Renault:
globalisation but for what purpose?

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In the late 1990s, Renault took the decision to become a global firm. It acquired Nissan, Dacia and Samsung one right after the other, and also set up its own operations in two new automobile countries (Brazil and Russia).

This was not Renault's first attempt to escape the confines of Western Europe – being, in actual fact, the fourth time that the French carmaker had tried this since the Second World War. Earlier efforts had either failed, or else involved operations that were a long way away from achieving the expected outcomes. In certain instances they had even caused serious problems for the firm. Is it possible that the lessons which we can derive from these earlier episodes will help us to understand and evaluate recent internationalisation-related decision-making? Did Renault absolutely have to internationalise in order to remain durably profitable and independent? Which problems will the alliance between Renault and Nissan have to overcome if it is to be successful?

We try to answer these questions by analysing Renault's stop-and-go internationalisation trajectory in the light of the fundamental pre-conditions for automobile firms' profitability, such they were defined during the 1993-1996 GERPISA research programme entitled "*The emergence of new industrial models*" (Freyssenet, 1998a; Boyer, Freyssenet, 2000a, 2000b). There are two pre-conditions that need to be met: the "profit strategy" which the firm pursues must be relevant to the "growth modes" of the countries in which it is operating; and the means to implement this profit strategy (product policy, productive organisation and employment relationship) must be coherent and acceptable over the long run to all of the parties concerned, through the development of a "company governance compromise".

Renault has gone through six phases since the Second World War, alternating between a renewed focus on Western Europe and other initiatives involving the establishment of commercial and industrial operations in the world's other regions. In the decade following the Allied victory in WWII, Renault intentionally emphasised its domestic market, abandoning its older foreign operations or allowing them to slip into dormancy. From 1955 onwards it set itself the target of exporting 50% of its total output. Renault's initial commercial success in the United States was as dramatic as its subsequent demise, following which it withdrew to Western Europe for a period of 20 years. It was during this time that the Company signed a number of agreements (and set up operations) in the "new" automobile countries as well as in Central and Eastern Europe – to

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wit, in a region where there was a commitment to import substitution or countertrade policies. It again tried to enter the United States in the late 1970s/early 1980s, this time by taking control of a local manufacturer, American Motors. Once again the initiative was a failure, and Renault retreated to Europe a second time, this time preparing for the future through an alliance (and later through a planned merger) with Volvo, which was solidly established in the North American market. The Swedish carmaker's shareholders eventually refused its offer, and Renault was again barred from becoming a "big exporter". After returning to financial health during the 1990s, its first reaction was to try to move into Brazil and Russia, before jumping on the opportunity to take advantage of the weakness of some Japanese, Romanian and Korea carmakers and acquire firms in these countries. By 2001 it was present, either directly or indirectly, in all of the world's markets. In the words of one of its executives, it was trying to build up global policies (and an organisation to match) within the framework of its alliance with Nissan.

1. The prioritisation of the domestic market after a brief export phase: 1945-54

Like all of the countries that were so badly damaged during the Second World War, France emphasised investment over consumption during the ensuing decade. The purpose was to rebuild the nation's infrastructure and re-launch its basic industries. The growth mode at the time was "shortage and investment-oriented" in nature (Boyer, Freyssenet, 2000 a).

Nationalised and renamed the ***R****égie* ***N****ationale des* ***U****sines* ***R****enault* (henceforth *the RNUR*), Renault's mission was the topic of heated political discussion. Given people's priorities at the time (and prevailing attitudes towards nationalisations), it was no surprise that certain members of the French government, particularly ministers from the Communist Party, wanted Renault to create an association with the Berliet Company with the aim of manufacturing light and heavy commercial vehicles, thereby making an immediate contribution to the national recovery programme.

The RNUR did indeed become a presence in the light and heavy commercial vehicle market, but its first CEO, Pierre Lefaucheux, stressed that its mission was also to service anyone who was interested in purchasing an automobile, a product that had previously been restricted to the better-off segments in society. Cars were supposed to become accessible to as many people as possible. Private sector companies had been unable to achieve this goal, and did not expect to be able to do so any time soon. As such, it was up to a nationalised company to run the risk of starting the production of large series of "people's cars". Henceforth, the "nationalisation war" intersected with the "war for a people's car" (Fridenson, 1979). Pierre Lefaucheux emphasised export activities during his first three years, thus satisfying the wishes of successive governments who were all seeking to obtain the foreign currency that France needed so urgently. Moreover, he too was able to use some of these funds to purchase, notably in the United States, those special machine tools that are necessary for large series production runs. Once Renault's factories had been equipped to a sufficient level, he reoriented sales towards the domestic market [1] (Freyssenet 1979, 1984).

[1] Exports, which represented 58.6% of all sales in 1947, dropped back to 29.5% in 1951. On the other hand, output quadrupled over the same time span, and the French franc's devaluation between 1948 and 1950 lowered the surcharges from which French carmakers had been suffering in comparison with their competitors on the overseas markets.

Although Renault was aware of the importance of being present in the export markets, they did not constitute a priority for the Company. The battle for a 4CV (4HP) car and the recent nationalisation dominated Renault's domestic preoccupations, both commercially and politically. The RNUR had to show that it was capable of manufacturing its 4CV in large series; and that this car could be sold to the French market at an attractive price and the under the same constraints as a private sector company, i.e., without subsidies and whilst paying a normal return to shareholders [2]. As such, it simply could not disperse its financial resources. For a long time, a lack of capital would be a constant factor in Renault's management.

However, from its earlier avatar (the *Société de Louis Renault*) the RNUR did inherited dealer networks in Northern Europe; sales subsidiaries in the United States, Spain, Italy and the French Union (which included France, its colonies and its protectorates); and two assembly plants, one at Haren in Belgium and the other at Acton in the UK. Even after having assumed this heritage, from 1949 onwards the general export market actions that the RNUR could take had to stay well within the boundaries of certain very explicit restrictions. Renault was not to keep any of the capital resources it acquired, which at the time were so indispensable to the French nation. It had to repatriate any foreign currency it received right away. The networks it had inherited were to be supplied whenever possible with an express stipulation that payment be made immediately. Assembly operations only restarted in Belgium (1948) and in the United Kingdom (1950) with the most basic and the least costly resources [3]. In those countries that were mounting their own industrialisation drives or trying to restrict currency outflows by forcing foreign firms to produce locally, Renault preferred signing manufacturing and distribution licenses with domestic companies, providing parts that could not be produced onsite and offering whatever technical assistance was necessary. This policy brought in complementary resources (royalties plus the immediate payments for parts and machines) without requiring any capital outlays. By 1954 Renault had signed six agreements of this type, in Europe (Ireland, Spain), Latin America (Mexico), Asia (Japan), Oceania (Australia) and Africa (South Africa) [4].

[2] The RNUR had to deal with funding constraints that were even more stringent than those the private sector manufacturers faced. Unlike its rivals, it was not eligible for long-term below-market rate "Modernisation and Equipment Fund" loans. Paradoxically it had to turn to the banking sector for financing (Ramirez, 1994).

[3] Pre-assembled vehicle imports were subject to quotas and import duties of 24% in Belgium and of 35% in the United Kingdom. On the other hand, local assembly using detached parts or subsystems was only taxed at 8% in Belgium, and was free in the UK from any duties at all (although it did go along with the obligation that the foreign firm purchase 50% of all components domestically and export 75% of its output to former British colonies). Due to the Haren plant's capacity; its location close to France, the port of Antwerp and the markets of Northern Europe; its relatively low ratio of locally produced parts; and a workforce that at the time was relatively cheaper than elsewhere, Renault increased its Belgian production to 8,700 vehicles in 1954 (Wafellman, Quackels, 1983). In the UK on the other hand, high (51%) local contents ratios, the Commonwealth export obligation, greater production costs and the general level of competition kept annual output below 1,000 vehicles (Lukes 1979, Ramirez 1994).

[4] In Ireland and in Australia (1949) agreements were reached with local importers who took responsibility for assembling vehicles that were sent in CKD kit form. In South Africa and Mexico (1950) agreements were reached with assemblers who were already working with other marques of vehicles. In Spain (1953) a deal was done with a firm (the FASA) whose itself had the ambition of becoming a carmaker. The same year Renault began to work with a commercial vehicles manufacturer in Japan (Hino Diesel). Although the latter two agreements were concluded at a later date, they were the only ones to be even moderately

The third and final reason why the Company had to look outside of Metropolitan France was that each of the French governments of the time was trying to get the country's national carmakers to set up operations throughout the French Union. Renault was therefore "forced" to get involved in this type of business. In actual fact, for all intents and purpose it was the only carmaker to really do so. Nevertheless, none of these projects ever really materialised in the end (Loubet, 1995).

The battle for the 4CV car was won both politically and commercially. Even if the vast majority of wage-earners in France were still unable to access motor vehicles, the country's independent professionals (and soon its top earning employees) could do so. Note that the virtuous circle that would later be termed "Fordist" implies a distribution of national income in the form of a generalised increase in household purchasing power. This was not yet the case in France. [5]

2. Export as an indispensable factor in Renault's new "volume and diversity" profit strategy: 1956-1960

With the exception of the United Kingdom, during the 1950s the European countries adopted the "coordinated and moderately hierarchical" mode of national income distribution that the United States had invented a decade earlier. However, they continued to vary in terms of the motors they used to drive growth: domestic consumption for some (notably France and Italy), export for others (Federal Republic of Germany, Belgium and the Netherlands in particular). The constitution of a "common market" within the framework of European construction seemed at the time to be a way of achieving the critical size that was essential for sustaining growth [6]. At the same time, France continued to be tied up in colonial conflicts that were mobilising significant resources to the detriment of domestic consumption.

Pierre Dreyfus, placed in charge of the RNUR in 1955 after the accidental death of Pierre Lefaucheux, immediately began to try to build up what we would now call a "company governance compromise" in an effort to clarify Renault's strategic orientations, and to render them coherent with one another. Renault was the first company in France to guarantee a regular increase in its employees' purchasing power and to offer a third week of paid holidays. It did this in exchange for a union commitment to try out all arbitration possibilities before going on strike, and to not oppose new production

successful (involving 1,900 and 2,700 vehicles, respectively, in 1954). The agreement that had been signed in India was not renewed.

[5] The economic stabilisation measures that René Mayer and Antoine Pinay implemented in 1952 are a clear demonstration of this. They put a brake on rising demand and affected exports as a result of the currency revaluation that went along with this policy. In 1953 Renault's sales actually dropped slightly both in France and abroad. As such, it either needed to re-launch its exports in order to offset a slower growing domestic demand - or else the latter aggregate had to be galvanised through the implementation of a nationally coordinated and moderately hierarchical distribution of income.

[6] In 1957, six European countries (Belgian, France, Italy, Luxembourg, the Netherlands and the Federal Republic of Germany) signed the Treaty of Rome, setting up a Common Market amongst themselves. For passenger vehicles customs duties were supposed to disappear within a decade and a common tariff of 17.6% was to be put on imports from third party countries. In 1958, customs duties on passenger vehicles were 17% in the Federal Republic of Germany, 24% in Belgium, Luxembourg and the Netherlands, 30% in France and 45% in Italy (Volpato 1983).

methods [7]. As for the choice of a "profit strategy", there were two alternatives. The first was to wager everything on "volume" by specialising in one or two bottom-of-the-range models (as suggested by the success of the 4CV), thus imitating Volkswagen's profitable efforts along these lines. The second was to opt for a strategy that would be based on volume and on diversity at the same time. This could be achieved through the development of a complete product range in which models would share a number of common elements, as General Motors had been doing to good effect. Against the opinion of many engineers who stood in favour of the first solution, Pierre Dreyfus chose the second one, which materialised through the steady rise of Renault's products up the quality scale in a way that matched the development of its clientele's level of income. The general hierarchy of incomes was relatively flat, something that allowed for a "volume and diversity" strategy inasmuch as this ensured that it was commercially and socially acceptable to sell for different prices cars that shared a number of components. Pierre Dreyfus considered this to be the most promising of all strategies. He felt that this was confirmed by the domination of General Motors, which had "invented" this strategy and designed a new productive model[1] in order to implement it. This productive model was named the Sloanian model, after Alfred Sloan, who developped it and later theorised it when he became chief executive officer (CEO) and then president of General Motors - the American firm that was the embodiment of the *one best way* for a new era.

Nonetheless, the strategy could only be viable for a French carmaker if it were just as export-as domestic-oriented. The size of the French population and competition from the three other national carmakers limited any possibility of achieving economies of scale. Renault only exported 25.9% of its total output in 1954 - but Pierre Dreyfus set a target of 50% by the end of the decade (Dreyfus, 1977). Licensing agreements were no longer enough. The RNUR had to invest both in its international sales network and also in new industrial operations. Yet Renault still lacked capital [8] - hence its systematic search for alliances that would enable it to share its costs.

Dreyfus negotiated to no avail with Fiat, Volkswagen and Mercedes, trying to put together future collaborative arrangements. (Loubet,1995). In 1958 he did however succeed in signing an agreement with Alfa Romeo, owned by IRI, the Italian State holding company. The two firms committed to marketing each other's cars in their respective countries. Furthermore, Alfa Romeo, which had surplus capacities at the time, made its Milan and Naples plants available for the assembly of the Renault Dauphine (Freyssenet, 1979). Note that Renault also maintained its Haren plant in Belgium due to a lack of capacity in France, even though the planned elimination of customs duties within the Common Market logically should have lead to this facility's eventual closure.

[7] It also offered a complementary pension system; indemnities above and beyond normal Social Security payments in case of industrial accidents or illness; and later (in 1958) partial payments in the event of a reduction in working hours or of an increase in the number of days off work.

[8] A plan put forward by Paul Ramadier, France's Minister of Finance of the time, almost compromised Renault's overall strategy. The idea had been to increase taxes so as to pay for the cost of the Algerian war – but this would have broken the back of a domestic automobile market that was in full expansion. Pierre Dreyfus succeeded in convincing the Ministry that instead of raising taxes on the French population it could obtain much-needed foreign currency by forcing French carmakers to increase their exports significantly in exchange for countermeasures that would be beneficial to them (devaluation, relaxation of exchange controls, reimbursement of VAT, continued export aid despite certain provisions in the recently signed Treaty of Rome, accelerated depreciation schedules, etc. [Loubet, 1995]).

The effects of the Common Market were soon felt, with its member states accounting for a proportion of Renault's total exports in Western Europe that rose from 48% in 1957 to 53.3% in 1960.

Despite a sudden and temporary increase in sales in Great Britain, Renault decided to close its Acton plant in 1960. The return cost of locally produced vehicles had become higher than the cost of imported vehicles, even after the payment of duties and taxes. Moreover, industrial relations in the UK had been deteriorating rapidly (Ramirez, 1994). In 1958 Renault changed its assembler in Ireland but never surpassed the 1,000-vehicle mark. In Spain, there was a modest but steady growth in output, which had reached 9,900 units by 1960. The most remarkable result of this period involved the local assembler, FASA, which to the surprise of the people at Renault showed itself capable of quickly reaching the 90% local contents ratio that was a requirement under Spanish law (Charron, 1985).

Outside of Europe Renault moved to renew certain licensing agreements (Australia and South Africa) but not others (Japan and Mexico). It signed new contracts in Israel (1956), the Philippines (1959) and New Zealand (1960). Its Brazilian and Argentinean operations remained a novelty for two reasons: because they were located in a region that Renault had previously left untouched; and because they involved the RNUR taking a financial stake in local assemblers and betting on a development of the domestic market.

It remains that Renault would have never pulverised the export production target it had set itself (reaching a score of 61.6% in 1959) had it been not been for a sudden and unexpected breakthrough on the American market. From fewer than 5,000 units in 1956, actual sales rose to 91,000 units in 1959 (Automotive News 1996) or nearly 20% of Renault's total output. The 1958 recession in the United States induced customers there to move to cars that were cheaper to purchase and to use. Renault's sales prices were such that its new cars were just as accessible as used cars on the American market. Compact cars rose from 12% of all sales in 1958 to 25% in 1961 (Volpato, 1983). Although Renault's senior management was surprised and hesitant at the beginning, it soon made a commitment to this adventure, eventually convincing itself that no real harm could come to it in a market where Volkswagen had been so successful [9]. In fact, the unthinkable did end up occurring, and in 1959 the French carmaker sold more passenger cars in the US than its German rival. Renault ultimately founded its own ocean transport company, the CAT, to ship its Dauphines from the Flins plant in France and the Haren plant in Belgium to Florida and California.

Renault tried to diversify its product offer as an extension of this initial drive. It had abandoned the idea of shipping its upscale estate car, the Domaine, and was not yet offering the Estafette small van - these being two types of vehicles that were in full expansion in the United States. As a result, it made a (successful) proposal to Peugeot to market different versions of the latter company's 403 (Loubet, 1995). It also had a two-door convertible especially designed for the American market: the Caravelle, derived from the Dauphine. However, by the time this model could be delivered, the situation had completely changed.

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[9] It is not at all impossible that the new political environment created with De Gaulle's return to power in 1958 convinced Pierre Dreyfus to turn the RNUR into France's leading exporter, and thus into someone to be reckoned with (Ramirez 1994).

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The balloon was punctured as quickly as it had been inflated. Renault's sales in the US fell by 33% in 1960, 50% in 1961 and 67% in 1962 (Automotive News, 1996). The same thing happened to all of the other foreign marques (Austin, Fiat, Peugeot, Simca, Triumph, Volvo) including the American carmakers' European subsidiaries (Ford UK, Vauxhall, Opel) – with the notable exception of Volkswagen, which continued its steady rise. Reasons for this downturn included the vigorous response of the Big 3 American carmakers (who launched their own compact cars in late 1959), and above all the economic upturn in 1962, which re-oriented demand towards larger automobiles. Nevertheless, the only reason the changes had this effect was because of the errors that the foreign carmakers had been making. Volkswagen's continued rapid rise constituted a meaningful counterexample.[10]

The sudden downturn was a financial debacle for Renault, which was more interested in satisfying its dealers' demands in full, whatever the cost, than in taking the time to verify their sales forecasts, financial solvency and equipment levels. By so doing, it helped to create a situation in which stocks of cars and spare parts were allowed to build up beyond all reason. Inventories of unsold new vehicles sat around for so long on Company parking lots that it sometimes had to undertake costly repairs to fix external paint jobs or tyres or rubber joints that had been worn down from constant exposure to the sun. The Dauphine's relative inability to cope with driving conditions in the U.S. meant that Renault had to underwrite exorbitant guarantees. The car's resale prices collapsed in the end, and with finance companies refusing to pre-finance customer purchases many resellers went out of business. Others, under the threat of losing their dealership agreements with the American marques, reneged on their contracts. Even the heavens got involved, with Renault once having to repatriate nearly 5,000 cars that had been damaged by a cyclone in Houston and by a tidal wave in New York. To make matters worse, American authorities refused to authorise the Estafette "small van" once it was launched, alleging that when it was fully loaded it was not quick enough for American freeways. Around 1,000 units had to be sent back to France. Finally, instead of returning its unsold stock to Europe, Renault organised a fire sale at prices below its own return costs. This was the nail in the coffin of its brand image. Renault took 15 months to get rid of this stock, even in a market that had already been in a recovery phase for a few years. In the end, American Motors Corp. (AMC), which had been approached regarding the possibility of marketing Renault cars (or even assembling them locally) turned the offer down (Picard, 1976; Dreyfus, 1977; Freyssenet, 1979, 1984, Loubet, 1995)

During the first months of 1960 the production rate for the Dauphine and its derivatives alone had reached 2,000 units/day, including 500 for the United States. Subsequently, however, the RNUR had to resign itself to a lower level of output. The work-

[10] Volkswagen had taken the precaution of substantially increasing the Beetle's finishing quality, equipping the car with a more powerful engine whilst maintaining its robustness and reliability and keeping it easy to drive. Inversely, other carmakers were happy to simply add to their cars whatever features were required under American law, forgetting local climatic constraints and driving habits. VW had also been steadily building up a distribution network (and above all, an efficient after-sales service) for nearly a decade. Its European rivals simply improvised in this area, with the exception of Simca (benefiting from the networks that Chrysler, its new owner, had just given it) and of course the American carmakers' own European subsidiaries.

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ing week was cut from 48 to 45 hours for the 50% of all workers who were on hourly pay; 950 temporary workers were not re-hired; and above all 3,000 jobs were eliminated, two-thirds through outright dismissals[11]. This was a big shock for Renault. It undermined the Company's internal governance compromise with its unions and gave new arguments and energy to those who had been opposed to its nationalisation. Moreover, these losses denied Renault precious capital that it desperately needed in order to develop its product range and operations overseas.

3. Success of Renault's "volume and diversity" strategy in those countries where it could be viable: 1961-1973

Added to the aforementioned developments was the fact that the international environment was worsening. Just as American carmakers had reacted vigorously to European competitors' penetration of their domestic market, in 1960 the American administration quickly responded to the creation of the European Common Market by re-opening negotiations on the GATT. After some hard bargaining, it succeeded in reducing the differences between the various levels of Customs duties that the Treaty's signatories could charge one another. Above all, it negotiated the possibility that foreign companies could take participations (and conceivably majority stakes) in firms hailing from other member countries. As such, Renault, like the other European carmakers, not only had to cope with the progressive disappearance of customs duties between the six Common Market countries but also with an "American offensive". Countries seeking to increase their industrialisation levels via import substitution policies thus became increasingly important for the RNUR.

1961 was a very bad year for Renault. The bottom-of-the-range replacement for the 4CV, the R4, was not ready yet, even though the French domestic market was starting to grow again after three years of semi-stagnation. Lower sales in France thus compounded lower global volumes, with Renault's worldwide production dropped by a whopping 27.6%. Thankfully the R4 was an immediate success once it came out in late 1961. With French national automobile demand rising at the same time (exceeding the one million unit mark in 1963) Renault had to re-hire people immediately after finishing its staff restructuring programme! France rose from 38.4% of the RNUR's total sales in 1959 to 62.3% in 1963.

To protect itself against an American offensive and to maintain market share in Europe, Renault tried to reinforce its alliance with Alfa Romeo, suggesting a global merger between the two firms' sales networks; as well as a jointly designed new vehicle. Instead, the two companies broke up in 1963. As is always the case in these situations, the divorce was caused by many different factors. In any event, and regardless of the circumstances, the alliance between these two carmakers was undermined by the fact that they were pursuing incompatible profit strategies. Unsurprisingly, they were unable to overcome the problems inherent to trying to sell within one and the same network vehicles that are designed for the widest possible public alongside vehicles whose main function is to provide their owners with social distinctiveness.

[11] Many of the production cuts that resulted from the unsuccessful American adventure were incurred by the Haren plant in Belgium, where output dropped from 51,400 units in 1960 to 27,200 in 1961.

In the end it was within the French national framework that Renault was to develop its European alliances and mergers. In 1966, Peugeot and Renault created an Association that was based in France, and whose official objectives were the realisation economies of scale through the design and manufacturing (internally or on a subcontracted basis) of shared parts and subsystems, with each party continuing to develop its own model ranges and target different clienteles through distinct networks - except abroad, where joint commercial assistance was planned. Peugeot had rallied the "volume and diversity" strategy in the mid-1960s, a pre-condition for the success of this Association inasmuch as economies of scale only became feasible once the two firms had decided to pursue the same product policy. The Association potentially turned Peugeot-Renault into the world's fifth largest group. Many actions were carried out within a short period of time in an effort to share costs (sourcing, design, shared registration of patents, joint manufacturing initiatives intended to saturate productive capacities, joint ventures, etc.). The two partners tried to associate other European carmakers in their endeavour, but only Volvo accepted, taking a stake in 1971 in one joint venture ("*la Française de Mécanique*") to co-finance the design and production of a V6 engine. Moreover, international co-operation between Peugeot and Renault became almost systematic after the Association was founded (Freyssenet, 1979, 1998).

Even though it did not particularly lead to the creation of trans-European firms, the Common Market (which grew from six to nine members after Denmark, Ireland and the UK joined in 1971) caused a remarkable interpenetration of markets in the automobile world [12]. Renault benefited greatly from this, with its exports into the six Common Market countries growing by a factor of 11 between 1958 and 1972 whilst sales in France and the rest of the World only rose by factors of 2.5 and 2.7, respectively. During the same period, Common Market sales rose from 14.5% of Renault's exports to 38.8%. Ultimately we can say the Company's profit strategy was appropriate and efficient in those countries that featured a similar type of national income distribution and which shared the same conception of the automobile. But what about those countries that practised import substitution or countertrade?

At the time, the optimistic view was that these countries' modes of growth (often "inegalitarian and-rent oriented" in Latin America or "shortage and investment-oriented" in the Communist countries) would converge with the one model that had already demonstrated its efficiency by enabling a widespread redistribution to the general population of productivity or competitiveness-related gains, to wit, they were expected to converge with a mode of growth that was "coordinated and consumer oriented ". No one expected the shift to occur right away, but everyone hoped that the system would be making a clear move in this direction. With this in mind, Renault established facilities in many new countries: Algeria in 1961, Ivory Coast and Madagascar in 1962, Portugal and Venezuela in 1963, Chile in 1964, Tunisia, Uruguay and Costa Rica in 1965, Bulgaria in 1966, Morocco and Peru in 1967, Romania, Malaysia and Singapore in 1968, Yugoslavia in 1969, and Columbia and Turkey in 1971. To fund these international operations, it created a financial structure that was located in Switzerland.

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[12] Between 1958 and 1973, foreign marque passenger car penetration rates rose from 9.2% to 25.8% in the FRG, from 2.5% to 26.8% in Italy and from 1.5% to 17.3% in France (Chanaron, 1987). This indicator can be used as a means of apprehending interpenetration within the Common Market, inasmuch as Japanese and American imports were very low at the time.

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It remains that by 1973 none of the countries in which Renault was present had succeeded (or had even tried) to set up a "coordinated and moderately hierarchical" national income distribution system - with the exception of Spain. Indeed, it was in Spain that Renault experienced its only success. By 1973 Renault's local production in Spain had reached 173,000 vehicles, accounting for one-quarter of all national demand. The suitability of the Spanish market's structure to Renault's product offer (based as it was on volume and diversity, and on the workforce's acceptance of polyvalent work forms) was not the only factor driving this success. It was however an absolute prerequisite.

4. Problems with the "volume and diversity" strategy in the new international context and the need to gain market share in the industrialised countries: 1974-1984

The abolition of the gold standard in 1971 and the birth in 1973 of a system based on floating currencies engendered, through a series of unexpected interconnections, a fourfold rise in the constant price of oil. In 1974 automobile demand fell in the main markets: -23.3% in the United States, -22% in Japan and -14% in Europe. It would not return to its 1973 levels before 1976 in Europe, 1978 in the United States and 1979 in Japan. In addition, demand shifted towards bottom-of-the-range compact cars that were equipped with front wheel drive and which were economical in fuel consumption terms.

The main problem became the acceleration in inflation that followed the higher raw material costs (and the industrialised countries' habit of indexing incomes to the cost of living). The American Federal Reserve Bank raised interest rates as a countermeasure, leading to a stronger dollar, the constitution of safety stocks and Khomeini's revolution in Iran. In turn this engendered a second oil shock, with a doubling in constant oil prices between 1979 and 1981. The effects on the automobile market were less brutal than the initial shock's but they lasted longer. Those countries that had borrowed heavily since 1974, particularly raw materials-producing countries and Eastern Europe, saw their debt levels go through the roof. The automobile market collapsed for the first group; and began to stagnate for the second.

For the first time since WWII, carmakers understood from 1974 onwards that they were competing directly in the international markets. This is because domestic consumption in their respective national markets was no longer growing fast enough to attenuate or hide the effects of this competition. Furthermore, many industrialised countries lacked in raw materials, and to pay for the oil they imported they imperatively had to increase export revenues. The international arena was no longer just a complement to domestic activities – it became the very core of corporate life.

However, the countries and automobile-manufacturing firms that participated in this battle did not all have the same starting position. Countries where growth was already being driven by the export of specialised goods (FRG and Sweden) or of consumer goods in common use (Japan), and where the national income distribution was already geared towards external competitiveness found themselves in a favourable position. Inversely, countries where growth was driven by domestic consumption and where income distribution was geared towards developments in internal productivity (United States, France and Italy) were harmed by direct competition from the former group. In addition, automobile producers from countries with a "coordinated and export-oriented" mode of growth were pursuing profit strategies that were appropriate for this new environment, be it "quality" strategy followed by the specialist German and Swedish car-

Freyssenet M., **"Renault: Globalization, But For What Purpose?"**, in Freyssenet M., Shimizu K., Volpato G. (eds), *Globalization or Regionalization of European Car Industry?*, London, New York, Palgrave-Macmillan, 2003, pp 103-131. Édition numérique, freyssenet.com, 2007, 380 Ko, ISSN 7116-0941.

makers, Toyota's "permanent costs reduction" strategy or Honda's "innovation and flexibility" strategy. They therefore had no need of building a new company governance compromise.

The "volume and diversity" strategy that most of the other carmakers were pursuing and the "Sloanian" model which they were applying were not rendered obsolete as such by the new environment, despite what many observers believed and affirmed. One proof of this is Volkswagen, which adopted the above strategy and model. When a market shifts into a product renewal mode, a "volume and diversity" strategy does become feasible. Plus it is possible to implement a "Sloanian" model as long as several interrelated conditions are satisfied: market share has to be taken from the other actors (either through direct competition or else by absorbing rivals and immediately commonalising the platforms used for their marques' vehicles) in those countries where national income distribution remains moderately hierarchical; and the company governance compromise has to be geared to external competitiveness and not to productivity. Volkswagen achieved this admirably – but what about Renault?

One opportunity for gaining rapid market share almost presented itself to Renault on a platter. The crisis was almost fatal to Citroën, whose recent innovative models did not fit the new environment. However, Michelin, which was Citroën's majority shareholder, preferred to sell it to Peugeot, with support from the government of the time. Not only did Renault lose an opportunity but it also had to break up its association with Peugeot, even though this was of greater utility than it ever had been. Nevertheless, it is not at all certain that this failure ultimately caused much damage to Renault. Back then Citroën was characterised by its "innovation and flexibility" strategy, something that was incompatible with "volume and diversity". Peugeot was the one to be hurt by this incompatibility, and almost went bankrupt.

Renault's initial performances following the first oil shock were illusory. Along with Honda, it was the only carmaker whose worldwide output did not drop in 1974. The R5 was for Renault in Europe what the Civic was for Honda in the United States: a "crisis car" that corresponded to the new expectations of a large portion of the clientele. Renault's global production rose from 1.41 million units in 1973 to 2 million in 1980, a level it kept up in 1982 and 1983. Its penetration of the domestic passenger car market jumped spectacularly from 30.1% to 40.5%. Average volumes per platform increased even further, ranging between 250,000 and 400,000 units. Having said this, Renault was also launching top-of-the-range models (the R20 and the R30) that were not very economical in fuel consumption and which lacked sufficient quality. These models were an expensive commercial failure for the RNUR. Worse still was the undermining of its earlier labour compromise. Although Renault was making and selling more cars than ever, its total wage bill and investment outlays were greater than its value added, and it was unable to balance its books (with the exception of a few years during which it benefited from other sources of income, specifically from financial revenues, c.f., statistical appendix). The main reasons were that Renault's work crisis had transformed into an employment relationship crisis – and its productive and organisational difficulties had degenerated into a product crisis (Freyssenet, 1998).

For a while Renault thought that it should diversify into non-automobile activities offering a great deal of potential for development. Then, like many others, it began to hope that the raw materials-producing countries would become high-growth automobile markets and rekindle global demand. It therefore tried to set up (or re-launch) production in several of these countries, particularly Algeria, Venezuela, Mexico and Iran. It failed in Algeria, Venezuela and Mexico, and although in 1975 it signed a contract for a 100,000 vehicle/year manufacturing plant in Iran, the Khomeini revolution got in the way. Above all, these new markets turned out to be highly uncertain - and the Japanese carmakers were already present on them. Moreover, Renault's product offer was not really adapted, and local political situations were too complex.

The year 1978 confirmed how durable the crisis had become. The only solution left involved taking market share in the industrialised countries away from the other carmakers. An alliance between Renault and Volkswagen would have been one of the more viable and economical solutions in Europe, with Volkswagen committing to a "volume and diversity" strategy and adopting a front wheel drive. It would have been easy to commonalise the two marques' platforms within a short period of time. Their status as state sector firms would have facilitated their rapprochement – the geographic complementarity between their respective markets in Europe reduced the risks of direct competition. Unfortunately, nothing ever came of this possibility.

The American carmakers were the hardest hit by the first oil shock and by the ensuing chain reaction. Chrysler had to withdraw to its home North American market and sold its European subsidiaries. American Motors Company (AMC) sought an ally to finance the renewal of its product range. It specifically contacted Peugeot-Citroën, which preferred however to acquire Chrysler's European subsidiaries rather than adventure into America.

Finally, in 1979, it was Renault who responded to AMC's offer. In allying itself with a local carmaker, the RNUR thought it could avoid making the same mistakes as 20 years before. In its plant in Kenosha AMC assembled Americanised versions of the R9, R11 and R21 models, renamed the Alliance, Encore and Medallion. Renault also built an engine factory at Gomez Palacio in North Mexico, and its trucks subsidiary, RVI, took a stake in Mack Trucks (becoming largest shareholder). In addition, and with a view towards making collaborative arrangements at the top end of the scale, Renault took a 15% stake in Volvo in 1980.

However, the collapse of the American market between the 1980 and 1982 forced AMC to the brink of bankruptcy. Rather than simply lose its stake, Renault chose to raise its ante from 22% to 46%. "Before the Alliance was even launched, the cost of the AMC deal was already 50% higher than expected" (Charron, 1985). Skyrocketing interest rates increased the Company's debt burden dramatically. By late 1984, Renault's cumulative losses had reached 17.6 billion francs and its debt was equivalent to 46.1% of its yearly turnover. The RNUR was semi-bankrupt.

5. A second withdrawal to Europe and the adoption of a "quality" strategy": 1985-1992

Renault was saved by a sudden and rapid drop in its breakeven point, by a recovery in the automobile market and by a commercially appropriate strategic re-orientation that took into account the changes that were taking place in the demand structure.

Reagan's investment-driven recovery policies, tax cuts and lower interest rates lead to renewed domestic demand in the U.S. (and therefore in world trade) after 1984. In many countries, factors such as the sharp drop in the dollar's value, the drilling of new oil platforms, energy savings and the break-up of the OPEC all had an effect that was akin to a reverse oil shock (with real oil prices being divided by a factor of 2.9 between

1982 and 1987). Inflation dropped, particularly in those countries (i.e., United States, France and Italy) that got rid of earlier wage indexing policies to introduce more "competitive" pay settlement rules. To amplify a growth phase that had already started but which was being hampered by a lack of savings, governments in the main industrialised countries decided upon the deregulation of capital flows. The purpose was to attract hot capital resulting from trade surpluses in Japan, the FRG and in a few oil-producing countries. At the same time, they eased credit restrictions to enable companies to carry out their restructuring programmes and become competitive again (thus catalysing job creation, according to some observers).

The most immediate and significant consequence of these measures was the development of a first "speculative bubble " in the Triad countries. The financial opportunities created by this turn of events strongly accentuated income heterogeneity – with differentiation being the outcome of a wage settlement mechanism that emphasised individual performances as well as people's relative bargaining position in the labour market. Demand began to grow again – but its structure simultaneously began to change. After a moderately hierarchical automobile market came one which was characterised by increased demand for top-of-the-range products, featuring the emergence of a demand for models that were conceptually innovative and which expressed the practical and symbolic expectations of those new segments of the general population that had been strengthened by the general "deregulation" trend.

A new leadership team took over at the RNUR in 1985 and immediately acted to rationalise Company finances and re-establish executive authority. The new management abandoned the existing volume policy, thus achieving a dramatic reduction in Renault's breakeven point (which dropped to 1.2 million vehicles). It also decided not to negotiate lower staffing levels with unions; definitively rejected the earlier "company governance compromise"; reduced the influence of the hard-left CGT labour union; refocused the RNUR on the automobile business and on the European market; reshuffled the command structure by eliminating double reporting lines that involved both Group and branch management units; and called upon the State to fulfil its role as shareholder and help Renault to cut its level of debt.

Renault's gross operating earnings were back in the black in 1986, reaching close to 7 billion francs in 1988 and in 1989. The Group's net financial indebtedness was cut to the equivalent of 10.1% of yearly revenues in 1989, with French State aid accounting for one-quarter of this improvement. By 1989 output had returned to 1983 levels of 2 million passenger cars and small commercial vehicles - but this time around Renault made a profit of 6.9 billion francs, whereas six years earlier it had lost 1.8 billion.

This rapid lowering of the "breakeven point" was primarily the result of massive job cuts. Renault re-focused its activity not only on the automobile product but also on everything that was considered at the time as essential to being a carmaker: model design; manufacturing of the main mechanical subsystems and body; and assembly. Renault had to get rid of a few subsidiaries that were profitable and strategic, but this was because it no longer had the means to fund their development, and such sales provided it with much-needed capital.

Starting in1985, Renault began to sell its 15% stake in Volvo back to the Swedish carmaker's other shareholders, and to withdraw from all of its joint ventures in Africa. The most significant sale of all was that of AMC. Although the American subsidiary had had its first year of profitability in 1984, sale volumes were lower due the American market's umpteenth reversion to more powerful models (and also because the Group design centre was so slow in adapting the R21). The impossibility of finding a partner willing to help manage and finance AMC convinced Renault in 1987 to sell its holding to Chrysler, and to again concentrate entirely on Europe. This renewed focus on Renault's home region was accompanied by a withdrawal from Latin America in favour of European subsidiaries. Renault Argentina, in which the RNUR had had a majority stake since 1975, became the CIADEA in 1992, a company in which Renault only had a 25% stake. The same thing happened in Columbia in 1994, with Renault cutting its stake in SOFASA from 74.5% to 23.7%. On the other hand, in 1991 it did buy 54% of its Slovenian assembler, Revoz, and a year later it took a 56% interest in its Turkish subsidiary, Oyak Renault. From 1990 onwards, Renault began to steadily acquire the 29% of its Spanish subsidiary that was still owned by the general public, achieving 100% control in 2000.

This re-focusing was accompanied by a complete reorganisation of the RNUR production apparatus. Starting in 1987, the Group's European factories in Belgium, France, Spain, Portugal and Slovenia/Yugoslavia were progressively integrated into a single industrial complex that supplied the whole of the European market. Plant production and distribution plans were determined and adapted centrally in light of each factory's workload and due to variations in demand. Models were assembled on at least two sites, except for top-of-the-range and "niche" vehicles. This integration and homogenisation was not achieved without a few problems, particularly at the FASA which through its own initiative and management had previously made a strong contribution to Renault's bottom line (Charron, 1998).

However, had the market not started to grow again (and above all, had Renault's timely strategic re-orientation not taken place), recovery would not have been as spectacular. Since RNUR was not able to make money with a volume-based strategy, it took the decision to emphasise quality (which implies higher margins) and to pay the price for the shift. Commercial policy was therefore re-oriented towards the Northern European markets, since they are more sensitive to quality - and more importantly, more able to pay for it.

The restoration of links with Volvo was a logical and well-planned part of this strategy. This process began in 1991, when the two groups exchanged participations in their automobile and truck activities [13]. In the passenger car market, the putative merger was meant to put the Group in a position where it could attempt to do the same thing as Mercedes and BMW will try after: offer a complete range of models and take a position in the upper niche of each market segment. This would have made it possible for Renault to achieve a better penetration of the Northern European markets and to prepare its return to the US. The two carmakers began to build up a base of common subsystems; study a platform for two of their models; and share suppliers. Last but not least, these crossed shareholdings were a means for Renault to steadily privatise its ownership structure (Lévy, 1994) [14].

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[13] Renault bought 25% of Volvo Car and 45% of Volvo Truck, with Volvo buying 20% of Renault and 45% of Renault Industrial Vehicles. RVI's market was more or less French-based and subject to wild fluctuations that caused the subsidiary to repeatedly spill red ink. The merger turned RVI-Volvo Trucks into the world's second largest group in this sector, behind Daimler-Benz.

[14] The attempted takeover of Skoda can also be analysed as part of this strategy. Volkswagen ultimately paid over the odds during this battle, thus forcing Renault to throw in the towel.

6. The well-timed move towards an "innovation and flexibility" strategy : 1993-1998

The bursting of the financial bubble lead to a new confrontation between firms and national economies. However, these new battle conditions were not the same as in 1974-1984, as inter-firm discrepancies in competitiveness had diminished instead of grown. Modes of growth in the United States, France and Italy had shifted towards decentralised wage bargaining so that factors related to external competitiveness could be taken into account. Income distribution, having become more inegalitarian and variable, caused automobile demand to change at both a quantitative and a qualitative level.

At the same time, the "Eastern" countries were going through economic transition, and the so-called developing countries were "emerging" industrially. The disorganisation that followed the Communist regimes' implosion lead to lower automobile production in the countries affected (dropping from 3.56 million units in 1988 to 1.66 million in 1994). Several carmakers were put up for sell and some were taken over by European or Korean manufacturers. The ostensible dynamism of Southeast Asia, China and of several Latin American countries attracted both capital and industry.

The bursting of the speculative bubble and the restrictive budgetary policies which the European governments felt they needed in order to cope suddenly deprived Renault of a clientele that could pay for the "quality" that was the basis of its new strategy. These difficulties reinforced the Volvo shareholders' lack of trust, and in the end they refused to ratify the merger between the two carmakers. The divorce took place without too many financial consequences, given that the alliance had basically been built around a share swap. However, Renault's chances to pursue a quality strategy (and, as a corollary, to penetrate new markets) became increasingly remote.

Thankfully, Renault had twinned its "quality" project with a "living cars" concept that emphasised comfort and friendliness over aggressiveness and speed (Pointet, 1997). The launch of a "different sort of vehicle" was particularly well-timed. Changes in Europe's growth modes, which were moving in a more "competitive" direction, had led to the emergence (next to the traditionally hierarchical demand of wage earners with predictable incomes of a new type) of a new demand from those sectors of the population who were benefiting from the new forms of wage earning and of income, and who were looking for vehicles with varying practical and symbolic usages (Boyer, Freyssenet 2000b). Comforted by the success of the Espace, Renault further innovated by building up a whole range of passenger vans (the "monospaces"), with the Twingo (1993) as a bottom-of-the-range product, and the Scenic (1996) in the midrange. Later came the Kangoo (1997), a half-commercial and half-passenger vehicle; the Grand Espace (1998); the off-road 4-by-4 Scenic (2000); the Avantime (2001), a top-of-the-range three-door coupé passenger van, and the Vel-Satis, an original designed luxurious car.

These models did not suffer from the fact that Renault had withdrawn back to Europe. Quite the contrary, their success can be explained by the fact that they were appropriate for the new clienteles in this part of the world. They limited the losses that Renault was incurring in the saloon car segment (following a weakness in its "traditional" demand) and ultimately became the RNUR's main source of profit. For four years in a row (1993 to 1996) the Company's value added was less than its breakeven point[15]. Yet the problems that Renault now faced were different from those that had brought it to the brink of bankruptcy in 1984. In 1996, net consolidated financial debt was equivalent to 5.1% of yearly revenues; cash flow was positive, and equivalent to 3.8% of the same measure. Renault carried out a vigorous cost-cutting programme, closing three small assembly plants: Creil in France (part of a joint venture with PSA); Setubal in Portugal; and Vilvorde in Belgium. The latter was the only to cause any real protest in Europe. In any event, and thanks also to the market's recovery, Renault's earnings have been strong since 1997 (see statistical appendix).

The "innovation and flexibility" profit strategy to which Renault has been de facto committed since 1993 is only viable under certain conditions. The firm has to be able to regularly generate internal teams who are capable of innovative designs. Its salespersons must be aware of customer expectations and able to communicate such desires, usefully and quickly, to the designers. It has to be responsive all the way down the value chain, from the design through the manufacturing to the marketing phase: so that it can respond rapidly to the expectations that are being expressed by the new segments in society; and in order to be able to reconvert production apparatus and employees in the aftermath of successes and failures whose magnitudes it cannot really predict beforehand. It must have a low breakeven point, a low integration rate and enough financial independence to be able to survive the failures that this type of strategy inevitably entails. Finally, the employment relationship it builds must be such that the Company can get its employees to demonstrate whatever level of creativity and flexibility is required in any particular circumstance (Boyer, Freyssenet, 2000a). Has Renault been able to fulfil the prerequisites for this profit strategy?

The RNUR has kept its traditional range of saloon cars alongside the range of innovative vehicles that it has developed in recent years. Of course, until now no carmaker has had any long-term success in pursuing these two product policies simultaneously. After all, the two orientations are supposedly based on two "profit strategies" that are incompatible (Boyer, Freyssenet, 2000a). Renault started out by creating an Industrial Design Centre in 1988 to strengthen its preparatory studies, a decision that seems to have been moderately successful in innovation terms. In addition, the Group has also organised and centralised its design function into a matrix-like structure (with cross-departmental studies of the subsystems which are going to be used on the vehicles that are still in the planning stages being carried out "perpendicularly" to the normal subsystem studies). This is more adapted to a "volume and diversity" strategy than to one that is based on "innovation and flexibility". The same applies to Renault's manufacturing function. Operators are polyvalent; they work in EWUs (Elementary Work Units); and working times are flexible – all of which comprises more of a response to the requirements of a "volume and diversity" strategy rather than to one which is based on "innovation and flexibility". Renault had not prepared itself to be responsive to the success or failure of a model – but it has had this experience with the Scenic. It took a long time before reconverting its manufacturing lines and employees so that they were able to respond to the unexpected demand for this model. Citroën and Opel put this delay to good use, launching rival models in the meantime.

[15] Despite the fact the Renault SA's breakeven point was higher than it's the added value it produced (meaning that it was losing money on every car it sold), net Group earnings were strong in 1993, 1994 and 1995, primarily due to good performances by RNUR financial and foreign subsidiaries. Total 1996 losses of -5.2 billion francs would have been much smaller had Renault not tried to build up reserves in one fell swoop to cover all of the costs of closing the Vilvorde plant in Belgium (4 billion francs).

Renault's integration rate plummeted on the other hand, providing it with a greater ability to survive future failures. This rate dropped from 24.8% in 1988 to 10.8% in 1996. Similarly, having the State as its main shareholder gave Renault the freedom to take risks, something that is indispensable in an "innovation and flexibility" strategy.

It is true that it takes a long time to create coherency between a given socio-productive configuration and the profit strategy that a firm is pursuing. This means that the firm is going to have to develop its own "company governance compromise".

Another explanation for Renault's not having made a clear choice in this respect relates to its uncertainty regarding the way in which income distribution is going to develop in Europe. European countries have introduced rules that are more competitive in nature, but these new rules do not apply in all sectors of activity and there is no intention of privatising the benefits system. Hence the trend towards an emergence of new social segments (as a result of the vagaries of interpersonal competition) is neither as significant nor as clear-cut in Europe as it is, for example, in the United States. Renault's strategic hesitation thus becomes more understandable - although the RNUR will ultimately have to make choices in this area, especially since it has decided to become a carmaker of global proportions.

7. The "Asian" crisis and the globalisation drive: 1998 -?

In the mid-1990s, many people felt that globalisation was the new "one best way" upon which future profitability would be predicated. Occasionally two-digit growth in certain emerging countries seemed to augur well for the irreversible nature of their economic take-off, and many decision-makers felt that it was paramount not to miss the boat. A complete liberalisation of capital flows was supposed to eventually lead to a totally globalised market. The Triad countries' economic cycles began to decouple, and this justified making immediate attempts to penetrate their markets in an effort to offset lower sales in one region by increases in another. The constitution of new regional units such as the Mercosur, the renewal of the ASEAN, the Central European countries' attempts to join the European Union - all of this augured well for the existence of markets that would be increasingly vast and solid. More and more people laid plans for setting up facilities in emerging countries – with many of these plans actually materialising.

Renault was in tune with this movement but remained circumspect. In 1997 it retook control of its Argentinean subsidiary, and also decided to create an assembly plant at Curitiba in Brazil, returning to this country after an absence of a quarter of a century. These operations were conducted via the COFAL (Financial Company for Latin America, a 70% subsidiary) and through associations with local investors: small shareholders in Argentina (49%), the State of Parana in Brazil (40%). The following year Renault founded Avtoframos in Russia, in conjunction with the Municipality of Moscow, which placed at its disposal some of the facilities at Moskvitch, a car manufacturer in which it was the majority shareholder.

In the end however, the emerging country boom remained relatively speculative in nature. By mid-1997, investors and lenders had taken fright at the mountain of debt that was accumulating. Starting from Thailand, the crisis spread progressively like dominoes to countries in Southeast Asia and Korea, and then to Latin America before finely reaching Russia. It plunged Japan back into the economic swamp from which it had been struggling to extract itself since the first financial bubble. Hopes of a recovery in the world automobile market, this time thanks to the emerging markets, were dashed again.

This turnaround, which was bothersome but not particularly dramatic for Renault (due to its comparatively lower investment outlays), actually turned into a significant opportunity for it. Having accumulated some financial reserves and with renewed confidence in its products, Renault began to explore the possibility of acquiring a Korean firm. During this search it discovered that there were much greater opportunities in a country that up until recently had been a source of terror - Japan. Firms that were considered to be emblematic of the so-called Japanese model, Nissan, Mitsubishi and Mazda, were in fact in serious danger.

In order, Renault acquired Nissan (taking a 36.8% stake in March 1999)[16], the Romanian carmaker Dacia (80.1% in July 1999) and the Korean Samsung (70.1% in September 2000). In January 2001 it sold its trucks subsidiaries RVI and Mack Trucks to Volvo Global Trucks, taking a 20% share of the capital and of all voting rights, and thus becoming the main shareholder [17]. In less than two years, it had refocused on passenger and small commercial vehicles[18] and "on paper" at least it had attained a global mass in this field, whilst maintaining a foothold in large commercial vehicle sector[19]. As a unit, Renault-Nissan accounted for 9.2% of the world market in 2000, making it the world's fifth largest automobile group[20]. Renault set itself a target of 4 million vehicles in 2010, including 50% sales outside of Western Europe.

Questions remain as to Renault's real motivations for its recent actions. Up until a short time ago, people had viewed Renault as a prey in future takeover battles. Do these recent actions comprise a desperate flight into the future; an audacious but potentially highly successful taking of risks; or an opportunistic behaviour that is the product of a carefully thought out strategy? Everything depends on the success or failure of Renault's alliance with Nissan. Ever since this agreement was signed, it has been easier to evaluate the risks (Nissan's high debt levels; potential social problems; misunderstandings and incomprehension between the partners) as well as the potential upside (similar product ranges in certain segments enable a sharing of platforms and mechanical subsystems; co-ordinated and pooled purchasing; a marriage between Renault's stylistic

[16] Renault also bought 22.5% of Nissan Diesel, the commercial vehicle subsidiary of Nissan, as well as 100% of Nissan's financial subsidiaries in Europe. It has an option to increase its stake in Nissan Motors to 39.9% within 4 years after the agreement's signature, and up to 44.4% in the fifth year, at a price of 400 Yen per share. Nissan also has the possibility of later acquiring a stake in Renault.

[17] These 20% correspond to 15% purchased in exchange for 100% of RVI and Mack Trucks and to 5% bought in the market. Renault is committed to not exceeding a 20% stake, except in the event of a takeover or an attempted takeover of AB Volvo by a third party, or if one of the current shareholders' participations exceeds Renault's. AB Volvo, a minority shareholding of the Group, is currently the world's second largest truck manufacturer, behind Mercedes and far ahead of Paccar, Navistar, Scania, Man and Iveco. Nissan Diesel is not part of this agreement.

[18] Renault signed an agreement with General Motors Europe in 1996 to market GM's Master (renamed the Movano), and above all to jointly develop a replacement for the Trafic, which was being sold in 2001 under the name of the Renault Trafic and the Opel Vivaro.

[19] The agreement between Renault and Volvo was acceptable to the European Commission, as long as Renault took back its Coaches business (which two years before it had put into a 50-50 joint venture called Irisbus, together with Fiat's Iveco). Renault preferred to sell its shares to Iveco.

[20] In 2000, Renault-Nissan was behind General Motors (14.4%), Ford (12.8%), DaimlerChrysler-Mitsubishi (11.2%) and Toyota (10.4%); just in front of Volkswagen (9 %); and far ahead of PSA (5.1%) and Fiat (4.7%).

competency and Nissan's mechanical excellence; complementary markets; the utilisation of each firm's under-employed capacities; joint research efforts; establishment of joint sales organisations in certain parts of the world, etc.).

In two years, Renault spent 36.3 billion francs (5.53 billion Euros) on acquisitions [21]. Yet its debt in 2000 remained at an acceptable level, equivalent of 11.9% of its yearly turnover. Nissan was able to cut its enormous debt more quickly than expected thanks to rapid asset sales and dramatic cost-cutting, to such an extent that it made a positive contribution to Renault' s earnings in 2001 despite a market that was relatively morose. The financial risk seems to have faded away - but what has happened with the expected synergies?

Co-operative arrangements have been actively implemented and are starting to produce results. A first shared platform will be ready in 2002 for (entry-level) B segment vehicles. This will act as a basis for future models such as the Nissan Micra, March, and Cube, and for Renault's Clio and Twingo models (1.7 million vehicles in total). A decision has been taken to develop a second shared platform for the C segment, i.e., for models such as the Nissan Almera and the Renault Mégane (2 million vehicles in total). By 2010, the two marques' number of platforms will have been cut back to just 10. Mechanical subsystem exchanges have been decided [22] and the joint development of a small direct-injection diesel motor has begun. There should be eight families of shared engines by 2010, and seven families of gearboxes. Purchasing co-ordination commenced in 2001, and should save US $ 1.4 billion by 2005 compared with 1999. Mexico saw the first Renault vehicle to roll off a Nissan line (a Scenic, in December 2000). Nissan's new pickup truck, the New Frontier, will be assembled in Renault's Brazilian plant during the course of 2002. Renault has already returned to the Australian, Japanese, Peruvian and Taiwanese markets thanks to the commercial support it is getting from Nissan. In addition, the acquisition of Samsung, which is to steadily build up a range of original Renault or Nissan models and adapt them to the Korean market[23], will allow Renault to be the first foreign carmaker to penetrate this market, providing it with further opportunities for development in Asia.

Dacia has been assigned a totally different target. By 2004 this firm must produce a "reliable and modern" 5,000 Euro vehicle that can target the markets in Eastern Europe and in the "emerging countries". With this project Renault has given itself entirely over to a conceptual innovation strategy that consists of responding to latent demand from the population segments in these countries that are in a position to be able to move from a "two-wheel" to "four-wheel" vehicle - as long as they are offered something that is reliable, functional, inexpensive yet socially presentable. Chrysler had spent some time thinking about this idea but gave up on it after the merger with Daimler. With its Dacia project, Renault is running the risk of offering a car that is completely original and specific. Furthermore, it is declaring that it wants to pursue an innovative product policy in

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[21] 32.3 billion francs for Nissan, nearly 450 million for Dacia, 1.7 billion for Samsung and 446 million for AB Volvo - to which we should add for 636 million for Bennetton's Formula One stable, 419 million as part of a capital issue for the Avtoframos Russian subsidiary and 308 for the same sort of operation in Turkey.

[22] Renault will be using Nissan's 3.5litre V6 engine for its top-of-the-range models, plus its four-wheel drive transmissions for future off-road vehicles. Nissan will be putting Renault stick shifts into its smaller models.

[23] Samsung is producing a top-of-the-range saloon car, the SM5, that is derived from the Nissan Maxima. In 2002 it will come out with a model for the C segment, also originally a Nissan.

the name of its own marque, something that is confirmed by the types of models that it has been announcing.

Hence our two final questions: will the Renault-Dacia innovation strategy be compatible with a commonalisation of Renault, Nissan and Samsung platforms; and will Renault's innovative models suit regions for which they were not designed? In other words, will the alliance with Nissan reinforce Renault's currently successful orientation, or will it harm it?

Conclusion: what profit strategy for Renault-Nissan Alliance?

Although Renault has up until now had a good deal of luck with its innovative models, and even though it has maintained de facto independence thanks to its majority shareholder (the French State), it remains that the RNUR has not developed enough responsiveness to keep competitors from copying it rapidly, and from eating away at the innovation rent that is the source of its profits. Opel and Citroën, with their Zafira and Picasso models, have already taken more than 50% of the European midsize passenger van range that Renault actually invented, and which it could have easily dominated had it saturated demand and got rid of its models' inevitable initial defects. Now, it is obvious that to improve and ensure the commercial future passenger vans, specific platforms will have to be used. What will happen when Renault vans have to share their platforms with traditional Nissan models?

Are the new population segments in Latin America, Russia or Asia really looking for innovative vehicles? The practical and symbolic expectations inherent to social differentiation are closely related to local or regional contexts, and to a particular social segment's own historical trajectory. They expressed through codes that are very difficult to understand, and especially to invent, for designers who come from other parts of the world.

Thus there are only three hypotheses for Renault and Nissan. First of all, the two carmakers can split up their roles: with Nissan taking a traditional product range that has been severely rationalised so as to accommodate a reduced number of platforms, and which responds to demand from segments in the population that have remained stable and moderately hierarchical; and Renault in charge of innovative models for those new social segments that are so very fond of consumption-based differentiation. Between both of them they would cover the two types of demand that comprise the lion's share of today's market. The question remains however as to where we can find, in this hypothesis, those synergies that will justify an "alliance" that is so costly in terms of the financial and human resources it requires.

The second hypothesis has the two manufacturers adopting one and the same strategy, meaning either that Nissan adopts Renault's "innovation and flexibility" or that Renault adopts Nissan's "volume and diversity" strategy. In this hypothesis the alliance is fully justifiable. However, if Nissan rallies the "innovation and flexibility" strategy, on its own markets it will in direct competition with Honda, which has long been prosperous in this domain. If Renault reverts to the "volume and diversity" strategy, it will again be in direct competition with Volkswagen and PSA, which are far ahead of it. It may also have to compete with Fiat-Opel, that is if their alliance pushes through.

There remains a third path, one that consists of overcoming any structural incompatibilities between the two firms' respective profit strategies. This would involve making it feasible at the product design level to commonalise those parts that are being used in both traditional and innovative models, and which are therefore destined for markets that are also far from homogeneous. At the production level it would involve creating a modicum of compatibility between the flows' regularity and the reconvertibility of tools and of persons. All in all, this is no more or less than the invention of a new automobile architecture; and of a new socio-productive model. The revolution to be fought is as important as the one that General Motors carried out during the 1920s and 1930s, back when it created compatibility between volume and diversity by designing both shared platforms for car models that were economically and socially similar, as well as a production system that provided it with the polyvalency which its equipment and employees needed.

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