An In-Depth Look Under the Hood of the Renault-Nissan Alliance

By Antonio Nieto-Rodriguez and Ludo Van der Heyden

Carlos Ghosn speaks at a press conference in Las Vegas, Nevada, on Jan. 9, 2018.

Implementing corporate and business strategies that create value typically involves successfully running business operations as well as the execution of a number of strategic projects that help retain current business while capturing or creating future business.

On average, up to 30 percent of an organization's resources—such as staff, time, and budgets—will be dedicated to project-related activities. Digitization combined with constant, rapid change and fierce competition will likely generate large transformation initiatives composed of hundreds of projects and consume significant amounts of a company's resources. Yet, current corporate governance literature offers no guidance on how boards can oversee these strategically important resources. Understanding how projects unfold has become a critical area of competency for boards if they are to successfully face digitization and other major transformations in the coming years.

In the following anonymized, real-world example, we examine the consequences of poor board oversight in the execution of a strategic project, which brought the company to the brink of bankruptcy. We subsequently look at Renault-Nissan as a case study example of how a board can create a tremendous amount of value by proactively sponsoring and supporting the execution of a worldwide strategic initiative.

When Project Execution Fails

ABC Inc. is a leading importer of Asian-manufactured goods in the Netherlands. Its range and scope of products had been steadily increasing over several decades and some of its product lines have gained prominence in some European countries. The company operates as a local importer in the Netherlands and aims to take one of its major project lines national in European markets.

In the late 1990s, the company's executive committee, with the consent of the board, decided to enter Germany. The latter country is similar to the Netherlands in many aspects, and ABC's board had a German representative who was quite experienced in the industry.

At the time, the strategy was simple: take some of the same brands currently selling successfully in the Netherlands and sell them in Germany through the acquisition of retail outlets. Both the board and management considered the venture a geographic business extension as opposed to a major strategic project as this was something that had been successfully done with other, smaller product lines. Neither management nor the board saw it as a major strategic project. It would be carried out by management, under the leadership of the group CEO, as part of normal business operations.

In the meantime, ABC's main competitor in Germany aggressively countered by convincing some of ABC's primary Asian exporters to abandon their exclusivity agreements. As a result, ABC had to reduce its ambitious expansion plans in Germany. At the same time, the retail outlets that ABC acquired were underperforming and proved less valuable. Clearly, the board didn't thoroughly assess the competitive and entry risks when approving the project.

Initial setbacks and performance delays were seen as temporary and acceptable. A dedicated project oversight structure was finally set up, but by that point, ABC's board refused to relinquish the project and retreat. Operations in Germany were finally stabilized, but at a loss of nearly a decade's worth of corporate profits.

This is just one of many other stories where the board and management lack focus, choose the wrong strategic initiatives to invest in (or paid too much for them), are unable to prioritize with regard to other activities, and neglect to implement a strong governance model to oversee the successful execution of the project. And going forward, most companies will need to rely on successful strategic transformation projects as the speed and complexity of the digital age will challenge firms and boards to an unprecedented extent.

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The Board's Vital Role

Engaging boards in the implementation of a transformation project is vital, as is evidenced by Renault-Nissan, which has become the largest car manufacturer in the world—overtaking Volkswagen and Toyota—thanks to the board oversight of a strategic project.

Renault and Nissan signed an alliance on March 27, 1999 to work on a joint strategy on common interests. Both boards approached the alliance with due caution. Renault's board knew that Nissan was facing imminent bankruptcy. And Nissan's board was aware that the proposed 1993 merger of Renault's truck division with that of Volvo's tanked when Volvo walked away at the last minute, fearful for its loss of independence.

This time, both companies were focused on what both regarded as a vital project for their survival as major automobile manufacturers. But because both companies differed too much in terms of culture, the companies would remain autonomous, the alliance being first financial and then one of sharing know-how, which included Renault sharing its executive talent with Nissan.

As a result of the complex nature of the project, considerable attention was devoted to project governance and implementation. The two companies set up joint structures at three major levels: the board, with open communications between the two chairs and the alliance's major executive on the Nissan side, Carlos Ghosn; corporate, and business unit levels (Ghosn invited some of the major executive talent from Renault to join him); and operational level (with a number of joint project task forces where Renault executives were asked to fill in managerial deficiencies inside Nissan).

Initially there was some friction due to differences in dealing with employees, internal and external processes, customers, suppliers, and market partners. Specifically, Renault had to comply with new labor market and government policies that reduced the work week to 35 hours. Nissan, in contrast, was aggressively showcasing in Japan the merits of long working hours, self denial for the survival of the corporation, and cost cutting amid turnaround trauma.

Before this could threaten to divide the two automotive partners, their boards decided to form an entity focused solely on the coordination and governance of the alliance and its benefits. In March 2002, a strategic management board of the alliance was created in Amsterdam under the corporate name Renault-Nissan B.V.

The alliance board proved to be a major part of the solution in coordinating the project. It met once a month at a minimum and practically served as a program steering committee. This allowed the two companies to combine planning and execution while maintaining a large degree of independence. (Renault and Nissan managed their respective operations through separate executive committees that reported to the two companies' respective boards.) Of course, the fact that Ghosn was CEO of Nissan, Renault, and Renault-Nissan B.V. provided the necessary alignment at the top and reinforced the collaborative spirit between two very different companies.

The alliance board coordinated the mid- and long-range strategies of the two companies. This included all long-term planning for joint projects in advanced technologies and product development. Notably, the board made decisions about vehicles and powertrains, financial policies, change in geographic market coverage, and new-product development. The alliance board was also given the authority to create joint companies under Renault and Nissan and make decisions about new partnerships or large investments projects.

And the alliance had a positive effect on both companies' financial performance. Besides the initial $3.3 billion in cost savings, combined sales in 2004 reached 5,785,231 units. This represented 8 percent growth over 2003. The global market share of the Renault-Nissan Alliance—calculated by aggregating sales of both partners—reached 9.6 percent. Underlining the complexity of the alliance is that, on the Renault side, sales have not really increased, showing that each partner does not extract equal benefits from the alliance.

Building Project Execution Acumen

As shown in the case of Renault-Nissan, the board plays a critical role in value creation and the long-term success of the organization. Conversely, ignorance of the accountability duties by directors in these matters—as shown in the case of ABC—is a weakness in corporate governance which can have devastating consequences for corporations, destroying vast amounts of value, or actually being at the root of organizational collapse.

Today, few boards dispose of sufficient strategic project management and implementation capabilities to navigate in the current turbulent environment. Project management and governance expertise is hardly regarded as a key skill for directors. Indeed, few directors would boast of having the competence that Louis V. Gerstner Jr. considered critical in his successful turnaround of IBM.

This operational capability and know-how in terms of governance and execution of strategic projects is a must for boards in the digital age. As always, there are two sides to this coin: on one, good governance of strategic projects will avoid serious value destruction; on the other, good strategic project execution will be essential to navigating effectively in the digital age. It's not a question of whether success is related to best governance practices or to exceptional execution capabilities. Successful organizations build and must have both.

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