Report on toyota's strategies in economic globalisation

Business, Company

\n[toc title="Table of Contents"]\n

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1. Introduction \n \t
2. Toyota in the European Union \n \t
3. Conclusion \n \t
4. Bibliography: \n

\n[/toc]\n \n

Introduction

Globalization refers to the integration of economic activities with local and foreign companies competing in the host country. It involves the liberalization of the markets so that trade can be conducted freely. It brings in technological advancement into a country and the customer benefits greatly since the transaction costs have been reduced.

Globalization has led to the increase of multinational corporations in the world market due to the liberalization of trade policies and practices. The spread of globalization is based on the capitalist theory of free trade. With globalization there are winners and losers. The bilateral and multilateral trade agreements contribute to globalization as countries in the same region open up to one another through trade agreements on import, export taxes and tariffs.

The companies’ strategies have to keep on changing in adapting to the environment (Whittington, 2002). The policies of a nation are also affected as they aim to protect the companies in the country from collapse due to foreign competition. The companies' strategies are influenced by the country's policies. There may be inter-governmental agreements that assist the foreign countries in trade. The private companies in a country also try to influence policies so that they can survive in face of tough competition [1].

The idea of monopolies is defeated as businesses are forced to compete globally. The quality of products a company offers has to be very high. It increases specialization in the companies. Consumers do not have to buy overpriced goods from local companies. They can now buy the goods at a cheaper price from international companies that incur less manufacturing costs. The company benefits as they gain access to wider markets. Global strategy is planned at an international level since a company wants to take advantage of the global markets. Decisions have to be made on which foreign markets to invest in and what products to sell. Are there markets for the company products in the new target markets? How will the company products be promoted in the particular countries? There are many factors to be considered when getting involved in foreign markets such as the legal environment, the social and cultural environment and the competitive environment [2].

The new markets are necessary as a company finds itself in its locale with a saturated market. Another advantage of engaging in global strategy is risk diversification. A company is no longer so vulnerable to the locale low economic cyclic. The other advantage of globalization is the exploitation of cheap markets for labor. The wage rate in different countries is different such that in some countries labor is cheaper. A strategic company needs to have forecasting and analytical skills to analyze the strengths, weaknesses, opportunities and threats of the company globally. Economic globalization can be a threat to a company or an opportunity to make great profits. The Toyota Company is a company that has used economic integration to their advantage in order to access new markets. There have been challenges but its strategic management has weathered the storms.

Toyota in the European Union

The Toyota Corporation was incorporated in 1937 as Toyota Motor Company in Japan. In 1962 it started expanding to other countries by starting operations in Thailand. The Toyota sales company was established in 1950 in Japan. It merged with the Toyota Motor Company to form the Toyota Motor Corporation. It was founded by Kiichiro Toyada. He invented a passenger car in 1935 that led to the birth of the company. He had travelled to America and visited various automobile companies. When he went back to Japan he started an automobile division in his father’s business. The company has grown rapidly. By the end of 2004 it had manufacturing and assembly points in over 26 countries. In 1984 it was had manufacturing plants only in 9 countries. From the 1980’s the company has been committed to aggressive expansion and production in foreign countries. In the 1980’s the company had been mainly exporting cars to many countries but the approach changed with management deciding to set up manufacturing plants many countries of the world. The company is famous for its low costs, just-in-time delivery principles and high quality. There are challenges in operating globally. There are also great opportunities when management applies global strategy efficiently.

The governments in Europe allowed Japanese companies to enter the market in the 1960’s and 1970’s. Initially the company was able to sell its cars in the region however the European Union started putting certain restrictions on foreign companies. This was to protect the local companies. The company sales in form of exports were higher than sales within the country. The European Union put a limit on the number of cars that the company could export. There was also a limit on the quantity of Japanese cars that could be imported into the region. In the year 1975, Britain put a limit of 10% on Japanese exports. France, Spain and Portuguese also put restrictions on Japanese exports [3].

Due to these restrictions, Japan had to change its strategy. The company started targeting countries in Europe with no import limitations. With the spread of globalization these restrictions on foreign companies were debated by the European countries. These countries had formed the European Union which is a body for integrating trade policies in the region. Originally after the World War 2, the European Union countries consisted of Germany, France, Italy and Belgium. England joined in 1973 with Denmark and Ireland. Greece later joined followed by Spain and Portugal in 1986. Many of the automobile companies advocated for the import restrictions to still be in force. The European Union by allowing Asian car companies to trade in the area had caused the Toyota Company market share to rise from 14% to 18%.

The market share loss was greatly experienced by GM, Volkswagen, Ford and other European Manufacturers [4]. As the debates continued, Toyota decided to adopt the strategy of manufacturing in Europe to deal with the tough legal environment (Zeitlin, 2003). The company in 1989 had started doing joint production with the VW Company in Germany. This was through consignment production only. Capital participation had not yet started. There was also consignment production of trucks in Portuguese that had started in 1963. It started capital participation by setting up a production plant in Britain in 1992 known as the Toyota Motor Manufacturing (United Kingdom). At that time the company had established an assembly only in the United States of America. However the high demand in the region in spite of the import restrictions caused the company to expand the assembly plants to Europe (Kumon, 2005). There was a meeting between the EC and Japan where certain agreements were made.

First of all, there would be full liberalization of the market and Japan would not disrupt the EU market with its car exports. The Japanese would help the EU manufacturers maintain a competitive edge by allowing them a transitional period to adjust to regulations.

With these agreements Japanese companies would not face any restrictions in investment or movements of its products in the European Union. The Japanese countries were to produce their products and sell them within the European Union. It was not in Europe alone that Toyota was facing the challenges of globalization. In America, there was friction between the Japanese and American Automobile companies. In 2005, the Toyota

Company announced its global vision to increase its production and sales in overseas markets such as America and Europe. The management recognized three key challenges for the company at that time and revealed them to be the launch of new products, decreasing market share and a slow growth in overseas investments. The company accelerated production and sales overseas through plant constructions. Another strategy the company used was to develop specific car models for the USA and European Regions. In Europe the company launched the Avensus and New Corolla models.

The second Toyota manufacturing plant in Europe was set up in France in 1998. The French government was also stringent on foreign companies. When the European Union expanded to Eastern Europe the area also attracted several foreign investors. Toyota Company constructed a manufacturing plant in Turkey. It also set up plants in Czech and Poland in 2002. These regions had highly skilled workers and the wage rate was not as high as UK becoming very profitable to the company. In the United Kingdom, the wages per hour are $40 while in a country like Poland the wages per hour are only $ 8 per hour. Toyota is always strategizing and moving to countries where it can cut costs and make profits.

In Eastern Europe, the Toyota Company was also innovative. Instead of producing its cars in their own fully controlled company they chose to enter into a joint venture with Peugeot. They worked together to create the Toyota Peugeot Citroen Automobile. The joint venture agreement was signed in 2002. The venture was a success as the two companies combined their skills. The Toyota staff had production knowledge and skills. They also had skills in petrol engine technology. The Peugeot Company on the other hand contributed skills in diesel engine technology and small cars. Since the Peugeot Company was from a European background while Toyota was Japanese they had to overcome cultural and language barriers to ensure efficiency. Peugeot was the biggest automobile company in the region. It had networks with the best suppliers. If Toyota had started in the region alone it would have been difficult and time –consuming. With this joint venture the Toyota Company was able to fully grasp the mini-car market in the region.

The company has also been strategic in ensuring compliance to the regulatory laws [5]. The EU has revised its laws on CO2 emission and companies were expected to comply with the standard of less than 135g per km down from 175g. The diesel engines emit less carbon dioxide. The Toyota Company was strategic as it chose to engage in a joint venture for producing small cars with diesel engines in Poland. With compliance a company can make it a strategic competitive advantage.

In the manufacturing world today, companies have to be compliant to the laws of the country they wish to invest in. They may lose market share and lose millions in dollars through producing goods that are not compliant. Toyota is a company that complies with all the emission standards in the USA and Europe. Complying and using the processes of lean manufacturing have greatly given the company a competitive edge. The company uses a global strategy in operating the companies. The same strategy used in one country is used consistently for all the other countries in the world. The same brand names are used to sell the products. In the Toyota Company there are certain key elements of the production system. First of all the workers are supposed to operate using multi-functional skills. The workers perform regular tasks as well as irregular tasks. The company has the JIT system and quality assurance systems. The company has very few job grades and there is a lot of job rotation.

There are also teams created in the company to assist in communication and coordination of the work. The policy in quality assurance is that quality should always be built in the manufacturing system. In all its companies the Japanese hold top management positions while the major workers are from the host country. About 3% of the employees in Toyota companies are expatriates from Japan. The employees go for training to Japan and Canada. They learn a lot which they teach the other employees when they came back through on the job training. It pays less to workers compared to other automobile companies for the same quantity of work.

By employing the system of lean production the company was the leading company in the automobile industry in 2006. Their sales have been rising higher and higher.

Conclusion

Currently Toyota is facing five different kinds of challenges. Being a Japanese company it has to report the financial statements in Japanese Yen. This exposes it to exchange rate fluctuations and losses. There is also competitive rivalry from VW, BMW, and Fiat. The company though has a very loyal customer base assisting it to maintain its sales. There have been many new entrants in the market for the mini-car market. The customers in Europe though do not have high buyer power in switching cars. The average length of ownership for a car is also very long. The customers tend to stick to the suppliers with great reputation. This has worked to the credit of the Toyota Company. As much as there have been substitute products in the market, Toyota maintains its position at the top through its advanced hybrid technology, environmental initiatives and quality. Toyota has the ability to also provide cars at a low price compared to other automobile companies.

The company constantly faces stiff competition but it overcomes the tough competition by applying its key competencies. The Toyota Motor Corporation of Japan is second in automobile manufacturing in the world and the seventh biggest company in the world. The company has consistently shown that economic globalization is a great opportunity for businesses in the world. By firms operating strategically in the dynamic environment, they ensure continuity [6] (Ansoff, 1985). Many books have been written on the Toyota model of doing operations. Many businesses study its concepts to be ahead in their industries. Their way of invading foreign markets and changing strategies in the face of laws in foreign laws has taken to the top of the automobile industry.

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