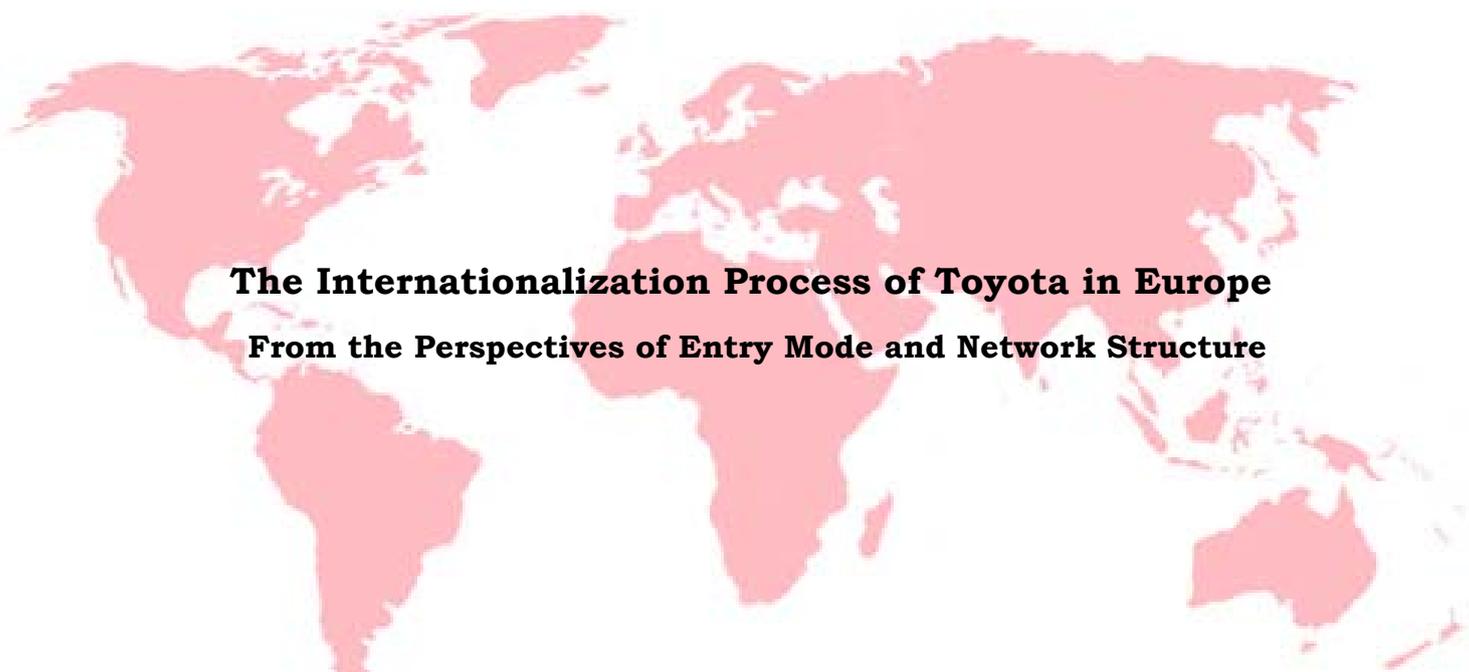


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**The Internationalization Process of Toyota in Europe
From the Perspectives of Entry Mode and Network Structure**

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Abstract

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Title: The Internationalization Process of Toyota in Europe: From the Perspectives of Entry Mode and Network Structure

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Research Problem: In European market, what entry mode did Toyota select? Why did they select those entry modes? And how did they manage their internal and external network structure during the entry mode evolution process?

Purpose: We describe and explain how Toyota conquered the European market from the perspective of entry mode and network. And we also intend to provide some useful information to the companies that want to gain experience before entering into the European market.

Method: We design this thesis as a case study about the entry mode of Toyota in the European market. In order to get an in-depth understanding of the research problem, the qualitative research approach is chosen. During the analysis part, all the information is derived from the secondary documents, such as website, articles and so on.

Conclusion: After the analysis the process of Toyota developed in the European market, we found that after careful consideration about both internal and external factors, Toyota usually prefers to conquer a new market with a relevant low risk entry mode, such as exporting or licensing, in the beginning. Then, with the increase of their experience as well as the growth of network, they began to change to a higher risk level entry mode, like joint venture or wholly owned subsidiaries. During the evolution process, in order to provide an effective way of interaction between headquarters and subsidiaries, Toyota's structure changed from time to time.

Keywords: Internationalization, Entry mode, Toyota, Network structure

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Sincerely,

Guo Sixing (Cindy)

Pasapoo Upathamwaranon (Arm)

Working group: 2016

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Abbreviation List

European Commission	EC
European Global Production Centre	E-GPC
Multinational Corporation	MNC
Multinational Enterprise	MNE
National Marketing & Sales Companies	NMSCs
Research & Development	R&D
Toyota Established Marketing Part	TMME
Toyota Europe Design Development	ED
Toyota Peugeot Citroën Automobile	TPCA
Toyota Production System	TPS
Toyota Motor Corporation	TMC
Toyota Motor Europe Manufacturing	TMEM
Toyota Motor Industries Poland	TMIP
Toyota Motor Manufacturing UK	TMUK
Toyota Motor Manufacturing Turkey	TMMT
Toyota Motor Manufacturing France	TMMF
Toyota Motor Manufacturing Poland	TMMP
Toyota Motor Manufacturing Russia	TMMR
Toyota Motor Sales	TMS

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1. Introduction

1.1 Problem Background

Nowadays, the globalization narrows down the distance of the world and also makes people in the world share more commonalities. Without doubt, this trend will lead to a more and more fierce competition. “In this highly competitive market the companies are considering to enter new countries to gain advantages from their rivals either to reduce cost or as a strategy for boosting demand” (Worthington 2003, p. 466). Therefore, in order to ensure their survival, both multinational corporations and small firms are pushed to get into the new international market.

However, the internationalization is a process full of complex works, and even a small mistake will lead to a total failure. Despite of plenty of works during the process of internationalization, choosing a suitable entry mode with an appropriate company structure to transfer resources, is one of the most crucial tasks that a firm must fulfill. Therefore, being such an important task in the internationalization process, entry mode already studied by the experts and economists for a long time. Nevertheless, most of the theories come from western scholars who focus mainly on the western multinational corporation (MNC) or the MNC already have some kind of experience about internationalization.

Another problem is “it is common that managers make a mistake of using the same entry mode for each market” (Root 1998, p.160). Because some of the firms do not have as much experience as the MNC which already developed for several years. The manager may do the wrong decision due to lack of experience or do not find appropriate way to learn.

So, in order to give a vivid explanation to the problems raised above, we choose Toyota as the case story in our research.

Now Toyota is at the heart of global manufacturing, a company that has grown within 70 years to become the world’s largest vehicle manufacturer. (Toyota in Europe, 2008) We select Toyota to be an example of Asia MNC, and discuss its developing process from 1950s when it is a normal firm in Japan till it conquers the Euro market.

1.2 Research Question

In this thesis, we are mainly focus on the question about: In European market, what entry mode did Toyota select? Why did they select those entry modes? And how did they manage their internal and external network structure during the entry mode evolution process?

1.3 Purpose

In this thesis, we choose Toyota as our case story. After studying the relevant literature, we use them to describe and explain how Toyota conquered the European market from the perspective of entry mode and network structure. And we also intend to provide some useful information to the companies who want to want to gain experience before entering into the European market.

1.4 Target Group

The research paper would provide an intuitive implementation by providing a case study of the market entry strategy of Toyota to those companies who want to acquire relevant knowledge and also for researchers and students who are interested in MNC strategy in automobile industry.

2. Literature Review

2.1 Internationalization Theory

Johanson and Vahlne (1977) mentioned that the internationalization of the companies is the process which increased gradually. And among the several models which try to explain the process of internationalization, Uppsala model (Figure 1) is referred to frequently.

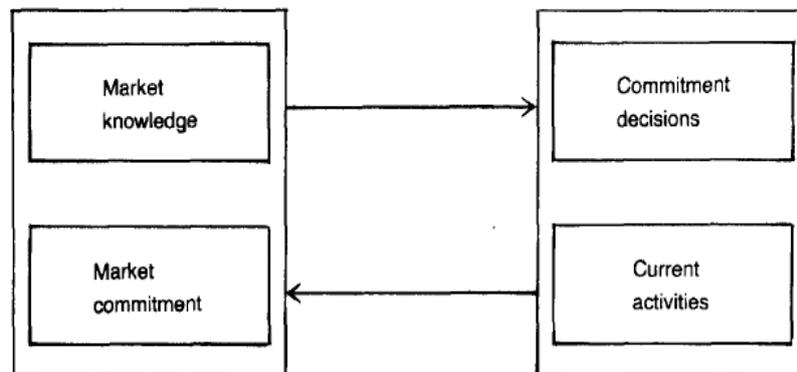


Figure1. Uppsala Model

(Source: Johanson and Vahlne, 1977, p.32)

The Uppsala model's theory framework was first developed by Johanson and Wiedersheim-Paul (1975) in their study of four Swedish firms. (Bruce Mtigwe 2006) The model includes two aspects (four parts): one is state aspect (market knowledge and market commitment) and the other is change aspect (commitment decisions and current activities). The four parts of the model link with each other tightly. Market knowledge and market commitment are supposed to affect the commitment decisions and current activities; and those in turn also have influence on the market knowledge and commitment.

According to the Uppsala model, it describes internationalization as “a gradually evolving process and in the process they will be involved in several steps in order to get a deeper and deeper control of the market. In their entry mode choice, firms are expected to use the following “stages”: “no regular export activities, export via independent representatives (agent), sales subsidiary, and production/manufacturing.” (Ojala 2008, p.136)

Basically, the model is assumed that a firm is lack of relevant knowledge about a foreign market and that problem always becomes the most important obstacle when developing outside. Therefore, the current activities and commitment decision provide mainly usefully ways for the firm to gain necessary market knowledge. To some extent, the market knowledge, which a firm gained from the current activities and

commitment decision, set the appropriate direction for the market commitment and then leads the firm to higher level to get much more new knowledge. That looks like a direct link between the market knowledge and market commitment. “The better the knowledge about a market, the more valuable are the resources and the stronger is the commitment to the market.”(Johanson and Vahlne 1977, p.39)

The model can be seen as a circular action, which lead the firm develops step by step to increase its international involvement, and finally become a multinational corporation.

However, in recent years, the Uppsala model has been widely challenged on both theoretical and practical grounds. The model had been questioned notably by Anderson (1993), who argued that the Uppsala model is not matched the practical situation any more. (Bruce Mtigwe 2006) Other critical views are normally stated that the Uppsala model only apply for the early stage of internationalization when lack of knowledge or some factors, like technology, have impacts on the internationalization pushed the model to change.

2.1.1 State Aspect of Uppsala Model

Market knowledge

For market knowledge, it can be seen as the initiate step to do business overseas. It can also be the linkage between the internationalization theory and network theory. The linkage between them will be discussed in the next part. And in this research, the authors also consider the knowledge as the core of Uppsala model.

Generally speaking, knowledge is of interest due to it relates to several part of the firm, such as the demand and supply, the competition and the channels for distribution, the payment conditions and the transferability of money etc. And most times, those things vary from country to country and from time to time. (Johanson and Vahlne 1977) We can see that the knowledge almost connect every important part of doing business. Therefore some research on the knowledge turn to be more crucial.

A classification of knowledge which is useful for us is base on the way in which knowledge is acquire.(Penrose 1995) One type is objective knowledge that can be taught by others, and the other is experience, which can only be learned though personal experience. In some degree, we can say that the experience knowledge is much more precious than objective knowledge, because the former one is harder to get. And even two people in the same situation and gain the same experience; they may have different understanding of their experience.

There are two important functions of the experiential knowledge, which cannot replace by objective knowledge. One is the experiential knowledge which can help to

detect the opportunities or problems, while the second is the knowledge can provide or evaluate some alternative resources of a firm in the relevant parts of market environment (Johanson and Vahlne 1977). Those advantages may be not so obvious in the simple market environment. But with the development of a market, the competition will be more and more intensely. Just as what Johanson and Vahlne claimed in their research: “the less structured and well defined the activities and the required knowledge is, the more important is experiential knowledge.” (Johanson and Vahlne 1977, p.39) Under some specific kind of circumstance, the ability to find a new market opportunity or update some existed ones could increase the firm’s strength dramatically.

To sum up, the knowledge, especially the experiential knowledge should be considered as a unique resource of a firm which offers the firm a strong driving force to expand outside. And the knowledge can also be the primary way of decrease the market problem and risk, change to another word, it help to reduce the market uncertainty.

Market Commitment

For market commitment, it composed two parts as well, the amount of resources committed and the degree of commitment. In another words, “that is the difficulty of finding an alternative use for the resources and transferring them to it. Resources located in a particular market area can often be considered a commitment to that market.” (Johanson and Vahlne 1977, p.37) So, a firm in a special business area needs to have a higher degree of commitment as well as have more specialized resources.

2.1.2 Change Aspect of Uppsala Model

Current activities

The current activities are prime source of the market knowledge, especially the experience knowledge. But to some extent, to hire personnel with such kind of experience and to use the person in the marketing activities can accelerate the step of gaining market knowledge. But sometimes, the experience cannot be achieved so easily. So accumulate the knowledge for current activities step by step will spend a long time. This is also the reason why the process of internationalization is such a long period.

Commitment decisions

For the commitment decisions, it is “made in response to perceived problem and/or opportunity on the market.” (Johanson and Vahlne 1977, p.40) Both problem and opportunity will be first detected by the people who are in the market. For problem, normally will lead some complement to the operation, while the opportunity will bring the operation extent to the market which it interacts with. So no matter the

problem or the opportunity will speed the extension of the firm and increase commitment to the market.

2.2 Entry Mode

The choice of entry mode is important in the internationalization process. So, for a long time, the entry mode was discussed as a critical and distinctive issue in international business by many economists and business experts. Because the right entry mode not only provides the company a better development opportunity, it also helps the company to gain the experience and confidence when going abroad.

2.2.1 Definition of entry modes

Not all the companies would like to follow such a step to reaching at the end of the wholly-owned subsidiary. Small company may not involve in the step of sale branch or subsidiary. Large company may have a different strategy from a global perspective.

So, Hill (2007) mentioned in his book that normally firms can use different modes to enter target markets: exporting, turnkey projects, licensing, franchising, establishing joint ventures with a host country firm, or setting up a new wholly owned subsidiary in the host country.” But each kind of entry mode has its own advantages and disadvantages, so the managers should thinking carefully before deciding which to use.

Hill (2007) said exporting is usually used by firms as the beginning of their global expansion due to the low risk level, but only later they will switch to another mode for serving the target market. And usually the way of exporting is seen as one of the best way to the manufacture to learning the experience of a new market.

The turnkey project is a means of exporting process technology to other countries. It is most common in the chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies.

Licensing is an arrangement whereby a licensor grant the rights to intangible property to another entity for a specified period, and in return, the licensor receives a royalty fee from the licensee. The intangible property includes patents, inventions, formulas, process, designs, copyright and trade marks. (Hill 2007, p.489)

Franchising, as defined by the most famous online encyclopedia is: “a method of doing business wherein a "franchisor" authorizes proven methods of doing business to a "franchisee" for a fee and a percentage of sales or profits. Various tangibles and intangibles such as national or international advertising, training, and other support

services are commonly made available by the franchisor, and may indeed be required by the franchisor, which generally requires audited books, and may subject the franchisee or the outlet to periodic and surprise spot checks. Failures of such tests typically involve non-renewal or cancellation of franchise rights.” (Wikipedia n.d) And this definition also supported by Hill, who claimed that “franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property, but also assist the franchisee to run the business in an ongoing basis.” (Hill 2007, p.490)

A joint venture (often abbreviated JV) is: “an entity formed between two or more parties to undertake economic activity together.” (Wikipedia n.d) Actually, establishing a joint venture with a foreign firm has long been a popular mode for entering a new market. And the most typical joint venture is a 50/50 venture. Some firms, however, have sought joint ventures in which they have a majority share and thus tighter control. (Hill 2007)

The last method is wholly owned subsidiaries. In this kind of entry mode, the firm owns 100percent of stock. The firm can set up a new operation in that country, often referred to as a Greenfield venture, or it can acquire an established firm in that host nation. (Hill 2007)

2.2.2 The Evolution of a Firm’s Entry Mode Decision

Root (1998) claimed that the choice of entry mode is one of the most critical strategic decisions for the internationalization process of a multinational corporation (MNC). And he claimed that “once a firm started in international business, it will gradually change its entry mode decisions in a fairly predictable fashion”. (Root 1998, p.15) Change to another words, with the time goes by, the firm will increase its control of a market, by changing from a low risk entry mode to a high risk entry mode.

The following picture is discussed about the evolution of a firm’s entry mode decision which is developed by Uppsala school in 1970s.

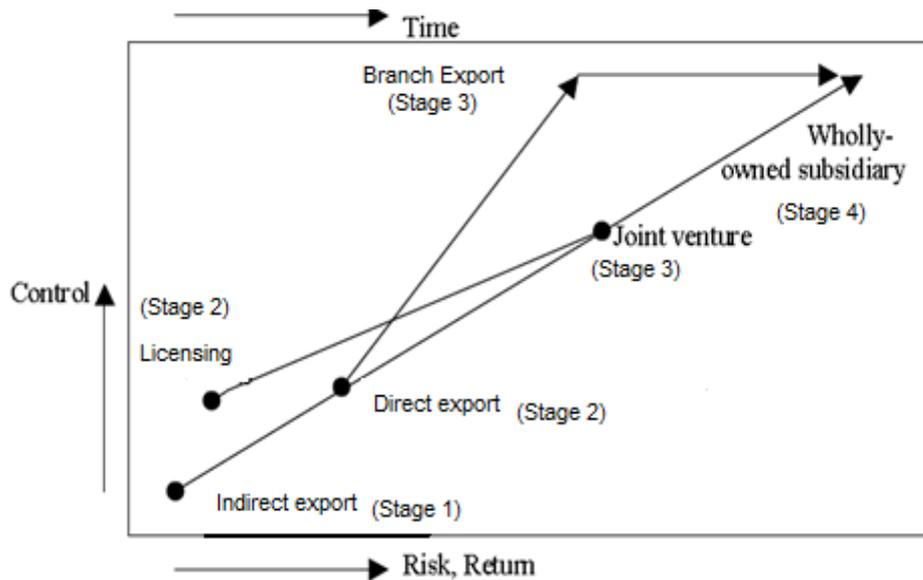


Figure 2. The evolution of a firm's entry mode decision
(Source: Root 1998, p.19)

Root distinguished the entry mode decision as four stages which are (Root 1998, p.19):

Stage 1 Indirect exporting:

The firm just deals with some occasional, unsolicited export orders. The commitment to the foreign markets is weak.

Stage 2 Active exporting and/or licensing:

Company exports directly through foreign distributor or agent. The company may also try to make a license agreement. In this stage the international business is seen as separate from a domestic one.

Stage 3 Equity investments in foreign manufacture:

Company makes efforts to involve manufacture abroad, and *may sometimes* combine it with exporting and/or licensing in foreign market. The export department is replaced by the international division that manages all international activities. At this stage an international business and its strategy are not yet integrated across countries.

Stage 4 Wholly owned subsidiaries:

In this stage the multiple national markets are served from multiple national sources and the home country is treated as one of many national markets. International strategy is integrated with domestic strategy what creates one corporate business strategy.

With the evolution of a firm's entry mode, the risks of a firm should take and the controls of a foreign market are become greater and greater. Of course, in the evolution process, the firm also gained more experience as well as profit potential.

Moreover, sometimes due to the size of the firm and the limitation of firm's resources, the firm may not be involved in the process of 'branch export' or joint with local productions. But the direction will also be toward greater management control which is accompanied by a greater risk.

2.3 Factors Influencing Entry Mode Selection

Entry mode plays such a crucial role in the internationalization process, so it became the object of numerous economists and experts. All of them are intended to develop the theory and model to help others get more information. To our knowledge, no more famous model or theories have been developed in recent years. But in order to find factors that might have impacts on the choice of the entry mode, economists and business experts are not stop to examine the empirical studies.

In fact, there are a lot of factors that have to be taken into account in relevant research and practice. V. Kumar and Velavan Su bramaniam (1997) did a summary in the field of which factors will affect the entry mode choice from 1980 to 1996. In their research, they made a conclusion of 14 researchers' study result, and most of the factors are focused on "experience, technology, economical statement, market size, firm size, leadership, cultural distance, environmental uncertainty, time, type of production, as well as tariff barriers." (V. Kumar and Velavan Su bramaniam 1997, p.6) There are totally more than 100 factors listed in V. Kumar and Velavan Su bramaniam's report, but some of them are repeated and the classification is not according to the type of factors, instead, the factors just showed after the person who raise them. For example, Wilson (1980) holds that for acquisitions and newly formed subsidiaries, experience and market size of target country is important. Contractor (1984) claims that for direct investment and licensing, the factors of technology level of host country, GDP in the target country, managerial employees' experience is crucial.

Root did a similar survey in 1998. Different with V. Kumar and Velavan Su bramaniam's list of factors, Root makes a comparison among the same factors in the different entry modes. He divided all the entry modes into 5 types according to the evolution of entry mode process, which is introduced before. They are: exporting, licensing, sell branch or subsidiary, equity investment, and service contracts. And the factors are divided into external factors (target country), external factors (home country) and internal factors.

From the result of Root's research, we can easily find that no single factor could be populated in all the entry modes. Therefore, we can only say that some factors encourage or discourage a particular entry mode in a specific market.

Take one of the external factors (target country) as an example. The size of the target

country market is one of the influences on the entry mode. Small target country market size (low sales potential) favors entry modes with exporting, licensing, and some contractual arrangements. In the contrary, big target country market size (high sales potential market) can justify entry modes to the strategy with joint venture or wholly owned subsidiary. Other factors like experience, political risk, economics, production situation, are analyzed one by one. (Root 1998, p.16-17)

In 1999, Charles R. Taylor, Shaoming Zou, and Gregory E. Osland also raised some factors that should pay more attention when Japan MNC choose entry mode. They are: the stake of the firm, the stake of the host country, the risk of investment, the level of resource, the government restriction, the experience of leader and the size of the firm. (Taylor, Zou, and Osland 1999, p.151)

In this research, we choose the factors which appeared several times in the former study of Root (1998), or the list of V. Kumar and Velavan Su bramaniam (1997). And divide them into external and internal factors. In the next part, there are the factors summarized by authors.

2.3.1 External Factors

“Changes in external factors in the foreign market may encourage or force a company to revise its entry mode.” (Root 1998, p.18) The external factors in this research can be summarized into four kinds. They are: market size, economic status, government policy, and psychic distance.

Market size

In some degree, market size can be seen as the measurement of the potential sale ability of one country. Generally speaking, the control of foreign market should be in proportion with the size of market. As Chen and Hu (2001) mentioned in their article that the large market will lead to a lower unit costs thus lead to the choice of some kinds of high risk level entry mode, like joint venture and wholly owned subsidiaries, whereas a small market will lead the firm to another direction. As what had been said before, small target country market size favors entry modes with exporting, licensing, and some contractual arrangements, while the big market size prefer joint venture or wholly owned subsidiaries.

Economic status

Economic status is another necessary element when choosing entry mode. Usually the managers need to investigate from three perspectives as Root (1998) said in his book. First is the size of economic (always measured by GNP). Second is the dynamic of economic, which is defined as the growth rate of GNP, foreign investment, and personal income. Third is the target country’s external economic relations, like the balance of payment, or the debt service burden. Indeed, the economic status, in some

degree, decides whether a country is attractive for investment. “If there is uncertainty about a highly volatile political and/or economic environment, the agency theory suggests that a franchise would be the best way of investing and Buckley and Casson (1998) state that internalization becomes less attractive.” (Ana Ramon Rodriguez 2002, p.599)

Government Policy

Policy provides the rules about what to do business in the target country. It can be a driving force for encourage or discourage of some kind’s business actions according to their country’s situation. And a government policy also supposed to offer the firms a basic environment to run their business. Before enter, the firm need investigated carefully about target market’s policy, such as the import or export restrictions, taxation, price control and so on. As Ana Ramon Rodriguez (2002) said under the same economic status, the degree of entry into a country will be negatively linked with the political risk of the country

Psychic Distance

The psychic distance is defined as “the sum of factors preventing the flow of information from and to the market Examples are differences in language, education, business practices, culture, and Industrial development.” (Johanson and Vahlne 1977, p.24) A serious of research shows that: the bigger distance between the target country and home country, the higher risk a firm should face when entering. (Ana Ramon Rodriguez 2002, Root 1998, Johanson, and Vahlne 1977) The Uppsala model also presented that normally the firm will first entry the country near the host country, because the similarity of culture, language. So, a low psychic distance is available to make the business practices easier. (Ojala 2008) Therefore, at this time, the knowledge of the target is become more and more important. We believe the idea, which is presented by Johanson, and Vahlne (1977), lack of knowledge due to differences between countries is an important obstacle to the development of international operations.

For some firms, when they face a total unfamiliar culture, they are still insisting to choose high risk entry mode, like wholly owned subsidiaries, because they cannot believe any local partner due to the strange market environment. (Rodriguez 2002) But, normally, in this kind of situation, some kinds of low risk entry mode are recommended.

2.3.2 Internal Factors

“The internal factors are the principal forces shaping a company’s entry mode evolution.” (Root 1998, p.18) And the internal factors can be summarized as the following, which are useful in this thesis:

Experience

As we mentioned above, when a firm faced a great culture difference, the knowledge's effect will become evidence. The most traditional theory supposed that "the more experience the firm has, the less help it will require from a local partner and it will therefore be less inclined to use cooperative modes." (Rodriguez 2002, p.607) This also can be the answer to why firms gain the knowledge during the internationalized process and building network is so important.

Company size

Some study indicated that "the bigger the firm, the more probable it is that it will opt for joint venture or wholly owned subsidiaries." (Rodriguez 2002, p.607) Indeed, a big firm will develop much easier than some small firms, because during the process of a firm became bigger and bigger, it build its brand, gain its experience as well as setup its own networks. All those advantages cannot be achieved by firms in a short time.

2.4 Network Theories

"No man is an island entire of itself; every man is a piece of the continent; a part of the main." (Håkansson and Snehota 1990, p.1) This sentence can also apply for the business relationship. No firm can be a separate one, which has no linkage with all other members in the market. The link between them could be different. Such as the buyer and supplier relationship, or inter-organization network between the MNC headquarter and its subsidiaries.

2.4.1 Business Network

"Companies that depend on each other make up a net of companies. Different nets of companies in various ways relating to each other make up a total industrial network." (Linnskog 2007, p.150) Therefore, in the theory of network, one of the words that appear frequently should be "interdependence". For one firm, it should deal with the relationship with its suppliers, customers, subsidiaries, or even its competitors. That is the net of the firm. Different firm will have different suppliers, customers and so on. When some connections appeared between two firms net, such as the same supplier, the firms' net combined together. With the development of the market, more and more connections will appear, at the same time, the total industrial network is build up.

Except hold the same connection with one unit, the firms can also be banded together by other way, such as the technical bonds, social bonds, time-related bonds, knowledge bonds, social bonds, and economical/legal bonds. Different bonds have

different characteristic. If the firms related with each other by technology skills, the technical bonds will appeared among them. In the same way, if the firms depend on other firm's knowledge, economic or social relationship, the relevant bonds will band the firms together.

After the network is build up, normally the stable of the network can be measured by the bonds' type and the trust of each firm. Generally speaking, the more trust between firms, the more stable their network is. But that does not mean that the network will never break up. New ideas and opportunities may become the driving force to stop or at least to adjust the network.

Anyway, in order to get a deeply understanding of the market network, the firm has to "though the experience from interaction inside, the outsider can only achieve a very superficial comprehension of such a complex and fluid network." (Johanson & Vahlne 1990, p.18)

Therefore, for the new comer of a market, there are normally three ways to help them get into the local market where they entered: (Johanson and Mattsson 1988, p.200)

- (1) Through establishment of positions in relation to counterparts in national nets that are new to the firm.
- (2) By developing the positions and increasing resource commitments in those nets abroad in which the firm already has position.
- (3) By increasing coordination between position in different national nets.

2.4.2 Inter-organizational Network

"Changes in the marketplace have caused firms to restructure themselves, which, in many cases, has led to the development of network forms of organization." (Veludo, Macbeth, and Purchase 2004, p.143)

Podolny and Page (1998), in their definition of inter-organizational networks they presented a variety forms of cooperation should be included, such as joint ventures, strategic alliances, collaborations, and consortia. Later, in 2000, Barringer and Harrison (2000) give a more detailed description about how inter-organizational relationships differ from each other. For example, "they somewhat narrowly define networks as constellations of organizations that come together through the establishment of social contracts or agreements rather than legally binding contracts." (Provan, Fish and Sydow 2007, p.481)

In the inter-organizational network, the word "density" is just a measurement of the extent to which actors in the market are connected to one another. "The density of ties within each of the local organization sets as within density." (Ghoshal and Westney 2005, p.612) In the situation of low within density, it is easy for headquarter to make a

Many researches in international business show that the structure of organization is important for the firm to internationalization. Örjan Sölvell and Ivo Zander (1995) collected from many study and classified structure of multinational enterprise (MNE) in two main types

The home-based MNE

That seems to be the simple of MNE's structure for global operation. "The MNE remains dependent upon certain local environments for the competitive renewal." (Sölvell and Zander 1995, p.18) This easy structure explain that the MNEs have home base as a base in one area to establish main business unit for control other their own unit in different area and hold that home base area as a place to develop firm by apply with environment in that local area. Core activity as R&D, decision making or planning about strategy are run by home base and minor operations as sale or service are handle by subsidiaries.

The area that firm chooses to be a home base should be the most places that firm can gain advantage from local environment, that increase network. Firm suppose to be insider in local network where firm establish at, for gain advantage form that position. When home-based MNE is more complex in operation because of expansion, start to split some core activity to other business unit outside home base location for helping in firm's operation, they become "Multi-home-based MNE". This situation often concern with long-term investment or to handle with firm's growth.

The heterarchical model

Hedlund and Rolender (cited in Sölvell and Zander, 1995) describe Heterarchical model as the opposite side of home-based model, core activity which perform by headquarter in home-based model are spread to other unit. Sölvell and Zander use the word "Uniformly superordinate" by firm to create new knowledge and define uniformly superordinate as "each unit having different responsibilities according to the dimension of exploitation and experimentation, and also by each unit assuming different roles in the creation of technologies" (Sölvell and Zander 1995, p.25). Each unit has authority to decide in different situation with different function and responsibility for suitable with geographical environment and solve with problem effectively.

The signify advantage of heterarchical model is the information flow in company. Sölvell and Zander inform that in heterarchical model, information and knowledge is appeared in every unit and shear to the whole in organization, that make firm can rapidly develop in a whole picture. And as the home-based model, for firm who want to gain knowledge from geographical environment that is having relationship with local actor or being insider in local network.

2.4.3.1 Comparison of the Structures

According to difference of the two models, Sölvell and Zander contrast these and discuss in several dimension.

Competitive advantage

One of important competitive advantage of every company is knowledge and technology. "A major difference between them is that the heterarchical model carries a much wider perception of the range in which new technologies have to be sought and combined." (Sölvell and Zander 1995, p.28). Because of independence of each business unit in heterarchical model, each unit has capability to find, gain and develop technologies which they need and share in whole organization from different environment, for more effective perform and become competitive advantage of company. In other hand, knowledge and information in home-based MNE was collected in home base headquarter, so they would concentrate its search for new opportunities around a core technology within the home base.

Firm characteristics

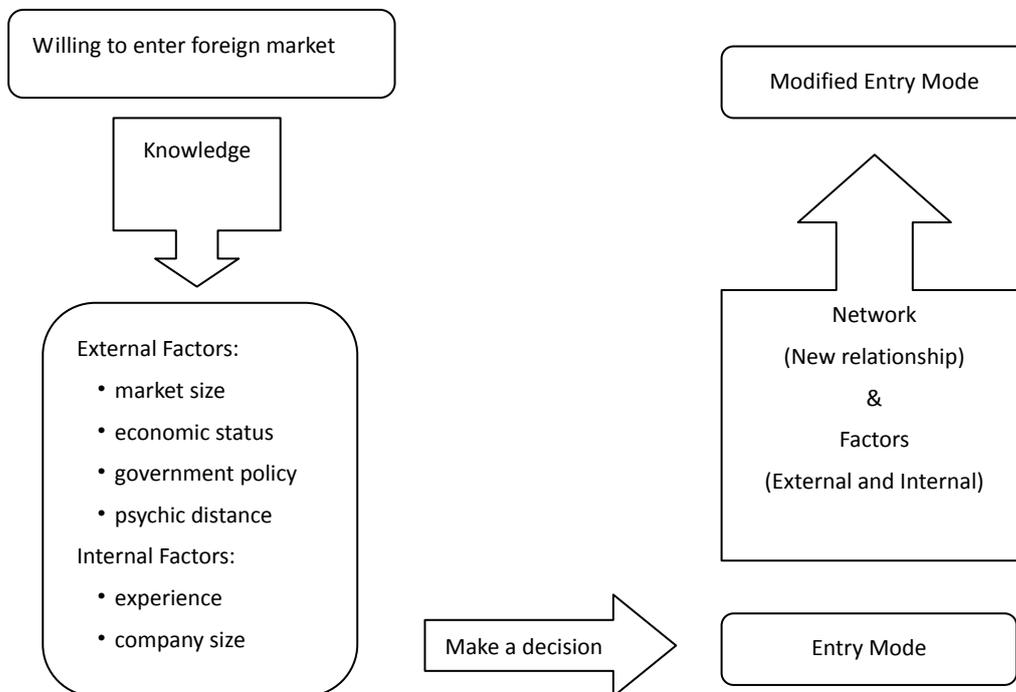
The major dimension about firm characteristics is the organization structure and activity. Home-based model illustrate the simple structure of authority and operation, the difference between core and peripheral activity is more clear-cut than heterarchical model (Sölvell and Zander 1995). Headquarter of home-base MNE serves the core activity for whole company to set the goal and manage the whole picture in any division and other business unit as subsidiary perform for peripheral activity as sale or service, follow strategy and plan which set by headquarter. While the heterarchical model built the structure more complex than home-based model and also function of their unit is more complicated than home-based model. Their units have different activity depend on function that they perform, and also relation to other unit is difference, perhaps difficult to manage the whole company to work on the same direction.

3. Conceptual Framework

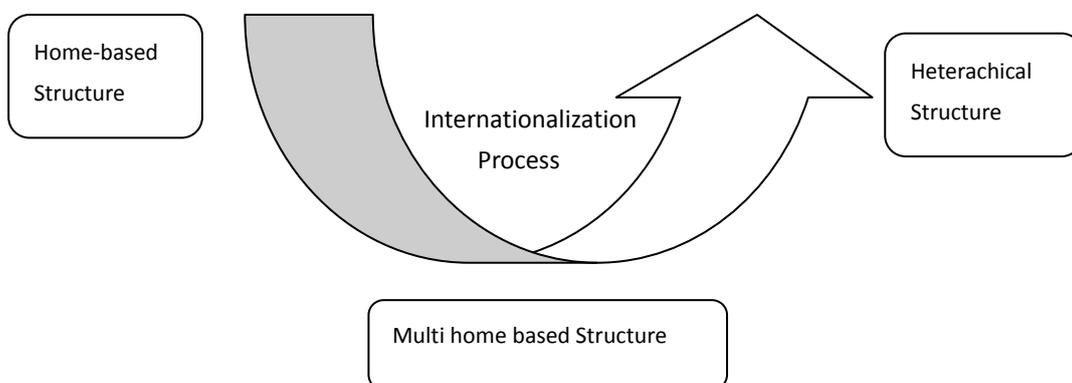
Fisher said (2004): “a conceptual framework is formed of patterns of concepts and their interconnections.” (Fisher 2004, p.102) In this part, we aim to give the reader a description of the relation between the concepts being used in the later part.

The central concept of this research is the choice of entry mode. It is based on the theories we described in literature review, which include the Uppsala model, the network theory, different types of entry modes and the factors that affect the choice of entry mode. And there is a cause and effect relationship between them.

The conceptual framework can be illustrated as the following pictures:



The Conceptual Framework 1



The Conceptual Framework 2

The framework can be divided into three stages:

Stage 1---- Expansion: If a firm willing to enter a new foreign market, firstly, it will use its knowledge, as the Uppsala model's illustration, to analyze the factors, in order to find a suitable entry mode for the target market. Based on the literature review of Root (1998), Taylor (1999) and Velavan Su bramaniam (1997), we divided the factors as external factors and internal factors. Usually, in this period, firms can gain advantage from local environment. Due to the direct control of whole firm as well as the relevant simple network of the firm, the structure of the firm is not very complex, according to Sölvell and Zander (1995), we consider this structure belong to home-based structure.

Stage 2 ---- Penetration: After successfully being a new comer in the target market, next, they will begin to build some tight business networks with local firms, suppliers, customers. Or they begin to develop their internal network as Ghoshal and Westney (2005) presented. At this stage, the firm got both experience and confidence from the expansion step. Therefore, to extent their network scale to a larger geographic distance and the psychic distance is a good choice. Meanwhile, the headquarters and subsidiaries require a more efficient structure to transfer their resource. So the former simple structure may not work well now. As Sölvell and Zander(1995)'s idea, at this time, the firm split some core activity to other business unit outside home base location, therefore, the structure should also make some modification from home-based to multi- home based structure. During this period, some of the factors will change too, such as the government published a new policy. Both of the new network and new factors will need a modification in entry mode.

Stage 3 ---- Integration: At last, the firm's control in the target market will become deeper and deeper. As Root (1998) said, at this stage most subsidiaries of the firms may develop to a high risk entry mode like joint venture or wholly owned subsidiaries. So, right now, the most important action is to integrate all the dispersed subsidiaries with the headquarters. All the reasons require the firm to change its structure again. Normally, a heterarchical structure, which requires each unit of the firm having different responsibilities, should appear at this time. As Sölvell and Zander (1995) presented, the heterarchical structure will be appeared in order to apply for the international situation.

4. Methodology

4.1 Research Process

The process of our research is divided into three steps. The first is choosing the topic and aim for the research, next is doing the preparation for the research, while the last one is the step of analysis. The general process of our research is presented in figure 5.

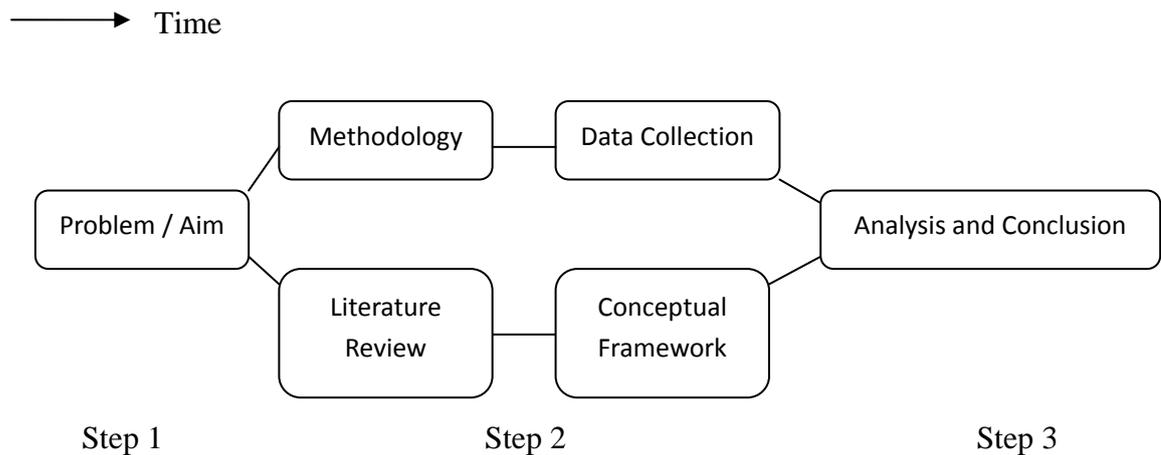


Figure5. The process of the research

Step1- Problem and aim specification

The step of problem and aim begin with the brainstorm making by the group members. We collected some popular perspectives from the international business field, and through discussion, we finally focus on the problem of internationalization and entry mode and selected Toyota as our study object.

Step2- Preparation

In this step, we determine the research method, do the literature review, make the conceptual framework and collect data. The each part's detail information will be given in the following section. To sum up, what we do in this step is to provide a solid theory ground for the next step.

Step3 – Analysis and Conclusion

At this stage, the data we gathered is being analyzed with the assistance of the theories and conceptual framework. The last step of the research is to summarize the answer to our research question. But result of a case study may not suitable for others, so, except the result of the research, we will also give some commonly recommendation for the target group.

4.2 Research Approach

Our methodological stance is realist research. As Fisher (1994) introduced that the realists believe that the knowledge they have can be the best indication for what they should do. The purpose of our thesis is to describe and explain the internationalization process of Toyota from the perspectives of entry mode and network structure. So in the thesis, one of our tasks is to prove that the theories in the field of internationalization provided a clear and right direction of Toyota's development.

“In practice, the most realist research is based upon a qualitative research method.” (Fisher 1994, p. 36) as the definition in Ghauri (2006)'s publication, the qualitative methods focus on the understanding about a problem and it also required the researchers to make an inside view of the data, close the data. In this thesis, we intend to focus on the analysis of Toyota's internationalization. In order to get a deeper understanding about the problem, we also choose two main perspectives to help us. One is entry mode and the other is the network structure. Therefore, though carefully thinking, we decide to choose our methodological stance as realist research with a qualitative case study.

4.3 Research Strategy

Generally, there are five ways of doing social science research. They are case study, experiments, surveys, histories and the analysis of archival information. Each of them has their own advantage and weakness. According to Fisher (2004), the case study is trying to obtain an in-depth understanding of a situation. In order to make our analysis of entry mode developed in vertical direction, we choose Toyota as our case story to narrow down the scale of the thesis into a single case study.

Schramm (1971) said “the essence of a case study, the central tendency among all types of case study, is that it tries to illuminate a decision or set of decision: why they were taken, how they were implemented and with what result.” (Cited in Yin 1994, p.12) The purpose of this thesis is just want to provide the readers how Toyota choose entry mode when entering a new foreign market? Why Toyota do such a choice and the result of doing the decision. Obviously, the core elements of our thesis are all qualified to be a case story.

“...the telling of stories is the purpose of a case study and the narrative could be the case study's most compelling attribute.” (Dobson 1999, p.2) Based on the narrative function, we can interpret Toyota's long history in an interesting way to keep attract reader's attention. Meanwhile, in the story telling process, we can highlight some important information to help the readers have a better understanding about Toyota's history, especially the part of entry mode.

Taking all those into consideration, we found the case study is an appropriate strategy for our research.

4.4 Method for Data Collection

In Fisher's book (2004), some of the most commonly used methods are given, they are interviews, questionnaires, panels, observations, documents and databases.

We do the research about Toyota's internationalization process from 1950, nearly 60 years ago. Compared with other methods, the documentary can provide more information about that time, and the information is much more reliable than others. Moreover, Toyota Motor is the famous company in Asia, we can see many study and also story or aspect about Toyota Company in several different communication channels as study article, website, or book. Therefore, due to the realistic barriers, the method of documents and databases become the most convenient and available way for us to do the research.

Toyota Motor is the famous company in Asia, we can see many study and also story or aspect that about Toyota Company in many communication channels as study article, website, or book. Then, we will use documentary research in major to collect data for analyze Toyota case. Primary data as interview is hard to collect from this case because Toyota is the large company, that hard to approach people in the management level, who store the information that we want. So, secondary data as article or information from internet is more efficiency and suitable to run thesis.

"Wikipedia" is the weak point to use to be a source for thesis because everybody can write everything in that website by cannot prove that believable or not. But in the other hand, Wikipedia is like general idea, that can use to support other information and that can stronger if use other information to prove it. We also use Wikipedia but for show the general idea to support some idea that we use in our thesis.

5. Empirical Finding

5.1 History of Toyota

“Since 1957, when Toyota began exporting the Crown to the United States, we have expanded the scope of our automobile sales across the entire globe. During the almost 50 years since we first began exports, Toyota vehicles have found their way to over 170 countries and regions throughout the world.” (Company Profile 2008) ‘Toyota Motor Company’ was one section of Sakishi Toyoda’s company, which was supported by Japanese government because of military application. The first vehicle was launched in 1935, which is model A1 and G1. And in 1937, ‘Toyota Motor Company’ split from the original company. In present, Toyota Motor Company is the largest car company in Asia and be the Third largest car company in the world by follow General Motor and Ford. In 1952, Toyota Motor Sales (TMS) began exporting, separated from Toyota Motor Corporation (TMC) because of the financial crisis; start with receiving sporadic orders comes from some peripheral countries such as Brazil. In other words, Toyota’s international strategy has shifted from a globalization of marketing to that of production during the 1980s (Shimizu n.d.).

According to Toyota’s history in Europe we will inform in whole picture for easy to understanding behavior of Toyota, there can separate time period of internationalization by activity follow:

Export-Centered Period: 1951-1980

Toyota opened its first plant outside Japan - in Brazil in 1959. From that point, Toyota managed locally both production and design of its products (that is, adapting vehicles to the places they will be used, as well as building them there). This builds long-term relationships with local suppliers and local labor. Part of this also means that Toyota does not merely build vehicles overseas, but also designs them there, with a network of both design and R&D facilities in North America and Europe (Toyoland n.d.).

TMS established Export Headquarters in 1962, whereas TMC set up its Export Department in 1963. By organizing the Joint Export Conference, cooperation system was set up by TMC and TME in order to develop an effective export strategy. These models adapted to local conditions for their exports had contributed to expand Toyota’s overseas sales (Shimizu n.d.).

In 1960s, Toyota started to import first car to Europe and sign first distributor agreement in Denmark in 1963 (Key Dates Europe 2008), Toyota could obtain its distributors in Finland, Netherlands, Belgium, Swiss, Great Britain, France, Italy, and Austria. Though Toyota found that difficult to sell in Great Britain, France, Italy and Federal Republic of Germany because they are carmaker countries and have tight

sales network, its exports to Europe rapidly grew from 13 units in 1960 to 59 thousand units in 1970. In Europe, Toyota's marketing strategy has been in having one distributor in each country (Shimizu n.d.). And in 1970, Toyota Motor Corporation Brussels Office was opened in Brussels, Belgium, to be the center of operation in European market in that time (Toyota in Europe 2008).

Toyota caught niche market as a strategy in this period. Europe has become Toyota's second overseas market since 1972 and came to import over 300 thousand units in 1980 (Shimizu n.d.).

In addition, Toyota Caetano Portugal, S.A produced first vehicle under Toyota's license. Until now, Toyota Caetano Portugal produces mini-bus assembly and commercial vehicles assembly under Toyota brand in model Caetano, Dyna and Hiace (Toyota Caetano Portugal, SA 2008)

Production Period: From 1980-1995

In the early of the 1980s Toyota face with barrier from government's policy or condition of each country as trade conflicts and the growing claim of local for the substitution of imports by localized production and also European Commission (EC) Committee demanded the Japanese government to slow down its exporting toward EC countries to protect their local automobile industry — France, Italy especially. Consequently, the exports toward EC countries grew slowly: increase by 40% for ten years from 1980 to 1990, the peak year of its exports toward this region. According to this situation, Toyota had to change its strategy in order to handle with that crisis. Toyota began to organize a global production network, which major locate in the USA, the UK, the Australia, ASEAN countries and the South Africa. This new strategy would be clearly presented in Toyota's "New Global Business Plan" from 1995 (Shimizu n.d.).

Before Toyota open manufacturing plant in Europe, In 1987 Toyota Technical Centre was establish in Zaventem, Belgium, to be Research & Development (R&D) department and purchasing activity center in Europe, also Production Engineering activities after they have manufacturing plant (Toyota in Europe 2008). Toyota set up it for study about consumer and local market.

According to Toyota export in the previous part, Toyota tries to establish distributor by at least one place per country. To control all distributors, in 1989, Toyota established marketing part (TMME) to managed European marketing and sales activities also in Belgium (was merged and become one part of Toyota Motor Europe in 2005) (Toyota in Europe 2008). And in 1990, they decided to open Toyota Training Centre again in Zaventem, Belgium, for provides essential training to service instructors and engineers from all of Toyota's European distributors (Toyota in Europe 2008), to keep the same distributor's quality standard all over Europe.

Toyota's production in Europe began with the construction of Toyota Motor Manufacturing in UK (TMUK) in 1992. TMUK resembled in assembly line to that of its mother plant, Tsutsumi assembly plant, however adopting a different approach from that in its American transplants to the management of industrial relations and the purchase. As for the purchase of parts, Toyota gave the priority to the procurement from European suppliers (160 firms founded in 10 countries, the half of which were in UK in 1994), so it was TMUK that was coming to gather the parts. Like as in the USA, TMUK organized a Technical Support Team in order to help its suppliers to improve the quality of their products under the long-term relationship with them. Then, here also, the just in-time supply has not been applied as in Japan. It is confirmed then the adaptation of Toyota Production System (TPS) to the local industrial and business conditions (Shimizu n.d.).

In 1994, Toyota opened second manufacturing plant in Europe in Turkey, Toyota Motor Manufacturing Turkey (TMMT) located in Adapazari, Turkey, to produce Corolla Verso and Auris models. Majority of the production is exported to European countries (*General Information about TMMT* 2004).

From the beginning to 1985, its exports had a tendency to expand, being accelerated in the period between two oil crises and interrupted by short sluggish terms as those in 1973, 1978-1979, and 1981-1984. Even the fall of the sales by half in the Southeast Asia in 1998 with respect to the previous year because of the economic crisis of the ASEAN countries was compensated for by the increase in sales in the North America and Europe and had no substantial effect on its overseas sales (Shimizu n.d.).

New Global Business Plan Period: From 1995

According to Toyota's "New Global Business Plan", which focused on advancing localization and increasing imports, and has made numerous efforts toward achieving these goals, we can see Toyota spread business unit all over European location. Toyota Motor Manufacturing UK opened second assembly plant and started produced Corolla lift-back models in September 1998 (autointell n.d.). In the same year, Because Toyota started to have manufacturing unit, Toyota Motor Europe Manufacturing (TMEM) established in Belgium to organize manufacturing operations in Europe (was merged and become one part of Toyota Motor Europe in 2005) (Toyota in Europe 2008).

In 1998, Toyota opened Le Rendez-Vous Toyota in Paris, France (*Toyota in Europe* 2008), to be a premium show room of Toyota for support marketing activity.

For supporting R&D, in 2000, Toyota Europe Design Development (ED) was established in Nice, France, to run design concepts for the European market, production support for European models and design research information (*Toyota in Europe*

2008).

The new operation in France, Toyota Motor Manufacturing France (TMMF), began production of the Yaris in 2001, and in April 2002, the engine assembly unit was created at the manufacturing plant in France. In 2002 Toyota Motor Manufacturing Poland (TMMP) was established for producing transmission parts in the Walbrzych Special Economic Zone in Poland, which would begin exporting the parts to Toyota's manufacturing centers in France and Turkey. For that time, Toyota's phenomenal growth in Europe as having several of business in Europe, not only manufacturing plants, but also supporting facilities and many complex activities about seal and marketing, manufacturing operation and engineer, that necessary for Toyota to change some organizational structure. In 2002 they decided to set up Toyota Motor Europe (TME) as a holding company to control subsidiaries in Europe (*Toyota in Europe 2008*).

TME play a role as the share holder for control all manufacturing plants and National Marketing & Sales Companies (NMSCs) in Europe to go on in the same direction and follow the company's plan by work with headquarter in Japan and other supporting facilities. In 2005, TMME, which manage about marketing and sale activity in Europe, and TME, which organize manufacturing operations in Europe, were integrated into TME for strongly coordination in production, sales, marketing and technology departments for more efficiency in management (*Toyota in Europe 2008*).

In 2005, Toyota had 3 events happen in production part. First, TMMP began producing engines. Second, they also opened new manufacturing plant in Poland, Toyota Motor Industries Poland (TMIP) to supply diesel engine to other Toyota manufacturing plants (*Toyota in Europe 2008*). And third, Toyota Peugeot Citroën Automobile (TPCA) Car Production Plant was established in Czech Republic as a joint-venture of Toyota Motor Corporation and PSA Peugeot Citroën to combine their knowledge supplier relationships: PSA Peugeot Citroën's knowledge of small cars in Europe and its expertise in purchasing activities; and TMC's skill in development, manufacturing and production processes. TPCA produces three small cars on the same platform under different brand: the Citroën C1, the Peugeot 107 and the Toyota Aygo (TPCA Car Production Plant Opens in Czech Republic 2005).

In 2006, Toyota opened another supporting facility in UK, European Global Production Centre (E-GPC) – Derbyshire, UK, to teach train production staff and supervisors from all over Europe (*Toyota in Europe 2008*).

The last manufacturing plant opened in 2007, Toyota Motor Manufacturing Russia (TMMR), to produce Toyota Camry (RUSSIA: Toyota Camry build starts 2007).

To sum up, Toyota's internationalization process in the Euro market are started later than the market of American and Asia. And in Euro market, Toyota applied a little bit different way of enter due to the size and the policy of that market. In the first period,

Toyota created its centre in Denmark, and then distributed its productions directly to the countries around. But the policy of exporting was changed in the second period, so Toyota changed its center to UK, and began assembling there. And for New Global Business Plan, which placed renewed focus on innovation and international expansion, Toyota create more manufactory in Europe.

5.2 Toyota's Entry Mode

As what we said before, Toyota established Export Headquarters in 1962, and started to penetrate into Euro market. They chose Denmark as the first market center in that market, because starting from there, Toyota could obtain its distributors in other 7 countries around. But there were still some difficulty to sell their car to UK, France, and Italy due to the existed car makers and their tight sales network.

So, Toyota announced its arrival in the UK with the launch of the Corona in 1965. (Toyota GB 2008) After that, Toyota launched two other types of car again in the market; both of them got a satisfied result. From that time, Toyota's sole UK importer became Toyota GB. (Toyota's History 2008)

In 1970s, oil crisis broke out all over the world. But Toyota's cars were and are famous for the economical. Therefore, since that Toyota flourished. After such a chance, Toyota expanded rapidly. In 1971, the first Toyota car was made totally in Euro by licensing in Portugal and in 1977, Toyota finished the change from only exporting to joint venture in Europeaan market, the Toyota (GB) Ltd became part of the Inchcape group (a Britain Car Company), Before Toyota hold share in 51% and change to be a public limited company in 1999 (Toyota's History 2008).

In the next decade, Toyota made its 50 millionth vehicle in 1985. (*Toyota's History* 2008) During that decade, good design stand for a more and more important position. In 1984, Toyota opened their own European design centre in the south of France. (*Toyota's History* 2008) Finally, in Sep 1992, Toyota Manufacturing (UK) Ltd, which is wholly owned by Toyota, arrived at Burnaston in North Wales to make the Carina E family car.

For today, Toyota distributors is many style of company as public limited company and Toyota take full ownership example Toyota (GB) PLC in UK (*Toyota's History* 2008), or agreement distributor example Louwman & Parqui in Netherlands (*Louwman and Parqui B.V.*2008). That mean in Toyota National Marketing & Sales Companies (NMSCs) have both via again export and sale subsidiary.

Also in manufacturing plants, Toyota have many style of contract as wholly-own subsidiary in UK (Toyota Motor Manufacturing UK), joint venture by Toyota is

superior share holder in Turkey (Toyota Motor Manufacturing Turkey), joint venture 50-50 in Czech Republic (Toyota Peugeot Citroën Automobile) or license in Portugal (Toyota Caetano Portugal, S.A). Till 2006, the information can be summarized in the table below:

	Name	Start of operation	TMC-related equity
Czech Republic	Toyota Peugeot Citroën Automobile Czech, s.r.o. (TPCA)	Feb. 2005	TMC 50% Peugeot Citroën Automobile S.A. 50%
France	Toyota Motor Manufacturing France S.A.S. (TMMF)	Jan. 2001	TME 100%
Poland	Toyota Motor Manufacturing Poland SP.zo.o. (TMMP)	Apr. 2002	TME 94.3%
	Toyota Motor Industries Poland SP.zo.o. (TMIP)	Mar. 2005	TME 60% TICO 40%
Turkey	Toyota Motor Manufacturing Turkey Inc. (TMMT)	Sep. 1994	TME 90% Mitsui 10%
U.K.	Toyota Motor Manufacturing (UK) Ltd. (TMUK)	Sep. 1992	TME 100%

Table1. The operation of Toyota in European market.

(Source: <http://www.toyota.eu/>)

5.3 Toyota's Network

From the first point that Toyota started to create first network by sign distributor agreement in Denmark, they have just an easy network wed as a directly connection between Toyota Motor Corporation in Japan and Distributor in Denmark. Then, Toyota tried to spread their network to cover Europe, not only in sale subsidiary, but also other business unit as R&D or design department. At the same time, they try to bond their network to stronger link.

After that, Toyota expand by establish production part in Europe. They set up Toyota Motor Europe (TME) to ensure better coordination between marketing, research and development, manufacturing, and external affairs activities in Europe (Toyota in Europe 2008).

In present, 6 manufacturing plants National Marketing and Sales Companies (NMSCs) are controlled by Toyota Motor Europe (TME) to manage in marketing and production operation. TME was controlled by Toyota Motor Corporation (TMC) and work with other supporting facilities under TMC in Europe.

The structure of Toyota's network between subsidiaries and headquarters in manufacturing part is illustrated in the picture below:

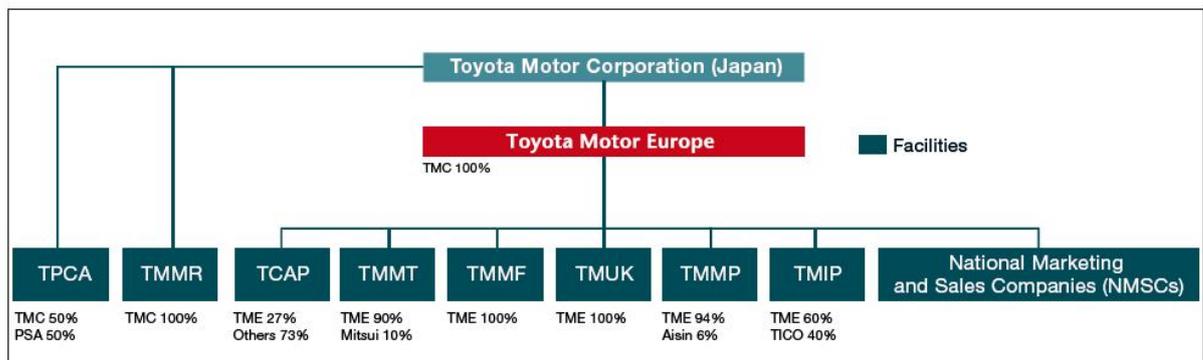


Figure6: inter-organizational network of Toyota in the European market
(Source: <http://www.toyota.eu/>)

TMC set the European Head Office in Brussels, Belgium, which control directly by headquarters in Japan. Under the European head office, there are: design centre in Nice, France; quality control center, training center in UK and the all Logistics Center and so on.

Today in Europe, Toyota has: 9 manufacturing plants in 7 countries, 8 main supporting facilities and nearly 300 independent European suppliers, 29 National Marketing and Sales Companies in 48 countries, 10 vehicle logistics centers and 14 parts logistics centers plus more than 3,000 sales outlets as well (Toyota in Europe 2008).

6. Analysis of Toyota Case Study

6.1 Factors Affect Toyota's Entry Mode

Firms have to consider several fields of factors which will have influence on the entry mode, when they go abroad. In this part, we summarized the external and internal factors and analyze them with the case of Toyota. Network, one of the key reasons, will be discussed in the next chapter. In the following part, the other reason about how to choose entry mode and how to modify it to become more suitable to the market is discussed.

6.1.1 External Factors

“Change in external factors in the foreign target country may encourage or force a company to revise its entry mode. It is vital; therefore, that a company continually monitors external factors in the target market and prepared to revise its entry mode in the appropriate time.” (Root 1998, p.18)

Market Size

“Size of a foreign market influences entry mode decisions, when the market size increases, benefits of internalization will increase.” (Chen and Hu, 2001, p.197)

Generally speaking, the control of foreign market should be in proportion with the size of market. But it is a little bit hard for a firm to get enough and deeply understanding about the information of one market before really dip into it. As we said before, “the outsider can only achieve a very superficial comprehension of such a complex and fluid network.”(Johanson and Mattsson 1988, p.18) Therefore, the most safe way of enter into a new market is by using a relevant low risk entry mode as Toyota's choice (exporting or licensing etc.).

But this kind of entry mode can only apply for the market which does not require a big amount of manufacture. For Toyota, after familiar with the local situation, European market is a definitely attractive market with high sales potentials. So some kind of high risk entry mode began to appear, like joint venture in UK, or wholly owned subsidiaries in France.

Government policies and regulations

In the external factors, “the most noteworthy are government policies and regulations pertaining to international business.” (Root 1998, p.10) This factor is the easiest one for investors to get. But this factor is also the most difficult one to control. Of course, all the others factor cannot be dominate by people too. But the policy's change speed will be faster than others. This is why the reason should be considered carefully all the

times. “Restrictive policy obviously discourage the investment, on the other hand, a target country may encourage foreign investment by offering some incentives as tax holidays.” (Root 1998, p.10)

For example, about 1970s, at that time, there is no very strict limitation of Toyota’s exporting. But, after the oil crisis, their car became so popular due to the saving of oil. Its amount of exporting was increased dramatically. So the governments were published new policies to protect its own car industry and prevent the high quantity’s exporting of Toyota. In order to solve the problem, Toyota had to change its market centre from Denmark to UK with the action of changing the entry mode from only exporting to joint venture.

Economic Status

Economic status should be considered from three perspectives. First is the size of economic (always measured by GNP). Second is the dynamic of economic that is “the growth rate of GNP, the rate of investment, and personal income and so on”. (Root 1998, p.11) Third is the target country’s external economic relations, like the balance of payment, or the debt service burden.

Some people hold that the economy status is the basic ground for doing business. And the authors also believe that economy should be one of the powerful decisive factors when choosing entry mode. Because the fundamental aim of a firm to entry a new market is to gain more profit. That is why “the unstable of economic status will make the internalization becomes less attractive.” (Rodriguez 2002, p599)

For Toyota, they also pay attention to this problem. We can get the information directly from the country the firm chooses as their beginning in the European market, such as Denmark, UK, France and so on.(Toyota in Europe, 2008) All of them are highly development country. The stable increase economic status of those countries can provide a safe environment for Toyota to develop.

Moreover, the current economic status cannot represent the strength of a country forever. Therefore, care about the potential development of a country’s economy is also needed. “Entry mode will be negatively associated with the level of potential economic risk of the country.” (Rodriguez 2002, p599) So after penetration some highly developed countries in a satisfied degree, Toyota began to rise the second round of enter. That is the action of entering into east European market, which is less developed compared with the UK etc. but we have to admit that the potential of those country is great.

Psychic distance

Now it turns to the most famous point, which had been discussed nearly by every expert in the field of international business. The psychic distance is defined as “the sum of factors preventing the flow of information from and to the market Examples is

differences in language, education, business practices, and culture.” (Johanson and Vahlne 1977, p.24)

Nevertheless, the distance of geographical cannot be a measurement of psychic difference. So, no matter which country a firm intends to go, the high cost of information acquisition is needed, such as do some market research or hire some people with experience in such field.

From Toyota’s extension process in the European market, we believe that the firm has a deeply understanding about the result of neglect the power of psychic difference. We can find that the development order of Toyota in the European market is followed the risk level of entry mode. Padmanabhan and Cho (1996) said “large psychic distance between home and host countries has a positive influence on the Japanese firms’ choice from low to high control mode.” (Cited in Chen and Hu 2001, p.197) Normally, Toyota is started with exporting, and then after get sufficient information, they changed to a higher risk level’s entry mode. Take the development in UK as the example, they began dip into the market with the lowest risks way (exporting).

About five years later, they changed to joint venture, with the company become bigger and bigger. Finally, they choose to build a 100% owned subsidiaries in 1992. Although there is such a long time during the process, it is a very safe way to narrow down the difference in culture. And till now, there is little efficient way to overcome this problem yet. Due to the psychic distance, the favorite style of car also differs in Japan and European market. So, in 1998, Toyota setup its design center in France to solve this problem.

6.1.2 Internal Factors

Experience

The first and foremost internal factor should be experience. The framework of this thesis in chapter 3 presents a clear way about a firm’s action when it has the willingness to go abroad. So, the only tool a firm has, before it enter the target, is the knowledge it already got from its former and current activities. The knowledge can help the firm to choose an entry mode through the analysis of the external and internal factors in the market.

As we introduce before, Penrose (1995) divided the knowledge into two kinds. One of them is experience, and it cannot teach by others, change to another words, to get the experience is not an easy process. The experience of a firm can help it to solve some problem and save a lot of times.

On the other hand, the experience can also help the company has to avoid the mistake that “using the same entry mode to every target market.” (Root 1998, p.98) In the case

of Toyota, the company already had the experience in entering American market, but the situation in European market is not all the same. So, use the knowledge to analysis the factors which affect the choice of entry mode become more important.

In Toyota, the experience must play a significant role to assist the company conquer the European market. We can go back to trace their history story again. At first beginning, both Toyota and other similar company do not have enough experience about how to expand abroad. The most practical way is learned from their own activities ---- learn by doing, this is also an idea come from Penrose (1995).

Without enough relevant knowledge, Toyota decided to entry European market from only one country with the lowest risk way. That is entered in to Denmark with exporting in 1960s. (Toyota in Europe, 2008) Normally, “the more experience the firm has, the less help it will require from a local partner and it will therefore be less inclined to use cooperative modes.” (Rodriguez 2002, p.607) After considering the entire conditions, Toyota chooses the way of exporting to enter the European market, which is started from the beginning stage of the evolution process of entry mode. In the international market, “a company is more concerned with minimizing the risk and maximizing control over the market. Given this situation, exporting appeared to be the first choice to a totally strange market.” (Root 1998, 53) Till now, Toyota already became a famous multinational corporation all over the world, and this factor can be the most powerful evidence that the choice in European market is right.

Even till now, Toyota still considers the knowledge as a very important thing. They established a new training centre in UK in 1992(Toyota in Europe, 2008) in order to transform the most up-to-date knowledge to their staff, meanwhile, the centre provides a channel to get the experience from the Toyota’s history.

Company Size

Talking about the factor of company size, it should have some relation with the network the firm builds with local firms and its own subsidiaries.

Generally speaking, “The bigger the firm, the more probable it is that it will opt for joint venture or wholly owned subsidiaries.” (Rodriguez 2002, p.607) Small firms usually do not have as tight internal network with its own subsidiaries as big ones. So the transform of the knowledge or resources will be less efficient. Next, in the small company the direct control is often applied. So when enter into a long geographical distance country, the problem of language, culture barriers will become harder to overcome when compared with big ones. Therefore, “there is a negative relationship between the size of the MNC and the choice of high control entry mode.” (Taylor, Zou and Osland 1999, p.151)

In Toyota’s case, they also use an appropriate way to settle this problem. The entry

mode they choose, are always according to the company size. For instance, in the real beginning, Toyota is not as famous as right now. It does not hold so much relationship with local firms, suppliers and customers. So it chose entre by exporting. But with Toyota dip into the European market, the company size became bigger and bigger. And its entry mode also changed in time, such as the market center in UK with the entry mode from joint venture to wholly owned subsidiaries, and the new plant in Poland with joint venture.

6.2 Network Aspects of Toyota

6.2.1 Business Network of Toyota

As we know, no firm can be a separate one, which has no linkage with all other members. As Håkansson and Snehota said: “No man is an island entire of itself; every man is a piece of the continent; a part of the main.” (Håkansson and Snehota 1990, p.1) In the market, normally the players will be bound together by technology, knowledge, or social bonds so on. In the publications, to find out the suppliers or customers of Toyota is very hard. But the way of joint venture made by Toyota and other local firms, is just a very good example to show us a part of Toyota’s business network in European market.

Toyota GB started from Toyota’s distributor, a small family firm ---- Pride and Clarke. “Both economic interdependence and legal arrangements bind counterparts together.” (Linnskog 2007, p.151) Toyota’s cars were and are famous for the economical. That makes Toyota had order to import in Europe, also accelerated the establishment of relationship between Toyota Company and Pride and Clarke. Pride and Clarke depended on Toyota company in goods and Toyota have to depend on Pride and Clarke on local market and import legal in UK, economical/legal bond band them together. This condition made Toyota and Pride and Clarke decided to change Pride and Clarke to be Toyota (GB) ltd also became part of the Inchcape group, to handle with expanded market, and Toyota is the one share holder in that company. In 1998, Toyota was majority share holding in TGB of 51%, in the same time, Toyota stopped contact with Inchcape group (Toyota GB 2008).

Johanson and Mattsson (1988) argue that “as the firm internationalizes the number and strength of the relationship between different parts of the business network increases.” (Chetty and Holm 2000. P.80) We can see the development of entry mode in this case; Toyota became joint venture with local company from export in the first point, and also happens in other Toyota’s National Marketing and Sales Companies (NMSCs).

Network is the one of the tools that company use to internationalize also. “The activities in the network allow the firm to form relationships, which help it to gain

access to resources and markets.” (Chetty and Holm 2000. P.80)

In the whole picture, from distributor agreement, Toyota tries to develop entry mode with their network to more and more market share in European market. Most of their manufacturing plants are joint venture entry mode, in several bonds. In Czech Republic, Toyota invest with PSA Peugeot Citroën to opened manufacturing plant for share knowledge and technical skill, that create network and band them together with technical bonds and knowledge bonds, this investment make Toyota decrease production cost because do not have to pay a lot of money but can produce their car in the same standard, for this economic reason make Toyota band economical/legal bond also.

6.2.2 The Inter-organizational Network of Toyota in European Market

The inter-organizational network of Toyota should also be an important element when learn the Toyota’s extension process in the European market. An assumption in the network model is that “a firm requires resources controlled by other firms, which sometimes can be obtained through its inner network positions.” (Chetty and Holm 2000, P.80)

The first step, Toyota entered into European market, is by exporting in Denmark, and then distributed to the countries around, like German, Italy and so on. At that time, the inter-network of Toyota is much more simple than today. Therefore, although there is a long geographic distance and great culture difference between Euro and Japan, Toyota still choose a direct control of its sub-units in European market under the situation. (Toyota in Europe 2008)

But “changes in the marketplace have caused firms to restructure themselves, which, in many cases, has led to the development of network forms of organization.” (Veludo, Macbeth and Purchase 2004, p.143) With the development of Toyota, the project of only exports their automobile to Denmark and then distributed to other place became meet some barriers in the country which already have famous automobile manufactory. So this problem bushed Toyota to change its way of exporting and then distribution, and remain them it is the time to penetrate deeper in the market.

In the period of 1980s, Toyota began its strong extension in Europe. “The key factor affecting industry growth was types of organizations’ inner network. New organizations’ subsidiaries will play an important role in helping larger and older organizations reduce their weaknesses.” (Provan, Fish and Sydow 2007, p.495) Beside the tightly linkage with local firms, which had been discussed in the former chapter, Toyota also set one more market centre in European market, that is the centre

in UK, and France. All of those actions symbolized that the within density of Toyota become higher and higher. Meantime, the direct control from headquarter from Japan to such many subsidiaries in European market seems like more and more difficult. If Toyota only faced the long geographical distance and culture difference from one county, of course, that can be settled simply. But in the same time, several subsidiaries in different country with different language, location, culture and so on, make the direct control come to impossible. So, along with the successful establishment of Toyota's European headquarters in Brussels, the multi-centre of Toyota is appeared finally.

6.2.3 Toyota's Organization structure

In Toyota history, there shown that Toyota develop their structure for expansion in European market. In first point, Toyota establish the sale unit in Europe as a subsidiary to sale their car. Because had just a small number of people that know Toyota, then Toyota keep just niche market in that time (Shimizu n.d.). The main goal for Toyota in that time is to distribute their product cover Europe as much as their can, structure of Toyota organization in Europe is "Home-based MNE", headquarter in Japan where Toyota begins, that suitable for Toyota in that time. This structure is a common formation, easy to control and comfortable to make decision. In that time, Toyota could still gain advantage from home base location not only resource but also knowledge to compete with other car company in Europe. Sölvell and Zander (1995) describe the function of headquarter in Home-based MNE as a core activity, to control and shift the company in the whole picture, also in Toyota headquarter, that is hub of all main activity of Toyota.

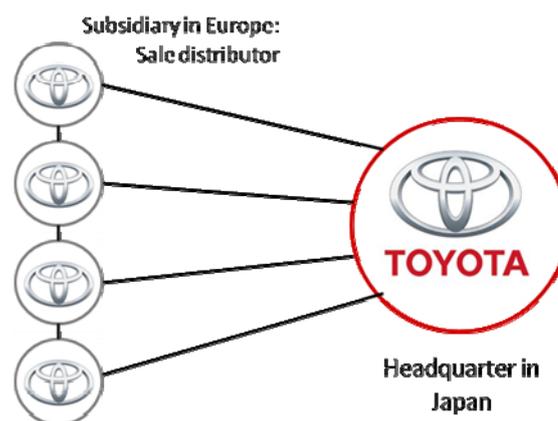


Figure 7: the structure of MNC 1

After that, Toyota saw opportunity in European market and they known that they have develop their organization structure to control carefully and also understand in European market more than in the pass if they want to invest in European market for long term. Then, Toyota decide to move some core activity in order to cope with

European market, Toyota establish another headquarter in Brussels, Belgium (*Toyota in Europe* 2008). That decision make Toyota structure in Europe is more complex and more concentrate with European market as “Multi-home-based MNE”

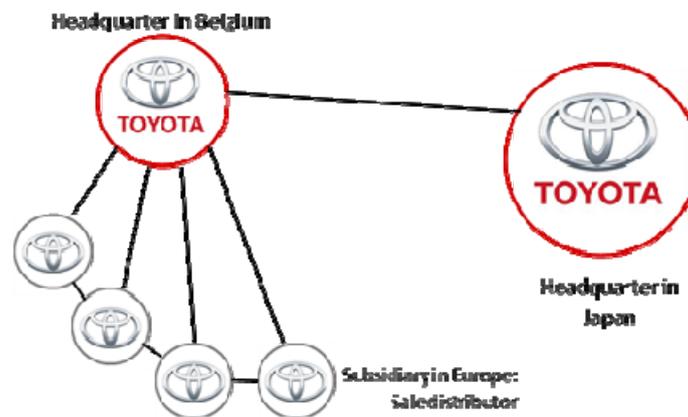


Figure 8: the structure of MNC 2

From Toyota headquarter in Europe, knowledge and technology in home base location and around in not enough, they spread other core activity cover European geographical, perform difference responsibility to support main operation as production or sale. Sölvell and Zander (1995) describe in heterarchical model, each unit have difference responsibility and role to generate knowledge and technology, Toyota want to gain knowledge and technology from Europe to improve their product and service for competition in European market. Toyota tried to develop organization structure to heterarchical model, which advantage in effective and wider view in achievement knowledge and information. That show by creation of many business units in variety function as R&D in Belgium, Design Development in France, holding company to control production and many manufacturing plants in 7 countries so on (*Toyota in Europe* 2008).

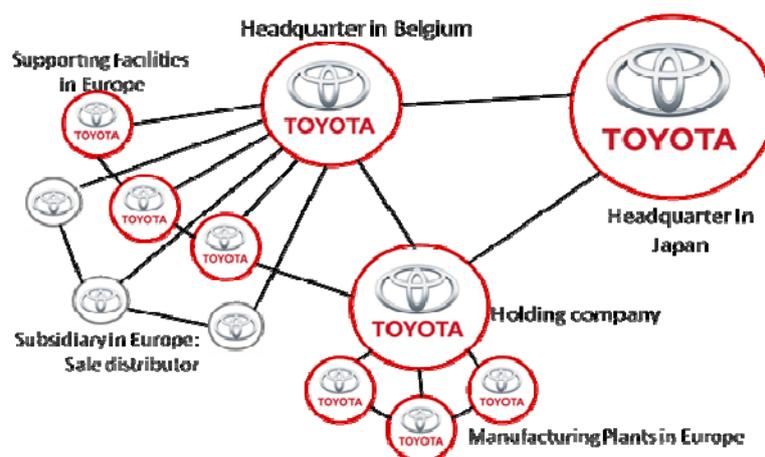


Figure 9: the structure of MNC 3

Relationship, connection or power between each unit is more complex than the start point in Europe as just a few distributors, but in this system Toyota can gain more advantage for knowledge that store in this complex network than just sale network in the past.

6.3 The Evolution of Toyota's Entry Mode

As we explained before, in Root's (1998) book, the entry mode is considered as a long period. The same with Root (1998), the Uppsala model also considers that "firms start exporting to a country via an agent, later establish a sales subsidiary, and eventually, in some cases, begin production in that country." (Johanson, and Vahlne 1977, p.24) With the time goes by, the firm will increase its control of a market, by changing from a low risk entry mode to a high risk entry mode.

In the case of Toyota, most of the firm's performance is in the way which present in the theory of Root (1998) as well as the Uppsala model, both in sole country of European market and the whole European market.

In sole country of European market, we can take Toyota's development in UK as an example. We can found that Toyota choose to enter the market by exporting to Denmark and then distributed to UK and other countries around. (Toyota GB, 2008) So the UK's entry mode began with the indirect export, which is the lowest risk entry mode. "Exporting is a means also of reducing costs of market development. Even if investment is necessary in the future, exporting helps to determine the nature and size of the market." (Johanson, and Vahlne 1977, p.26) Of course, this kind of entry mode is not as much profitable as a deeper control way. Therefore, after some years, Toyota found an appropriate opportunity to update its indirect export to the direct way. Shortly after this change, oil crisis break out in 1973. Toyota did not neglect this chance and take its advantage to accelerate the firm's grown speed. So within five years, Toyota altered from export to joint venture with a local automobile manufacture in UK. (Toyota GB 2008) Till now, more than 50 years already passed when the first time Toyota enter UK, and Toyota already became a famous multinational corporation all over the world. Without doubt, the wholly owned subsidiaries are also established in UK since 1992. (Toyota GB 2008)

Sometimes, "because of constraints imposed by external and internal factors, the company may follow a different evolutionary path, but the direction will also be toward greater management control and greater risk." (Root 1998, p.15)

Due to the linguistic barriers, we cannot find the detail development process of Toyota out of the English speaking country. But the general direction is reported in their publications of European market every year.

Most country in European market began their business by indirect export from

Denmark, like France, Russia, Turkey and east Europe. (Toyota in Europe 2008) Till now, some of them already build their own subsidiaries, like France and Russia in 2001 and 2007. Toyota in Czech Republic and Poland after the period of exporting, already change their way to joint venture to control their market in east European market in 2005.

Followed the entry mode's evolution process in only sole country, may be considered as a thing which happened occasionally. However, if we consider the European market as a whole market, and do not separate it according to the national boundaries, the situation of entry mode's evolution process is in the same way.

Talking about this, we need to go back to the export to Denmark again. This time the process is slightly different with before. We can also get the information that the way of exporting in Denmark met some problem in distribution to some countries around. "Changes in the firm and its environment expose new problems and opportunities." (Johanson and Vahlne 1977, p.26) So Toyota had to rethink about its way to enter the European market, one of their solutions is changing the market centre to UK, and the other is use licensing as way to build their own cars in Portugal. After this change, the development of Toyota in European market is nearly the same with the process in UK.

Nevertheless, both the evolution of entry mode in sole country or the wholly European market is showed that Toyota's entry mode is altered when they found some suitable occasion. Generally speaking, the development of Toyota seems to be in accordance with the Root's (1998) evolution process of entry mode. And each time, the control of the market became deeper than the former one. Although the risk is raised also, the profit of the market will definitely increase at the same time.

However, the time is not a measurement of entry mode's transfer. (Root 1998) We cannot say that a firm needs to change the entry mode after one or two years after entering the new market. A lot of important reasons have influence on the problem of when and how to change entry mode. Some of them will be discussed in the later part of the thesis.

7. Summary and Conclusion

After analysis above, it is the time to come to the conclusion about in the European market, what entry mode did Toyota select? Why did they select those entry modes? And how did they manage their internal and external network structure during the entry mode evolution process?

In this thesis, we based on Uppsala model and Root (1998)'s idea who considered Entry mode as a long period to describe and explain the problem of entry mode. And we turn to Sölvell and Zander (1995)'s idea about structure of the firm. When linked the theory with case of Toyota, we found that most situation of Toyota is followed the process which is present in the theory.

At first, we suppose when a firm has the willingness to conquer the overseas market, the most important resources it can use is the knowledge it has. The knowledge can help the firm to balance the risk and uncertainty according to the outside and inside factors, and then provide a suitable entry mode to enter into the target market. Then, after a period in the market, the firm can develop a useful network for it both in the market as well as in the organization. And some of the factors which affect the firms to choose the original entry mode may change. Therefore, some new conditions stimulate the firm to change its low risk level of entry mode to a higher level. At the end, the firm will penetrate deeply in the target market. Meanwhile, thought the long period, the firm gained not only useful experience, but also the confidence. Thus, the step of entering to another country will be followed. In the wholly process, the firm needs to change its structure in order to provide the efficient way of interaction between headquarters and subsidiaries. We suppose that the firm will gain advantage from local environment at the beginning, after a period, because it concerns with long-term investment or to handle with its growth, the firm start to split core activity outside the host country. This process is the structure developed from home based structure to multi home based structure. Later, each unit of the firm will be given some different responsibilities and this phenomenon represents the establishment of heterarchical model.

In the case of Toyota, the evolution process of entry mode can be present very clearly. Begin from their first choice exporting in Denmark; we can trace the development point by point, and an obviously curve from low risk level to the high risk level is showed in the process. For example, after the export, Toyota change their way to licensing to make their automobiles in Europe, then, by joint venture to overcome some problem in the field of government policy, last, it's the establishment of wholly owned subsidiaries. During the long process, in order to improve the performance, Toyota should take some factors into consideration, like market size, political and economic environment, psychic distance, and experience etc. Except those factors, the business network Toyota made in European market as well as the network within the

MNC also plays the important role in the internationalization process of Toyota. In the trace of firm's structure development, we can found that, in the beginning, Toyota's network is relevantly simple. So a direct control from headquarters with the home-based structure is effective enough to settle the problem they meet. But with the scale of Toyota become bigger and bigger, the structure need to change in the same speed from a simple home-based to a multi-home based or heterarchical structure.

However, during the research period, we also found some problem which should be pay attention to in the further study. As we said above, this research is a case study of Toyota, so the discussion and analysis are spread according to the Toyota's situation. But is the discussion and analysis suitable for other companies which have interested in going abroad or the companies which have similar experience? This point also needs to be discussed in future's research.

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