Challenges faced by general motors

The United States (U. S) Multi National Enterprise (MNE) General Motors (GM) is one of the world's largest automakers, tracing its roots back to 1908. With its global headquarters in Detroit, GM employs 235, 000 people in every major region of the world and does business in some 140 countries. GM and its strategic partners produce cars and trucks in 34 countries, and sell and service these vehicles through the following brands: Buick, Cadillac, Chevrolet, GMC, Golden, Oldsmobile, Pontiac, Saturn, Opel Vauxhall and Saab. In 2006 it sold over 9 million cars and trucks globally in 5 continents with a global market share of 13. 5 %.

GM has been involved in a range of global ventures aimed at extending their penetration in the carmakers market and has also increased its share of the market as well as sales. GM uses exports, acquisitions, joint ventures and strategic alliances to enter foreign markets based on business considerations. GM has also expanded its capabilities in manufacturing through technological competences. This was achieved by forming subsidiaries, strategic alliances and joint ventures with other automobile companies in different parts of the world. According to (GM Press Release, 2006), the company has been involved in a range of global ventures throughout its history, each of which has aimed at extending its market penetration. Partnering enables GM to rapidly expand its technical fields and brings that knowledge in-house transferring it to multiple levels within the business, even extending it sometimes to corporate issues. Through the various stages of internationalisation, GM was able to enlarge its distribution and provide access to essential materials. Additionally, the company developed and improved its operations, facilities and processes all of which have provided access to new technologies and a rich database of knowledge and new capabilities.

The American automobile industry is the biggest in the world in terms of number of cars manufactured and sold. The U. S. automobile market is saturated with the global car manufacturing companies however; the majority of the market share is occupied by domestic and Japanese companies. The outcome of this is a drop in the level of consumption as there are too many entrants competing in the same industry. Because of this decrease in consumption, the automobile industry leaders have been offering attractive incentives and lower prices leading to a loss in profitability. The world-class automakers are gradually expanding into foreign markets, as new emerging markets in China, South East Asia and South America are showing signs of sustainable economic growth. GM overseas operations were a method of diversifying themselves against the risks and uncertainties in their domestic market life cycle, by setting up new operations abroad multinationals can diminish adverse economic downturns. Most MNE’s also follow a pattern that has often been laid out in front of them by competitors or similar sized companies that have adopted or mimicked behaviour that has been tested and proven to be success, if the right measures are taken when adopting it. For instance, it has been argued that organizations tend to imitate actions that have been taken by large numbers of organizations, because such practices are legitimized or their success is taken for granted (Fligstein; Haunschild; Haveman; Kraatz; Lewitt). This can also have an adverse affect on an MNE when entering a new market, leaving them less cautious and with a diminished aspiration towards growth, knowing that the chances of that market already being saturated and that the first come first served knowledge is already guaranteed not to be in their possession. This often happens when the specific market they enter does not suit their domain of expertise and experience, resulting in them investing much faster and with a lesser degree of uncertainty that they would have usually applied.

GM's move to internationalise was mainly to reduce costs, attract a larger market and the creation of strategic alliances. The company strategically allied with Fiat in 2000 by acquiring 20 percent of Fiat's equity to establish a joint procurement venture. With a split of 50 percent of the capital each, giving them a concentrated purchasing power of about $32 billion per annum, this alliance has the capacity to strengthen their bargaining power as well as reducing the supplier management cost. GM also moved production overseas, as the number of internal competitors grew too high in most of the emerging country home markets. GM needed to find a new incentive to manage a new market while remaining at low cost.

GM is a good example of an MNE which underwent internationalization whilst maintaining its position as one of the leading carmakers. It has also followed the theories laid out about internationalisation such as the typical way a company proceeds to penetrate and enter a foreign market. Firstly it will look at the options available and analyse what will be best suited for them considering the high degree of uncertainty and risk associated with entering an unknown market. One such option is licensing but it has to be assessed in a precautious way, due to the fact that they might be risking firm specific advantages by engaging in premature licensing agreements, this is also the least preferred of all three options due to the fact that there is a risk of knowledge dissipation. The only instance when licensing will be considered as a viable option is if the revenue generated from the licensee exceeds the cost of policing it. But also, if they do choose go for an early licensing agreement it may be because their firms specific advantage is hard to duplicate or they have a tight control over the licensee, meaning that they would find it very hard and potentially dangerous to resell any kind of sensitive material to any potential competitor or a third party of any kind. The second option is the possibility that the MNE might only be willing to export at first if the demand of the local market is not high enough for them to want to engage in foreign direct investment and set up an overseas subsidiary, or they may also consider this as a possibly a bit longer down the line depending on the potential growth generated from initial sale patterns and the profitability a larger scale operation would yield. The exporting option also depends on the trade agreements, tariff barriers, taxes, transportation costs and quotas between the two countries involved which sub sequentially determine if the operation will be profitable or maybe another option should be considered.

There are two strong examples of how this has been reproduced by GM. The first is the case of General Motors do Brasil, which is GM’s third largest operation outside of the U. S after being recently overtaken by China. In the beginning, the activities were in the assembly of vehicles imported from the United States. After five years, GMB officially opened its first plant in 1930 in São Paulo. Here we can see that exporting lead to the full scale creation of a production facility which was so successful a second one was opened 28 years later, thus resulting in Brasil being the main exporter of GM automobiles in the whole of South America. Breaking out of their domestic market and becoming an exporter themselves in a very short space of time and for such a large operation really does provide evidence that internationalisation does not spread from one point outwards with only one epicentre at its core but rather creates and distributes smaller nodes that in time expand themselves and repeat the process so on, just as how it is described in the network approach. Once the firm has passed the cultural barriers and had its first experience of foreign operations, it is generally willing to conquer one market after another (Carlson, 1966). The second example is when the Cadillac brand was introduced to China in 2004, starting with imports from the U. S, which then lead to the Chevrolet making its first appearance on the Chinese market one year later. They were then able to move production operations to their Shanghai GM plant which opened as a joint venture with SAIC in 1997, initially created for the Buick brand that is especially strong in China. In this case exporting was clearly used as a testing method for foreign products penetrating the Chinese domestic market, market-specific knowledge and general knowledge are important for firm’s internationalization (Johanson and Vahlne, 1977).

Dunning’s Eclectic theory which sets out to explain that foreign direct investment as a theory can be unified as long as the firms applying it consider the ownership, location and internalisation of the process that will produce substantial benefits if applied accordingly. This is also the case if the extent, the form and pattern of international production is founded on the juxtaposition of the ownership to specific advantages that a firms posses when contemplating foreign production. This is reflected in GM's move to manufacture most of its China-market vehicles locally, through its Shanghai GM joint venture, GM also plans to create a research facility in Shanghai for $250m to develop hybrid cars and alternative energy vehicles. Therefore GM follows a path suggested by Dunning to gain advantage in terms of competitiveness and cost by ownership in foreign market and aim to expand.

The Network Approach emphasises the industry as a system of networks, each firm within network has relationships with customers, suppliers etc… These relations are important competitive advantages which the Network model also suggests the firm needs to take into account and evaluate not only its own position in the market in relation to its customers, but also the environment of that market in relation to others such as competitors, new entrants etc… GM and Fiat formed a strategic alliance, with GM owning a 20% share in Fiat and Fiat SpA receiving 5. 1% of GM's shares in exchange. Production and ownership have both been improved when a recent alliance took place under the form of two joint ventures (owned 50% by Fiat and 50% by GM). The first will conduct purchasing activities, while the second will produce engines and gear equipment which is mainly aimed at cutting expenses. Hence GM has followed the network model to some degree as their joint venture come in terms of relations with Fiat. By collaborating they have reduced the cost and the innovation has resulted in new production techniques. Which gave both of them some degree of competitiveness as they have gained purchasing power as well as reduced cost in terms of purchasing from the suppliers.