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Negotiating the Renault-Nissan Alliance:
Insights from Renault's Experience

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ABSTRACT

This chapter describes the negotiations to form the Renault-Nissan alliance. Many observers doubted that the companies would reach agreement in 1999, let alone develop a partnership lauded throughout the auto industry in 2010. Taking Renault's perspective, this chapter identifies the parties' interests, strategic alternatives, and preparations for negotiation. Then the main players and negotiation process, outcome and aftermath are fleshed out. The lessons from this case study include the value of probing beyond parties' surface differences, expanding typical avenues for preparation, conceiving unusual forms of relationships, managing the influence of a counterpart's no-deal alternatives, and incorporating long-term effects into the evaluation of an agreement.

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In early 2010, the Renault-Nissan Alliance was the 4th largest automotive group in the world. With 350,000 employees and operations in 190 countries, the Alliance had sold 6.1 million vehicles—more than 9% of the world total—and taken in revenue of €86.5 billion (US$120 billion) in 2009.[1] The Alliance had performed so well over the past decade that it was widely touted as a model for successful partnership ("All together now," 2010).

When news first broke about the alliance, auto executives dismissed it as "the most improbable marriage in the world" (Thornton et al., 1999). Observers skeptically emphasized the contrast in national cultures, complexity of the undertaking, and opposition from various stakeholders. In the latter stages of negotiations to form the alliance, even Renault CEO Louis Schweitzer bleakly assessed the odds of reaching an agreement at 50/50 (Lauer, 1999a).

How was an agreement reached? What lessons can negotiators and managers draw from Schweitzer and Renault's experiences not only during, but before and after these negotiations?

The story begins with the environmental imperatives that brought the parties to the negotiation table.

Conditions in the Auto Industry

In 1998, world auto sales had been flat for 3 years. With reduced demand, huge overcapacity in production, and strong competition from Japanese companies, the auto industry was consolidating in established markets, namely, the U.S., Europe, and Japan. Analysts distinguished automakers as "big players," "likely [acquisition] targets," and "distressed or inefficient" firms (e.g., respectively, GM and Toyota, Volvo and Honda, Fiat and Nissan) (Vlasic et al., 1998). Generally placed in the third group, Renault was considered "ripe for takeover."

Renault S.A. (hereafter "Renault") produced a full range of cars, commercial vehicles and parts. The 2nd largest automaker in France, and 10th largest in the world, Renault employed over 138,000 employees and generated €31.7 billion ($35 billion) in revenue in 1997. The 100-year old company had grown significantly after World War II but fell into a deep financial crisis in the early 1980s. After 6 years of “shock treatment” involving plant closings, layoffs and divestitures, and a repeat round of cost-reductions in 1997, the transformed company had in many ways turned the corner. At the same time, the French government, which reduced its majority equity share in 1996, still owned 44.2% of Renault, and the company remained heavily dependent on its home and nearby European markets.

Nissan Motor (“Nissan”) was Japan’s 2nd largest automaker. The internationally-oriented firm had production sites in 22 countries and sales in over 180. Nissan spearheaded the Nissan Group which comprised hundreds of subsidiaries and employed 130,000 people. With this workforce, the Group achieved substantially more than Renault in consolidated net sales: ¥6,659 billion ($56 billion) in FY1998. A proud, 90-year-old organization, Nissan had a longstanding reputation for engineering excellence. But in 1998, the company was floundering competitively, burdened by debt, and losing money for the fifth time in 6 years.

Schweitzer’s Strategic View

“... [Renault] saw an opportunity that comes up once every 50 years.”[2]

Renault’s *président directeur générale* (effectively, the Chairman and CEO) was Louis Schweitzer. He had joined the company as Chief Financial Officer in 1986, after serving in the French ministries of finance and industry, and played a central role in Renault’s historic restructuring. Appointed CEO in 1992, he was 4 years into his term when he ordered the 1997 round of cost reductions. While the move was controversial, Schweitzer was later credited with restoring the company’s reputation.

In 1998, Renault was in better shape than it had been for decades but its position in the world auto industry was still precarious. Then in May, two major automakers, Daimler and Chrysler, announced a “mega-merger.” That event shook Renault’s top management into deeply questioning their company’s future (Ghosn & Riès, 2003:173).

Interests

Schweitzer and his team identified several key interests for the company:

- improved global competitiveness in quality, cost and delivery
- accelerated internationalization of the company
- critical mass within the global auto industry
- a worldwide reputation for product innovation
- protecting domestic market share
- continued momentum as a revived enterprise

While Schweitzer's predecessors had targeted volume and profit, he wanted to shift the corporate focus to quality. He was also determined to shrink Renault's 36-month R&D cycle to the 24-month cycle common in Japan. Renault had no presence in the U.S. market, which represented 23% of the world total, and had either no reputation or a poor one in Asia and other non-European markets. Schweitzer felt the company could capitalize on its innovativeness in product design. Some interests were interconnected. For example, achieving critical mass would work both to improve competitiveness and fend off attacks from hostile acquirers.

The Renault CEO had presided over the unconsummated—some say "failed"—merger negotiations with Volvo in 1989-93. As a matter of personal interest, he certainly had no desire to repeat that experience (Lauer, 1999a).

Options

Renault had two main strategic options: "go it alone" or join another major automaker. Renault held sufficient cash reserves to fund its own entry into the U.S. and could continue to enter limited-scope agreements with small automakers to plug operational deficiencies. However, these measures would neither accelerate internationalization nor create sufficient scale in a short time horizon.

With respect to a major partnership, Renault did not have much to offer any of the world's Top Five (GM, Ford, Toyota, VW and DaimlerChrysler). Schweitzer and his team drew up a list of potential Korean and Japanese partners but soon decided that the Korean companies had little to offer Renault. The team concentrated on Japanese firms.

Considering Nissan

Nissan had been the top Japanese automaker in the U.S. and top Asian automaker in Europe for decades, yet it had lost both positions by 1998. It held only 5% of the U.S. market. Customers and analysts perceived Nissan vehicles as dull and expensive. Beyond the red ink on its bottom line, Nissan suffered from a debt burden represented by a 5 to 1 debt-equity ratio. The company had to cover approximately ¥4,600 billion ($33 billion) in current liabilities by March 1999. On top of these problems, its business environment at home presented various constraints and challenges for operations, including a virtually sacrosanct commitment to lifetime employment.

From various sources of information, Renault executives could glean several Nissan interests:

- debt relief
- protecting the Nissan identity and brand
- returning to profitability
- reestablishing a strong position in the critical U.S. market
- improving its competitiveness in Asia and Europe
- ensuring the company’s long-term health
- preserving jobs
- developing an effective solution for debt-ridden Nissan Diesel

Nissan Diesel was a truck and bus manufacturer in which Nissan Motor held a 39.8% share.

The president of Nissan Motor, Yoshikazu Hanawa, had been appointed to his position (effectively CEO) in June 1996. Having spent 40 years at Nissan, he was a dedicated “company man” but also a strong-willed leader. He had a personal interest in seeing his company recover and pull out of its current condition.

Pre-Negotiation Moves

Making Contact

In June 1998, a month after the DaimlerChrysler announcement, Schweitzer wrote Hanawa a letter broadly proposing that they explore ways to enhance their companies’ competitiveness. Schweitzer sent a similar letter to Mitsubishi Motors. However, Hanawa replied promptly.

Additional Preparation

Renault executives initially prepared to talk to Nissan about a limited collaboration such as a manufacturing tie-up in Mexico. Schweitzer's inner circle for the tightly guarded "Pacific Project" included Executive Vice-Presidents (EVP) Georges Douin and Carlos Ghosn. Douin, who oversaw product and strategic planning and international operations, conducted the early studies of potential Asian partners. Ghosn was a cost-cutting expert who masterminded Renault's post-1996 restructuring. It did not take long for the group to look beyond a one-country relationship with Nissan.

Renault and Nissan had many common and complementary interests. They were "minnows living among sharks" trying to survive in the short term and thrive in the long term. Both CEOs were intent upon improving their companies' competitiveness, rebuilding the organizations, and enhancing the companies' reputations.

At an operational level, EVP Douin (2002:3) concluded that the two companies had an "almost miraculous complementary relationship." Renault's emphasis on product innovation fit Nissan's need to depart from dull, undistinguished cars. Each company sought to strengthen its standing in the other's strongest market: Nissan wanted to recoup its position in Europe (and the U.S.) while Renault wanted to expand into Asia. The list went on.

There were no previous conflicts between the two companies or CEOs to impede a relationship. Conversely, there was no strong foundation on which to build. Moreover, while there were many examples of U.S.-Japanese collaborations between automakers, there were no salient Franco-Japanese ventures. In Japan, according to Douin (2002:3), the French had a "poor image … [as] not an industrial [power] … arrogant, not very serious, and volatile." As a result, the Renault team felt they would have to prove themselves.

Nissan's Options

To pursue Nissan's interests, Hanawa had few appealing courses of action in June 1998. Additional borrowing from commercial banks would have been costly due to Nissan's low credit rating, issuing additional equity or selling shares to raise capital would be ill-timed since shares had depreciated by 50% in the past year, and spinning off Nissan Diesel and other subsidiaries would not raise sufficient cash. Besides, these options would only satisfy creditors and not address fundamental strategic imperatives.

With respect to potential partners, the large Japanese automakers—arch-rival Toyota and Honda—probably viewed Nissan as undesirable, and smaller Japanese companies could not afford or digest a large firm. Meanwhile, the American majors GM and Ford were already allied with Toyota and Mazda, respectively. Ford had collaborated with Nissan in a limited way on a mini-van project but was, by this point, actually managing Mazda.

These conditions left Hanawa with the option of an internally led restructuring based on the Nissan Corporate Planning Department's 1-month old "Global Business Reform Plan" and short-term assistance from fellow members of Nissan's industrial group, the Fuyo *keiretsu*. Given the scale and scope of Nissan's needs, this was a rather weak option. (Later on, Hanawa's alternatives would improve at crucial points.)

Moving Forward

From the outset, Schweitzer eschewed the idea of pursuing a typical acquisition or merger with Nissan (Korine et al., 2002:22). He believed key stakeholders and the Japanese public would oppose a foreign takeover. Instead, he envisioned an alliance—a "subtle balance"—between the two companies (Douin, 2002:3).

Issues

The meta-issue for the companies to negotiate was the basic nature of a relationship. Specific agenda items included the scope of their collaboration, their respective contributions, and an organizational structure.

Whatever the basic relationship, management control and equity valuations were bound to be sensitive issues. Given Nissan's history and prominence in Japan's industrial sector, Hanawa and his team would be protective of the company and determined to ensure that Nissan Motor had a future. At the same time, while Renault had $2 billion in cash to spend, the company's financial history and government supervision necessitated that Schweitzer proceed prudently.

The Negotiations

"It's a question of seducing rather than imposing."[3]

Hanawa's reply to Schweitzer's letter set in motion a series of communications and negotiations that lasted from June 1998 to March 1999. This 9-month period may be divided into five phases:

1 – Exploring Interest in Collaboration	(June-July, 1998)
2 – Identification of Possible Synergies	(August-September, 1998)
3 – Evaluation of Possible Synergies	(October-December, 1998)
4 – Striking the Deal	(January-March 13, 1999)
5 – Finalizing Details	(March 14-27, 1999)

The following sections describe the various actors and each phase of the negotiation process.

Participants and Stakeholders

As is typical of high-stakes corporate negotiations, the number of direct participants in the Renault-Nissan talks started small—less than 10 on each side—and grew as the discussions intensified. The two CEOs formally initiated the talks and remained engaged throughout the process. EVP Douin, who spearheaded the advance work for the CEOs' first meeting, served as chief negotiator of Renault's four-person team. Nissan's three-person negotiation team included General Manager of Corporate Planning Yutaka Suzuki.

Both executive teams were advised by investment bankers: Merrill Lynch for Renault, Salomon Smith Barney for Nissan. Internal specialists supported the negotiation teams. Three months into the negotiations, the teams drew 120 resource personnel from their companies and organized joint teams to study specific areas of company operations in detail.

The number of actors and arenas in such an undertaking is difficult to grasp and track without what some negotiation analysts have called a "party map" (Watkins, 2002:11). Figure 1 depicts direct participants, staff, stakeholders, and other relevant parties evident in January 1999, a little over halfway through the negotiations. While not every germane actor appears in the figure (e.g., European Union Competition Bureau), it illustrates the complexity of the negotiation and provides a guide for the play-by-play account in the next section.

Insert Figure 1 about here

To consider these actors, albeit briefly, let us start on the left side of the figure. Renault's Board of Directors had to authorize any major strategic initiative and formal agreement. French and European Union labor laws required companies to inform and consult employees on important decisions, which entailed communication with the Work Council. Roughly 60% of Renault's workforce was represented by six activist unions, the largest being the Confédération Générale du Travail (CGT). Only 15 months before his letter to Hanawa, Schweitzer had faced a multi-country strike prompted by the closing of Renault's plant in Vilvoorde, Belgium.

The French government, led by a Socialist prime minister, was involved via multiple regulatory roles and as part-owner of Renault. The Treasury Department oversaw this stake. Though not a majority stake in financial terms, it was a "golden share" that gave the government veto power over board decisions.

On the right side of Figure 1, Nissan's largest shareholders and creditors in the Fuyo *keiretsu* were Fuji Bank, Industrial Bank of Japan, and Dai-Ichi Mutual Insurance. Nissan Roren, the largest labor union at Nissan, had clashed with management intensely throughout the company's history. Lastly, three ministries in the Japanese government could influence Nissan, as they did most Japanese business: the Ministry of International Trade and Industry (MITI), Ministry of Finance, and Fair Trade

Commission (FTC).

At the bottom of the figure, additional players include automakers that could affect the Renault-Nissan negotiations. In July 1998, after nearly a year of talks through Daimler-Benz, DaimlerChrysler concluded an agreement with Nissan Diesel to co-produce a light truck. Hanawa subsequently talked to DaimlerChrysler co-CEO Jurgen Schrempp and to Ford CEO Jacques Nassar, but let us return to the Renault-Nissan story before we take up these encounters.

Phase One

In June 1998, after the Schweitzer-Hanawa exchange of letters, a select group of Renault and Nissan representatives met secretly to explore their respective interests in strategic collaboration. By the middle of the month, they were preparing for their CEOs to meet. Six weeks later, Schweitzer and Hanawa met for the first time in Tokyo.[4] They established rapport quickly (Korine et al., 2002:42-43) and put the wheels in motion for studies on potential benefits of collaboration. (For a detailed chronology, see the appendix.)

Phase Two

During the 7 weeks from August 1-September 10, working groups in and from both companies conducted preliminary analyses on purchasing, engines and gearboxes, car platforms, production, distribution, and international markets. Results were promising. Nissan's capabilities in large cars, research and advanced technology, factory productivity, and quality control complemented Renault's talent in medium-sized cars, cost management, and global strategies for purchasing and product innovation (Douin, 2002:3; Renault, S.A., n.d.).

Highlighting the trust he felt they had established, Schweitzer proposed to Hanawa that they strengthen their relationship by holding each other's shares. Hanawa replied that Nissan had no money to spend on buying Renault stock. Schweitzer said they could talk about the subject again in the future though he also underscored how critical their collaboration was to Renault's future (Morosini, 2005:5).

On September 10, the two CEOs met in Paris and signed a memorandum of understanding committing their companies to evaluate synergies more extensively in an exclusive arrangement for the next 3½ months.

Phase Three

From September to December 1998, 21 intercompany teams assembled from specialists on each side thoroughly examined the companies' respective operations. The teams held meetings at nearly every one of the companies' sites worldwide, visited plants, and exchanged cost and other proprietary information. As one reporter (Lauer, 1999a) later observed, information exchange of this kind was remarkable in an industry where companies jealously guard their manufacturing secrets.

Top management facilitated collaboration within the study teams as needed (Lauer, 1999a), and a coordinating committee reviewed progress monthly. (Communication between study teams was prohibited; teams reported directly to the chief negotiators.) The executives' main concern during this period was development of a business strategy; specific financial issues were left for the final rounds. Schweitzer and Hanawa—and the negotiation teams—continued their meetings at venues ranging from their headquarters to cities in Thailand, Singapore, and Mexico. (Ultimately, the CEOs met 12 times.)

Within Renault, Schweitzer and his executives concentrated on refining their concept of an alliance. They drew on their experience with Volvo (Korine et al., 2002:46) and examined the Ford-Mazda partnership as a model, paying particular attention to financial and cultural dimensions (Barre, 1999a; Lauer, 1999a). Ghosn and 50 Renault researchers began taking daily Japanese classes (Diem, 1999). Schweitzer subsequently said the team was guided by the French maxim, "To build a good relationship, you do things together and look in the same direction together" (Eisenstein, 1999). In the same vein, one alliance scholar (Morosini, 2005:5) described the first 6 months of the Renault-Nissan discussions as "a corporate experiment in living together before marriage."

By October, the negotiations centered on a Renault investment in Nissan. Schweitzer had sounded out French government officials about the alliance and obtained support from Prime Minister

Lionel Jospin, among others. For his part, Hanawa set four pre-conditions for a deal: retaining the Nissan name, protecting jobs, support for the organizational restructuring already underway at Nissan with Nissan management leading the effort, and selection of a CEO from Nissan's ranks.

In mid-November, Nissan's board of directors took the extraordinary step of inviting Schweitzer, Douin and Ghosn to Tokyo to present their vision of the alliance. The presentation was so well-received that the Renault team deemed it a turning point in the negotiations (Ghosn & Riès, 2003:178.)

Later in the month, Hanawa paid a courtesy call to DaimlerChrysler co-CEO Schrempp in Stuttgart. Schrempp proposed to go beyond his interest in Nissan Diesel and make an investment in Nissan Motor itself.[5] Hanawa then flew to Paris to inform Schweitzer personally of his intention to follow up on Schrempp's offer. This was not Hanawa's first contact with alternative partners. He had also sounded out Ford CEO Nassar (Ghosn & Riès, 2003:176), who showed no interest.

In December, as the Renault and Nissan negotiating teams discussed the legal form of a relationship, they hit an impasse. Renault had suggested a subsidiary or joint venture. Nissan rejected both concepts.[6] EVP Ghosn, who did not regularly participate in the negotiations, proposed an informal alternative that both sides accepted (see "The Deal" below).

At the end of December, with the approaching expiration of the September memorandum, Schweitzer and Hanawa negotiated over, among other things, a clause "freezing" Hanawa's contact with other potential partners until the completion or end of talks with Renault. Hanawa demurred from locking in just yet. On the 23rd, the CEOs signed a letter of intent, minus a freeze clause, for Renault to make an offer on Nissan Motor by March 31, 1999, Nissan's fiscal year-end. Hanawa asked Schweitzer to include Nissan Diesel in the offer.

Phase Four

The fourth phase of the negotiations began with Renault's first public, albeit guarded, acknowledgement of its talks with "potential partners … including Nissan," but the period was punctuated by developments in the competing Nissan-DaimlerChrysler negotiations (Lauer, 1999a).

DaimlerChrysler was not simply a foil for Hanawa to leverage in the Renault negotiations; it had real pull of its own with Nissan management. They admired Daimler (Mercedes) and knew DaimlerChrysler had deep pockets. In contrast, they saw Renault as "no better off than Nissan in terms of future viability and survival" ("Gallic Charm," 1999; "Shuttle Diplomacy," 1999).

On the Renault-Nissan agenda, Renault's cash contribution was a tough issue. Nissan sought $6 billion. Renault initially expressed interest in a 20% stake, and if Nissan were valued between $8.7 billion (market value) and $12 billion (a comparable companies valuation), a 20% stake would yield no more than $2.4 billion for Nissan.[7] Nonetheless, Nissan was not ready to move quickly from its position. It had DaimlerChrysler in the wings and breathing space afforded by a long term, ¥85 billion loan ($740 million) from the state-owned Japan Development Bank. Fluctuating share prices and exchange rates further complicated matters.

The negotiating teams continued their discussions through the winter, meeting several times in Bangkok. In late February, a Nissan spokesman denied that a Renault deal was imminent and asserted that talks with DaimlerChrysler were "continuing."[8] This may have reinforced Schweitzer's fears that DaimlerChrysler was the favored partner.

Two weeks later, on March 10, Renault's position completely changed when Schrempp formally withdrew his bid for Nissan Motor. The DaimlerChrysler Board of Directors, leery of Nissan's financial condition and understated debt at Nissan Diesel, had pulled him back (Barre, 1999b). Hanawa probed Ford's CEO yet again about a linkage, but without success. Schweitzer realized Hanawa's choice was now "Renault or nothing" (Ghosn & Riès, 2003:176-9).

What happened then has been described differently by different sources. Ghosn and researchers who interviewed principals at both companies (Ghosn & Riès, 2003:179-180; Korine et al., 2002:45) contend that Schweitzer restated the terms of his standing offer. The rationale for not reducing it, even with DaimlerChrysler gone, was consistency of intent. Schweitzer was trying to develop a cooperative relationship, and he did not want Hanawa to feel Renault would later exploit Nissan.

A news article written 2 days after the deal was done ("Shuttle Diplomacy," 1999) reports that Schweitzer sent Hanawa the following confidential message, "There is hope that Renault will be able to make a larger investment than we proposed earlier." Schweitzer did not specify the amount and asked Hanawa to trust him, but he also insisted that Hanawa agree, by March 13, on freezing contact with other potential partners. Schweitzer needed that commitment in order to go to his board.

Hanawa flew to Paris on March 13 and after a 5-hour meeting with Schweitzer and his team at Roissy Airport, signed a preliminary agreement for Renault to acquire a stake in Nissan. The agreement was announced publicly.

Phase Five

On March 16, at the beginning of the 2-week final phase of the negotiations, Schweitzer obtained the internal approvals he needed from the Renault Board of Directors and Work Council (Renault Communication, 1999). These decisions centered on a 35% stake in Nissan for $4.3 billion (Lauer, 1999a cf. Korine et al., 2002). This amount exceeded the 33.4% threshold for an investor to gain veto power on a board in Japan and remained below the 40% level at which French accounting standards would require Renault to consolidate Nissan's debt. With the approvals in place, Renault issued a press release about its intention to purchase 35% of Nissan. At this time, Schweitzer offered to start exclusive negotiations with Nissan without delay.

The negotiations intensified. Nissan executives withheld their approval of an alliance for several days (Lauer, 1999b). When an agreement was finally reached, Renault's investment had risen to $5.4 billion for 36.8% of Nissan Motor and stakes in other Nissan entities.[9]

The Deal

The "global partnership agreement" signed by Schweitzer and Hanawa on March 27, 1999 committed Renault and Nissan to cooperate to achieve certain types of synergies while maintaining their respective brand identities. The strategic direction of the partnership would be set by a Global Alliance

Committee co-chaired by the Renault and Nissan CEOs and filled out with five more members from each company. Financial terms included an investment of ¥643 billion ($5.4 billion) by Renault. For ¥605 billion of the total, Renault received 36.8% of the equity in Nissan Motor and 22.5% of Nissan Diesel. With the remaining ¥38 billion, Renault acquired Nissan's financial subsidiaries in Europe. The agreement included options for Renault to raise its stake in Nissan Motor and for Nissan to purchase equity in Renault. With respect to management, Renault gained responsibility for three positions at Nissan (Chief Operating Officer, Vice-President of Product Planning, and Deputy Chief Financial Officer). One seat on Renault's board of directors was designated for Hanawa. At the alliance level, plans called for the formation of 11 cross-company teams to work on key areas of synergy (e.g., vehicle engineering, purchasing, product planning) and to coordinate marketing and sales efforts in major geographic markets.

The Aftermath

Before Schweitzer signed the Alliance agreement, he had made sure that Ghosn was willing to assume Nissan's top operating position (Ghosn & Riès, 2003:180), and when the deal was done, Ghosn did just that. In June 1999, the Global Alliance Committee met for the first time (and monthly thereafter), and cross-company teams were set up with a leader from one company and deputy leader from the other. English was adopted as the working language in the Alliance.

Ghosn, the cost-cutting expert, moved quickly at Nissan. In October 1999, he announced the closure of five plants in Japan, 21,000 job cuts (in the land of lifetime employment), and cost reductions of $9.48 billion over 3 years. By the end of the 2000, when Ghosn was promoted to president, Nissan turned a profit, and it continued to do so until 2008 when all automakers were hit by the global recession. Nissan achieved operating margins among the highest in the industry. The company paid off all debt by 2004 and in 2007, surpassed its net sales for 2000 by 78%, hitting ¥10,824 billion ($92 billion). In effect, the Alliance agreement met Nissan's main interests.

How has Renault fared since 1999? The investment in Nissan easily paid for itself, since the income alone from it averaged more than $2 billion per year from 2002-07. In December 2009, Renault's shares in Nissan were worth more than Renault's total market value.

In terms of its own performance, Renault saw annual revenues drop twice after 2000 then recover, in 2004, to €40,292 ($50 billion). Operating margins, which ranged from 1.3 to 5.2%, were less than half of Nissan's. At the same time, the company realized improvements in its defective parts ratio and increased productivity through its adoption of the Nissan Production Way (see Miller & Zaun, 2002).

In 2005, when Schweitzer retired, Ghosn became Chairman/CEO of Renault as well as CEO of Nissan. He set ambitious targets for Renault's 2009 unit sales and operating margins (Betts, 2010) but missed them by large margins. Renault lost €3.1 billion ($4.5 billion) in 2009, notwithstanding savings from sharing platforms with Nissan, establishing a joint purchasing organization, and other synergies. In 2010, *The Economist* observed, "For much of the past decade, Renault has been a disappointingly mediocre performer" ("Daimler and Renault-Nissan join forces," 2010). By itself, Renault continued to hold only 4% of the global auto market. Then again, without the Alliance, the company may well have been in worse financial shape during this period.

As to Schweitzer's original interest in accelerated internationalization, Renault acquired a majority stake in Samsung Motors (South Korea) in 2000 and subsequently expanded its presence in the largest emerging markets by purchasing 25% of AvtoVAZ of Russia and securing joint production agreements with automakers in China and India. With Renault still not established in the U.S. market, the Alliance approached GM in 2006, and then Chrysler in 2008, about joining forces, but neither effort panned out. In April 2010, in an ironic twist, the Alliance welcomed the company that originally shocked Renault into action. Daimler, whose merger with Chrysler failed famously, agreed to collaborate in small car design and swap a small percentage (3.1%) of shares.[10]

The Renault-Nissan relationship has evolved since 1999. Beyond adding partners to the alliance and sharing a CEO, the two companies have increased their cross-shareholding (see the appendix) and expanded their organizational linkages (Ghosn, 2002). In 2009, these included 2 joint companies and 7 steering committees that manage over 30 cross-company teams, functional task teams, and task teams.

Lessons

Automakers' have negotiated international collaborations for decades and will continue to do so well into the future, but the Renault-Nissan negotiation stands out in many ways. Many observers did not expect it to lead to an agreement, let alone to a relationship that would become a model for industrial partnerships. So there are important lessons for negotiators and negotiation analysts to draw from Renault's experience.

Some of these insights relate to and reinforce recommendations from other case studies. For example, Sebenius (1998) concluded that parties should be clear about the industrial and strategic logic of a proposed partnership and the value it will create; price should not "bulldoze" other considerations. Further, leadership and top-level support appear to be critical for progress in complex negotiations (see Weiss, 1987; 1997).

Beyond these examples, however, the Renault-Nissan negotiation offers six distinctive lessons.

(1) *Go beyond ostensible differences; probe parties' interests and capabilities for "fit."* Unlike news reporters who emphasized cultural, linguistic and organizational differences, Schweitzer and his team focused on Renault and Nissan's common long-term goals, complementary interests and respective capabilities. Their fit on multiple dimensions motivated, directed and sustained the negotiators. Some differences matter less than others and not all differences imply incompatibility; in fact, they may offer substantial benefit.

(2) *Prepare extensively, continuously, and jointly as well as internally.* Renault took a broad view of preparation for negotiation. The company's executives and staff carried out thorough internal analyses but also spent months working with Nissan personnel even before a letter of intent was signed.

The joint preparation before formal negotiations was more comprehensive and intensive in this case than in many others.[11] The negotiations were far from the quick, superficial courtship—the "shotgun marriage"—that some commentators (Woodruff, 1999) labeled them.

(3) *Consider conceiving a new (unusual) form of relationship*. Ideas based on a conventional acquisition, merger, joint venture or subsidiary were all set aside. Renault executives went "outside the box" and conceived a structure by which the two companies could be "together but distinct." High-level coordination and cross-shareholdings may have been familiar domestic business practices in both France and Japan (recall the *keiretsu*), but they were not common internationally in the auto industry where one-way holdings prevailed. Renault's innovation reminds us of a fundamental principle of negotiation: the design of an acceptable relationship is entirely up to the parties.

(4) *Behave not only as a negotiator but also as a prospective partner*. Negotiators typically pursue their own interests and take their counterparts' into account as needed to reach an agreement, whereas Renault negotiators paid extra attention to Nissan's concerns and to life after an agreement. They were keenly aware of the companies' limited history together, the opportunity that the negotiation offered them to demonstrate their qualities as a long-term partner, and the impact that their negotiation conduct would likely have on the implementation of an agreement. (In contrast, consider Daimler CEO Shrempp's misleading "merger of equals" negotiation with Chrysler and its aftermath.) These factors also shape a negotiator's reputation in an industry, and in the auto industry, initiatives to collaborate occur often and future partners cannot always be predicted.

(5) *Manage the influence of the counterpart's no-deal alternative (options)*. In Hanawa, Schweitzer had a counterpart who had a formidable alternative (Chrysler) and kept working to improve it. The Renault team perceptively tried to limit how much Hanawa's maneuvers affected their position in the negotiations. Among other techniques, they stayed true to their vision of a partnership, pressed Nissan by putting ideas in print (e.g., the mock press release), announced commitments in public statements at strategic times, and most directly, asked Hanawa sign freeze agreements. Schrempp

ultimately eliminated the Chrysler alternative, but Renault executives probably did as much as they could under the circumstances.

(6) *Assess the quality of an outcome (agreement) by its effects as well as its content.* Negotiations tend to be evaluated in terms of their immediate outcomes. While the Alliance agreement attracted a great deal of media attention (see Tagliabue, 2000), its main effects on Nissan and Renault can only be fully appreciated several years later. Back in 1999, few, if any, analysts anticipated Nissan's amazing recovery. At the same time, Renault "won the prize," but its subsequent performance is a more complicated and mixed story.

In conclusion, Renault's experience with Nissan offers many insights about negotiation. Even in this short chapter, one can see various incentives and obstacles to reaching a satisfactory agreement and the admirable efforts of Renault executives before, during, and after negotiation. They constitute a highly instructive example of negotiations to establish interfirm collaborations in the auto industry and in international business generally.

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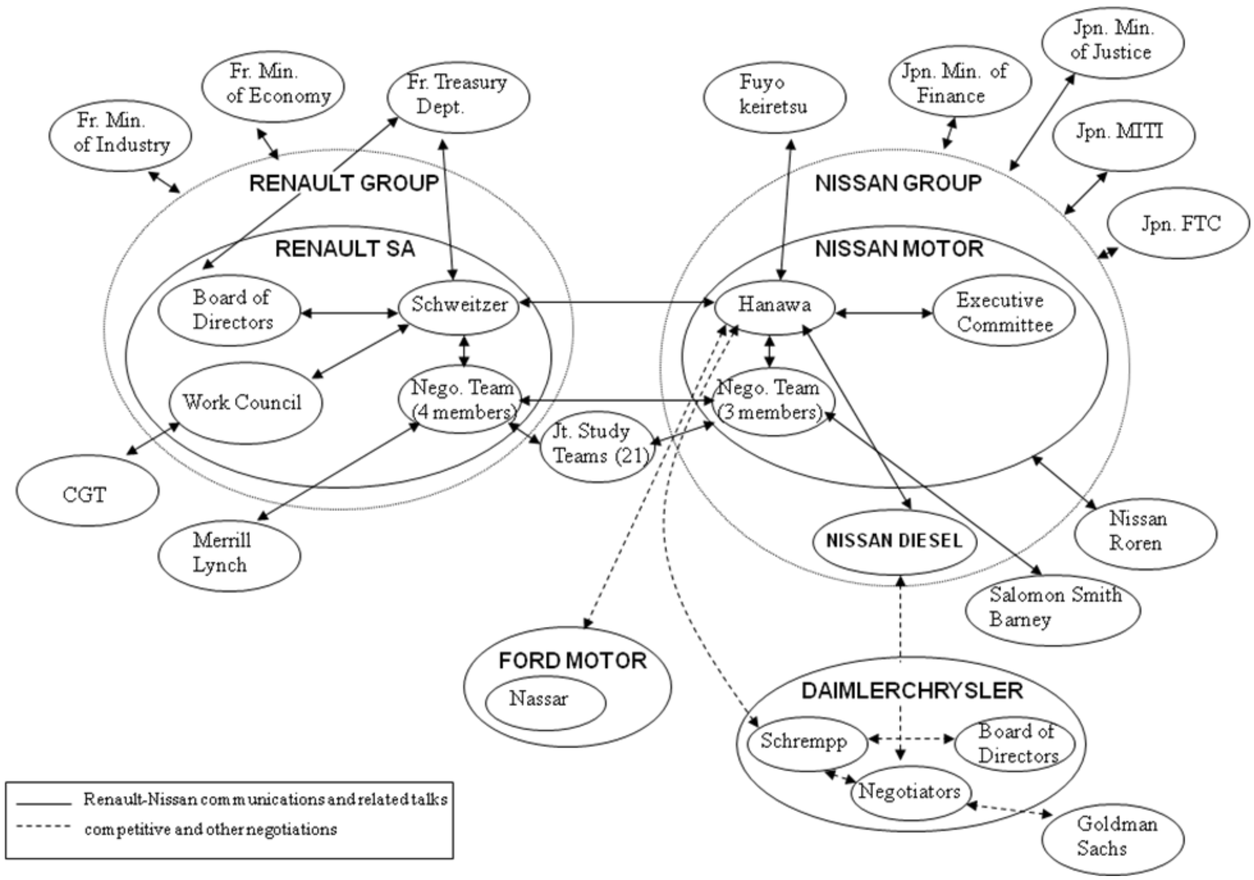
Figure 1. Parties and Linkages in January 1999



Appendix

Key Dates for the Negotiations and Aftermath

Phase 1: Exploring Interest in Collaboration

1998 June		Schweitzer writes to Hanawa to suggest "thinking strategically together"
	June 11	company representatives meet in Tokyo for general discussions
	July 11	teams from both firms begin developing a framework for cooperation
	July 22	first Schweitzer-Hanawa meeting occurs at Nissan headquarters in Tokyo

Phase 2: Identification of Possible Synergies

Aug 1	internal studies begin on a range of subjects such as purchasing and car platforms
Aug 31-Sep 1	review of preliminary studies and identified synergies
Sept 10	Schweitzer and Hanawa sign memorandum to evaluate synergies fully and exclusively by Dec. 23; joint study teams organized

Phase 3: Evaluation of Possible Synergies

Oct	Schweitzer prepares mock press release ("Nissan and Renault join forces") and shows it to Hanawa as a basis for discussions
Nov 1	Schweitzer and Hanawa meet in Singapore
Nov 10	in Tokyo, Schweitzer, Douin, and Ghosn present the "big picture" for an alliance to the Nissan Board of Directors; Ghosn describes Renault's own restructuring experience
Nov 11	Schweitzer and Hanawa meet in Tokyo
Nov	Hanawa visits DaimlerChrysler co-CEO Schrempp in Stuttgart, and Schrempp proposes to invest in Nissan Motor and Nissan Diesel
Dec	impasse over the legal form of a Renault-Nissan relationship; Ghosn suggests an "alliance" and informal, cross-company teams
Dec 23	Schweitzer and Hanawa sign a letter of intent, valid until March 31, 1999, for Renault to make an offer to Nisan after completing an audit

Phase 4: Striking the Deal

1999	Jan 18	Renault publicly acknowledges for first time its "discussions with a number of potential partners in Asia, including Nissan"
	Jan 21	Hanawa meets with DaimlerChrysler co-CEOs Schrempp and Eaton
	Feb (early)	two DaimlerChrysler board members arrive in Japan for talks at Nissan
	Feb 10	credit rating firms warn Nissan of potential drop to junk bond status; Moody's places Nissan under review

	Feb 25	Nissan releases statement denying Renault deal is imminent and referring to "continuing discussions" with DaimlerChrysler
	Mar	Nissan team negotiates in parallel with DaimlerChrysler and Renault
	Mar 10	Schrempp informs Hanawa in Tokyo that DaimlerChrysler is withdrawing from the talks
	Mar 10-12	Hanawa attempts to connect with Ford CEO Nassar; Schweitzer offers to try to increase Renault's investment if Hanawa agrees to a freeze
	Mar 13	in Paris, Schweitzer and Hanawa reach preliminary agreement for Renault to acquire a stake in Nissan

Phase 5: Finalizing the Details

	Mar 16	Schweitzer obtains approval for an alliance from the Renault Board of Directors and Work Council
	Mar 16	Renault issues press release stating that it is "convinced of the merits of a strategic alliance" and intends to purchase about 35% of Nissan
	Mar 19	Nissan executives reach consensus on alliance with Renault but defer final decision
	Mar 23	Nissan executives at a crossroads over the alliance with Renault
	Mar 27	global partnership agreement signed by Schweitzer and Hanawa at Keidanren in Tokyo

Aftermath

	May 28	closing of the Alliance agreement
	Nov 1	Nissan announces unprecedented move to close five plants and cut 21,000 jobs in Japan and elsewhere
2000	June 20	Ghosn becomes President of Nissan (CEO) after one year as COO
2002	Mar 1	Renault increases stake in Nissan to 44.4% at cost of €1.9 billion, then Nissan takes 15% (nonvoting) stake in Renault for €2.2 billion
2005	April	Ghosn becomes Renault's Chairman/CEO while continuing as Nissan CEO
2006	July-Oct	GM meets with Renault and Nissan about a three-way alliance, but GM breaks off talks
2007	March	Volvo acquires Nissan Diesel (later renamed UD Trucks)
2008	Oct.	Nissan talks to Chrysler about joining the alliance
2009	Mar 27	10th anniversary of the Alliance
2010	Apr 7	Daimler joins Renault-Nissan Alliance by taking 3.1% stake in each partner, and the Alliance takes 3.1% of Daimler

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sources: "Negotiations Chronology" at http://www.renault.com, and news articles (see References)

Endnotes

[1] In addition to Renault and Nissan, Alliance brands include Infiniti, Dacia (Romania), and Samsung (South Korea). All financial figures in this chapter are expressed in unadjusted nominal values. For annual figures, currency translations are based on exchange rates at the end of the fiscal year.

[2] See "Kenneth S. Courtis," 2000.

[3] Attributed by Diem (1999) to consultant Grégoire Van de Velde.

[4] A few weeks after announcing their light-truck agreement with Nissan Diesel, DaimlerChrysler also announced their intention to buy Nissan Motor's entire stake in Nissan Diesel.

[5] With a stake in Nissan Diesel, Schrempp could pre-empt Renault and strengthen DaimlerChrysler's position in commercial vehicles. By simply expressing his interest in Nissan Motor, he could bid up the price Renault had to pay and thereby weaken Renault. If he actually bought into Nissan Motor, he would increase DaimlerChrysler's limited presence in Asia and firm up the mega-merger's global status.

[6] As one outsider opined, "You've got two cultures here that are extremely nationalistic and believe that their way is the right way. There will be some major control issues" (Edmondson et al., 1999).

[7] The market value is based on a Nissan Motor share price of ¥400, 2.513 billion shares outstanding, and an exchange rate of ¥116 per US dollar whereas the comparable companies estimate rests on earnings per share of ¥39.79 and an average multiple of 17. Note, however, that share prices ranged from a low of about ¥300 in November 1998 to a high of ¥450 in March 1999. In addition, the exchange rate fluctuated by as much as 20% between June 1998 (¥142/$1) and March 1999 (¥118/$1).

[8] This statement contradicted Schrempp's disclosure on February 19, in a speech at the Executives' Club of Chicago, that DaimlerChrysler was only interested in Nissan Diesel.

[9] Public information does not make clear whether previous offers included "other entities," but they likely did not. If the bundles of Nissan assets associated with the 35% and 36.8% offers were the same, Renault's cash offer in the second instance would have represented a 19% increase in the valuation of those assets.

[10] Renault also gained more freedom from its home government as an investor. The French government reduced its stake to 25.9% in 2002 and then to 15.01% in 2009.

[11] Appropriately, Renault's approach resembles the Japanese practice of *nemawashi*—consulting all involved parties before making a decision or change.