

*Tomàs Fernández de Sevilla*  
Université Libre de Bruxelles (Belgium)

## International Business in Southern Europe: Renault in Italy, Portugal, and Spain (1908–2007)

### *Abstract*

According to Peter Buckley, business history provides sources for testing international business theory such as internalization theory; the eclectic paradigm; the Uppsala internationalization process model; the evolutionary theory of the firm; and the resource-based view of the firm. For her part, Mira Wilkins has highlighted that an important contribution from business historians is to instil recognition of the complexity of business enterprises as they emerge and mature, as managers and managerial directions change, and as the environment in which managers operate takes on different characteristics. Furthermore, as Julian Birkinshaw explains, the MNE subsidiary can be used as the primary unit of analysis, considering that it has its own strategy and makes effective use of its far-flung network. Using a business history approach, the aim of this article is to study how Renault entered Spain, Italy, and Portugal, and how it evolved its presence over time. This article shows that the development path of Renault subsidiaries in Southern Europe has not only been determined in the MNE headquarters, but also through the subsidiaries' own development of their organizational capabilities.

**Keywords:** Business History; Multinationals; Subsidiaries; Southern Europe; Renault

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Corresponding author: e-mail: tfernand@ulb.ac.be

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## Introduction

Renault was among the world's top ten car manufacturers in 2003, with an output close to 2.5 million vehicles (OICA 2003). That same year, its Spanish subsidiary reached a peak of 550,000 cars, which consolidated it as the primary centre of Renault car production outside France (*Renault Histoire* 2011). Spanish factories have been in this position since the mid-1960s. However, Renault considered making Italy its main platform in Southern Europe at the beginning of the 1960s. Likewise, in the early 1980s, Renault fostered its Portuguese facilities to replace the role played by Spanish facilities up until that time. However, none of these initiatives succeeded, with FASA-Renault (Renault Spain since 1995) remaining as the primary and most successful foreign operation of all those undertaken by Renault.

As Peter Buckley (2009) explains, despite differences in approaches, there are complementarities between international business and business history. Business history provides sources for testing international business theory such as internalization theory (Buckley and Casson 1976; Rugman 1980); the eclectic paradigm (Dunning 1979, 2001); the Uppsala internationalization process model (Johanson and Valhne 1977); the evolutionary theory of the firm (Nelson and Winter 1984; Chandler 1992; Teece and Pisano 1994; Dosi and Nelson 1994; Dosi 1995); and the resource-based view of the firm (Conner 1991; Peteraf 1993; Montgomery 1995). For her part, Mira Wilkins (1977, 1998, and 2015) has highlighted that an important contribution from business historians is to instil recognition of the complexity of business enterprises as they emerge and mature, as managers and managerial directions change, and as the environment in which managers operate takes on different characteristics. Wilkins has also called on business historians to pay more attention to the development of European multinationals, suggesting both that the history of the expansion of

enterprises across borders is an important subject and that understanding the history of multinational enterprises is vital for grasping the experiences of individual firms over time. Therefore, the MNE subsidiary can be used as the primary unit of analysis, considering that it has its own strategy and makes effective use of its far-flung network.<sup>1</sup> Several studies have sought to understand the different roles that subsidiaries play within the MNE (Jarillo and Martinez 1990; Birkinshaw and Morrison 1995; Taggart 1997; Nobel and Birkinshaw 1998; Birkinshaw, Young and Hood 2005). Other complementary literature is concerned with both the evolution of subsidiary roles over time (Malnight 1996; Birkinshaw 1997; Birkinshaw and Hood 1998) and the links between the subsidiary and its local business environment (Enright 2000; Frost 2001; Nell and Andersson 2012).

The aim of this article is to study how Renault entered Spain, Italy, and Portugal, and how it evolved its presence over time. The structure of the paper is as follows. In section 2, the presence of Renault in Southern Europe before WWII is analysed, focusing on the establishment of a commercial subsidiary in Spain. After a brief summary of Renault's international strategy during the Golden Age, section 3 explores the establishment of Renault in Italy and Spain, where it tried to install industrial subsidiaries, achieving success only in the case of Spain, which became the primary centre of Renault car production outside France. Section 4 analyses Renault's international strategy from the stagnation crisis to the long recession, focusing on the evolution of the Spanish subsidiary and Renault's desire to develop the Portuguese subsidiary as its main production centre abroad. Finally, some conclusions are presented.

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<sup>1</sup> The literature on the MNE subsidiary as a field of research took shape in the early 1980s (Bartlett and Ghoshal 1986; Leksell 1981).

## Renault in Southern Europe before the Second World War

### *Renault's International Strategy*

The automaker Renault Frères was founded in Billancourt, near Paris, in 1898 by Louis Renault and his brothers Fernand and Marcel. Renault's victories in many automobile races across Europe were its best advertisement. Seeing this, the Renault brothers did not hesitate to quickly expand their commercial network, both in the domestic market (where Renault had more than 100 commercial agents only five years after its establishment) and abroad.<sup>2</sup> The reinvestment of the profits accumulated during WWI permitted the company to expand. Renault, re-named Société Anonyme des Usines Renault (SAUR), reshaped its workshop into a vertically integrated modern industrial plant. In 1929, Renault had international subsidiaries in 49 countries (Friedenson 1998; Loubet 2000).

The first commercial agents were established in London and Milan as early as 1900. Shortly afterwards, more agents were added in Chicago, New York, Vienna, Buenos Aires, and Berlin. Even though some of these networks soon became commercial subsidiaries, as happened in London, New York, and Berlin, this was not the case in Milan, where the strong competition of Ford and Fiat blocked Renault's expansion. From 1905 to 1910, new commercial subsidiaries were opened in Spain, Hungary, Japan, and China. The first foreign factory was set up in Saint Petersburg at the dawn of WWI. Once the Great War was over, Renault built two more factories in Haren-Vilvoorde (Belgium) and Acton (UK). In both cases, Renault sought to negotiate protectionist policies. In addition, new commercial subsidiaries were established in Belgium, Austria, the Netherlands, and Switzerland (Friedenson 1998; Loubet 2000).

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<sup>2</sup> In 1907, Renault produced 3,066 cars, less than half of Ford's output, which was at 8,423 (Bardou 1977, 67).

*Renault in Spain*

In January 1909, shortly before his death, Fernand Renault founded a commercial subsidiary called ‘Sociedad Anónima Española de Automóviles Renault’ (SAEAR) in Madrid, with a share capital of 500,000 pesetas.<sup>3</sup> Its major shareholders were his wife and his brother Louis.<sup>4</sup> In 1929, its share capital had only multiplied by three, revealing a low level of activity. In fact, its results were actually quite poor.<sup>5</sup> Together with the commercial office in Madrid, SAEAR opened more offices across Spain. However, they had a short lifespan. Not only was the Spanish market unable to consume luxury goods such as cars, but also Renault was unable to compete with Ford or GM.<sup>6</sup>

The Great Depression crushed the SAEAR, which finished every year in the red from 1930 to 1936 (Maison 1996). The worst moment was in March 1933, when a one-million-peseta loss (two thirds of its share capital) left the subsidiary in dire straits. However, the company was saved by a capital increase of six million pesetas fully provided by Renault (Cebrian 2010). With the victory of the fascists in the Civil War (1936–1939) and the beginning of the autarchic phase, the SAEAR entered into a period of lethargy. Only when a Spanish firm acquired the production licences for the Renault 4CV in 1951 did the SAEAR recover its activity, since Renault made it the only distributor of that vehicle.<sup>7</sup>

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<sup>3</sup> SAEAR, Actas de la Junta (Board Minutes), 17/3/1910.

<sup>4</sup> Due to health reasons, Fernand Renault sold his shares to his brother Louis in 1908 and the company was transformed into the Société des Automobiles Louis Renault (SAUR). For his part, Marcel Renault, the third brother, died in a car accident that took place during a race between Paris and Madrid in 1903.

<sup>5</sup> The worst results were obtained in 1917 with a profit of 12,700 pesetas, while the best year was 1929 with a profit of 321,600 pesetas. Profits rarely exceeded 50,000 pesetas up until 1919, while they were around 200,000 pesetas during the 1920s (Cebrian 2010, 154).

<sup>6</sup> SAEAR sold around a thousand cars per year from 1924 to 1935, its peak being 1,654 units in 1929 and its lowest point being 180 units in 1932 (Cebrian 2010, 156).

<sup>7</sup> SAEAR, Actas de la Junta (Board Minutes), 30/3/1951.

## Renault in Southern Europe during the Golden Age

### *Renault's International Strategy*

Louis Renault died in prison in October 1944; he had been accused of collaborating with the Nazi occupation. His company was nationalized a few months later. The first CEO of the new 'Régie Nationale des Usines Renault (RNUR)' was Pierre Lefaucheu, a Renault engineer and member of the French Resistance. Since then, the state, as the only shareholder, pointed to Renault as a model enterprise for recovery and economic growth (Fridenson 1997, 2014). The Régie's first success was the launch of the Renault 4CV, a small and inexpensive passenger car that received a great response both in France and abroad. After Lefaucheu's death in a car crash in 1955, Pierre Dreyfus, Renault's vice president since 1948, was appointed as the new CEO.

Dreyfus quickly set an export rate of 50 per cent as one of his main goals.<sup>8</sup> Renault established Renault-Export in order to prepare its expansion abroad. Billancourt concentrated its major efforts on entering the US market, where Volkswagen was experiencing significant success thanks to the Beetle. The first goal was to sell 10,000 units of the Dauphine per year; this was the replacement of the 4CV. Despite lacking a commercial network, Renault sold 80 Dauphines per day in 1957. Two years later, this amount had increased to 350 units per day and new targets were announced: 100,000 units in 1960 and 150,000 in 1961. The 120,000 cars sold in 1960 surpassed expectations. However, Renault experienced losses because the Dauphine was sold below its cost.<sup>9</sup> The failure of the American adventure was made evident in 1961. While the US subsidiary's debt increased to 27 million dollars, its share capital was

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<sup>8</sup> At that time, the percentage was in the region of 15% (Loubet 2000).

<sup>9</sup> The Dauphine's price was set under 1,600 dollars, which covered a mere 75% of its cost (Loubet 2000).

around five million dollars.<sup>10</sup> In 1962, nobody doubted that the EEC was the main foreign market for Renault.<sup>11</sup>

In the 1950s, Renault's international strategy was determined by its financial constrictions and it was forced to establish alliances with local companies. Renault only built assembly plants abroad when it could find local groups that would take on the investment. As a result, Renault never controlled its international operations, with the exception of the Belgian factory.<sup>12</sup> On the one hand, this meant it did not have to make large investments and it also had the opportunity to make some use of obsolete machinery. However, on the other hand, it was captive to local interests. In Southern Europe, the failure of the Italian operation represents a clear example of this situation.

Taking advantage of the success enjoyed in France, Renault intensified its efforts to enter developing markets during the 1960s. Most of the time being present in those markets demanded local assembly. Only foreign factories that were able to achieve scale economies were integrated into Renault's international strategy. Renault set up Renault-Holding in Switzerland in May 1963 in order to place its international investments under Swizz tax law, specifically the factories in Argentina, Brazil, and Spain. With this structure, the goal was to remove the impact of those investments from the profit and loss account presented in France. Six years later, and with the aim of yielding the dividends from the international shares in Switzerland, Renault-Holding set up Renault-Finance. In order to manage and coordinate both

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<sup>10</sup> During the rest of the decade, Renault only sold 15,000 cars of the models R-10, R-12, and R-16 per year, a very poor result if we take into account that the break-even point was in the region of 50,000 units per year (Loubet 2000).

<sup>11</sup> Renault sold 120,000 cars in the Common Market, 31,000 in the United States, and 5,000 in the United Kingdom (Loubet 2000).

<sup>12</sup> Factories in Israel (1956), Brazil (1959), Argentina (1960), and Venezuela (1963) belonged to the Kaiser Group, while the Japanese factory (1953) belonged to Hino Diesel. In South Africa (1953) and Chile (1964), Renault was associated first with American Motors and then with Peugeot. Other factories belonged to public enterprises and holdings, as was the case of Mexico (1960), Quebec (1965), and Colombia (1970), and socialist countries such as Algeria (1960), Bulgaria (1966), and Romania (1968) (Loubet 2000).

the exports and the factories abroad, in 1971 Renault established an international affairs department, which Renault-Finance became part of (Freysenet 1998).

### *Renault in Italy*

In the early post-war period, both the protectionist policy and Fiat's supremacy had dissuaded Renault from establishing a commercial subsidiary in Italy.<sup>13</sup> Likewise, Volkswagen and Ford had refused to establish factories in Sicily and Naples respectively, due to Fiat's threat of promoting a specific law that would force foreign firms to export all the cars produced. With this mind, a decade later, Renault knew that an alliance with a local carmaker was the only way to enter the Italian market. However, in 1957, Fiat not only refused to negotiate with Renault, but also dissuaded Innocenti and Lambretta from speaking with them. Renault was only able to find a potential partner in Alfa Romeo, another public enterprise. Aldo Fascetti, IRI's president, thought that the alliance could be a great opportunity to challenge Fiat's hegemony (Loubet 2000).

The cooperation agreement between Renault and Alfa Romeo was signed in October 1958. They shared their commercial networks and Renault could use Alfa Romeo's factory in Milan to produce the Dauphine. Once the agreement was reached, Fascetti himself encouraged Alfa Romeo's managers to continue with their alliance with Renault. Seeing the Italian inclination, Dreyfus proposed that they join their international commercial networks and study the viability of sharing mechanical components with the final goal of undertaking the joint production of Diesel engines. However, Fascetti's death in 1960 spoiled the alliance. Giuseppe Petrilli, the new IRI president, was unyielding towards any agreement that could

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<sup>13</sup> The tariff level in France was in the region of 30% until 1958, while it was at 13% in the FRG, 24% in Belgium, and 45% in Italy (Loubet 1995).

entail a reduction in Italian production, thus affecting the production of the R-4 planned for 1962 (Loubet 1995).

Following Petrilli's insistence, Giuseppe Lauraghi, the new Alfa Romeo CEO, halted the manufacture of both the R-4 and R-8. According to him, it was difficult to defend the production of models that directly competed with Fiat cars. When the manufacture of the R-4 was finally ready, the Italian government passed a new tax that especially affected foreign cars. The new tax was so biased that its result was that while the Fiat 500 and 600 paid on average 30,000 Italian liras per unit, the R-4 was forced to pay 62,000 liras. The new tax had an immediate effect: the 63,000 cars sold by Renault in 1963 dropped to 13,000 a year later (Loubet 1995).

Even though the commercialization of the Dauphine worked well, Renault was unable to create common synergies with the Italian dealers. In addition, in Billancourt they thought that the Milanese acted more so on the basis of Italian national interests (always remaining loyal to Fiat over Renault's claims for greater openness) than in favour of business interests. When the Italian-made R-4 was finally launched in 1964, Renault mounted an offensive to take over Alfa Romeo's commercial network in Italy. However, Renault failed resoundingly. The majority of the Italian dealers stuck with Alfa Romeo (Loubet 2000). Within a few months, Renault left the Italian market, where it had been obtaining remarkable results (see Table 1).

**Table 1.** Renault's car production in Southern Europe during the Golden Age

	Renault's car production outside France	Italy			Spain			Portugal		
		Units	Share (%)	Ranking	Units	Share (%)	Ranking	Units	Share (%)	Ranking
<b>1960</b>	117,000	21,100	18	2/13	9,900	8.5	4/13	---	---	--/13
<b>1965</b>	153,900	---	---	--/20	47,300	30.7	1/20	2,210	1.4	10/20
<b>1970</b>	336,607	---	---	--/25	98,754	29.3	1/25	5,328	1.6	11/25

Source: Own elaboration by using Loubet (2000, 220).

Renault's strategy to enter a new country without having control over the operation proved unsuccessful. As would happen in Brazil a few years later, Renault was removed from a market where it was achieving very positive results. For this reason, Dreyfus reshaped its international strategy, recognizing that a direct investment was better than a joint venture:

*<<L'implantation directe est préférable aux services d'un importateur[...] C'est certainement une voie plus difficile au début parce qu'elle demande des investissements très importants, mais nous l'estimons à plus long terme plus rentable car encore une fois, l'implantation internationale doit être une oeuvre continue et menée dans une perspective à long terme>>.*  
(Loubet 1995, 463)

Spain constitutes a clear example of this change of direction.

### *Renault in Spain*

Fabricación de Automóviles S.A. (FASA) was established in 1951 in the city of Valladolid. The company held the production licences for the Renault 4CV. The driving force behind the project was the then Lieutenant Colonel Manuel Jiménez-Alfaro, who was ultimately named general manager of the company. Even though Lefauchaux had displayed open hostility towards Francoism, the possibility to operate in a closed market with low levels of motorization together with the threat to call Volkswagen if the negotiations failed finally broke his reticence. Renault's conditions were twofold: it would not invest a single peseta and

SAEAR would be the only dealer (Sánchez, 2004). Once an agreement had been reached with the French, Jiménez-Alfaro needed to gain the necessary administrative permission. To overcome this hurdle, he offered Nicolás Franco, the dictator's brother, the chairmanship of the future company. Influence peddling (a highly regarded activity in Spain) was his main skill and administrative authorization was quickly obtained (Fernández-de-Sevilla, 2010a). The production of the Renault 4CV began in October 1953, with a volume of ten vehicles per day.

Banco Ibérico (owned by the Fierro family) purchased 10 per cent of the share capital in 1954. A year later, Banco Santander became the principal shareholder of FASA. In the wake of this shift, Nicolás Franco and Manuel Jiménez-Alfaro agreed to step back. Eduardo Ruiz de Huidobro, the strongman of Banco Santander in Valladolid, assumed control of FASA. However, FASA's production stagnated in the region of 8,000 cars per year. Eventually, Banco Santander sold its stake to Banco Ibérico in 1961. It was under the control of the Fierro family that FASA began mass production. Not only did the production capacity rise sharply, but a process was also initiated to vertically integrate production. In time, FASA took over the direct manufacture of engines, gearboxes, and bodywork (Fernández-de-Sevilla 2010b). Banco Ibérico's sole control of FASA came to an end in 1965. At that time, FASA's annual production of Renault cars bordered on 50,000 units. As a result, the firm had become the primary centre of Renault car production outside France (Table 1). However, the Fierro family's bank did not have the capabilities needed to take on the development of the company alone.

During the course of the second half of 1964, negotiations resulted in the takeover of SAEAR by FASA. At the same time, Renault acquired a majority stake in FASA, which was

transformed into FASA-Renault, and the Fierros became minority shareholders. At that time, Renault was in the middle of the years defined by Loubet (2001) as *les trente glorieuses* of the French car industry. This scenario permitted Renault to sustain the expansion of its Spanish subsidiary. The French reshaped the board of directors by appointing a new general manager and a new vice president, reorganizing their new subsidiary along functional lines, and appointing new directors for the most important departments. Likewise, the French also took control of the general coordination by establishing a committee that met weekly to analyse the company from a three-pronged perspective: technical, administrative, and financial. In addition, Renault provided the resources that permitted FASA's industrial development.<sup>14</sup> In 1968, a second assembly plant was built in Valladolid (beginning activity in 1972) and the engine factory, gearbox factory, and foundry were modernized by installing three *transfert* lines, the jewel in Renault's crown. From then on, FASA-Renault became a net exporter of engines and gearboxes (Fernández-de-Sevilla 2010b).

The growth in the production capacity could only be sustained if the sales network was able to sell the increasing production. Marketing and distribution capabilities were crucial in a sector marked by steadily increasing supply and a demand that had lost its impetus since the mid-1960s. The experience of Renault's sales department provided the basis for the strategy in Spain. As in France, this strategy turned on the diversification of models and the expansion of points of sale. Both range and network bore fruit. Although competition increased notably in the mid-1960s (Citroën reached an annual output of 10,000 cars in 1965, Barreiros started the Simca 1000's production in 1966, and AUTHI began production of the Mini Morris in 1967

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<sup>14</sup> FASA's share capital multiplied by seven between 1965 and 1974, reaching close to 3 billion pesetas by the end of the period (Fernández-de-Sevilla 2014a).

(Fernández-de-Sevilla 2014b)), Renault car registrations also increased notably from 1967, surpassing 100,000 units in 1972.

The subsidiary could only consider exporting under the protection of Renault. Otherwise, its production levels would not allow it to finance any international commercial expansion. Spanish exports did not begin to make headway until 1971, when Renault took the decision to buy fifty units a day of the R-4 for the French market. Since then, Renault has decided the final destination of FASA's exports (Fernández-de-Sevilla, 2014a).

### **Renault in Southern Europe from the Stagflation Crisis to the Long Recession**

#### *Renault's International Strategy*

Despite the outbreak of the stagflation crisis, Renault was able to expand its international business during the 1970s thanks to its success in France. Renault increased its global production from 1.4 million cars in 1973 to 2.0 million cars in 1980. However, a crisis erupted in the early 1980s because of the ruinous acquisition of AMC. In 1981, Bernard Hanon replaced Bernard Vernier-Palliez as president of the company. His desire was to achieve the production of 2.5 million cars in 1985. However, the amount of losses in 1984 left Renault in dire straits. The main reason was the acquisition of the American Motor Corporation (AMC), which became a resounding failure. By spending 150 million dollars on the acquisition of 27.8 per cent of AMC shares, Renault was again trying to gain a presence in the American market. Its target was to manufacture R-9 and R-11 models, renamed Alliance and Encore respectively. According to Renault's estimations, the expectation was to sell 150,000 units of both models in 1983 and 300,000 in 1985. However, as explained by Loubet (2000), the acquisition became a complete fiasco.<sup>15</sup>

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<sup>15</sup> Finally, Renault sold AMC, which was acquired by Chrysler (Loubet 2000, 310).

Bernard Hanon was forced to resign in 1985.<sup>16</sup> George Besse was Hanon's replacement. His aims were threefold: 1) to find the break-even point in the region of 1.2 million cars per year; 2) to reduce the size of the workforce without negotiating with the unions; and 3) to move the company's debt to its main shareholder, the French state. Besse could not witness the results of his strategy since a small far left group killed him in 1987. His replacement, Raymond Lévy, continued with his strategy. Renault recovered profits as early as 1986. Three years later, the production levels of 1983 were restored.

After failing again in its American adventure, Renault reshaped its international strategy by channelling its efforts towards Europe. Since 1987, the European factories located in Belgium, France, Portugal, and Slovenia had been integrated under the same industrial system centred on a strong division of work in which each model was produced in only two factories and in which each factory only produced one model. Both EU pressure and the desire to forge an alliance with Volvo persuaded Lévy to privatize part of Renault's share capital, which became Renault S.A. However, in 1995 the French state still owned 53 per cent of the company (Freyssenet 1998). Louis Schwitzer replaced Lévy in 1992. His duty was to foster the alliance with Volvo. However, this alliance was never forged and both companies abandoned it definitively two years later, thus spoiling Renault's international strategy. With its position in Europe stabilized at around 10 per cent of the EEC market, Renault acquired its Turkish subsidiary. In Latin America, Renault sold its subsidiaries in Colombia, Venezuela, and Chile. On the other hand, the company invested in Brazil through a partnership with the state of Paraná, building an assembly plant with a capacity for producing 120,000 cars per year in Curitiba.

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<sup>16</sup> Hanon's main legacy was twofold: the preliminary study of the R-19, a vehicle that relaunched Renault in 1988, and the design of the Espace (Freyssenet 1998, 382–383).

*Renault in Portugal*

In the 1950s, the automotive industry located in Portugal basically consisted of the assembly of imported CKD kits, without any significant incorporation of domestic content. The industry did not develop in the 1960s either, mostly because the Assembly Law passed in 1961 was in favour of the commercial interests of the existing importers (Sousa and Diogo 2012). Commercial vehicle importation was banned in 1963, and this ban was extended to passenger cars a year later. However, the domestic content requirement for locally assembled vehicles was a mere 15 per cent.<sup>17</sup> Extensive diversification was the main consequence, preventing any company from achieving a competitive size.<sup>18</sup>

Just when the domestic market was protected, Banco Ibérico decided to use its close relationship with Portugal (Nicolás Franco himself was the ambassador in Lisbon) to establish an assembly plant there. Basilio Freire-Caeiro da Mata, a Portuguese member of Banco Ibérico's board, had been negotiating the establishment of a FASA subsidiary since 1962. At the same time, an agreement with Renault to obtain its licences was also negotiated. Industrias Lusitanas Renault (ILR) was established in 1963 with a share capital of 8 million escudos. Its major shareholder was FASA (75% of the shares), followed to SAEAR (20%), and Renault (5%).<sup>19</sup> The factory was set up in Guarda, a town located 40 km from Vilar Formoso, the point of entry of Spanish goods to Portugal by railway.<sup>20</sup> In 1964, a thousand cars were produced, and this figure doubled the following year.<sup>21</sup>

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<sup>17</sup> The domestic content requirement increased to 25% in 1969 (Sousa and Diogo 2012).

<sup>18</sup> In 1964, 17 companies represented more than 40 foreign brands; six of them were subsidiaries of MNEs (Ford, GM, Fiat, Renault, Citroën, and BMC) while the rest assembled under the licence of foreign firms.

<sup>19</sup> FASA, Actas del Consejo (Council Minutes), 23/06/1963.

<sup>20</sup> FASA, Actas de la Junta (Board Minutes), 11/12/1962.

<sup>21</sup> FASA, Actas de la Junta (Board Minutes), 14/05/1965.

Despite the continuous growth of its annual production, ILR never crossed over to the region of mass production. The 6,000 cars manufactured by ILR in 1973 show that the company had experienced a low degree of development. The Renault market share remained stable at around 7 per cent<sup>22</sup>, revealing that the development of the car industry in Portugal was too limited. ILR profits increased from 1.4 million escudos in 1967 to 6.4 million in 1971. However, they plummeted to close to zero a year later. The bulk of the profits were invested in factory enlargement and in the acquisition of new equipment. With a workforce of 150 people, the daily production capacity was 23 cars in 1969. ILR ranked fourth among Portuguese assemblers, maintaining this position four years later.<sup>23</sup> These figures offer a clear image of both the Portuguese subsidiary and the car industry in Portugal.

After the Carnation Revolution (April 1974), which put an end to the dictatorship, the Portuguese economy fell into the same negative cycle as the other Western economies. However, the Portuguese crisis was worsened by the country's political instability. Therefore, two thirds of assembly firms went bankrupt. In 1976, the Portuguese government launched an international call to modernize the car industry. In 1980, it was announced that Opel, Auto Europa (Volkswagen Group), and Renault were the companies selected to remain in the country<sup>24</sup>. A few months earlier, FASA had transferred control of the Portuguese subsidiary to Renault.<sup>25</sup> In doing so, Renault revealed its desire to reshape the Iberian scenario.

At the end of the 1970s, Renault was worried because both Ford and GM had opened industrial subsidiaries in Spain to serve as export platforms for low-to-medium range cars to

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<sup>22</sup> FASA-Renault, Actas de la Junta (Board Minutes), 16/12/1966 and 12/04/1973.

<sup>23</sup> FASA-Renault, Actas del Consejo (Council Minutes), 20/05/1969 and 26/11/1973.

<sup>24</sup> Both Auto Europa and Opel began activity in 1983. While Opel closed its factory in 2006, Auto Europa redirected its activity.

<sup>25</sup> FASA received 34 million pesetas for its Portuguese subsidiary (FASA-Renault, Actas del Consejo (Council Minutes), 20/04/1979).

Europe. Thus, Renault considered its Portuguese subsidiary to be strategic. Its plan was to have a production level of around 80,000 vehicles per year together with the construction of two new factories: a foundry and a gearbox factory. However, this plan was interrupted when Renault sold AMC in 1986, since the car planned to be produced was the Jeep, an AMC model. Soon afterwards, Renault sold the assembly plant (it was acquired by GM), with only the gearbox factory remaining, which was established in Aveiro in 1981. In doing this, Renault was appointing Spain as its main base in Southern Europe. As Table 2 shows, ILR never played a key role in the international structure of Renault, with its growth being cut short just when it was starting to take off.

**Table 2.** Renault's car production in Southern Europe during the stagflation crisis

	Renault's car production outside France	Spain			Portugal		
		Units	Share (%)	Ranking	Units	Share (%)	Ranking
<b>1975</b>	559,257	196,908	35.2	1/23	8,685	1.6	10/23
<b>1980</b>	806,438	343,678	42.6	1/27	13,398	1.6	9/27
<b>1985</b>	702,406	224,915	32.0	1/18	37,230	5.3	5/18

*Source:* Own elaboration by using Loubet (2000, 220)

### *Renault in Spain*

In late 1972, the Spanish government passed two decrees, known as the Ford Decrees, with the goal of reshaping the country's car industry. The rationale behind this turnabout was the need to raise the competitiveness of existing manufacturers in order to increase their exports and stimulate their specialization within the international strategy of large-scale enterprises. However, the primary aim was to enable Ford to set up in Spain. The shift in the development

model was accompanied by a new set of industrial policies, such as a reduction in both the level of the domestic content required and the tariff level. As a result, competition increased in the domestic market due to the entry of Ford, which initiated its activity in 1976, and Opel, which began production in 1983 (Catalan 2010).

Soon after the promulgation of the Ford Decrees, the outbreak of the so-called stagflation crisis took place. This economic crisis, which affected Europe's economies from 1974, hit Spain particularly hard (Rojo 1994; Catalan 1999). In 1977, the state of the Spanish economy was even gloomier than in the preceding three years. The economic programme applied to reduce inflation took shape in the so-called Moncloa Pacts in the autumn of 1977, which basically consisted of an adjustment policy aimed at curbing inflation in exchange for political and economic reforms. Specifically, they featured a policy of monetary tightening, together with the containment of growth in real wages and public spending (Trullen 1993). The application of these containment measures succeeded in curbing inflation, although the downside of the austerity policies was a severe contraction in the annual rate of economic growth, which plummeted to below 1.5 per cent until 1986 and even sank below zero in 1981. An immediate consequence of stagflation was a collapse in investment. This translated into a sharp fall in labour force participation and the emergence of high unemployment rates, which exceeded 10 per cent from 1980 (Carreras and Tafunell 2004). The negative evolution of internal demand particularly affected durable consumer goods like vehicles. Between 1977 and 1980, the domestic market amassed a negative differential of 85,000 cars, falling back to the levels of 1975.

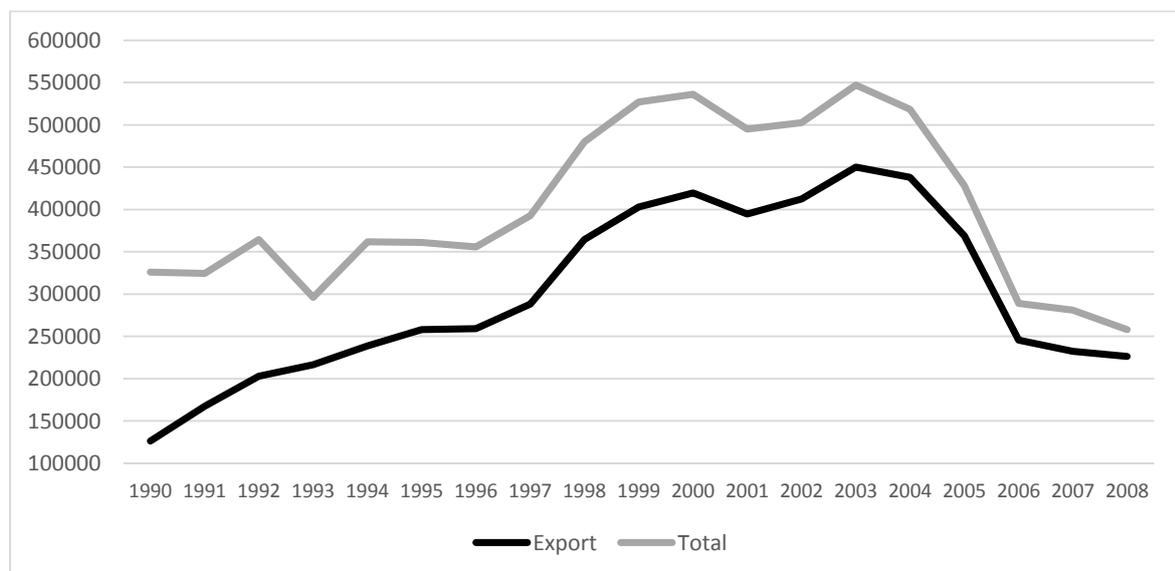
During those years, FASA-Renault entered into serious turmoil. The Renault subsidiary experienced losses for the first time in 1974 and went on to record losses for two more years

because of serious industrial disputes. An initial consequence was the suspension of its development programme, which was aimed primarily at increasing the company's production capacity through the construction of a third assembly plant. By channelling labour disputes since mid-1976, FASA-Renault could restart its industrial programmes at the end of the year. With its third plant in Palencia entering into operation, FASA-Renault soon became the leading firm in the sector. The increase in production, which rose from a little over 200,000 cars in 1976 to nearly 350,000 in 1980, took place in the worst years of the economic crisis. This development was possible because of the excellent performance of domestic and export sales, which stood at roughly 100,000 units in 1980.

In the first half of the 1980s, and despite the economic crisis and the rise of Ford and Opel, FASA-Renault was able to maintain an output of over 300,000 units until 1984, when it shrank by roughly 75,000 vehicles. The main setback to the interests of FASA-Renault, however, came because of the crisis that hit Renault in the first half of the 1980s (Freysenet 1998; Loubet 2000). While the figures in Table 2 suggest a loss of weight in the international structure of the Renault Group, the fall was solely due to the increase in production carried out in the AMC plant in Kenosha (Wisconsin), which was to cease shortly after 1985. The failure of the US operation once again bolstered FASA-Renault as the primary and most successful foreign operation of all those undertaken by Renault. Once Renault recovered from its crisis, FASA also recovered its export levels, confirming Spain as the main production centre outside France. After twelve years of severe economic instability, FASA was producing 100,000 cars more than the Belgian plant, and its output was six times the output of Argentinean and Turkish factories.

The Spanish car market entered a virtuous cycle during Spain's integration into the EU from 1986 to 1989. The international crisis of 1990–1992 echoed softly in Spain due to the stimulus effects of the Olympic Games in Barcelona and the International Exposition in Seville. Renault reacted by decreasing prices and increasing advertisement expenses. The Clio was launched in 1991 as the best remedy to fight against stagnation. However, the Olympic euphoria was followed by a severe hangover that lasted until 1994. The successive devaluations of the peseta permitted FASA-Renault to gain competitiveness within the Renault Group, increasing its exports substantially (see Graph 1). FASA received the production of a third of all units of the Twingo (450 units per day, while the French factory in Flins manufactured 850 units per day) and its gearbox factory was in charge of the production of all gearboxes for that model. For its part, the engine factory manufactured around 80 per cent of R-19 engines, which had to be delivered on time to the French factory of Douai.

**Graph 1.** Cars produced by FASA-Renault (in units)



Source: Renault Histoire (2011)

However, in order to defend its role as the main international industrial centre of Renault, FASA was forced to become more competitive. The competitiveness of the Spanish

subsidiary was positively affected by the sustained depreciation of the peseta during the 1990s. However, FASA also had to implement a tough programme to reduce the size of its workforce. With a staff of around 20,000 workers, the redundant workforce was estimated at around 7,000 workers. The plan to achieve this reduction was developed entirely in Spain.

They created a voluntary redundancy plan for people aged 58 and above, which allowed them to cut their workforce by 1,200 people annually from 1993 to 1998, and the loss of purchasing power was covered by the company. This programme permitted the correct planning of the company's organization by the end of the process.<sup>26</sup> The positive impact of the plan was so great that the FASA director of human resources was appointed director of human resources for the Renault Group. Once the programme finished, the Spanish factories' competitiveness was at the top of the Renault Group. As a result, exportation permitted the company's output to rise again after being stagnated for some years (see graph 1).

During the 1990s, the Spanish subsidiary achieved its competitive advantage due to specialization and staff cutbacks. Competitiveness was also achieved through the sustained depreciation of the peseta's parity. However, since the adoption of the euro, stagnation in the production assigned to Spain can be perceived, affecting the role played by the Spanish factories in the Renault Group. As Jordi Catalan (2013) explains, the adoption of the euro coincided with the erosion of Spanish competitiveness in the automotive industry. Significant depreciation was a recurrent means by which policy helped to maintain competitive advantage during the stagflation crisis and, especially, in the 1990–1995 crisis. However, the euro

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<sup>26</sup> The main element in FASA's reorganization was the closure of the original factory, which was compensated for by doubling the capacity of the second assembly plant and by establishing a new and modern painting workshop.

removed this option, limiting the competitiveness of the Spanish factories within the international structure of the Renault Group.

### **Some Conclusions**

Before WWII, Renault's international strategy was focused on the creation of commercial subsidiaries. After WWII, and especially when Pierre Dreyfus was appointed head of the enterprise, Renault intensified its international efforts, pointing to foreign production as a key part of its strategy. However, the company's operation was determined by its financial constrictions and it was forced to hold a minority position in its international affairs. Renault decided to increase its control over FASA once it had been ousted from Italy and Brazil, both interesting markets where it was experiencing remarkable success. Renault thus developed the industrial, commercial, and managerial capabilities of its Spanish subsidiary. Since then, FASA has been the main industrial foreign centre of the Renault Group.

When in the mid-1980s FASA's position was threatened by the new role of the Portuguese subsidiary, FASA was able to increase the competitiveness of its factories by reinforcing its position. At the end of the 1980s, once the Portuguese factory was closed, the Spanish subsidiary was confirmed as the main centre of Renault in Southern Europe. In the 1990s, the Spanish subsidiary gained competitiveness by applying a specific set of corporate policies fully designed in its offices. In addition, FASA reinforced its competitive advantage not only through specialization and staff cutbacks, but also through the sustained depreciations of the peseta. However, since the adoption of the euro, stagnation in the production assigned to Spain can be perceived, affecting the role played by the Spanish factories within the Renault Group.

By analysing the origins and evolution of Renault subsidiaries in Southern Europe, this article reveals that the development path of the subsidiaries was not only decided in the headquarters of the MNE, but also through the subsidiaries' own development of their organizational capabilities. The Italian failure may be related to the fact that Renault implanted itself without having any previous commercial structure, lacking prior knowledge of both the domestic environment and the right professionals to work in it. On the other hand, the Spanish Renault subsidiary is a clear example of a subsidiary that was able to develop its own organizational capabilities as described by Chandler (1992), Teece and Pisano (1994), Dosi (1995), and Nelson and Winter (2002). This research also validates the analysis of Malnight (1996), Taggart (1997), Birkinshaw (1997), and Birkinshaw, Young and Hood (2005), who argue that MNE subsidiaries have their own strategies and make effective use of their far-flung networks. In addition, the Spanish managers showed their ability to interact with the local environment, which could be considered as an example of crony capitalism. Therefore, the results are also in line with the studies that highlight the key role played by links between the subsidiary and its local business environment (Enright 2000; Frost 2001; and Nell and Andersson 2012). Finally, the Portuguese case represents the other side of the story. Established in the early 1960s, by the 1980s it was clear that the Portuguese subsidiary had not been able to develop its own organizational capabilities. Despite the fact that Renault wanted to transform the Portuguese subsidiary into a major productive centre in Southern Europe, the subsidiary's own inability to develop any kind of competitive advantage resulted in its failure.

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