

Impact of globalization on ford motor company



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The motor vehicle industry offers a unique perspective on globalization because of its massive employment, huge corporations and iconic product, it seem to reflect the countries identity. GM and FORD for the united states, FIAT and Ferrari for the Italy, Toyota and Honda for Japan. Globalization has impacted almost all the companies. Some of who managed to survive the various incidences of history like the world war and the great depression have set industry standards for the companies to follow.

I am going to demonstrate the effect of globalization by taking Three instances from the Ford motor company. The following essay will try to give an insight of how political, economical, social and technological factors affected Ford's strategies under the changing business environment that helped it stand out from the other rival car manufacturers in the world. Ford created some of the finest works of automobile engineering and came out with various eco-friendly innovations making it the only motor company to secure its place in the list of 100 most ethical companies of the world.

About the company:

Henry Ford had experienced a grand success especially with the early models like the T Model . he went on explained his business overseas and by the early 1910's, with production facilities in France, Denmark and England , Germany and Austria.

After the First World War started, Ford produced half of the cars being sold in the US. During the war, Ford produced many of its cars to serve the army.

1938: The German consul at Cleveland awards Henry Ford the Grand Cross of the German Eagle, the highest medal Nazi Germany could bestow on a foreigner

By 1941, Ford became the world's largest assembly plant owner and Ford produced from standard military vehicles, to B-24 Liberator bombers and tanks during the World War II

After the WWII, was the period when Ford company developed and evolved very fast. Ford came out with latest technologies and development for their cars. During the Cold War they were the most important carmakers in the world. It was during period that the Ford Motor Company looked for other possible investments and continued to expand overseas. In 1979 they acquired a one fourth Mazda, the Japanese carmaker in 1987. Ford added Aston Martin and in 1989 Ford acquired Jaguar under its umbrella brand.

Ford Motor Company on its 100th birthday in 2003 and showcased a series of special edition of cars, such as the all new Ford Mustang. Ford faced financial crisis when it reported losses of over \$12 billion for the 2006 fiscal year . It led to the selling of some of the brands from the Ford group: Aston Martin, Jaguar and Land Rover.

After the third Restructuring process " The Way Forward", Ford started to Divest its subsidiary business in order to focus on the core " FORD" brand. It sold its Jaguar and Land Rover brand to Tata Automobile of India in 2008.

Major events that shaped FORD in the changing global environment:

1914: Ford introduced \$5 workday minimum wage – double the existing rate.

Background:

In 1914 Ford innovated the 5 dollar workday. 5 dollar was just twice the wages being paid at that time. The interesting thing about this was it was far more than the balance between demand and supply. The number of workers willing to work exceeded the required. The Ford company came to be associated with “good wages” in 1914. This policy of high wages and mass production gave rise to a new term “Fordism”.

Factors affecting decision:

(P)olitical:

Henry Ford was a strict anti-union, and believed in authoritative way of government system.

(E)conomical:

In the 1913 the availability of labor must have increased as the national economy and Detroit hinterland suffered a significant downturn. This is evident from the following table 1 which shows the number of people receiving the special unemployment relief in the country including Detroit increased about two thirds between the period of July 1912 – June 1913

Ford's high wage policy is in by the “efficient wage theory”. There are various theories for these changes like the Dual labour market theory. Although the same “efficient wage theory” also says that in a competitive market some people must be stuck in bad, low paid jobs or unemployed (Gintis, 1998). The alternative to the Ford's offer of 5 dollar wage was

unemployment or very low paid job hence can be the reason why workers showed up.

(S)ocial:

In 1913 Ford's worker turnover rate increased to 380 percentage. High turnover rate during the twentieth century was a common problem faced by many manufacturers. The reason for dissatisfaction of labours according to ford management repost

- Too long hours
- Low wages
- Bad housing conditions
- Undesirable shop conditions .

Ford's method of 5 dollar wage made workers motivated, punctual. This although should have been a costly affair turned out to be profitable step for the business.

The higher the wage rate offered by firms, the more effort will be supplied by the employees, with other things being the same

(T)echnological:

Dramatic evolution in production technology by Fords assembly line technique. The high efficiency of this system raised the importance of High worker turn over, high worker effort, and high worker quality.

By 1910 two third of the fords workforce were either workmen or mechanics who were over rated as " highly skilled' or " skilled" this was because ford was not a manufacturing company rather assembling company. This problem was suppressed by

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1996: Ford certifies all plants in 26 countries to ISO 9000 quality and ISO 14001 environmental standards**Background:**

World War II gave birth to the idea of quality assurance. The first formal quality control programs in the world was instituted by the United States Defense department , in order to deal problems related to manufacturing of defense equipment as quality was the main consideration. Industry standards then became popular and reached the other parts of the world. They formed the basis for a set of quality assurance standards which was adopted by the North Atlantic Treaty Organization (NATO) members . Those standards were called the Allied Quality Assurance Publication (AQAP) (<http://www.referenceforbusiness.com/encyclopedia/Int-Jun/ISO-9000.html>).

Finally at the close of World War II, the International Organization for Standardization (ISO) was created in 1947, with headquarters in Geneva, Switzerland.

ISO 9000 & ISO 14001:

In December 1996, Ford became the largest automotive organization in the world to receive ISO 9001 quality certification, for quality management and quality assurance. On Sept. 9, 1999, Ford Motor Co. became the first U. S. automotive company to require all of its production and nonproduction suppliers to become certified to ISO 14001 international standards for environmental considerations.

Factors affecting decision:**(P)olitical:**

Governments may have actively promoted ISO 14001 if their economies relied on exporting to countries with high levels of ISO 14001 adoption rates . United States formed the Registrar Accreditation Board (RAB) to standardize procedure for certification. The US Congress adopted the National Technology Transfer and Advancement Act requiring federal agencies to adopt International Standards where they exist, instead of creating their own.

Intergovernmental networks played limited role in diffusion of ISO as it was nongovernmental regime.

Adversarial legalism approach was practiced in the U. S . In this system, the parties to a controversy develop and present their arguments, gather and submit evidence, call and question witnesses, and, within the confines of certain rules, control the process. The fact finder, usually a judge or jury, remains neutral and passive throughout the proceeding. This was slow and cumbersome.

Relations between environmental groups, government regulators and industry were characterized by varying levels of hostility and high levels of mistrust.

(E)conomic:

International standards were important trends in business practice. During the Early 20th century, quality was viewed as an additional cost of production for the business. But, the quest for quality became their major

consideration, as companies realized that high quality leads to more efficient and less expensive production processes. Both ISO 9000 and ISO 14001 helped companies to increase their market share. Encouragement by World Trade Organization for creation of supranational standards helped cut down barriers on trade and investment. As a consequence of which Foreign Direct Investment from international Market started pouring in.

Changes were also happening at domestic levels which led to Rise in intercompany (trade within value the value chains of the company) trade

Because of presence of dual trade linkage there might be a Possibility of “California effect” which means that if country A absorbs a significant proportion of country B’s exports, then country B can be expected to mimic or respond to the policies of country A

(S)ociological:

Employee morale improved as they felt part of the process. Managers and employees accepted responsibility for quality. This created better co-operation and communication among workers to do a better job and increased companies efficiency. This in turn led to improved customer satisfaction and trust. It helped reduce the need for customer audits (This can result in major savings).

However, many citizen and activist groups were wary of EMS standards and viewed them as ‘ private regimes’ that were outside public scrutiny and claimed that adopting ISO 14001 will become a de facto condition of doing business: firms that outsource their operations sometimes require that their suppliers adopt ISO 14001.

(T)echnological:

Development of pollution-prevention techniques and company-specific EMSs to reduce waste production as well as disposal costs . Presence of new form of Information and technology and greater interaction among people of different countries led to the diffusion.

Ford was perceived as “ good corporate citizens” producing higher quality products. Hence, they gained goodwill that helped retain old customers while attract new ones.

(L)egal:

There was NO legal implication were there on the companies to adopt such standard but since EMS had become a “ gold standard” for CSR conscious firms therefore most of the MNC’s adopted them.

(E)nvironmental:

In the 1980s, environmental regulations on hazardous waste disposal at both the local and national levels became more stringent. This forced companies to change their method for hazardous waste disposal from placement in landfills to treatment and recycling.

2008: Ford sells Jaguar and Land Rover to Tata Motors:**Background:**

After facing a loss of North American market share to Asian rivals like Toyota, Ford CEO Bill Ford declared to cut 25, 000 to 30, 000 jobs and idle 14 facilities by 2012 thus declaring the resurgence of Ford Motor company.. Bill Ford had instituted a “ Revitalization Plan” in 2002, after the automaker lost \$5 billion a year earlier. But the plan failed to meet the goals set for 2005.

Later in 2006 the new CEO Allan R. Mulally announced the Third restructuring plan known as “ The Way Forward”. The targeted areas of improvement were marketing and sales, Technology development and Human resource.

Factors affecting decision:

(P)olitical:

Allan R. Mulally succeeded Bill Ford as the new president CEO of Ford Motor Company on September 5, 2006. on September 5, 2006. One of Mulally’s first decisions at Ford was to bring back the Taurus nameplate.

(E)conomical:

Ford reported a loss of 1. 2 Billion Dollar with a decrease in the market share from 23. 7% to 15. 5% since the year 2000. It faced tough competition from Asian manufacturer such as Toyota which had manufacturing capacity of over 1. 5 million vehicles in North America alone. High prices of oil posed a threat that global economy might slip into recession and would create high uncertainty for the business as customers were switching over from sport utility vehicles to smaller, more fuel efficient cars.

Because of high increase in labour and material costs, United States parts manufacturing company like Delphi declared bankruptcy in 2005. Ford did not want to sell its jaguar and land rover brand to similar automaker company which had wide range of product in order to avoid competitive pressures on ford’s other auto lines.

(S)ocial:

Stringent relationship between united auto workers and American car maker as the domestic car manufacturers bore the burden of heavy pension and health care costs. This was the scenario for both for current and retired workers, as stipulated in contracts with the UAW. This was not the case with Japanese manufacturers.

UAW member at ford's allowed non union workers to perform certain tasks and did not pay them even for overtime some of which fell on weekends and furthermore 6000 salaried jobs were cut in September, 2006 and additional 30, 000 jobs scheduled for 2012.

Customer purchases are driven by 'perceived' value derived from brand reputation and an individuals' personality and living standards, lack of differentiation between Ford, Lincoln and mercury brands resulted in cannibalization of sales.

(T)echnological:

U. S government's new rule in august, 2005 brought a change in the existing fuel efficiency standards. Though ford lacked innovation in mid sized and small cars it projected that by 2015 one half of the vehicles on road would have a six speed automatic transmission, which would result in increased mileage.

(E)nvironmental:

Pressure from environmentalist on car and truck manufacturers to clean up emissions by adopting to fuels like bio diesel, electric motors, compressed natural gas and solar energy.

How globalization impacted FORD:

We see from the examples globalization effected ford's strategies from the time it was setup till date. They were able to maintain their competitive advantage over the other companies either by innovating new technologies likes the assembly lines, approaching to new International standards or by focusing on the core " Ford" brand. By adapting such processes, FORD motor company contributed toward Corporate social responsibility and created remote social value in the eyes of the customers. Although there is some probability of window dressing and a quest for better profits.

These can be understood by strategic behavior theories like market imperfections (Stephen Hymer (market imperfections, 1960s) and role of oligopolies (Market Imperfections, 1960s).

Which explain that MNCs expand abroad , exploit specific advantages over their rivals and remove conflicts with their rivals. (IBE, Lecture 8, slide 33)

The Ford company explored new horizons of business across cross border market either by value crating or value capturing activities (lecture 6 slide 31). Expanding overseas specially towards emerging economies may not only increase corporate profits and shareholder's returns but also provide employment to host countries and develop these economies at the base of the " pyramid " all of which have noble CSR dimensions. Ford quickly merged and acquired some of the big brand under its umbrella and came out come with some best of the cars leaving a long lasting impression on the consumers.

Despite of debate, Globalization has led to a greener and safer environment where MNCs are under continuous process of giving their consumer even better products and creating flagship cars.