

Key strategic issues in the global automotive industry



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The report discusses various key strategic issues in relation to the global Automotive Industry. Considering the case of Honda Motors, the report presents general information about basic business strategies such as Business-level strategy and Corporate-level strategy and at the same time highlights the technique of reconciling dichotomies at Honda. Further, the report covering various aspects of Mergers and Acquisitions in the Automotive industry, provides details of impact on them of factors, such a great deal of risk of bankruptcy and debt, potential for product synergies, and, admittance to fresh technologies and rising markets. Moreover, the report also talks about Corporate Social Responsibility (CSR) in general and in automotive industry, explains its impact on organisational performance, while at the same time, presents a comparison between the western and the Japanese management models.

Introduction

Strategic planning is important for all the organisations irrespective of their size and area of operation, however, as in the recent times, similar to organisations in all the major industries, the automotive industry as well is facing major problems. Thus, it becomes very important for the organisations in the automotive industry to plan strategies and implement them effectively so that their desired organisational goals and objectives could be achieved.

Background

In the automobile industry one of the most trusted and widely recognised companies, Honda Motor Co., Ltd. was established on Sept. 24, 1948 by Soichiro Honda. The company operates under the basic principles of “ Respect for the Individual” and “ The Three Joys” – commonly expressed as <https://assignbuster.com/key-strategic-issues-in-the-global-automotive-industry/>

The Joy of Buying, The Joy of Selling and The Joy of Creating. At present, the company has 390 subsidiaries and employees around 210, 000 employees worldwide. Moreover, the organization is one of the leading motorcycle manufacturers in the world and one of the top automakers. A large variety of products are developed, manufactured and marketed by the organization, product range starts from small day to day use engines, scooters, motorbikes and top sports cars.(world. honda. com, 2010).

Strategies & Managerial dichotomies

Business-level Strategy

According to Hitt et al. (2008, p. 98), a business-level strategy is an incorporated and synchronized set of commitments and activities that a firm uses to add a competitive advantage by exploiting core competencies in definite product markets. In other words business- strategy is the core strategy that the firm forms to explain how it intends to race in a product market. Explaining the term further, Carroll and Buchholtz (2009, p. 157) suggest that business-level strategy is concerned with the question “ How should we compete in a given business or industry?” and therefore a company whose products or services take it into many different businesses, industries, or markets might need a business-level strategy to define its competitive posture in each of them.

Goodman et al. (2005, p. 384) point out that the options of business-level strategy include three basic strategies i. e. cost leadership strategy, differentiation strategy and, focus strategy. Further, Hitt et al. (2008, p. 98) suggest that in terms of customers, when selecting a business-level strategy

the firm determines three important aspects: (1) Who will be served, (2) What needs those target customers have that it will satisfy, and (3) How those needs will be satisfied.

Corporate-level Strategy

According to Goodman et al. (2005, p. 383) corporate-level strategy sets the direction which the business will follow over the long term. This strategy guides the whole business towards achieving a competitive advantage, or in other words, making it better than its competitors. They further suggest that the corporate-level strategy determines the business areas on which the business should concentrate to maximise its long-term profitability. They suggest options such as concentration on a single business, vertical integration or diversification.

Swayne et al. (2006, p. 34) explain corporate strategy in quite a different way and propose that corporate-level strategies address the question “ What business / businesses should we be in?” and these strategies consider multiple, sometimes unrelated, markets and typically are based on return on investment, market share or potential market price, and system integration. Providing the example of healthcare firm, Trinity Health, they suggest that the question of “ what businesses should we be in?” has resulted in several semi-autonomous “ businesses” operating in a number of different markets, including hospitals, outpatient facilities, long-term care, home health, etc. Anthony et al. (2007, p. 59) point out that corporate level strategy is about being in the right mix of businesses and therefore it is concerned more with the question of where to compete in a particular industry. At the corporate

level, the issues are (1) the definition of businesses in which the firm will participate and (2) the deployment of resources among those businesses.

Figure 1: Corporate-level Strategies: Graphical

Representation of Generic Corporate Strategies

(Anthony et al., 2007, p. 59)

Anthony et al. (2007, p. 59) further suggest that at the corporate level, one of the most significant dimensions along which strategic contexts differ is the extent and type of diversification undertaken by different firms, as shown in the figure 1.

Part B

Honda has been an organisation that has refused to accept the traditional trade-offs assumed by the western management thinking such as high quality cost more and took longer; low cost meant low quality too; and fast delivery cost more and risked low quality. Rather, it used the process of dichotomy reconciliation to deal with these trade-offs. The organisation developed the 'right-first-time' principle, which implies on focussing how to build the products in quality in the first place rather than testing their quality after production (thereby reducing waste and downtime), and incorporated it with 'just-in-time' production system with it, which further enhanced the production efficiency by rationalising the production by means of minimising the stocks and at the same time, reducing delivery lead times. These practices signify the strategic approach used by Honda towards

manufacturing, which provides a lot of scope for marketing, product positioning and competitive strategy.

One of the major product-related core competencies of Honda are the advanced internal combustion engines which power whole range of its products, such as CVCC (compound vortex controlled combustion engine, designed during the 1969-71 period). This engine tackled and overcame a trade-off among the various pollutants emitted from internal combustion engines that was widely accepted all over the world in the automotive industry. According to the traditional view, the reduction of one chemical inevitably led to increases in others, and the only solution was using a Catalytic Convertor, to clean up the pollutants after the combustion. However, Honda, considered it more rational not to create pollutants in the first place than to later clean them up and developed a system that decreased all the pollutants, resulting in an engine in which the old trade-offs were overcome, thus applying its 'right first time' and 'build in quality' principles. The same approach was used for innovate new core product-related core competencies as well such as VTEC (variable valve timing and lift electronic control) family of engines introduced in 1989, which overcame the fuel economy versus engine power trade-off, and the reduction of weight by use of new under body coating, that included reduced volatile organic compound emissions and an improved durability standard.

At the same time while developing these product-related core competencies the company also incorporated its core process-related core capabilities to gain the competitive advantage. First is the speed with which Honda

manufactures new products, whose much of the credit goes to its product
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development process which uses approaches such as SED (sales-engineering-development) teams who work together on projects from start to finish. The second is Honda's model replacement system, according to which Honda's keeps changing its models in iteration to boost regular customer interest. In fact every four years, when the models are replaced, the components such as exterior shape, the interior design, etc., however, every four years with a gap of two years after the official model change, all the vital unseen components, new engines, gearboxes, braking systems are changed. Moreover, Honda's uses small batch production system based a combination of push-pull system. In the batch production system, the components (lot sizes, colours, optional extras) are delivered to the assembly line in batches matching exactly the vehicle they should be used for. The small scale inventory pull system is utilised for everyday production planning (to minimise stocks), while push system is used for monthly planning based on market forecasts, which fixes the total mix of products and appropriate schedules several months in advance. Thus, it could be seen that Honda reconciled this dichotomy in an effective way.

Network-level Strategy

Doukidis et al. (2004, p. 242) suggest that the network-level Strategy is about the aims and goals of partnering within the network and about strategic decisions made by the network initiators and partners regarding the composition of the network and the types of companies to be involved. The network can therefore be categorised in terms of value chain and functional focus of the partnering companies, as well as their size, or their regional and industry focus. Furthermore decisions about internal

competition, the possibilities for new network entries, the number of partners involved, and the duration of the partnership characterise the network strategy.

According to Rasche (2008, p. 59), due to recent increase in cooperative relations among organisations, network-level strategy is considered as the highest level of analysis. They propose that as firms increasingly cluster together into groups of more than one organisation, the modus operandi for remaining competitive increasingly depends on linkages between organisations, and therefore the question posed by the network-level strategy, whether and how the strategy of a multitude of firms can be aligned into a coherent whole, examines the relationships a company wants or needs to have with other market players, most of the time in so-called strategic networks. In this regard researchers typically appreciate mechanisms such as trust and power as they influence the conditions of coordination (Bachmann, 2001, cited in Rasche, p. 60). By means of these mechanisms, companies in networks align their strategies or develop them in a joint manner to reap the benefits of participation.

Figure 2: Overview of different levels of strategy

(Weigl, 2008, p. 22)

What is Merger?

Firer et al. (2004) define a merger as a transaction whereby two companies combine. Usually a new company is formed, the shareholders of which are all, or substantially all, of the shareholders of the two original companies.

Sometimes the term merger is applied to a transaction which is in reality an <https://assignbuster.com/key-strategic-issues-in-the-global-automotive-industry/>

acquisition in order to satisfy psychologically the target firm. In a merger, institutions combine to form another different institution, which becomes a legal entity in its own right and therefore mergers are not instant events, they are processes.

What is Acquisition?

Acquisition is defined as the purchase of an asset such as a plant, a division, or even an entire company. For example, Procter and Gamble did a major acquisition in 2005 by purchasing the Gillette company, Inc., in order to extend its reach in the consumer products industry (Sherman and Hart, 2006, p. 11).

Difference between the two terms

According to Sherman and Hart (2006, p. 11), though on the surface, the distinction in meaning of the two terms may not really matter, however, strategic, financial, tax and even cultural impact of a deal may be very different, depending on the type of transaction. A merger typically refers to two companies joining together (usually through exchange of shares) as peers to become one, while on the other hand, an acquisition typically has one company - the buyer- that purchases assets or shares of the seller, with the form of payment being cash, the securities of the buyer, or other assets of value to the seller.

Mergers and Acquisitions in the Global Automobile Industry

Mergers and acquisitions in the automobile industry act as a means of increasing market share and improving reach. Other related reasons include

attaining economies of scale and augmenting product ranges. Automotive mergers and acquisitions are turning into a strategic option for companies looking to accelerate growth. In addition to corporate-level alliances, functional collaborations are increasing all over the globe. In the recent past, several technology and platform sharing agreements have been forged, enabling companies to reduce product development times and costs (www. reportsure. com, 2010).

However, the global automobile industry is unlikely to witness the kind of mega automotive mergers seen in the drug or media industries for two reasons. First of all, most mega deals were struck during the nineties and the turn of the millennium, reducing future scope for consolidation. Secondly, automotive manufacturers have already polarized into six major alliances - GM Alliance, Ford-Mazda, DCX Alliance, Toyota, VW Group and Renault-Nissan. However, contrary to this notion are the results of the survey conducted by KPMG in 2010, which suggest that the number of mergers and acquisitions in the automotive industry will increase during the next five years (www. kpmg. com, 2010).

Impact of too much debt and risk of bankruptcy

Many companies seem to have proven that outright consolidation is the best strategy for taking out costs and making organizations more efficient. Tough, many factors do affect the mergers and acquisitions in the automotive industry such as debt and risk of bankruptcy. According to a survey conducted by consulting firm KPMG in 2010, 89 percent of the 200 senior executives representing vehicle manufacturers and suppliers worldwide

agree that one of specific global drivers of alliances, mergers and
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acquisitions include too much debt and risk of bankruptcy (www. kpmg. com, 2010). As an evidence of this, due to the increasing competition in the automobile industry and recent global economic slowdown companies such as Fiat lost its sales and as a result had to sell its stake in Ferrari and General Motors. In a similar way, Daewoo Motors, which had gone bankrupt and collapsed after the South Asian Crisis, was acquired by General Motors (www. reportsure. com, 2010).

Impact of potential for product synergies

The survey done by KPMG also suggest that 83 percent of the 200 senior executives representing vehicle manufacturers and suppliers worldwide support the notion that potential for product synergies is a global driver of mergers and acquisitions in the automotive industry (www. kpmg. com, 2010). One of the biggest mergers in the automotive industry, the Renault-Nissan automotive merger that took place in 1999 had one of its main objectives as maximize synergies through their complementary strengths in product line-up, procurement, R&D, marketing, and personnel training, which would result in cost reductions, greater global market penetration and other benefits through cooperation. Another major merger that took place between Daimler-Benz of Germany with Chrysler of US in 1998 also had one of the objectives to take advantage of potential of product synergies. On one hand, the merger helped the combined entity in attaining economies of scale that reduced costs and made Daimler-Chrysler an giant in the automotive industry that could handle strong competition from US, Japanese and German automobile companies. While on the other hand, Daimler, which had higher developmental costs, gained the advantage of Chrysler's creative and

low development costs, and its entrepreneurial culture and flair for doing quick, lean and cheap (www. reportsure. com, 2010).

Impact of access to New Technologies and Emerging Markets

The KPMG survey reveals that 84 percent of the 200 senior executives representing vehicle manufacturers and suppliers worldwide support the fact that access to new technologies and emerging markets is also a major aspect that encourages mergers and acquisitions in the automotive industry (www. kpmg. com, 2010).

An example of how new technology impacts mergers and acquisitions can be obtained by considering the example of Shanghai and Changchun automobile enterprises, which used to have automobile production competence and R&D team but after making an alliance with Volkswagen from Germany, they stopped producing their independent brands, R&D teams, and research platforms, and started purchasing sets of production lines from them to produce series of automobile. Reports suggest that some countries in the emerging markets are growing at a spectacular rate, especially India and China. The Indian auto industry, for example, grew at a rate of 29 percent in 2003 while the Chinese auto industry grew at rate of 35 percent. These staggering growth rates are attracting global automotive majors to these markets in increasing numbers. Companies are resorting to mergers and acquisitions to gain a foothold in these markets (www. reportsure. com, 2010). Automobile companies such as First Automotive Works, General Motors and Nissan Motors are trying to consolidate their position in the Chinese market either through acquisition or equity stakes. In <https://assignbuster.com/key-strategic-issues-in-the-global-automotive-industry/>

one of the biggest deals in recent years, in 2003, Nissan Motor's acquired of a 50 percent stake in Dongfeng Motors of China for USD1. 032 billion (www.reportsure.com, 2010).

Question 3

Part A

Corporate Social Responsibility (CSR)

According to Kotler and Lee (2005, p. 3), corporate social responsibility is a commitment to improve community well-being through discretionary business practices and contributions of corporate resources. They further suggest that the business practices mentioned here are not the ones mandated by law or that are moral or ethical in nature, but a voluntary commitment a business makes in choosing and implementing these practices and making these contributions.

The World Business Council (2005, cited in Banerjee, 2007, p. 16) states corporate social responsibility as the commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life. While, European Commission (2005, cited in Banerjee, 2007, p. 16) propose it as a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.

Corporate Social Responsibility (CSR) in Automotive Industry

CSR in the automotive industry means actively safeguarding jobs while assuming social and ecological responsibility at every production site. As the automotive industry manufactures a product that is associated with various environmental, social as well as health and safety impacts, all companies, regardless of their country of origin, face a number of challenges if they wish to manage such a product responsibility.

The foremost CSR-mandated duty of many car companies in Japan, Europe and North America is to deal with the option of outsourcing production in low wage countries. Because of the relatively high number of employees in the automotive industry, both skills and their integration into the company plans take on a vital role. As transnational actors, enterprises assume responsibility mainly in the regions in which they produce, whether in Europe, Asia, Australia, North or South America or Africa. They play a central role not only in job creation but also in infrastructural and regional development, because for every job at large manufacturing sites, there is at least one more job at a supplier company as well as infrastructural jobs. The second crucial CSR is the respect for the rule of law, as the automotive industry consists of a complex network of globally active suppliers, uniform standards must prevail for all suppliers within the entire supply chain (Visser et al., 2010).

Apart from these other CSRs acknowledged by the automotive industry include improving fuel economy and reducing CO₂ emissions, other key ecological measures such as equipping vehicles with particulate filters, <https://assignbuster.com/key-strategic-issues-in-the-global-automotive-industry/>

climate-protection strategies, driver training to promote fuel-efficient driving, product recovery and recycling systems and developing alternative ways of fuelling a car like bio-fuels, natural gas, electric and hybrid vehicles, hydrogen power and fuel cells (Visser et al., 2010).

The 2006 Global Corporate Social Responsibility (CSR) study, which was conducted by TNS Automotive, the world's largest automotive research company, across 16 countries, reveals that emerging markets such as Thailand, India, and China rate automotive companies higher in regards to corporate social responsibility than mature markets of the west. The study attributes this to the general public's high ratings of the automotive sector in emerging markets for generating jobs and improving quality of life (www.ameinfo.com, 2006).

Corporate Social Responsibility (CSR) of Honda

Honda has the vision statement, " Striving to be a company society wants to exist," based on the Honda philosophy. In order to realize this vision, the company has established three directions: creating new value, expanding value and commitment to the future. Creating new value means applying innovative ideas to anticipate changing needs and give shape to dreams. Expanding value means helping people realize their dreams by contributing to local communities wherever we are active around the globe. Commitment to the future means working to improve safety for everyone while also minimizing our burden on the environment and consumption of the earth's resources (world.honda.com, 2010).

In the study conducted by TNS Automotive in 2006, Honda has been ranked top automotive company in the UK for its corporate social responsibility. Top also in the US and Indonesia, Honda ranks alongside BMW in Spain and Italy, Toyota in Japan, Korea, and Thailand and Volvo Trucks in Sweden and Netherlands in the 2006 Global Corporate Social Responsibility (CSR) study of over 16, 000 people across 16 countries (www. marketresearchworld. net, 2006).

Figure 3: Honda's CSR philosophy

(world. honda. com, 2010)

Part B

On comparing the strategic management or leadership models followed in the western countries to the strategic management or leadership models followed in Japan it could be observed that there are many significant differences in terms overall description, work process, production organisation and logistics, organisational structure, labour relations and industry organisation. The organisational structure followed by western firms has a vertical, hierarchical structure in which the employees have specific duties and individual decision making and responsibility is encouraged. However, on the other hand the Japanese firms have a horizontal structure, in which the employees have a broad range of duties and collective or group decision making is practiced. In terms of production, the western firms stress on mass production, follow the just-in-case ideology and use the push system, while the Japanese firms believe in lean production which mean

production in small-lots, use the just-in-time production system and use the pull system.

Preferred Model

It is difficult to select any one model out of the two as there are merits and demerits in both the management models. Thus, I'd prefer the method of reconciling dichotomies as used by Honda so that the advantages of both the models could be obtained. Though, it is a difficult technique in practice and it needs effective strategic planning, implementation and constant monitoring, but the technique of reconciling dichotomies will be the personal preference in terms of strategic innovation. Explaining this point further, let's consider one of the biggest differences between the western and the Japanese models which is the organisational structure. The western firms have a vertical structure, whereas the Japanese firms usually prefer the horizontal structure. But, both models have problems of their own. A vertical structure lacks in the process-oriented horizontal linkages, while, when a horizontal structure becomes difficult to be managed when the firm becomes too large.

In order to prevent the loss of small-firm vitality and the horizontal linkages and communication that are so vital to innovation and dynamism, especially when a firm grows bigger and adopts overly rigid structures of hierarchical control, Honda by means of reconciling dichotomies, adopted a number of measures such as holding round table meetings between executives and front-line supervisors, round table meetings between executives and middle-level managers, as well as diagonal linkages in which manufacturing managers, for instance, hold discussions to share viewpoints with front-line sales staff. Moreover, Honda's 'expert' system developed during 1950s to <https://assignbuster.com/key-strategic-issues-in-the-global-automotive-industry/>

1960s, allows the technical experts to be promoted in a clearly vertical fashion without having to enter the ranks of management, on the grounds that the latter would be a sure-fire route to poor lower level management since many technical experts desire promotion but do not actually want to manage other people. Also the managers can follow diagonal promotion paths (simultaneous vertical and horizontal moves). Thus, by means of the technique of reconciling dichotomies the advantages of both the structures can be sought and at the same time, the drawbacks of both could be minimised. So, this is the preferred way strategic thinking.

Conclusion

The report presented key strategies used by the organisations in general and how Honda, an exceptional organisation used the technique of reconciling dichotomies to solve various dichotomies such as planning versus learning, market positioning versus developing internal resources, and product-related core competencies versus process related core capabilities. Further, the report provided information on mergers and acquisitions in the automotive industry and impact on it of various different factors. In addition, the report also put forward the various aspects of corporate social responsibility of the automobile industry and finally discussed the differences between the western and Japanese leadership models in brief.