

Toyota production system

Business



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An example of ownership specific advantages is the Toyota Production System (TPS) found in Toyota. TPS embodied management philosophy and practices that included root problem analysis, waste reduction, just-in-time production, continuous improvement, respect and teamwork, developing staff and partners, long-term philosophy even at the expense of short-term financial goals and other factors. TPS formed the “ life-blood” or permeated Toyota in a way that competitors could not imitate either locally in Japan or elsewhere - wherever the company moved its production facilities to. In examining location advantages we highlight why UK companies outsourced their call centres to India using the CAGE framework (Cultural distance, Administrative and political distance, Geographic distance and Economic distance). Two attributes under cultural distance make India advantageous: it has a large number of English speakers and it has a significant number of Indians residing in the UK. Similarly, two attributes under administrative and political distance work in favour of India: it is a member of the commonwealth and its legal system has its origins in the English system. Finally under its economic attributes India has a much lower GDP per capita than the UK - implying labour is much cheaper than in the UK - and it has a higher GDP real growth rate than the UK, which signifies that the Indian government is actively encouraging growth; there is investor confidence and a booming business environment. An example of internalization advantages is demonstrated by GlaxoSmithKline plc., setting up and operating one of its key manufacturing sites for consumer products in Kenya. Research and development of new drugs involves huge investments and it takes a more than a decade (between 12 - 15 years) before any new drug moves from discovery to the market. This long tie-up of capital and the huge amounts

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spent makes it vital that the drug company keeps its formulae protected from its rivals for as long as possible through patents and otherwise. To minimise risk, it is better for GlaxoSmithKline to do its own production in Kenya rather than to enter into an agreement with a third party to do so. The OLI paradigm and Porter's diamond model agree on several issues. This is not strange given that the OLI model is an envelope of several theories. For starters, both theories recognise the importance of the locational advantages of countries to home-based organisations. Dunning explicitly attributed ownership advantages of firms to the characteristics of their home countries for example Apple does the bulk of its manufacturing in Asia because its strength is not in manufacturing rather it is in the integration of quality design with quality software – skills that are abundant in the US than anywhere else. Similarly, Porter stated that the resource endowments and institutional framework of the home country is manifested by the ownership advantages of that country's firms. For example Japan is a small country with limited resources and a huge population. This environment has encouraged a culture of miniaturization to save on space and resources. Thus Japanese companies are particularly good at miniaturizing products. Also, both theories agree that locational advantages are no longer restricted to possession of a unique set of immobile natural resources and capabilities, rather it is more geared towards the ability to offer distinctive and non-imitable sets of location-bound created assets (Dunning 2009) or as Porter (1990) puts it, the stock of factor conditions available in a country are less important than the extent to which they are upgraded and deployed. Both models therefore imply that there is need for dynamism in locational advantages. Another point of similarity is the significance both models place

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on the role of governments towards the choice on international entry taken by organisations or the competitiveness of nations. Some authors have gone on to add government as a fifth factor to Porter's diamond model. Both models advocate for increased role of governments in removing obstacles to restructuring economic activity and facilitating the upgrading of resources for example human resources could be upgraded by appropriate educational and training programs. A good case in point is how the Indian government invested heavily in the training of computer professionals in its education system. This improved India's human and knowledge resources. Using OLI this meant a rise in the ownership advantages of Indian firms whereas using Porter's diamond model this implies improvement of factor conditions. The major difference between these two models is the role played by MNEs in creating competitiveness in developing countries. Porter's diamond is exclusively focused on the 'home base' concept where competitiveness is largely geared towards gaining natural resources or foreign markets. Porter's diamond model therefore suggested that for a developing country to benefit from MNEs, the MNE would have to shift its home base to that developing country. Dunning's disagreed with this by using the OLI model to advance the idea of regional integration, where MNEs use several diamonds to strengthen their home diamond (Dunning 1993). According to Dunning MNEs may have additional motives to invest in a country other than the pursuit of new markets and/ or securing of natural resources as suggested by Porter's model. The OLI model identified two additional drivers why MNEs may seek to make foreign direct investments, namely: to promote efficiency in both their foreign and domestic assets and/or to protect their existing ownership specific advantages or reduce those of their competitors. For example UK

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fast fashion retailer Primark was seeking efficiency when it moved its production to contract manufacturers in Asia in order to produce apparel for the UK and European markets. Primark was neither seeking new markets nor resources. References Dunning, J. H. (1993). Internationalizing Porter's Diamond. *Management International Review*. 33 (2). p. p. 7. Dunning, J. H. (2009). Location and the multinational enterprise: A neglected factor? *Journal of International Business Studies*. 50. p. pp. 5-19. Porter, M. E. (1990). *The competitive advantage of nations*. New York: Free Press.