STRATEGIC FINANCIAL CHOICES BETWEEN THE AMERICAN AND JAPANESE AUTO INDUSTRY-DOES NATIONAL IDENTITY PLAY A ROLE?

Hailu Regassa, Colorado State University – Pueblo, 2200 Bonforte Blvd., Pueblo, CO 81001, 719-549-2870, hailu.regassa@colostate-pueblo.edu

ABSTRACT

This paper will make an attempt to explore the distinguishing strategic tools used by the major U.S. automobile manufacturing companies and that of their Japanese counterparts in their quest to enhance their market dominance, streamline their costs and thereby enhance their financial viability.

Increased globalization, free trade, limited domestic growth opportunities, deregulation and the fierce competitive economic landscape have forced American and Japanese carmakers to adopt different strategies in their desire to expand their operations overseas in order to increase their market share and improve their financial performance. Foreign companies, by in large, usually choose among an array of decision attributes, such as product design and quality, standardization, market share, customer-orientation, research and development, and the like as their strategic tool to gain access to and compete in different markets outside their country of origin.

Underlying the issue of national identities on strategic choices is subject to debate over the theory of the firm as to whether product markets or institutions determine optimal strategy. The underpinning of the neoclassical economic view is based on the notion that the global industry environment determines the optimal strategy, i.e., product market competition ensures that only the most efficient firm strategy will survive, such that firms from all countries can, therefore, be treated as a homogeneous production function notwithstanding their national identity. In contrast to this theory, Thomas and Geoffrey (1999), support an alternative view where the firm is regarded as a collection of resources/skills embedded in a network of implicit contracts with other agents. The resources/skills of the firm are accumulated in the process of interactions with the agent in the network, and this network of relation is precisely attributable to the domestic institutional environment.

An important lesson in the predictions of these two competing views is to explore whether firms have distinct national identities in choosing certain strategies, while competing in the same global industry environment. Thomas and Geoffrey (1999) provide evidence that the home country environment and in particular, the institutional bargaining power between owners and labor in strategy decisions, is instrumental in differences in strategic choices. Their results, by in large, indicate that in comparison to Japanese companies, American as well as British companies place a much greater emphasis on short-term profits and lack long-term focus while Japanese firms employ "aggressive growth," economies of scale, quality improvement and lower costs, etc., as their strategic goal to capture increased overseas market share. Based on these studies, a suggestion is made that Japanese firms, by in large, are seen to compete more vigorously with overseas manufacturers than they do between themselves. In light of these findings, the U.S. and Japanese firms in the car industry operating in the U.S. and elsewhere may offer a sharp contrast in their strategic choices with respect to these attributes.

This paper will carry out a comparative analysis of the strategic decisions and financial attributes and examine if there are transparent national characteristics that can be uniquely identified with the auto manufacturers across the two major car producing nations.