage individual initiatives Renault is making

Nissan's organisation flatter to ease the contacts between the top management and their subordinates. Another important change is the introduction of female managers within Nissan's organisation. Indeed Renault has sent some of its female managers to occupy manager positions within Nissan. This action has the objective to change the mind of the Japanese managers about females.

After the analysis of the changes within Nissan, created by Renault, I found out that there exist several problems or conflicts between both companies where improvements have to be made. Firstly, it is clear that for the Japanese employees the existence of a family atmosphere within their firm is of high importance. For them, the company is another family. Yet, for the moment, since the beginning of the alliance and the entrance of Renault's managers to Nissan's board, the Japanese employees have the feeling of having lost their family atmosphere. They do not feel as comfortable within Nissan as they used to do. Hence Renault has not succeeded in keeping this atmosphere.

The analysis emphasised the fact that there exists a problem of communication between Renault top management and Nissan. The frustration among Nissan employees has increased steadily since the alliance. They do not know what Renault really stands for and what its objectives are in its alliance with Nissan. Moreover some managers feel frustrated and opposed to the entrance of Renault to Nissan's board. These managers are old style managers and for them individual initiatives are not welcomed as well as neither are female managers. For them employees should be only promoted according to their seniority. But this problem of communication is also caused by the language difference. Even if the official language of the alliance is English, neither French nor Japanese are very talented at it. Thus this can lead to misunderstandings between French and Japanese employees who are working together and co-operating.

Thus, the internal communication has to be developed and improved. Renault should give more attention to Nissan capabilities and include them more into the decision-making process. Japanese employees are not familiar enough with the French company and its methods; training and seminars should be implemented to make it clearer.

One of the main issues for the success of the alliance is to increase the level of acculturation within both companies. In this objective the main task for Renault is to succeed in creating a joint culture. Firstly to develop a joint culture, it is vital to develop the common language, which is English. Training in the English language should be developed and frequent for both Renault and Nissan employees, and especially the managers. It is important that all the managers and most of the employees know English, to avoid discrimination by the language and frustration among the non-English speaking employees. Moreover, more social activities should be organised for the employees to create the family atmosphere that is so important for the well being of Japanese employees.

If the old managers, who are against the alliance, still show resistance to Renault, they should be fired, at least some of them. Indeed, these old managers can have a strong and negative influence on the rest of the employees. On the other hand Renault should hire new employees that are younger and talented in English. Indeed, nowadays the young Japanese are more open to the Western cultures and methods. Thus it would be easier for these young managers to be incorporated into the new organisation.

7.2 THEORETICAL CONCLUSIONS

The fit between the theories that I have chosen and the case company has proved to be good. Indeed the analysis showed that the integration process of an M&A is the stage where the handling of cultural issues is the most important and difficult part.

The Renault-Nissan case was in accordance with Hofstede study of national and organisational cultures. The main national characteristics of France and Japan have been respectively found within Renault and Nissan organisations.

The theory of Haspeslagh and Jemison about the integration process of an M&A has proved to fit well with the case. The three main problems that can occur during the integration process have been verified. They are determinism,

value destruction and leadership vacuum. Moreover the influence of mutual understanding, willingness and capacity on the creation of a good atmosphere during the integration process has been confirmed.

The theory about the business system in Japan has also proved to fit with the results of the case study. Even if this theory is rather old, ten years, it is still relevant to analyse a case company in Japan. Of course, because of the openness of Japan to foreign companies, the business system is changing, but for the moment the theory is still relevant. One of the main changes is the enterprise loyalty that is decreasing. Actually the Japanese employees do not show the same loyalty to the foreign companies as to the Japanese companies. It is why the socialisation and the creation of a family atmosphere are nowadays even more important in Japan.

Allen and Siehl showed in their theory that if merging companies do not have a similar culture they have to adapt towards each other and make some cultural changes. This phenomenon has been demonstrated in the analysis of the case study.

The theory from Sales and Mirvis about the three phases of cultural integration has proved to fit well with my case study. Indeed I found out that Renault has already experienced the first phase, "threat against the own culture", and is at the present moment in the second phase, which is "cultural confrontation". Yet it seems evident that Renault is striving to reach the third phase that is "acculturation" where cultural clashes are supposed to be cancelled and a joint culture created.

The case has shown the importance of creating a joint culture by increasing the level of acculturation between the joining companies, while the level of hostility and the negative impacts on the employees' careers should be reduced.

7.3 PROPOSITIONS FOR FUTURE RESEARCH

The purpose of my thesis was to draw recommendations for Renault in its way of handling the cultural issues of its alliance with Nissan. It would be interesting to analyse the same case study in a few years to see the development of the alliance. The analysis would show if the alliance has proved to be a success in terms of cultural fit.

The second purpose of this thesis was to get a better knowledge about the human side of M&As between especially a French company and a Japanese company. Thus it would be interesting to analyse other case companies by using the same theories in order to confirm if these theories can be generalised for other case studies. Moreover the interest is also to see if other companies would act in the same way as Renault in an alliance with a Japanese company.

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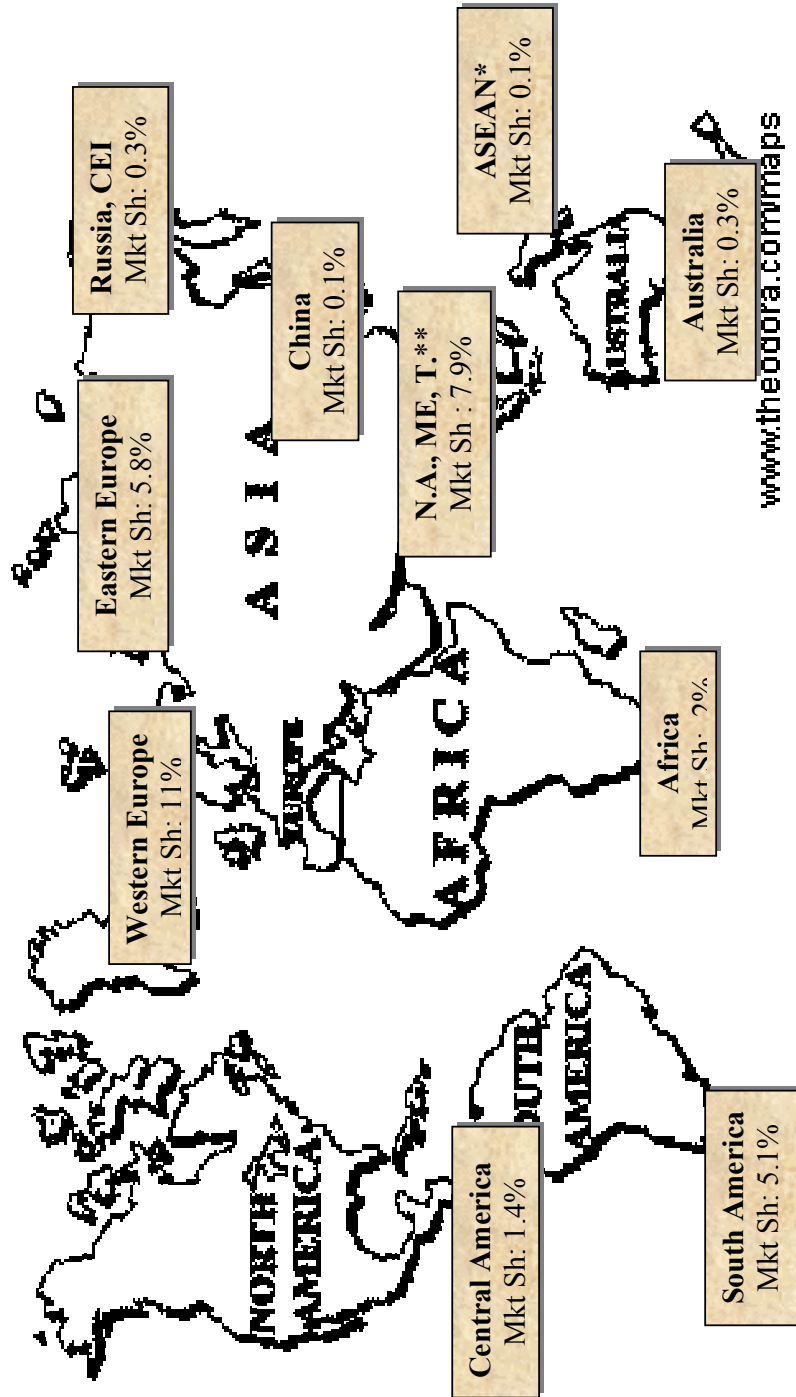www.latribune.fr/Searchmachine.nsf

APPENDIX 1 Questionnaire

1) Firstly, do you think that from the beginning Renault and Nissan have shared meanings about the alliance; or are there divergent?
Tout d'abord, considérez-vous que Renault et Nissan ont depuis le début des vues partagées sur l'alliance; ou alors divergent-elles?

2) Do you think that there exists a big difference between the French and the Japanese cultures?
Avez-vous le sentiment qu'il existe une considérable différence entre la culture française et la culture Japonaise?

3) Do you see the cultural differences between France and Japan as being an major obstacle when it comes to the success of the alliance?
Percevez-vous les différences culturelles comme étant un obstacle majeur au sucés de l'alliance?

4) The common official language of the alliance is English. Is it a big inconvenient for you?
La langue officielle commune de l'alliance est l'Anglais. Est-ce un grand inconvénient pour vous?

5) Is a good mastery of the English language required for the managers and engineers at Renault?
Une bonne maîtrise de la langue Anglaise est-elle demandée aux managers et ingénieurs de chez Renault?

6) Do you consider the Japanese managerial methods and traditions as being highly different from the French ones?
Considérez-vous les méthodes et coutumes de management des Japonais comme étant très éloignées de celles des Français?

7) If yes, according to you, in which ways do the both ways differ?
Si oui, selon vous, de quelles façons diffèrent ces deux méthodes?

8) Do you fear the appearance of cultural clashes and conflicts between the employees of both groups?
Craignez-vous l'apparition de conflits et de chocs des cultures entre les employés des deux groupes?

9) At Nissan one manager over five will be useless. Moreover, a plan to reduce Nissan's workforce by 30 000 jobs has been established. Do you fear more for your job security since the take-over of Nissan ?
Chez Nissan un cadre sur cinq sera de trop. De plus un plan de 30 000 suppressions d'emploi est prévu dans le groupe Nissan. Depuis la prise de contrôle de Nissan craignez-vous plus pour la sécurité de votre emploi?

10) Since this date, have your role and/or your work contribution within the Renault Group been modified ?
Depuis cette date, votre rôle et/ou votre contribution au sein de l'organisation du groupe Renault ont-ils été modifiés?

11) If not, do you think however that it is likely to happen ?
Si non, pensez-vous qu'ils le seront bientôt?

12) Since the global strategic alliance between the two groups do you have the feeling that the atmosphere and the relationships at work are getting more tense ?
Depuis l'alliance entre les deux groupes les relations de travail sont-elles devenues plus tendues?

13) Will you rewards system and advancement opportunities be modified because of the alliance ?
Votre système de primes et d'avancement se verra-t-il modifié par cette alliance?

14) If yes, are you expecting a more positive or negative change?
Si oui, pensez-vous que cela sera plutôt positif pour les employés ou bien négatif?

15) Do you think that due to the alliance there is a risk of loss of talents, i.e. to see Renault's managers and engineers leaving the Group?
Selon vous, suite à la prise de contrôle de Nissan, y a-t-il un risque de voir certains cadres supérieurs de Renault quitter le groupe?

16) Since the take-over do you personally feel more stressed or anxious?
Depuis l'alliance vous sentez-vous plus stressé ou anxieux?

17) Are you willing to co-operate and share your knowledge with the Nissan's employees ?
Vous sentez-vous prêt à coopérer avec les employés de Nissan et à partager vos connaissances avec eux?

18) On the other hand do you think that the Japanese employees at Nissan are willing to work with Renault?
Pensez-vous que de leur côté les employés Japonais de Nissan sont prêts à travailler avec les employés de Renault?

19) Have you already interact with some employees from the Nissan Group ?
Avez-vous déjà eu à interagir avec des employés du groupe Nissan?

20) Do you consider that lots of efforts of co-ordination and interaction are made by both groups?
Estimez-vous que de nombreux efforts de coopération et de coordination sont établis entre les deux groupes?

21) Do you think that the Renault Group can lose its identity by forming an alliance with Nissan?
Estimez-vous, qu'en s'alliant avec Nissan, Renault risque de perdre sa propre identité?

22) If yes, do you fear to lose your identity as a Renault's employee and not to identify yourself anymore to the Group?
Si oui, craignez-vous de perdre votre identité en tant qu'employé du Groupe Renault et de ne plus vous identifier au Groupe?

23) Did an information campaign take place within the Renault Group in order to present or describe the Nissan group and its acquisition ?
Y a-t-il eu au sein du groupe Renault une campagne d'information ayant pour but de présenter et d'expliquer le groupe Nissan et son acquisition?

24) Do you think that you have got enough information from the top management about the alliance and its objectives?
Pensez-vous avoir reçu suffisamment d'information du haut management à propos de l'alliance et de ses objectifs?

25) Do you consider yourself as having a good holistic view of the Nissan Group as a car-maker ?
Pensez-vous posséder beaucoup d'information et une bonne vue générale du groupe Nissan en tant que constructeur automobile?

26) Finally, do you feel like being forced or pressed against your wills by the top management to co-operate with Nissan?
Finalement, vous considérez-vous comme étant pressé ou forcé par le haut management de coopérer avec le groupe Nissan?
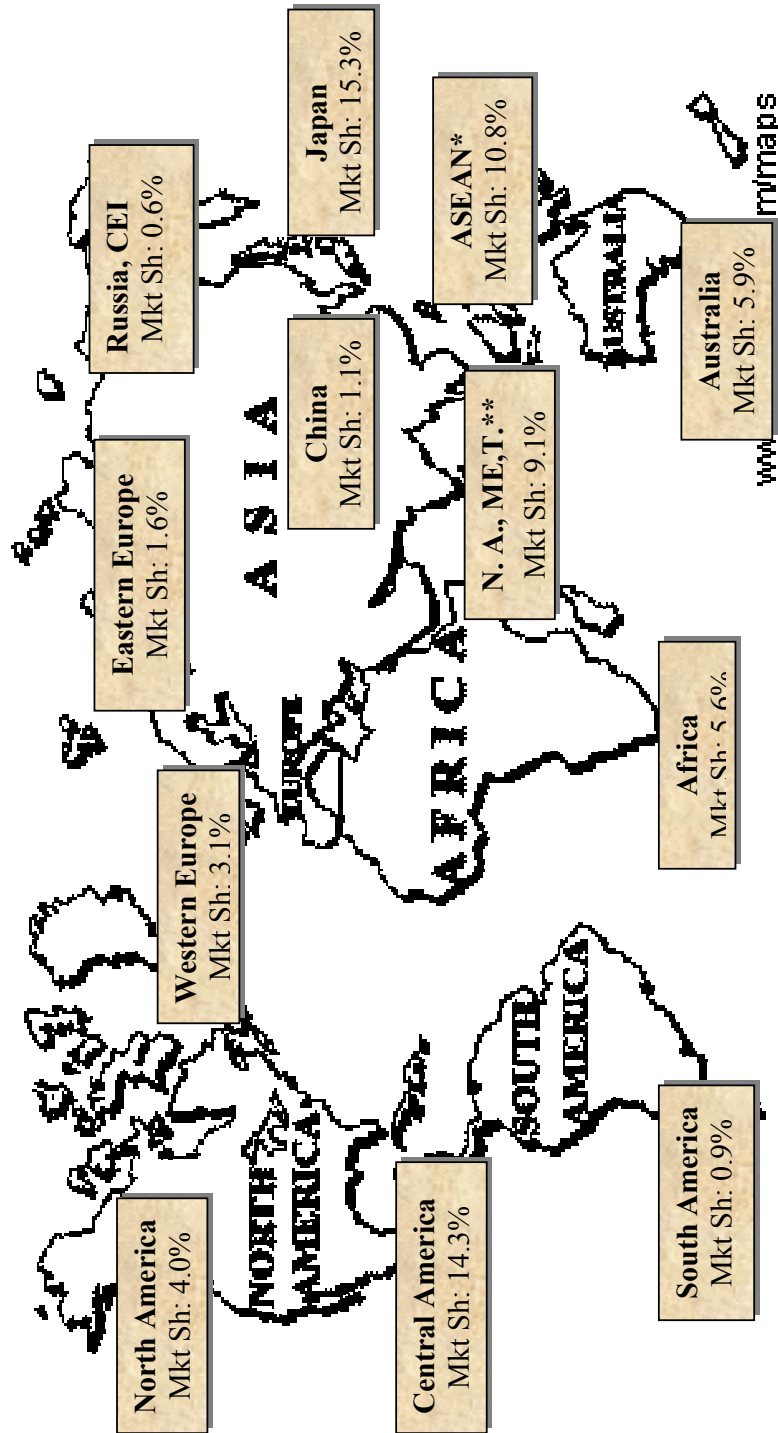
APPENDIX 2: Markets Complementarity

1998 Estimated market shares of Renault by geographical area

Russia, CEI — Mkt Sh: 0.3%
Eastern Europe — Mkt Sh: 5.8%
Western Europe — Mkt Sh: 11%
China — Mkt Sh: 0.1%
ASEAN* — Mkt Sh: 0.1%
Australia — Mkt Sh: 0.3%
N.A., ME, T.** — Mkt Sh: 7.9%
Africa — Mkt Sh: 2%
Central America — Mkt Sh: 1.4%
South America — Mkt Sh: 5.1%

www.theodora.com/maps

* Includes Hong Kong and Taiwan ** Includes North Africa, ME, Turkey

APPENDIX 3: Markets Complementarity

1998 Estimated market shares of Nissan by geographical area

Japan Mkt Sh: 15.3%

ASEAN* Mkt Sh: 10.8%

Russia, CEI Mkt Sh: 0.6%

Australia Mkt Sh: 5.9%

China Mkt Sh: 1.1%

Eastern Europe Mkt Sh: 1.6%

N. A., ME,T.** Mkt Sh: 9.1%

Africa Mkt Sh: 5.6%

Western Europe Mkt Sh: 3.1%

North America Mkt Sh: 4.0%

Central America Mkt Sh: 14.3%

South America Mkt Sh: 0.9%

* Includes Hong Kong and Taiwan ** Includes North Africa, ME, Turkey

APPENDIX 4: Markets Complementarity

1998 Estimated market shares of the Alliance by geographical area

Japan
Mkt Sh:15.3%

ASEAN*
Mkt Sh: 10.9%

Russia, CEI
Mkt Sh:0.9%

Australia
Mkt Sh: 6.2%

China
Mkt Sh:1.2%

Eastern Europe
Mkt Sh: 9.0%

N. A, ME, T.**
Mkt Sh: 17%

Africa
Mkt Sh: 7.6%

Western Europe
Mkt Sh: 14.1%

North America
Mkt Sh: 4.0%

Central America
Mkt Sh: 15.7%

South America
Mkt Sh: 6.0%

A S I A

AFRICA

NORTH AMERICA

SOUTH AMERICA

AUSTRALIA

www.theodora.com/maps

* Includes Hong Kong and Taiwan ** Includes North Africa, ME, Turkey

APPERNDIX 5: Potential Synergies

	Project Ready to Implement	**Medium / Long Term Objectives**
Regional Co-operation	• Common purchasing scheme • Introduction of: -Renault cars to Mexico market -Nissan pick-up to Mercosur • Use of: -Renault's plants for Nissan in South America -Nissan's plants for Renault in ASEAN, Mexico • Mutual support in: -Sales back offices -Logistic operations • Co-operation in R&D functions in Europe	• Common future operations and mutual support in Asia, Eastern Europe, Middle East, Africa, etc…
Products	• Supply of: -Sport Utility Vehicle to Renault -Kangoo to Nissan	• Gain 1.25% market share world-wide

APPENDIX 6: Potential Synergies

Platforms

Project Ready to Implement

- Common platform: Clio / Micra

Medium / Long Term Objectives

- Common Platforms:

	Renault	Nissan	Alliance
Number of platforms	8	26	10
Volumes / Platform ('000)	280	105	500

Components

Project Ready to Implement

- Joint development of small diesel engine
- Supply of:
  - Nissan's continuously variable transmission
  - Nissan 4WD systems
  - Renault's manual transmission

Medium / Long Term Objectives

- Common range of engines and transmission families

	Renault	Nissan	Alliance
Number of engines' families	7	20	8
Volumes / family ('000)	320	140	630

APPENDIX 7: Platform Sharing

Nissan Micra
Volume 320,000 per year

Renault Clio
Volume 710,000 per year

**Clio-Micra
Platform Sharing
Around 1,000,000 scale Merit**
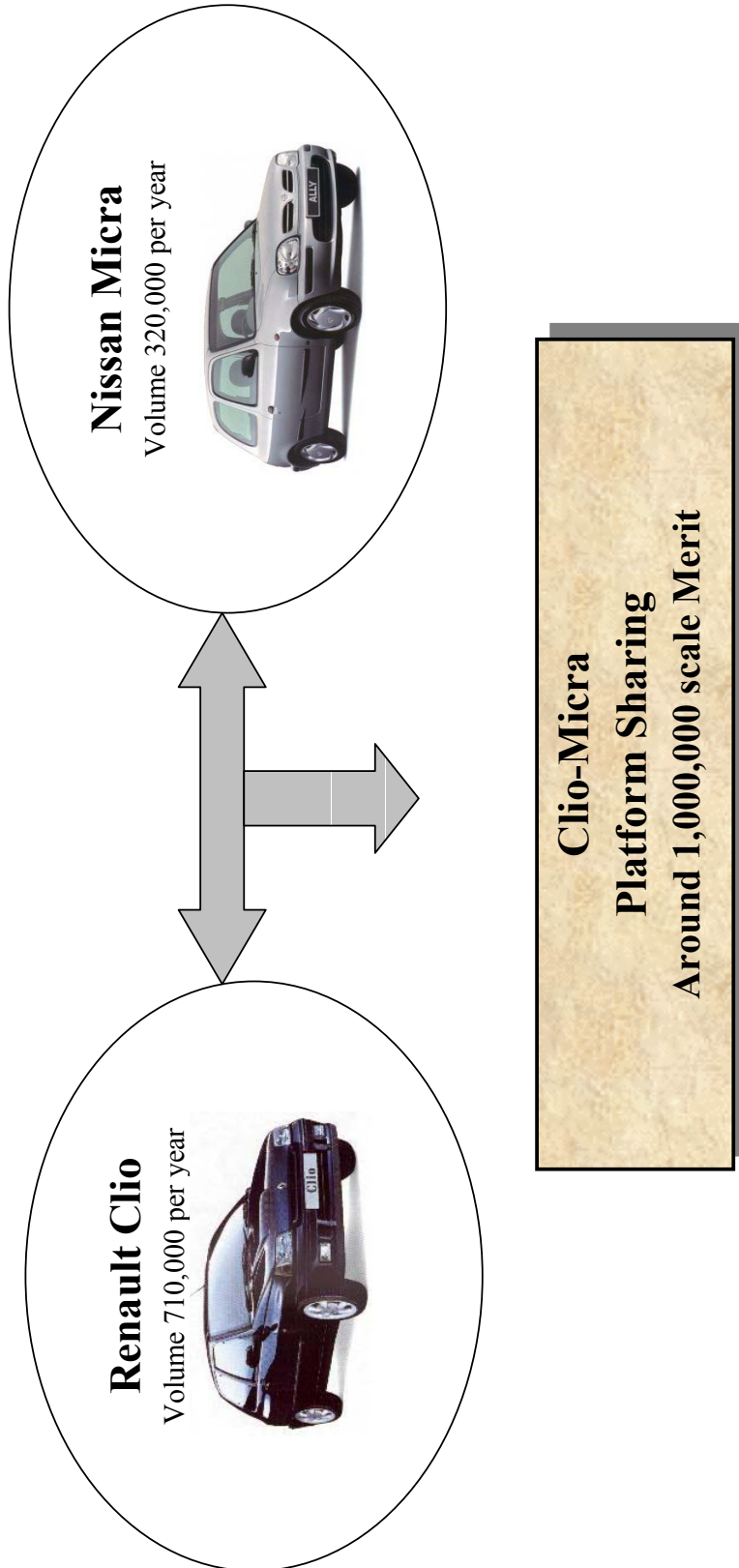
APPENDIX 8: Potential Synergies by Region

ASIA & OCEANIA
- Utilization of Nissan factories
- Cross sales

EUROPE
- Back office & logistics efficiency
- R&D cooperation
- Sales financing

SOUTH AFRICA
- Utilization of Nissan factory

US/MEXICO
- Utilization of Nissan factories
- Utilization of Nissan back office
- Cross sales

MERCOSUR
- Utilization of Renault Factories
- Utilization of Renault Back office

ASIA

AFRICA

NORTH AMERICA

SOUTH AFRICA

AUSTRALIA

www.theodora.com/maps
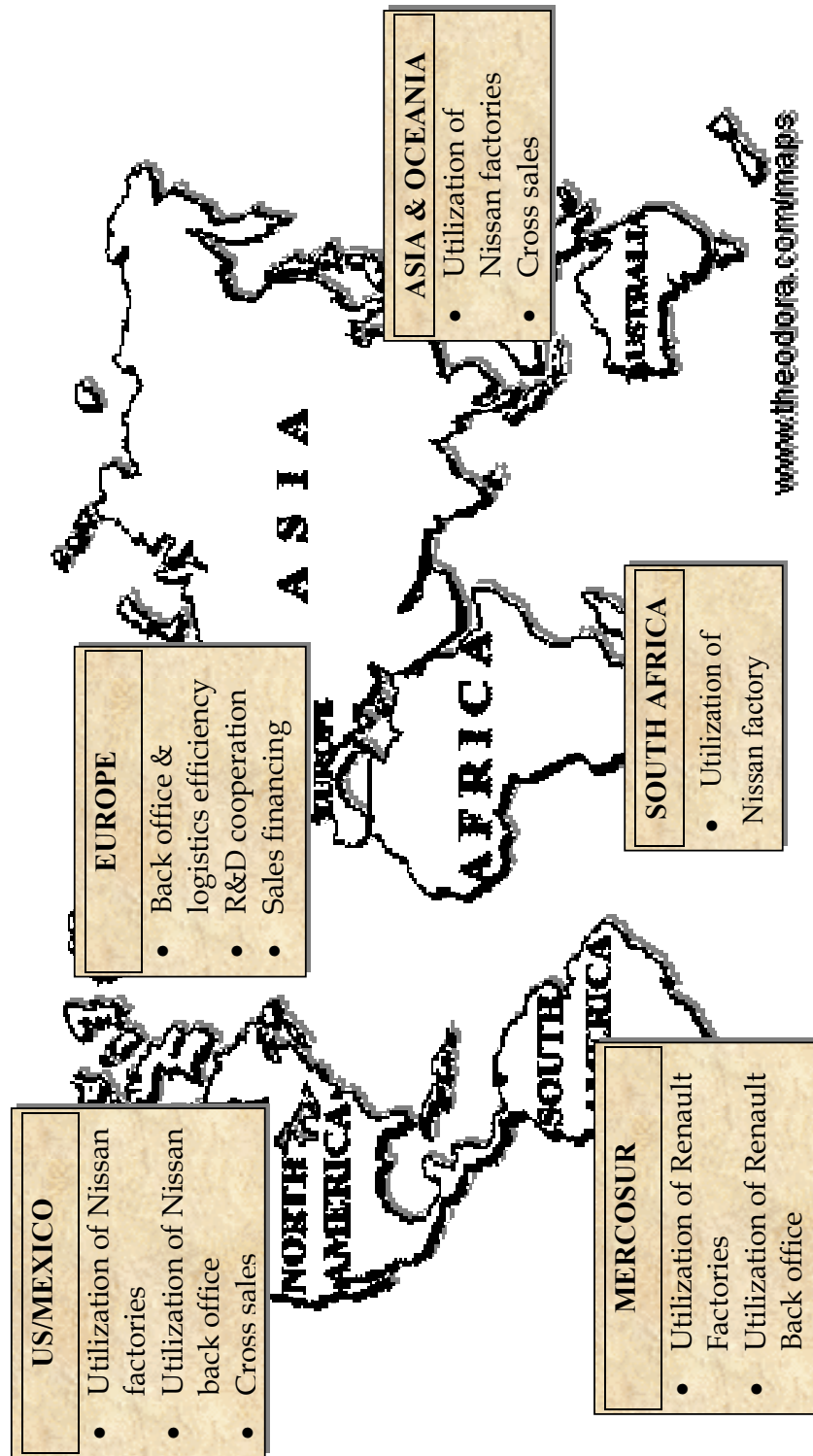
* Includes Hong Kong and Taiwan **Includes North Africa, ME, Turkey

APPENDIX 9: Estimation of the Potential Synergies
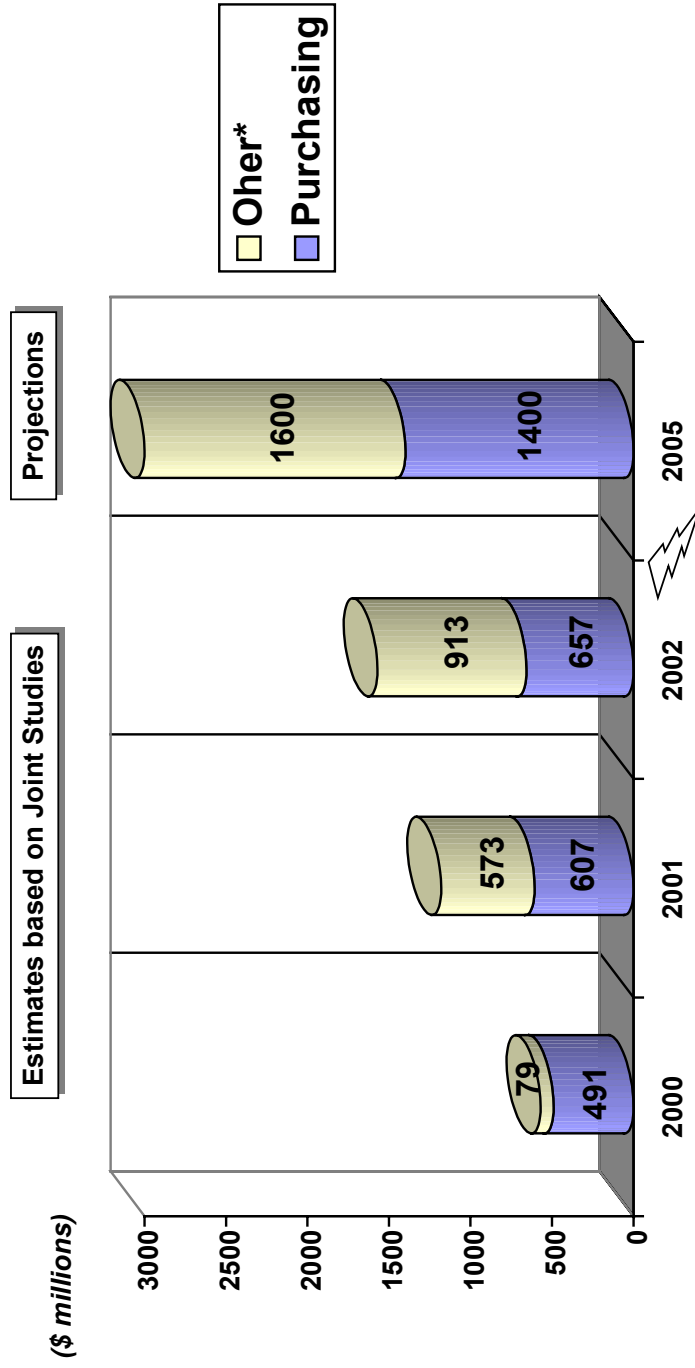
Others include: Profit on additional sales, R&D, production costs, capital expenditures savings

(Source: www.renault.com)