



The Volvo – Renault Case

The case of Renault and Volvo has resulted in the failure of the merger. This failure lies in the political aspect, as well as in the cultural one. Here, we will focus on the cultural divergences between Renault and Volvo regarding the corporate culture and more specifically the national culture. Indeed, several cultural conflicts created problems in the way of managing the organization and made the deal failed between the Swedish and French organization. In addition, the case helps us to introduce the notion of nationalism in the case studies as the companies had suffered from it through the company's members.

During the late eighties, the truck division of Renault was negotiating with Mercedes and Volvo in order to find a partner. The reason of this approach was for Renault to gain in size and be less vulnerable. Indeed, in the early 1990's, the economic context was tough due to a pessimistic market and Japanese competitors penetrating the European market at same time. In order to survive, it was necessary for companies to seek for alliances, involving restructuration and concentration. The Swedish manufacturer, Volvo, had a good brand image but its size was too small to survive and continue its activity alone. Those reasons made Volvo, the right potential partner for Renault.

A cooperative alliance between Volvo and Renault could have been beneficial for both companies. Undeniably, Renault owned a large range of cars and its geographic presence was complementary with Volvo, which was mainly present in upmarket vehicles. Renault was mainly established in Southern Europe, Maghreb and Latin America; Volvo was mainly present in Northern Europe and Northern America. The geographical compatibility between both companies was tremendous and could have led to massive synergies. Furthermore, Renault was strong where Volvo was weak, in small cars and in the south of Europe, and vice versa with Volvo strong in the truck market while Renault was not.

In 1990, the Swedish vehicles manufacturer Volvo and the state owned French vehicles producer established a strategic alliance. Renault bought 25 percent of Volvo Car and 45 percent of Volvo Truck. As a counterpart, Volvo bought 20 percent of Renault's car division and 45 percent of Renault's truck division (Les Echos, 2007).

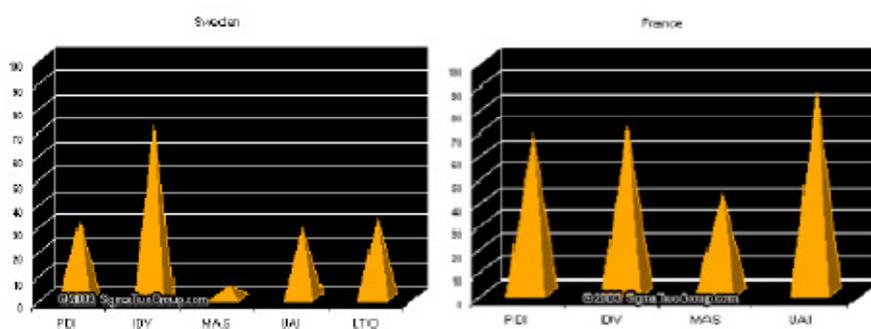
The cooperation between the two corporations was working well and nothing seemed to break this alliance. Indeed, both companies were constantly thinking about linkage and possible synergies, setting up common structures for the car division. This enthusiasm about the car division could have led to a unique organization for Renault and Volvo. Indeed, in 1993, Louis Schweitzer, chairman of Renault's supervisory board, and Pehr Gyllenhammar, chairman of Volvo's board of directors, revealed their project to establish a merger between the two companies. The merger would build a new company RenaultVolvo RVA that would become the sixth vehicle manufacturer and the second truck manufacturer. The project planned the development of shared production plants, distribution systems and employees' talents, and consequently cut costs. Renault would own 65 percent of the merged company and Volvo 35 percent (LesEchos, 2007).

After the deal was made, some cultural issues appeared. According to some analysts, those issues were regarded as cultural incomprehension. Renault and Volvo's executives ignored their differences in the national and organizational cultures. As we have seen in the theoretical part, when two companies are working together, they have to be aware that several cultural incompatibilities may exist between them at different levels [...].



First, there was a distinction in France and Sweden regarding the public weight and the government's role. Indeed, in France the government controls a large part of the industry, while in Sweden the system is more liberal and the Swedish government controls only a small part of the industry. Additionally, French people are considered as revolutionary, where individualism, ambition and public opinion are basic values. On contract, Swedish people are more modest, with a will to agree on a common opinion by always seeking a consensus. Inside Swedish companies, the structure is decentralized and there is more balance between powers, as well between the board of directors and the executive. In Volvo, Gyllenhammar wanted to remove this balance of powers, he tried to manage the whole company on his own but he failed to do so. In Sweden, it is not an appropriate behaviour to manage everything; parity in the tasks and decision process is necessary. Therefore, Gyllenhammar was criticized and recognized as a dictator.

We are aware that Hofstede's theory can be criticized, however we wanted to have a look at how relevant the theory was in the Volvo Renault case, and how coherent it would be and fit with what we have stated before regarding the French and Swedish cultures. Having a short look at Hofstede's cultural dimensions represented on the figure below, we can see that the French culture is characterized with a much higher individualism, while Swedes are more group oriented. Additionally, we see that the power distance is higher in France than in Sweden. Though we may question ourselves regarding the reliability of Hofstede's theory, we can see that a coherent analysis can be made with his cultural dimensions, and it may give a cultural understanding to people and show that cultural diversity exist between countries and should not be neglected as it was in the case of Volvo Renault.



Sweden and France Hofstede's cultural dimensions. Source: Itim International, 2010

Still regarding the differences in national cultures, there was another factor that made the merger failed: nationalism. In the theoretical part, we have explained that nationalism can have a negative impact on crossborder activities and create a barrier to exchange. In fact, nationalism expresses a way of thinking and doing things that looks normal for people living within the same country, and seems bizarre for the people living in another country. In the course of nationalism, people tend to separate the two groups and build a positive image of them and see others as inferior, which may lead to social consequences as we have seen in the case studies (Hall, 1995).

In Europe, nationalism is really present and has often been an obstacle for companies looking for a merger or an acquisition in order to consolidate the industry. The problem still remained in the case of Volvo and Renault. Volvo was perceived in Sweden as the jewel of the Swedish industry that was part of the national heritage and belonged to it. Swedes and Volvo's employees felt that the symbol of the nation's industry was given to foreigners that might not mind about the interests of Sweden and its workers. In the case of the merger between Renault and Volvo, the Swedish nationalism was the strongest because the French government, which would have a significant control on the merger entity, owned Renault. This led to a fear for the Swedes to lose their identity through the merger. Naively both companies put too much emphasis on the financial and industrial features, and not enough importance on the national and corporate values.

The failure of the merger between Renault and Volvo illustrates that national and corporate cultures, which is deeply influenced by the national culture, are important in order to merger successfully two companies from different countries and cultures. Each company is rooted into its national culture. This creates specific values, norms and ways of doing management different from a company to another. Therefore, before considering a crossborder merger it is necessary to pay attention to cultural aspect in order to create a new corporate culture, which might share the different national cultures with respect.