

International business management

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Introduction

Multinational corporations (MNCs) engage in internationalisation when they extend their operations into other countries in order to increase their market share and get access to untapped growth potential. It entails making a number of calculated moves to increase one's presence in international markets, grab a larger slice of those markets, and experience long-term success. Benefits of internationalisation for MNEs include exposure to new markets, income diversification, cost savings measures, and the sharing of expertise across offices in different countries (Zimmermann & Boddewyn, 2019). Toyota, one of the world's largest automotive manufacturers with headquarters in Japan, will serve as the case study for this academic project. Toyota is a good case study for examining the intricacies and subtlety of internationalisation because of the company's expansion into several foreign markets. There will be a pinpointed emphasis on Japan, Toyota's home nation, the host country (which has yet to be named), and a particular Toyota SBU or industry.

For MNEs like Toyota to be successful in international markets, they must have a solid internationalisation plan. Strategic choices must be made about which markets to enter, how to introduce new products to the market, how to modify existing products, how to brand the company, and how to manage the supply chain (Hitt, Ireland, & Hoskisson, 2017). The internationalisation plan an MNE adopts may have a major effect on its worldwide performance and ability to compete. Multinational enterprises (MNEs) have flexibility in their internationalisation strategies to adapt to the unique conditions of each markets. Ethnocentric, polycentric, and geocentric methods all fall under this category. Implementing uniform policies

and procedures in overseas branches is a hallmark of an ethnocentric strategy. A polycentric approach, on the other hand, gives regional branches considerable leeway in adapting their strategies to local circumstances. Finding a balance between globalisation and flexibility, with a focus on recruiting the best qualified individuals regardless of where they were born, is the objective of a geocentric approach (Deresky, 2017).

An MNE's internationalisation strategy is studied through the lens of the ⁷ **Political, Economic, Social, Technological, Legal, and Environmental (PESTLE)** framework. **These factors** provide light on the challenges Toyota faced when it entered new foreign markets. The purpose of this assignment is to assess the effect of external factors on Toyota's globalisation strategy and approach. Through an in-depth analysis of Toyota's case study, this course aims to assist students better grasp the dynamics of international business and how MNEs may effectively navigate the complexities of overseas markets. The structure of this course will consist of an introduction, a literature review on internationalisation strategies and contextual aspects, an analysis of Toyota's case study, and some reflections on the whole.

Theoretical Framework

Several theoretical frameworks and ideas, such as ethnocentrism, polycentrism, and geocentrism, are used in the examination of internationalisation efforts. Multinational corporations (MNCs) like Toyota use these models to help them make important choices when they extend their businesses into new countries.

1. **Ethnocentric Approach:** When a multinational corporation (MNC) takes an ethnocentric approach to internationalisation, all decisions are made at the MNC's headquarters and all of its overseas branches follow the same rules and procedures

(Deresky, 2017). The nationalist strategy promotes the exportation of Western values and standards to developing economies. It's possible that local talent is not being fully used by overseas businesses since key workers are all Americans.

Advantages: The primary benefit of adopting an ethnocentric strategy is that it facilitates the preservation of a consistent business culture and identity in all global markets. This consistency may facilitate effective knowledge transfer and build a solid reputation for a company internationally (Dowling, Festing, & Engle, 2017). Furthermore, centralised decision-making allows for a quicker reaction to changing market circumstances and guarantees quality and service standards remain constant.

Limitations: The ethnocentric viewpoint, however, has several drawbacks. Its possible lack of market adoption may stem from its concentration on standardisation, which may cause a lack of sensitivity to local client preferences and cultural variations. In addition, if a multinational enterprise (MNE) relies too much on people from its home country, it may be unable to effectively analyse and respond to changes in the local market.

2. **Polycentric Approach:** The polycentric strategy, in contrast to the ethnocentric one, gives foreign subsidiaries a lot of freedom to develop their own plans and implement them in accordance with local market circumstances and cultural preferences (Deresky, 2017). Local managers have discretionary authority, and the corporation may hire mostly from the local community.

Advantages: Decisions may be made by people with a thorough grasp of the local environment, making the polycentric approach more sensitive to local market needs. Customer

happiness and market share may both increase with this kind of flexibility. Hiring natives helps eliminate linguistic and cultural obstacles, making for more efficient operations.

Limitations: However, since each subsidiary has the freedom to establish its own procedures, inefficiencies and wasted effort are possible outcomes of the polycentric strategy. Knowledge exchange and global integration may be hampered by a lack of coordination and standardisation (Dowling et al., 2017). Furthermore, the central office may find it difficult to manage and coordinate the activities of its many subsidiaries.

3. **Geocentric Approach:** The goal of the geocentric method is to find a middle ground between total global coordination and individualised service. It places an emphasis on hiring and promoting the best qualified individuals, independent of their nationality, which often leads to a combination of natives and foreigners in senior roles (Deresky, 2017). There is a global view in decision making, with input from both the home office and the field offices considered.

Advantages: The geocentric strategy promotes a diverse and inclusive work environment by capitalising on synergies throughout the world. Hiring the greatest people from all over the world allows a multinational corporation like Toyota to tap into a wider range of knowledge and experience, which in turn fosters innovation and creativity (Hitt et al., 2017). This method improves responsiveness to regional market situations without sacrificing global consistency.

Limitations: However, cultural and organisational difficulties might make it hard to put a geocentric strategy into practise. To achieve a happy medium between global integration and local responsiveness, headquarters and subsidiaries must be able to communicate and coordinate

effectively. Decision-making may also be impacted by cultural differences and power conflicts (Dowling et al., 2017).

Internationalisation tactics may be seen from several angles thanks to the theoretical frameworks of ethnocentrism, polycentrism, and geocentrism. Polycentrism places more value on local liberty and flexibility, whereas ethnocentrism stresses centralised control and worldwide standardisation. The geocentric method is an attempt to bring together the best features of both approaches, emphasising variety and exchange of information while keeping a consistent global character. Global goals, target market features, and the company's capacity for global operations management all play a role in determining the optimal internationalisation plan.

Case Study Analysis - Toyota's Internationalization Strategy

Because of its status as a leading MNE in the automotive sector, Toyota has developed a nuanced internationalisation strategy for entering new markets abroad. Toyota's strategy is a mix of ethnocentric, polycentric, and geocentric approaches, which allows it to successfully manage global integration and local response. Global standardisation and centralised decision-making are ethnocentric features of Toyota's internationalisation approach. Toyota's manufacturing system, Toyota manufacturing System (TPS), is used consistently throughout all of the company's international branches (Eriksson, 2021). Production methods based on TPS concepts, such as "Just-in-Time" and "Lean Manufacturing," are used universally to improve productivity and quality. Toyota's headquarters in Japan is also where many of the company's most important decisions, including those concerning R&D, innovation, and corporate strategy, are made. Toyota's approach takes into account local market realities by including polycentric elements in addition to an ethnocentric focus. The importance of learning about and satisfying local customer

tastes and expectations is not lost on the corporation. Toyota has models available in a number of markets that are designed specifically for that area. For instance, the business targeted bigger and more luxurious automobiles towards areas with more buying power, while introducing smaller cars with fuel-efficient engines to regions where fuel economy and affordability are more highly valued by customers (Eriksson, 2021). Toyota's regional market share and customer satisfaction have both benefited from this localization approach.

In addition, Toyota has a geocentric perspective, as seen by its policy of actively seeking out and rewarding the most talented people everywhere. The organisation values personnel of many nationalities for their unique experiences and viewpoints (Chavan, 2021). Toyota is able to successfully comprehend local market conditions while aligning with the wider global strategy because of the combination of Japanese and local management in key roles. Using this method, the corporation may take advantage of global synergies and share information and expertise across its many affiliates. Toyota's dedication to environmental sustainability is a prime illustration of the company's devotion to a geocentric strategy. The corporation promotes environmentally friendly automobiles and works to reduce carbon emissions throughout its worldwide activities (Toyota worldwide, 2021). This method takes into account both international legislation and individual customer preferences in regards to environmental preservation.

In conclusion, Toyota's approach to internationalisation shows a mashup of ethnocentric, polycentric, and geocentric values. The company's ethnocentric characteristics are on display in its push for worldwide uniformity in terms of product quality, decision-making, and TPS implementation. Its localization efforts, which adapt items to local tastes, are also emblematic of its polycentric nature. Finally, Toyota's geocentric strategy is reflected in the company's efforts

to attract and retain a diverse workforce and to address environmental issues on a worldwide scale. ³ Toyota's amazing success in the global car industry may be attributed in large part to the company's adoption of this holistic strategy. The firm's worldwide operations are more streamlined and it is more competitive in a wide range of markets because of its ability to find a balance between standardisation and customisation. Toyota is a leading example of a multinational corporation (MNC) that has successfully navigated the complications of internationalisation because to its dedication to local responsiveness, global coherence, and sustainability.

Evidence

1. **Key Executive Positions:** Toyota's internationalisation plan may be better understood by looking at the executive roles held inside the company's overseas affiliates. If the case study reveals that most of these jobs are filled by natives of Japan (Toyota's country of origin), then the company seems to favour an ethnocentric method of hiring. According to Deresky (2017), this behaviour shows that power and authority are kept where they may be used in accordance with national norms and values. Such an ethnocentric posture might be shown, for instance, if the senior management team of a foreign Toyota subsidiary was comprised almost entirely of Japanese executives sent from the parent company.
2. **Polycentric Staffing:** Hiring natives is a priority, and the foreign subsidiary is given greater authority to make decisions, with a polycentric staffing strategy as opposed to an ethnocentric one. Evidence of Toyota's polycentric staffing model may be seen when senior leadership roles at a foreign company are filled mostly by nationals of that

country. Appointing German executives to run Toyota's German business, for instance, shows a commitment to decentralising decision-making and conforming to local practises and values (Dowling et al., 2017).

3. **Geocentric Staffing:** Evidence of a varied global executive team inside Toyota's international subsidiaries is crucial for determining whether or not the company has a geocentric attitude in its hiring practises. This indicates that neither citizens of the home country (Japan) nor the host country are filling crucial executive roles. Toyota's commitment to diversity in its leadership ranks would be evident via the adoption of a geocentric strategy. If Toyota's Brazilian subsidiary hires a U.S. executive and a South Korean executive, for example, it shows a geocentric approach (Chavan, 2021).

Contextual Factors Analysis - PESTLE Framework

Toyota has used the PESTLE framework as the model for contextual factors to analyse its internationalisation strategy. This framework considers the whole range ⁵ of external factors—including political, economic, social, technological, legal, and environmental—that might affect a company's ability to succeed in international markets. The complexity of international business and the MNE's reactions or adjustments to distinct contextual problems may be better understood by looking at how these elements influenced Toyota's strategy.

1. **Political Factors:** MNEs' internationalisation strategies are heavily influenced by political factors. Market access and corporate operations are influenced by political stability, trade policy, and laws. Toyota's strategic choices have been affected by the political climate in different nations. Local content requirements in China impacted Toyota's operations there since the automaker was compelled to buy a set percentage of

its components from domestic suppliers in order to reap the advantages of those rules (Zhang & Wang, 2019). Toyota's solution to meeting rules and strengthening its position in the market was to form robust ties with local suppliers.

2. **Economic Factors:** Changes in currency values, interest rates, and overall economic growth all have an effect on the bottom line and the choices made by multinational corporations when it comes to making investments. When deciding on new markets to enter or expand within, Toyota takes economic issues into account as part of its internationalisation strategy. For instance, Toyota may alter production levels and investment in selected countries during economic downturns in order to mitigate risks and maintain profitability (The Economist, 2021).
3. **Social Factors:** The demand for Toyota's goods in international countries is affected by social variables such as consumers' cultural preferences, consumer behaviour, and demographic changes. The business uses a polycentric strategy by catering to different markets' tastes. Toyota caters to the Middle Eastern market's penchant for huge SUVs with a variety of SUV models, whereas the European market sees a greater emphasis on smaller cars with high fuel economy (KPMG, 2021). The results of this localised strategy improve both consumer happiness and business viability.
4. **Technological Factors:** The automobile business is being affected by the rapid pace of technology growth, which is leading to new developments and shifting customer expectations. Toyota's geocentric strategy enables the corporation to take use of worldwide R&D resources to create innovative technologies and tailor those technologies to specific markets across the world. To meet the growing demand for environmentally

responsible transportation options in many nations, automakers like Toyota are incorporating hybrid and electric car technologies into their product lines (Kudo & Shiozaki, 2021).

5. **Legal Factors:** Toyota's approach to internationalisation is informed by legal considerations like as rules on emissions and safety requirements and the preservation of intellectual property. Toyota modifies car designs and manufacturing procedures to conform to local regulations. For instance, Toyota shows their dedication to environmental sustainability by providing hybrid and electric car alternatives in areas with stringent emissions restrictions (Kudo & Shiozaki, 2021).
6. **Environmental Factors:** There is mounting pressure on the car sector to address environmental problems. As a result, Toyota has implemented environmental sustainability measures throughout its worldwide business. The availability of hybrid and electric vehicles, eco-friendly production methods, and efforts to lower carbon emissions are all examples of Toyota's dedication to social responsibility (Toyota Global, 2021).

The PESTLE analysis may help shed light on the external factors that had such a profound impact on Toyota's internationalisation strategy. Political constraints, economic conditions, societal preferences, technological developments, regulatory requirements, and environmental considerations are only some of the variables that have informed the company's decisions. By fusing ethnocentric, polycentric, and geocentric perspectives, Toyota has been able to successfully adapt to the challenges of the global business environment. Toyota has become an industry leader because to its careful analysis and rapid response to the unique challenges presented by each unique setting in which it operates.

Evaluation and Discussion

The PESTLE analysis revealed that Toyota's chosen internationalisation strategy, which draws from ethnocentric, polycentric, and geocentric approaches, performed well in a variety of international markets. The company's adaptability has allowed it to capitalise on global synergies while also meeting the specific requirements of individual regions. Toyota's strategy promotes both global consistency and uniformity of process (ethnocentric) and local responsiveness and flexibility (polycentric), which may explain the company's success. Toyota has shown its commitment to meeting local regulations by empowering its subsidiaries to make decisions in light of local conditions, such as by filling open positions with locals (Dowling et al., 2017). Toyota's approach has been successful in part because it places a premium on customer happiness. Because it offers unique vehicles and technology solutions for diverse locations, the company has seen a gain in customer satisfaction and market share (KPMG, 2021). The company's localization approach may be a major factor in Toyota's success in so many different areas.

Toyota's geocentric approach, as seen by its recruitment of varied global talent, has enabled the corporation to draw from a wealth of experience and insight. This method has increased the company's capacity to respond to technology changes and environmental challenges by encouraging innovation and creativity among its employees. The selected method, however, does not come without its own difficulties. It may be difficult to strike a balance between global integration and local response, which can lead to communication breakdowns and even cultural confrontations (Deresky, 2017). Effective communication and management practises are required to maintain a global business culture while also accepting local variances.

Toyota may face difficulties in various host nations due to political and legal considerations. Efficiency in operations may be impacted by the need to adhere to local content requirements or emissions standards (Zhang & Wang, 2019). Toyota must also carefully handle the complexity of geopolitical conflicts and trade disputes, which may affect market access and corporate operations (The Economist, 2021). Toyota's internationalisation plan can only be successful if it can continually adjust to new circumstances. In order to make sound strategic choices, the corporation has to keep an eye on the political, economic, social, technical, legal, and environmental trends in different markets (Kudo & Shiozaki, 2021). The ability to quickly adapt to changing circumstances is crucial for effectively handling the consequences and difficulties that arise from doing so.

Comparison and Alternative Strategies

When compared to other possible internationalisation strategies, Toyota's mix of ethnocentric, polycentric, and geocentric orientations stands out as the most effective option. But by thinking about what could have happened if Toyota had taken a different strategy to its global growth, new possibilities might be uncovered.

1. **Alternative Approach:** Strategy Based on Ethnography Toyota might have taken an ethnocentric approach, in which all operations and decisions are handled in their home nation of Japan. This strategy would have helped Toyota establish a consistent brand image across all of its international operations and facilitate the sharing of information more effectively (Deresky, 2017). It's possible that this strategy didn't take into account regional tastes and market realities, leading to lower levels of client satisfaction and acceptability.

2. **Alternative Approach:** A Polycentric Approach Toyota might have also pursued a polycentric approach, which would have put more weight on local recruiting and decision-making at overseas branches. Toyota may have been more adaptable to changing market conditions and consumer tastes if it had allowed regional managers to make judgements based on their knowledge of local conditions (Dowling et al., 2017). This strategy, however, may have hindered global integration and efficiency by increasing the difficulty of coordinating and standardising processes across a wide range of subsidiaries.
3. **Alternative Approach:** The Regiocentric Approach An additional option is a regiocentric approach, in which local branches work together to meet regional difficulties and take advantage of regional possibilities. This method has the potential to encourage regional synergies and adapt Toyota's plans to the unique needs of each market (KPMG, 2021). However, there may be difficulties in striking a good balance between regional cooperation and global coordination, and it may take more resources to effectively manage the intricacies of many regional systems under a regiocentric strategy.
4. Toyota's blend of ethnocentric, polycentric, and geocentric orientations looks well-suited to its unique circumstances when taking into account governmental rules, economic situations, and environmental considerations. Toyota has successfully negotiated the challenges of the global automobile industry by adapting products to local tastes (polycentric), employing worldwide R&D resources (geocentric), and keeping a consistent brand identity (ethnocentric) (Kudo & Shiozaki, 2021).

Conclusion

Toyota's internationalisation strategy is concluded to be a well-rounded and efficient mix of ethnocentric, polycentric, and geocentric approaches. Toyota has been able to effectively negotiate the challenges of worldwide markets because to a focus on global standardisation (ethnocentric), local adaption (polycentric), and the recruitment of varied global talent (geocentric). Toyota has been able to adapt to a wide range of market situations because to the strategy's congruence with exogenous elements including governmental rules, economic conditions, and environmental concerns. This research suggests that Toyota's future performance will be driven by the company's willingness to change and adapt. Toyota is able to maintain its worldwide dominance while also catering to niche markets by taking into account and acting upon contextual circumstances. To maintain continued relevance and competitiveness, however, the organisation must be diligent in monitoring shifting contextual elements. Recent statistics and information on Toyota's particular internationalisation actions beyond the knowledge cutoff in 2021 are not available, which limits the usefulness of this research. More investigation into the influence of cultural and geopolitical aspects on Toyota's strategy, as well as the viability of other techniques in distinct geographical settings, might inform future studies. Multinational corporations who are interested in improving their internationalisation plans might benefit greatly from this kind of study.

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