

DIXIEME RENCONTRE INTERNATIONALE DU GERPISA
TENTH GERPISA INTERNATIONAL COLLOQUIUM

La coordination des compétences et des connaissances dans l'industrie automobile
Co-ordinating competencies and knowledge in the auto industry

6-8 Juin 2002 (Palais du Luxembourg, 15, rue Vaugirard, 75006 Paris, France)

**RENAULT-SAMSUNG'S NEW STRATEGIC CHOICES:
FROM SCALE TO SCOPE**

Jun, HYUNJOONG
(Dongseo University, Busan, Korea)

Since the year 2000, the Korean economy has been rapidly changing and recovering. The pace of restructuring, globalization and liberalization that has accelerated over the past two years has attracted as much foreign direct investment in Korea as realized over the previous 30 years. The wave of acquisitions, equity partnerships, and strategic alliances involving domestic and major foreign carmakers has brought a new shape to the automobile industry. In particular, the merging of Hyundai-Kia and Renault-Samsung and the sale of Daewoo Motors to GM this year means there is no longer a sole, Korean owned automaker.

After more than five years as an independent carmaker, Samsung Motor was born again on September 1, 2000 as Renault-Samsung Motor (RSM). Renault acquired the majority share of the youngest Korean automaker, which previously belonged to the largest chaebol (multi-sectorial firm), Samsung Group [Jun H. (1998)]. The French carmaker is playing the most important role in RSM's development, but RSM needs Samsung's help, especially in the domestic market. The Samsung Group has knowledge and know-how that were acquired to produce diverse goods and services in its affiliated firms. Nissan has also partially contributed to the French-Korean carmaker's enhancement. The three companies would each play a role in RSM [Boyer R. and Freyssenet M. (2001)]. The alliance between the three firms (uni-sectorial firm [Renault and Nissan] and multi-sectorial firm [Samsung]) could be considered as an attempt to engage in joint competitiveness, organizational capabilities and mutual learning, and to enlarge their scope. Renault-Samsung Motors is preparing new strategies in customer service, marketing, finance, and e-business fields. The know-how, knowledge and experiences that Renault learned from the structural reform of Nissan could help RSM to establish new strategies.

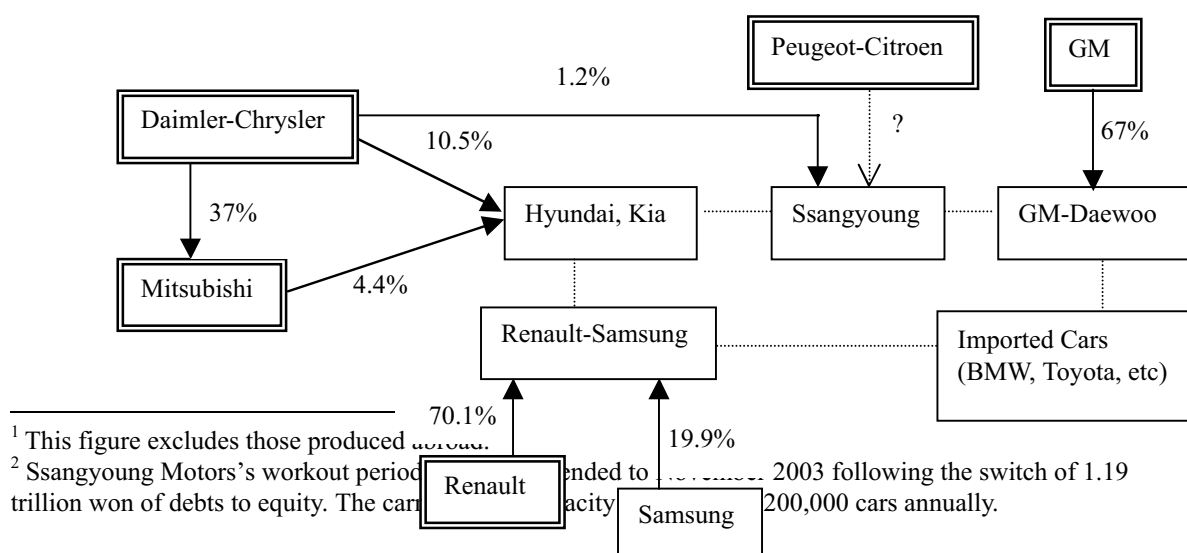
In this paper, I will analyze the recent changes in the Korean automobile industry and examine the particular form of the inter-firm alliance of Renault and Samsung and the effects of acquisition on the two carmakers. Also two cases of alliances and inter-firm relations, Renault-Samsung and Renault-Nissan, will be briefly compared. Finally, Renault-Samsung Motors' new management strategies will be studied as I examine the obstacles that the firm may confront in the domestic market and try to find solutions.

TRANSITION OF THE KOREAN CAR INDUSTRY

Korea supplied over 2.9 million units, 2.5 million passenger cars and 480,000 commercial vehicles,¹ in the year 2001. As a result, the country became the fifth largest car manufacturer, returning to its 1995 position after it had dropped to number eight during the financial crisis. The Korean car industry is rapidly being restructured through a series of mergers and acquisitions. The Korean auto market is scaled at 1.5 million vehicles a year, the second largest in Asia, behind only Japan. Hyundai Motor, the largest carmaker in the country, has a dominant 48.7 percent market share, followed by 27 percent for Kia, 11.8 percent for Daewoo, 7.7 percent for Ssangyoung, and 4.9 percent for Renault-Samsung Motors. This indicates that Hyundai and Kia together hold nearly 80 percent of the Korean automobile market.

Hyundai is expanding its bilateral partnership with Daimler-Chrysler. This German carmaker has proposed an acquisition of an additional five percent stake in Hyundai, in addition to Hyundai's sale of a 50 percent stake in its commercial vehicle division to its German partner and the joint development of an engine for commodity passenger car. Daimler-Chrysler will be marketing its Mercedes-Benz brands in the Korean market, using the sales network of Hyundai. The three-year-long negotiations to sell ailing Daewoo Motor to General Motors of the United States reached their full conclusion in May 2002. GM's acquisition of Daewoo and its presence within the fifth largest car manufacturer is likely to bring about an important change in the Korean car market. It seems that GM-Daewoo's new joint venture will not take much time in regaining Daewoo's former market share, 33 percent in 1997. Renault will occupy an important position in the Korean market, expanding multilateral cooperation with Nissan and Renault-Samsung Motors. RSM has contributed an effect of 10 trillion won and created over 80,000 new jobs in the Korean economy[KAMA, 2001]. RSM will enhance its market share in the Korean market, emphasizing scope. Recently, the French automaker Peugeot-Citroen expressed interest in taking over Ssangyoung Motors². If the French carmaker takes over Ssangyoung Motor, the Korean market will become a four-way market, with Hyundai-Kia, Renault-Samsung and GM-Daewoo.

[Figure 1] Structure of Korean Car Market (2002)



TRANSFER OF RENAULT-NISSAN'S EXPERIENCES

Renault-Nissan's innovation experience

The hard core of Renault's restructuring is a cost cutting realized at all of its divisions, including procurement, production, R&D and marketing. The cost savings improved Renault's financial structure and gave it the necessary funds to realize its globalization strategy. And the French company has chosen an effective globalization strategy. Renault has fallen in relative importance in the European market, closing plants in Belgium and Portugal, but the French carmaker has been extending itself into the Asian market, cooperating with Nissan and Samsung[Boyer R. and Freyssenet M. (2001); Fujimoto T. and Arturo H. O. (2001)].

Nissan's market share of the total world market dropped from 6.6 percent in 1991 to five percent in 1999. Nissan went into deficit in seven out of the eight years. There are four reasons the company is in trouble. First, the Japanese carmaker had considered profit less important than competition with its rival automakers. Second, Nissan didn't sufficiently research its customers. Third, Nissan didn't enter into alliances with other car manufacturers. Finally, the firm didn't have a vision or long-term plan. But, Nissan has built up an internationally solid reputation, a high technology, a good production line and excellent human resources. Cooperating with Renault, Nissan could enter numerous nations and markets and develop new car models[Hasegawa Y. (2001)]. In the Nissan Revival Plan (NRP), Nissan adopted strategies of cost cutting innovation and flexibility from Renault. The company chose strategies that emphasize "profit" and "customer needs".

Birth of Renault-Samsung Motor

Samsung Motor had been confronted by economic and non-economic difficulties just after its start. Because of the economic crises, the carmaker's liabilities became a heavy burden, but it also had to accept industrial reformation initiated by the government. The Kim Young-Sam government, in 1994, under the name of strengthening international competitiveness of Korean firms by liberal competition and enhancing the economy of the Busan region, had allowed Samsung to begin manufacturing automobiles. But, because the Kim Dae-Jung government had pushed ahead on 'big deals' (inter-firms business exchange) following the financial crisis in 1997, Samsung Motor had to abandon its automobile business. Samsung Motor had a high cost structure. At first, SM had invested too much in its plant site. The Busan plant site was more than twice as expensive as Hyundai's Asan plant site. At its start, the company recruited too many production line employees for two shifts, aiming to produce 240,000 units. RSM also cut down personnel expenses as compared with Samsung Motor. The cost cutting in RSM is relatively less important than others as compared with Renault and Nissan. Because Samsung Motor was a new company and was downsized in expectation of retirement from the auto market, additional cost cutting wasn't greatly needed when Renault took over the firm.

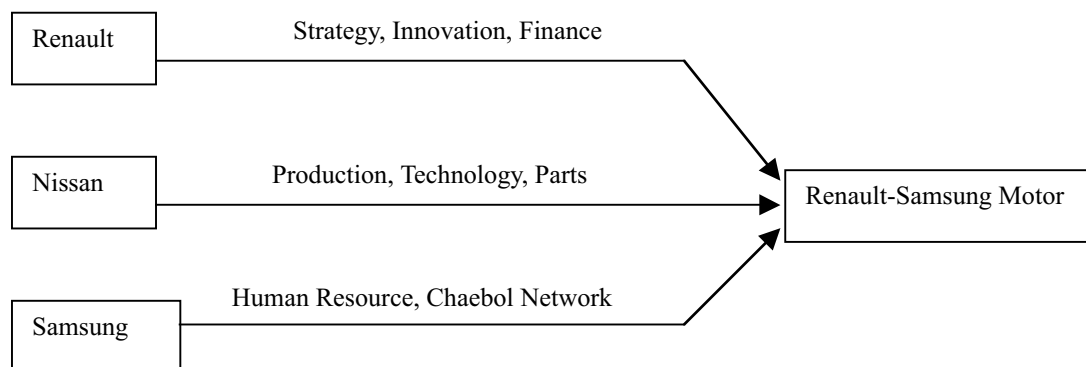
INTER-FIRM COOPERATION

RSM and Nissan, Renault's Japanese affiliate, are sharing platforms, but aren't using a joint brand in marketing and sales, to prevent consumer confusion. Nissan Motor is more interested in the joint procurement of better and cheaper quality parts for Renault and Nissan than selling Nissan cars directly in the Korean market. However, if RSM wants to sell Nissan

vehicles in the market, the company might consider the move. Samsung Group is a multi-sectorial chaebol, which produces diverse “hard” products, such as semiconductors, electronic products, airplanes, ships, etc. The largest chaebol in Korea also has affiliated firms that produce diverse “soft” products (services): finance, assurance, R&D and distribution, etc. Samsung’s network and economies of scope would contribute to RSM’s stable growth. In the event Samsung Group continues to contribute to the growth of RSM, RSM will be able to use a considerable portion of customer information, knowledge, capabilities, brand value and the network of the Samsung Group, especially in the domestic market. For example, RSM recently has linked with Samsung Card Co., an affiliated firm of Samsung Group, to develop the new RSM Card, which will provide benefits to consumers by offering differentiated services in specially affiliated stores.

RSM is also dependent on Renault and Nissan for help. RSM is receiving financial aid and experience in strategy, innovation and flexibility from Renault, and experience in technology and production management from Nissan.

[Figure 2] Inter-firms cooperation: Renault-Nissan-Samsung



Organizational structure

Samsung Motor had 6,000 employees, but about half of them quit the debt-ridden company and went back to the Samsung Group companies after M&A. Most Samsung Motor employees had come from affiliated firms in the Samsung Group, a multi-sectorial firm (chaebol) which has an “intermediate labor market” larger and more flexible than the internal labor market of the usual uni-sectorial firm. Presently, RSM is fully utilizing Samsung's human resources and has expressed the hope of retaining all of Samsung Motor’s employees and staff in the internal labor market. The company now has 4,000 employees, including production line employees for one shift.

RSM's organization is made up of personnel dispatched from Renault, Nissan and Samsung. Manpower coming from the three firms is sorted by task. At the highest level, Officers from Renault control RSM’s management strategy and financial management. Managers from Samsung mainly handle personnel management, marketing and public relations. Nissan's engineers control procurement management and guide technicians on the production line. Technicians on the production line come from Samsung Motor.

RSM has the organizational characteristics and culture of the Samsung Group, the largest Korean multi-sectorial firm (chaebol), which has efficient personnel management and training. Also, RSM, like the Samsung Group, has no labor union, relieving it of any conflict between labor and management. On the other hand, because of labor strikes, Hyundai has suffered great losses every year. RSM has this advantage over Renault and Nissan, which have labor unions. In RSM, there is a cooperative *Sawon* (employees) committee composed of employee delegates instead of an oppositional labor union. [Jun H., 1998]. The committee has coordinated the employees' well being and wages with management.

Ownership structure

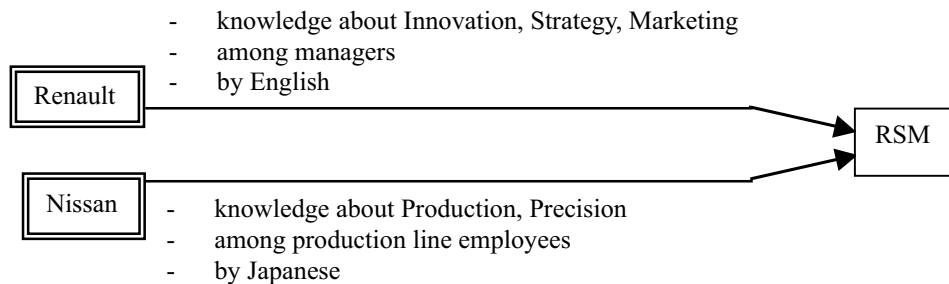
Renault and the Samsung Group planned to launch a joint venture company. Renault-Samsung Motors was established when Renault, one of the leading carmakers in Europe, signed an agreement for asset purchase with Samsung Motors, Inc. Now, Renault possesses a 70.1 percent share of the new firm, while the Samsung Group retains 19.9 percent and Samsung Motor creditors have 10 percent. Nissan had close ties with Samsung Motors even before Renault took over the Korean carmaker. In June 1999, Renault took a controlling stake in Nissan Motor. The common ownership structure will enforce cooperation among the three firms. Samsung couldn't have more than 20 percent of the shares of RSM, because the Group cannot admit RSM as an affiliated firm. Though the Samsung Group has only a 19.9 percent stake in RSM, the largest chaebol will have an effect on RSM's growth.

NEW BUSINESS CULTURE AND PATTERNS OF KNOWLEDGE TRANSFERS

A new business culture is forming at Renault-Samsung Motors with three different major shareholders, including Renault of France, Nissan of Japan and Samsung of Korea. In an emerging firm with three different corporate cultures, Renault, Nissan and Samsung have come to form a single organizational culture, enhancing the firm's productivity. This new corporate culture develops an open system of cooperation. The company calls this discussion-dominant, decision-making, and knowledge-transferring process the "cross-function" system[RSM, 2002]. This practice of the generation of more informed conclusions, which originates from the French automaker, comes out of free-style debates and promotes knowledge transfers among its employees.

The "cross-function" system works in the project team for the development of RSM's new model, *SM3*. The team is organized with one staff member from each of the carmaker's different departments, including finance, marketing, procurement, production and public relations. The team is fully qualified to make all of the decisions concerning the development of new models. The participation of Renault is enhancing the cooperation between Nissan and SM (now RSM), which is "more favorable" than before.

[Figure 3] Pattern of knowledge transfer



In the same company, traces of Nissan's culture, well known for its precision and meticulousness, are present. A total of 13 production engineers who served with the Japanese carmaker now work for RSM. The Japanese engineers have been placed at important places on production lines and have been known to pay attention to the minutest details of manual work, such as tightening bolts and nuts[RSM, 2002]. They also have transferred their knowledge and know-how. This kind of precision and knowledge transfer has helped pull down the defect ratio to almost zero in RSM's production of a total 80,000 units for the year 2001. The per-capita productivity of RSM has already overtaken Nissan. The production unit per hour recently increased to 55. The sales of RSM's *SM5* model almost doubled in the first three months this year over the same period in 2001, to about 25,000 units. The new business culture contributes to transfer knowledge and know-how from Renault and Nissan to RSM. The knowledge from Renault is transferred among managers in RSM and know-how from Nissan mainly is shared among production line employees.

RENAULT-SAMSUNG'S NEW STRATEGIES

Renault's affiliate in RSM has been developing a three-part strategy. The first phase will entail restarting full-scale production at RSM's Busan plant. The French-Korean firm will aim to achieve the break-even point by 2004, in its second phase, through the 2002 launch of the *SM3*, a local version of Nissan's *Bluebird* model. Finally, the Busan plant will be expanded, along with introducing production lines for new models. RSM has planned to produce 150,000 vehicles a year by 2004, reaching the break-even point. Now, it seems that the carmaker could reach the objective earlier. If the break-even strategy is successful, RSM's annual output capacity will rise to 240,000 units in 2005 before expanding further to 500,000 units. RSM has grown rapidly in a short period in the Korean automobile market. Since its launch, RSM has pursued aggressive marketing by expanding its sales network and improving after-sales service, as well as building a base for stable growth through continuing the differentiated marketing strategy, "Better & Different". The interest of the French-Korean firm is changing from scale to scope.

From scale to scope

By launching RSM, it increased the sales of its unique model, *SM5*. RSM sold 70,000 *SM5* units in 2001. The production of the French-Korean joint motor company went up to over 7,000 units a month in 2001, from under 3,000 units in August 2000. RSM now holds 25 percent of the mid-sized car market. The automaker aims to hike its current 7 percent market

share up to 10 percent by next year. RSM is currently proceeding with 15 projects to reach BEP(Break-Even Point) in 2004. Therefore, the year 2001 is a pivotal year for RSM and profit can be realized in the near future. The carmaker's annual production is projected at 150,000 units in 2003 and 240,000 units in 2005. RSM has mid-term plans to reach 500,000 units in production annually and export 50 percent of its total production to overseas markets.

Until the year 2001, RSM emphasized a growth strategy by economies of scale. The carmaker produced only the *SM5* model and its quantitative growth for scale was led by the sales increase of the *SM5*. From the year 2002, RSM started to pursue a growth strategy by economies of scope. The company presented a new *SM5* model, *2002 SM5*, at the beginning the year and also debuted a new sub-mid sized passenger vehicle called *SM3* in the second half of 2002. RSM will introduce four to five new models, *SM4* through *SM7*, and a multi-purpose car following the *SM3*. In the Korean car market, there were only 40 Korean vehicle models (Hyundai 15, Kia 13, Daewoo 6, Ssangyoung 4 and Renault-Samsung 2) in May 2002 (42 models in May 2000) as compared with more than 250 models in the European market. A company that has more car models has a better opportunity in the domestic market.

Recruitment

The recruiting system in RSM is more flexible than in Samsung Motor. The carmaker has diversified its recruiting time and process. RSM is reconstructing a sales and A/S organization. The carmaker recently put 700 more salespeople on its payroll and opened 39 new sales outlets in the country. RSM uses a needs-based rolling recruiting system rather than the annual one-time recruiting system available at Samsung Motor, as at a majority of Korean firms. To launch the new *SM3* line in the second half of 2002, RSM is scheduled to hire 200 new employees as customer advisors (CAs). These employees make up the sales force, with half of those recruited allocated to entry-level sales staff, and the other half allocated as experienced sales professionals. As usual, it takes eight to ten years for an entry-level CA to become a branch manager. Entry-level CAs has the opportunity to go global via RSM's overseas network. The French-Korean carmaker is tapping into exchange programs for sales positions through Renault's overseas network. RSM is planning to offer internships for research positions in the near future. On the other hand, because of increasing production, trainees in the training center are posted in the production line. The employees who have experience are recruited on-line and off-line.

E-business

RSM presently is concentrating on e-business for its customers, B to C. The company has recently planned a number of special events to celebrate the newly launched site, which offers updated services, such as a guide to all the branch shops and employees, and includes a separate corner for requesting free brochures, consulting and professional advice on purchases.

The French-Korean carmaker began an Internet auction service for used automobiles in March 2002, to give Korean customers more opportunities to purchase used cars. This service also includes consulting, where a car expert advises the automobile seller on the proper price for the automobile to be put up for auction. The used vehicle market could be standardized through this program, which would benefit customers[RSM, 2002].

RSM, in April 2002, formed a strategic alliance with Yahoo! Korea for a "fusion marketing on-line" business. The on-line program will take its marketing one level higher

from advertisements. RSM's customers can find an RSM site on the Yahoo! homepage and the company offers a number of promotions to Yahoo! members. The new marketing project will be especially effective in promoting its new SM3 model, to be launched in few months. Customers in their 20s and 30s, who are the largest Yahoo! netizen group, are targeted. Yahoo! is the exclusive on-line marketing agent for RSM, thus resulting in a synergy effect for all [RSM, 2002]. On the other hand, the Samsung Group, which has the biggest on-line network in Korea, will contribute to the development of RSM's on-line marketing.

Globalization

With the Renault-Nissan alliance, RSM can be provided with global competitiveness, contributing to the growth of the Korean economy and auto industry. RSM has been working out plans to export the *SM5* and *SM3* to China, Russia, South America, the Middle East and Pacific Rim countries. But Renault has an agreement with Nissan that Renault-Samsung will not export any cars to Japan. To increase the amount of export to China, the company is building up a dealer network and an A/S network. RSM places more emphasis on the export of finished products.

In the beginning, RSM imported parts from the same Japanese suppliers as Nissan, but now the firm procures most of its parts domestically. Since the year 2002, RSM has begun looking into procuring its parts from other countries, such as France and Germany.

OBSTACLE AND SOLUTIONS

RSM has several kinds of obstacles to continue stable growth. First, the *SM5* model is classic and old. *SM5* is a unique model line, launched by Samsung Motor. Second, the communication among managers and employees from three nations can be difficult to keep harmonious. RSM's managers communicate with each other through a foreign language, English. Third, the marketing and A/S networks are insufficiently prepared, as compared with other carmakers. Finally, the network of parts suppliers collapsed with the withdrawal of Samsung Motor.

I propose a few solutions to clear these obstacles. RSM has to diversify car models. The needs of Korean customers are rapidly changing. The birth of GM-Daewoo alliance will result in more diversified auto models in the Korean car market. The parts supply network must be more stabilized and diversified. Finally, RSM has to expand to foreign markets and enlarge its e-business, but also the company has to utilize Samsung Group's network for its success.

CONCLUSION

In this paper, I analyzed the transfer of Renault and Nissan's experiences to Renault-Samsung and the subsequent inter-firm cooperation. RSM received not only financial aid, strategic capabilities and innovative plans from Renault, but also operational capabilities and technical support from Nissan. Samsung is a multi-sectorial firm (chaebol) that would increase the effect of economies of scope, participating in diverse industries. RSM is set on a strategic course, which is emphasizing scope, more than scale. This strategy will enhance the carmaker's market share in Korea.

Enhancing its alliance with the Samsung Group, RSM can increase the benefit from its economies of scope. The carmaker will be able to use a considerable portion of Samsung's customer information, knowledge, capabilities, brand value and network, especially in the domestic market. It seems that the synergy effect of economies of scope is maximized by the inter-firm cooperation between the uni-sectorial firms (Renault and Nissan) and multi-sectorial firm (Samsung).

REFERENCES

- Atkeson Andrew, Kehoe Patrick J., "Measuring Organization Capital", *NBER Working Paper*, N. w8722, January, 2002.
- Blonigen Bruce A., Davies Ronald B. and Head Keith, "Estimating the Knowledge-Capital Model of the Multinational Enterprise: Comment", *NBER Working Paper*, N. w8929, May, 2002.
- Boyer Robert, Freyssenet Michel, "Les uns fusionnent, les autres pas. Quelles recompositions de l'industrie automobile mondiale?", *9th Gerpisa International Colloquium*, GERPISA, 2001.
- Carr David L., Markusen James R., Maskus Keith E., "Estimating the Knowledge-Capital Model of the Multinational Enterprise", *NBER Working Paper*, N. 6773, October, 1998.
- Cortada James W., *Rise of the Knowledge Worker*, Butterworth-Heinemann, 1998.
- Dankbaar Ben, "Scale and Scope. Strategic Choices in the German Passenger Car Industry", *9th Gerpisa International Colloquium*, GERPISA, 2001.
- Davenport Thomas H., Prusak Laurence, *Working Knowledge*, Harvard Business School Press, 1998.
- Fujimoto Takahiro, Arturo Heller Daniel, "Recent Trends in Alliance-Enabled Capability Building: Implications for Firm Performance in the Global Auto Industry, *9th Gerpisa International Colloquium*, GERPISA, 2001 .
- Genua Aldo, *The Economics of Knowledge Production*, SPRU, Ed. Edward Elgar, 1999.
- Hasegawa Yozi, *Ghosn-San No Shita De Hatarakitai Desuka*, Nihon Keizai Shimbun, 2001.
- Hu Albert G. Z., Jaffe Adam B., "Patent Citations and International Knowledge Flow: The Cases of Korea and Taiwan", *NBER Working Paper*, N. w8558, October, 2001.
- Jun Hyunjoong, "Le changement de structures des grandes entreprises automobiles (Chaebols) et leurs nouvelles strategies d'internationalisation : depuis la crise economique de novembre 1997", *The Spaces in the World Automobile Industry*, sixth international colloquium, Paris, 4-6 June, 1998.
- Jun Hyunjoong, "Hyundai Motor's de-Chaebolization Effects", *9th Gerpisa International Colloquium*, GERPISA, 2001.
- Jung Arlena, Simeuhovic Vlado, Klemm Matthias, Schmidt Gert, Srubar Ilja, "Culture Matters: The VW-SKODA Merger", *9th Gerpisa International Colloquium*, GERPISA, 2001.
- KAMA, *Journal of KAMA*, monthly, 2001-2002.
- Renault-Samsung Motor, <http://www.renaultsamsung.com>, 2002.