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Partnering with the Unfamiliar: Lessons from the Case of Renault and Nissan

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Companies are increasingly forming alliances with unfamiliar, often even unlikely, partners in the search for greater geographic coverage and complementary skills. How can such odd couples effectively co-operate in practice? They can – if they put the formation of a successful alliance at the centre of their strategies.

In the wake of globalisation, industry convergence and technological upheaval, companies are increasingly concluding partnership agreements outside their traditional spheres of familiarity. The search for expanded geographic coverage, broader service to clients and complementary skills has yielded some extraordinary new alliances: AT&T with NTT DoCoMo in telecommunications; Kaiser Permanente with Fresenius in healthcare; and Renault with Nissan in the automotive sector are just a few prominent examples.

Odd couples abound. These are companies with little or no previous experience of working together. Often everything from management style to historic trajectory suggests they should be kept apart. Yet, they are joining their fortunes and establishing deep strategic interdependence. While the theoretical gains to be had from such combinations are evident, the practice of creating partnerships between the unfamiliar is fraught with difficulty.

In partnerships between the unfamiliar, where there is no prior relationship to draw upon, the process of alliance formation takes on very special significance. How do you approach a stranger with a view to building a long-lasting commitment?

Typically, there are cultural differences to be overcome and diverging world views to be reconciled. The initiator of the process worries about being seen as too aggressive; the recipient of an alliance proposal wonders how to play his or her cards. The process may yield knowledge that leads to a more refined evaluation of the alliance or it may hide knowledge and result in wildly over-optimistic (or over-pessimistic) projections. Most importantly, perhaps, the alliance formation process in which executives from both sides form relationships with each other for the first time sets the tone for the partnership. Negative routines established and bad precedents set in the alliance formation process are very hard to correct quickly later on, once the partnership is under pressure to deliver results.

Unlikely partners

Of the many odd couples being created today, the partnership between car-makers Renault from France and Nissan from Japan was perhaps one of the least likely to form. Although the case for an alliance between Renault and Nissan might have looked attractive on paper – geographic complementarity in market coverage, economies of scale in shared production activities and potential for cross-learning in areas of different competencies – the obstacles to actually achieving these benefits were formidable.

Renault and Nissan had no history of doing business together, came from very different cultures, and had both seen their reputations tarnished in recent years – Renault by a failed alliance with Volvo; Nissan by its declining market share and great financial difficulty.

Against all expectations, however, these two giants found each other and signed a far-reaching strategic tie-up, with equity participation and exchange of executives. Even more surprising, the partnership has borne fruit. Thanks to the recovery plan launched shortly after the alliance agreement was formalised, Nissan has become profitable again for the first time in six years and is developing an innovative new product line-up; over the same period, the two companies have enjoyed mutual benefits from platform sharing, technology transfer and supply chain rationalisation. Renault has increased its initial ownership stake in Nissan and Nissan is about to take a significant equity participation in Renault.

Renault and Nissan had no history of doing business together

How did Renault and Nissan come together and what can be learned from their success? We have studied the nine-month Renault/Nissan alliance formation process in great depth, from first contacts to the signature of the alliance agreement, interviewing all the principal participants in their native languages and consulting archival material from the two companies. Based on unique data from both parties to the agreement, our study suggests how executives can use the alliance formation process to overcome the liability of unfamiliarity and sow the seeds for long-lasting co-operation.

In the case of Renault and Nissan, successful management of the alliance formation process hinged on the ability of the executives of the two firms to put the alliance process at the centre of their respective strategies. First, they took a long-term, encompassing view at critical junctures in the process rather than a short-term, bargaining perspective. And second, they used the process itself to initiate strategic changes within their firms rather than waiting to initiate change until the signing of an agreement.

The alliance formation process: from conceiving to closure

The formation of the alliance between Renault and Nissan divided into four stages, with key events and interim agreements marking clear signposts. We label these stages conceiving, courting, commitment and closure.

Conceiving: April 1998 to September 10, 1998

After failing to link up with Volvo in 1995, Renault remained in search of a partner with which to achieve broader geographic coverage and increased size. In 1998, the urgency of the search was heightened by the DaimlerChrysler merger and Ford's purchase of Volvo Automobiles. As the musical chairs game in the automobile industry speeded up, Asia appeared the most promising hunting ground.

In spite of advice against a direct approach, in June 1998 Renault president Louis Schweitzer wrote to Nissan president Yoshikazu Hanawa proposing broad strategic co-operation. He sent a similar proposal to the president of Mitsubishi Motor Cars.

While Mitsubishi was relatively slow to respond, Nissan's Hanawa answered quickly and positively. "[Bankers told us]… if you write to them, that's the best way to make sure of failure. Well, I wrote to Hanawa in June saying 'I believe we should be thinking strategically. Can we do that together?' and he answered in July," Schweitzer recalls. "I was impressed with Mr Schweitzer's courageous decision to embrace a new business opportunity," says Hanawa.

After a framework for co-operation was defined by an advance team, Schweitzer and Hanawa held the first of 12 one-to-one meetings they were to have over the course of forming the alliance between Renault and Nissan.

"Mr Schweitzer and Mr Hanawa learned to trust each other very quickly. I think that this trust between the chairmen has lasted all the way through, with no stumbling blocks, deviations or betrayals," Renault's head negotiator Guy Douin observes.

Hanawa himself stresses this point: "With many people around, it is difficult to tell each other the truth, that is why I decided to negotiate alone. I think Mr Schweitzer, on the other hand, was more careful about opening up to me because of the previous experience with Volvo. I believe the process leading up to an alliance is all about telling the truth; dishonesty only makes the process longer".

During July and August negotiators from the two firms got to know each other and identified some 20 areas of potential synergy. On September 10, 1998, Schweitzer and Hanawa signed a memorandum concerning the evaluation of technical and financial synergies. The memorandum gave Renault negotiating exclusivity for Nissan Motor and established 21 joint study teams to examine the feasibility of the alliance.

Both Renault and Nissan took a very open-minded approach to partnership in the conceiving stage. Rather than beginning with the most familiar candidate in the pool of potential partners (for Renault, Mitsubishi, because of a history of co-operation with Volvo; for Nissan, Ford, because of shared van development experience), both companies were prepared to start from scratch and think outside existing frames of reference. With its superior technology and size, Nissan was a huge challenge for Renault. Renault, on the other hand, could bring a true outsider's view to Nissan's organisation and operations.

Courting: September 10 1998 to October 1998

"In a car company, when there's a problem, the problem normally rises from the engineering department. So engineers were selected from both sides to work on research topics for three months. Similar projects were performed for other departments as well," says Hanawa.

During the courting stage, nearly 100 engineers and business specialists from each side worked together very closely, without any assurance of an outcome. These joint study teams quickly became deeply involved in sharing critical information about both firms. The coverage of their work was comprehensive – from

Renault

Renault headquarters: growing through partnership platform integration to joint geographic presence – and provided hard evidence for alliance synergies.

"It was extraordinary in terms of synergies. We really believed in it, or at least those taking part in the negotiations did. Quite frankly, we were so complementary in terms of geography, products, personality...so we had great confidence," says Alain Dassas, a member of Renault's lead negotiating team. The spirit of discovery was shared among the top negotiators on both sides. Toshiyuki Shiga of Nissan notes: "The kind of information that we were sharing with each other prior to the alliance agreement was a very rare case...since both sides had strong individual needs to make themselves stronger, the joint study took place sincerely. It was not just a handshake between the top managers".

In order to maintain confidentiality and control in the process, the teams did not communicate with each other or to the outside but reported directly to the head negotiators on both sides, who in turn kept Schweitzer and Hanawa regularly informed.

Progressing from the conceiving to the courting stage of the alliance formation process, the two companies threw out stereotypes about France and Japan and put big-company arrogance aside to concentrate on hard business facts. The heavy resource allocation to pre-agreement evaluation allowed the business managers to begin to overcome unfamiliarity and to find common ground, not in theoretical synergies but in concrete terms such as access to the Latin American market and sharing transmission technology. This patient investment in process, when the ultimate outcome of the alliance was still in doubt, yielded discoveries about the prospective partner but also provided a mirror for self-reflection. Both companies learned more about their own strengths and weaknesses.

Both companies learned more about their own strengths and weaknesses

Commitment: October 1998 to December 23 1998

In October Schweitzer prepared a two-page mock press release with the title "Nissan and Renault join forces" outlining the full scope of the agreement he envisioned. He discussed it with Hanawa at a face-to-face meeting. "We had to move closer strategically, but it could not be a simple acquisition or a merger, because a Franco-Japanese merger is no easy matter.... I suggested to him [Hanawa] that three people from Renault should become members of the Nissan board of directors: the COO, the vice-president product planning and the deputy chief financial officer. I only asked for those three. I didn't ask for any other jobs except those three, and he [Hanawa] didn't try to argue about any of them," says Schweitzer.

"I did not agree with it [the mock press release] from the start, of course. But I was not surprised. Through our discussions, I felt that Mr Schweitzer always had a more comprehensive view of the partnership than I did," Hanawa notes.

Their discussion culminated in Hanawa's invitation for Schweitzer to speak at Nissan's Tokyo headquarters.

On November 10, Schweitzer, Douin, and Carlos Ghosn (who went on to become first COO, and then, in 2000, CEO of Nissan) made what Renault called the "big picture" presentation to the Nissan board. Drawing on the findings of the joint study teams and Renault's own experience in turnaround management, Schweitzer described in detail the full benefit of a large-scale collaboration for Nissan. No immediate response was forthcoming from Nissan but work in the joint study teams continued until mid-December.

In the commitment stage, both sides take make or break risks – in the words of Schweitzer, "*ça passe, ou ça casse*". "We knew we were playing with fire. We had the growing impression of being on slippery ground, not to say enemy territory...We weren't at all sure we could pull it off," says Douin.

When Schweitzer had fully articulated Renault's position, Hanawa invited him to show the Nissan board what Renault could do. Why did both executives act so boldly? With the personal relationship between Schweitzer and Hanawa established and with the work of the teams showing the hard benefits of an alliance, the time appeared ripe to both executives to go beyond talk and put stakes in the ground – for Schweitzer vis-a-vis Nissan management and for Hanawa vis-a-vis his own board.

"At the presentation, the participants were informed for the first time of the overall direction which the joint studies might be leading towards," recalls Hanawa. "But, to be frank, I myself was amazed

Renault

Consummation: Hanawa, left, and Schweitzer conceived, courted, commited and closed

at…the level of research as well as the level of involvement with which Renault had progressed with the alliance plans. Because at Nissan, the negotiation was strictly kept between Mr Schweitzer and I. This was the difference between Renault and Nissan. Renault knew exactly what they wanted from the beginning. I think our board only understood it as one possibility."

Bold, public action took the alliance process to another level of intimacy, making the co-operation much harder to reverse.

Closure: December 1998 to March 11 1999

On December 23 1998, Hanawa asked Renault to make an offer for *both* Nissan Motor (cars) and Nissan Diesel (trucks), formally terminated the negotiating exclusivity clause and set a deadline of March 30 1999 for concluding a deal. Nissan was effectively put in play and DaimlerChrysler was mooted as Renault's main rival.

Throughout the due diligence process that followed, the lead negotiators continued to meet regularly. On March 10 1999, DaimlerChrysler announced that it was no longer in the running for Nissan. Meeting their counterparts in Tokyo on the day after DaimlerChrysler's announcement, Renault negotiators upheld the terms of their original offer.

Says Schweitzer: "The decision we made during the final negotiations was not to change our position. It was an important choice on our part to say: 'It's not because Daimler is no longer around that we are changing our proposal'. I decided not to [change the proposal] because I felt it would destroy the relationship of trust which was indispensable for us to work together...It seemed more important to show that we were loyal, stable and reliable partners".

The next day, Renault and Nissan went public with a signed alliance agreement that very closely matched Schweitzer's October mock press release. "The fact that we had agreed on the terms of equal position was important for me, as dominance destroys motivation," notes Hanawa.

Despite the changed circumstances, negotiators at both Renault and Nissan persevered. Renault continued its fact finding and did not waver from the mode or the spirit of interaction established earlier in the process. "Above all we tried – even if we didn't manage it 100 per cent – to avoid putting ourselves forward as the company making an acquisition, the side that comes out on top. We always wanted to have due regard for form, to have due consideration for the Japanese...We kept in mind the lessons that could be learned from our previous experience [with Volvo]," says De Andria of Renault's negotiating team.

Nissan continued to meet with Renault regularly and responded quickly to requests and proposals. "For Nissan, the negotiations and the execution of the alliance contract were a process and not an objective," observes Sugino of Nissan's negotiating team. "The objective was not to finalise the contract wording but to examine how to share best practices."

The question of commitment was not raised again. In effect, the long period of building familiarity between the two companies could not be matched by any new suitor. "Determining an alliance partner actually involves a lot of work, joint study teams, bottom-up reporting, et cetera…In view of all the work that was put into the study process with Renault, I imagine that evaluating another alliance deal at the same time would really be a major undertaking," says Nissan's Shiga.

Schweitzer held on to the original proposal in the strong belief that consistency was crucial for the long-term health of the alliance. He did not want doubt to enter into the relationship and sour the future.

Going against received wisdom

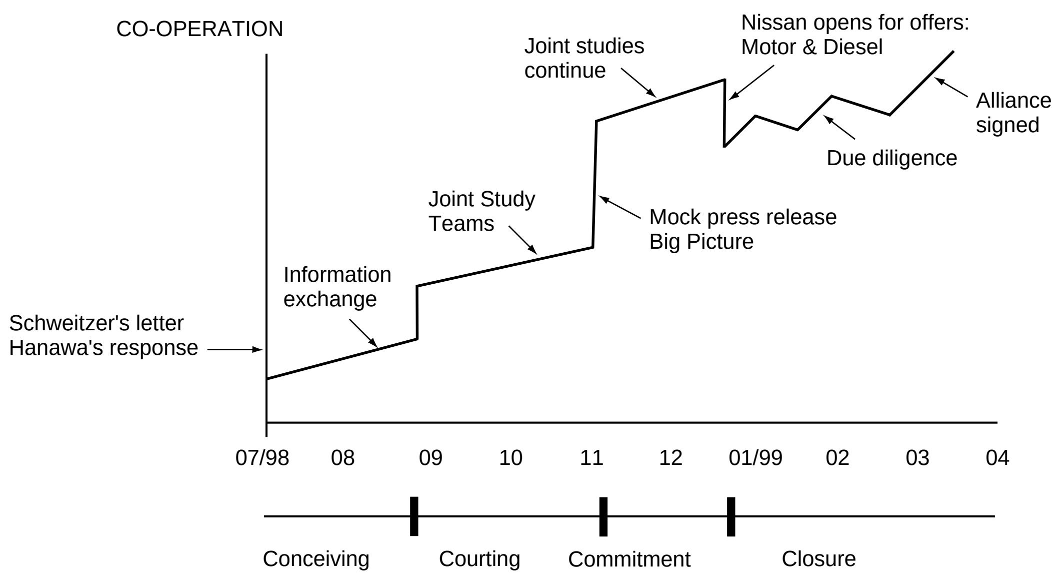
Both Schweitzer and Hanawa put the alliance process at the centre of their respective strategies. This allowed them to take a long-term perspective and go against received wisdom in managing the four stages of the alliance process.

Conceiving as believing in a shared future

In the conceiving stage, instead of narrowly pursuing a deeper relationship with already familiar partners (for Renault, Mitsubishi; for Nissan, Ford), both Renault and Nissan actively encouraged novel relationships. The universe of potential partners was their opportunity space and they quickly got down to business with an unfamiliar partner. It would appear that both Schweitzer and Hanawa were less interested in the initial conditions that guide most partner searches than in the shape of a shared future. Mitsubishi might have looked better to Renault (and Ford to Nissan) from the point of view of prior experience but the executives of Renault and Nissan soon saw that the Renault/Nissan combination offered unique possibilities.

Schweitzer already had a plan for bringing the two companies together; Hanawa, despite not having actively searched for a global strategic partner,

Figure 1
The Renault/Nissan alliance formation process: a timeline



enthusiastically took up the alliance process with Renault. Believing in the possibilities of a shared future, the two executives saw beyond unfavourable initial conditions and allowed the process to proceed at a faster speed than their low level of familiarity would normally warrant. Rather than taking a wait and see approach, they plunged right into the work of shaping a common future.

Too often, in the conception stage of alliance formation, executives focus almost exclusively on initial conditions – the current state of "the other side". However, initial conditions are indicators of the independent past, not fail-safe predictors of a shared future. The Renault/Nissan case shows that it can be advantageous to approach the alliance formation process with a view to the future. Belief in a shared future allows even unfamiliar companies to move more quickly into a stage of courting, where courting aims at defining common advantage rather than exposing individual weaknesses.

It should be stressed that taking a "believing is seeing" approach – rather than the more conventional "seeing is believing" – requires that both partners develop clear frames of reference for continuously testing their beliefs against reality. Both Renault and Nissan, both Schweitzer and Hanawa, had clear ideas of what they needed out of a strategic alliance and used the alliance formation process to rigorously test the other side's abilities to deliver on the promise of a shared future.

Courting as intensive fact finding

In the courting stage, where prudence advises a top-level approach and careful guarding of company secrets, Renault and Nissan got down to facts and, through the joint study teams, deeply involved middle managers in the alliance formation process. Although they opened up the process to information sharing and learning across company boundaries, Schweitzer and Hanawa kept a very tight rein on their companies' negotiators and the joint study teams. The two executives took an approach that can best be described as both open and closely controlled.

It is worth noting that Daimler-Benz and Chrysler followed a much more traditional path in coming to their 1998 merger agreement: only a few top executives were involved in the process and no joint study teams were formed until many months after signing.

The traditional path to partnership agreement can at best confirm the two sides' starting views of initial conditions. There is just not enough information sharing to go beyond a static evaluation. In the case of Renault and Nissan, by contrast, the courting stage allowed for discovery. In this kind of a process, more facts come out, more people are involved and more tacit knowledge is shared. The courting process becomes a living experiment of working together before signature and establishes the practical bases for future co-operation.

In theory, any strategic partnership between unfamiliar organisations can benefit from such an open exchange of facts and experiences prior to signature. The questions are how to ensure quality of information sharing and how to protect the process from leakage and unwanted publicity. For Renault and Nissan, clearly defining the tasks of the joint study team tasks was critical to information sharing. High priority, regular involvement of top executives and the establishment of specific internal reporting lines reinforced the process and prevented it from getting out of control.

The courting process becomes a living experiment of working together

Commitment as risk taking

In the commitment stage, both sides opened up and took big risks: Schweitzer's mock press release; Hanawa's invitation to talk to the Nissan board in Tokyo; and the "big picture" presentation. Rather than inching towards a commitment bargain by bargain, executives at Renault and Nissan explicitly acknowledged the need for dramatic action to cement the tie between the two companies.

Commitment is generally built incrementally, step by verifying step. It is a time-consuming process, one that takes place for the most part at the individual level of analysis. That being said, there are junctures in the life of a partnership relationship where it appears necessary to take more radical action, articulating the extent of progress made and making a public statement. The transition sought by Schweitzer and Hanawa was two-fold: from individual to organisational commitment; and from knowledge-based trust to identification-based trust. The symbolic and very public nature of the events at this stage were clearly designed to bring the broader organisations into the process.

The content of the mock press release and the "big picture" presentation aimed at demonstrating that Renault and Nissan had truly common interests in the alliance – not only did the two companies know each other, they could identify with each other.

The majority of strategic alliances need at some point to establish organisational commitment and identification-based trust. Of course, previously unfamiliar organisations cannot just jump from zero to this level of partnership. Only when the initial belief in a shared future has received sufficient corroboration in facts and the level of interaction between the partners is roughly symmetrical, does it make sense to initiate dramatic commitment steps. In a sense, the commitment stage is the time to put the relationship to the test and, through the test of public articulation, to establish a different, common base for going forward.

Closure as investment, not negotiation

In closure, finally, when negotiating practice would suggest squeezing for better terms, Renault stayed the course and gave up the unique opportunity provided by DaimlerChrysler's dropping out to take advantage of Nissan. Rather than opening up negotiations again, Renault closed them down. Nissan was to be a fully motivated, equal partner, not a humiliated outpost of a new automotive industry empire.

Schweitzer and his team never lost sight of their fundamental objective, that is, to form a lasting, significant strategic alliance with Nissan. The failure to squeeze Nissan on terms is not a case of undue generosity or insufficient aggressiveness in the final hour. Rather, Renault's actions during closure demonstrated consistency of purpose. Any negotiation will have its twists and turns but negotiation tactics should not take precedence over the gains to be achieved through long-term co-operation.

Alliance formation as an opportunity to launch change

The guiding principle in managing critical junctures in the four stages would appear to be the quest for long-term gain on both sides. Their ultimate strategic purpose(s) guides the executives through the ups and downs of the process.

The long-term perspective is also apparent in the way both companies used the alliance formation process to change themselves – the process of working with the unfamiliar adds value, independent of the ultimate outcome. Thus, Schweitzer used the alliance formation process to build the organisation's confidence and enhance the company's standing in the automotive world. The ambition to take on one of the biggest names in the business and the mastery of challenges in the process (ie, joint study teams, "big picture" presentation) made the company a more serious player in the automotive industry partnership stakes. The process was not only concerned with learning more about Nissan, it also served to build up Renault.

Renault

Wise men: Carlos Ghosn, right, found the ground prepared at Nissan

Hanawa, too, used the alliance formation process to effect change inside his company. The work with Renault served as a mirror for demonstrating the full extent of Nissan's problems, helped promote new, younger managers (the lead negotiators) and isolated a board that had blocked major change in the past (the "big picture" presentation put the board in front of a *fait accompli*). Independent of the final outcome of negotiations, the alliance process with Renault brought fundamental changes to Nissan.

The process behind the miracle

From the *Wall Street Journal* to the *Harvard Business Review*, newspapers and business magazines around the world have reported extensively in recent months on the successful turn-around of Nissan. Ghosn and his team have been described as miracle workers for the speed and scope of the changes they have achieved at Nissan. Based on our analysis of the alliance formation process, we can shed further light on this success. In effect, the alliance formation efforts presaged and jump-started Nissan's turnaround:

Deep knowledge was built up in the joint study teams. Thanks to the very detailed engineering and marketing work done over the last three months of 1998, the true nature of the issues at Nissan was out in the open. Strengths, weaknesses and complementarities had been precisely evaluated. Moreover, the process of working in joint study teams had helped establish a common language and protocol – it is no accident that the joint team structure was replicated after the signing of the alliance. In the process of becoming familiar, the two companies developed a way of learning from each other.

Resistance at Nissan was broken down during the alliance formation process. Hanawa adroitly bypassed the existing power structure by keeping the negotiations to himself and his personal lieutenants. When sufficient knowledge and confidence in the alliance was built, he effectively used Renault to present the truth about Nissan to his own executive board. Working with Renault in this fashion publicly exposed bureaucratic inefficiency and uncompetitive management. Continued resistance to change would have implied severe loss of face, and the majority of the executive board therefore stepped down after the alliance agreement was signed.

Entrepreneurial spirit was infused into Nissan in the course of building the alliance agreement. At a company where lack of critical review and mechanical agreement had been the norms of interaction for many years, the key managers involved in the alliance formation process saw themselves in the unflattering mirror of reality and got used to challenging the status quo. Moreover, through the work with Renault, these technology-focused managers began to develop a strategic view of the business. Most significantly, perhaps, younger people were put in charge of running the alliance formation process and gained the experience necessary to begin to drive change from the inside.

In short, when Ghosn came on the scene in the late spring of 1999, he knew what to do and found a group of managers inside Nissan that was ready to follow his dramatic remake of the company.

The process of partnering with the unfamiliar represents a unique opportunity to do things differently – to break with received wisdom about inter-organisational negotiation processes and to change the position and outlook of the organisation. Partnering with the unfamiliar is both challenge and opportunity. The case of Renault and Nissan – the ultimate odd couple – demonstrates how challenge can be turned into opportunity, if the alliance is put at the centre of strategy.

Resources

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