The world automobile industry, like many other industries, is undergoing a fundamental restructuring in response to new competitive pressures and requirements. To a degree, these pressures stem from more versatile micro-electronics-based production technologies along with an increased pace of technological advance and a corresponding need to accelerate research and development activities, including quick follow-through to marketable products. In part, too, such pressures emanate from a changing market environment, one increasingly characterized by fragmentation and volatility. The liberalization of world trade under the General Agreement on Tariffs and Trade, alongside the creation of regional free-trade zones in Asia, Europe and North America have forced auto companies both to share domestic markets with new foreign entrants and to compete with many other firms in virtually all major markets. Such fragmentation occurred earliest in Britain and West Germany where relatively liberal trade and/or foreign investment policies eventuated, by the late 1970s, in the division of domestic auto markets among a large number of foreign and local firms (Reich, 1989). While more protectionist countries like France and Italy have fostered greater market consolidation favoring a few domestic firms, the instituting of a single European market beginning from 1993 is expected to subject national firms to intensified competition over future years. While Japanese automakers had captured only an 11–12 per cent market share during 1993–94 (Ward's Automotive Yearbook, 1994), a 1991 EC–Japan agreement will open European markets to increasing Japanese participation during the late 1990s.

Market fragmentation in the United States began with the influx of small, fuel-efficient European imports in the wake of escalating gasoline prices during the 1970s, and continued through the 1980s and early 1990s with dramatic increases in US market share by Japanese companies. During the 1980s, the ‘Big Three’ automobile companies (General
Introduction

Motors, Ford and Chrysler) lost substantial market share to Toyota, Honda and Nissan. Even in Japan itself, where foreign companies together shared only about 8 per cent of the domestic auto market in 1993 (Wall Street Journal, 2 February 1995: A14), imports have increased sharply during the mid-1990s.

Market fragmentation was fostered as well by a progressive segmentation of consumer markets as increasingly differentiated categories of buyers sought vehicles to meet their special interests and requirements. By the early 1990s, the best-selling cars in the US were achieving market volumes half or less than those of best-selling cars in the 1960s and early 1970s. In addition, consumers have demanded ever higher standards of safety, quality and reliability.

Processes of market fragmentation have both contributed to and paralleled a more general increase in market volatility. Internationally, increased reliance on diverse global markets has reduced predictability and stability in the face of uncertainties relating to government policies, currency exchange rates and differential national economic performance. Domestically, a progressive tightening of safety, emission and fuel efficiency requirements has created a constantly changing economic environment.

To the extent that standardized mass production, most fully developed in the large, relatively insulated, North American market, relies on economies of scale for its competitive advantage, increasing technological and market volatility and market fragmentation have undercut the competitive position of firms which have failed to adapt to the new economic environment. Conversely, these changes have favored companies which have been able to meet the new competitive challenges. By the mid-1980s, it was clear that a new, and competitively superior, model of industrial organization pioneered by Toyota and other Japanese firms was to prove the successor to more traditional Fordist mass-production. This new model has been variously termed lean production (Womack et al., 1990); flexible mass-production; flexible-specialization (Sabel, 1986); internal functional flexibility (Standing, 1989); systemofacture (Hoffman and Kaplinski, 1988); and innovation-mediated production (Kenney and Florida, 1993). The defining characteristics of this post-Fordist model of industrial organization, here more generally termed flexible production, include a close integration of all parts of the production process, rapid product and process innovation, efficient small-lot production, continuous efforts to enhance quality and productivity at all organizational levels, including on the shopfloor, and close interaction with suppliers and customers.