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## Article

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Article

# Why Localization Is Necessary as a Business Strategy in Emerging Markets: The Case Comparison of Hyundai and Volkswagen

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**Abstract:** Localization, the process of establishing the most adequate system in the target market according to the given environment to produce the most viable product in the market, can help multinational enterprises (MNE) to better understand the market, and take the most appropriate actions needed. Business strategies in emerging markets must account for the environment’s distinctive characteristics because emerging markets are characterized by underdeveloped institutions, also known as institutional voids. What would be the best strategy to respond to these voids? The primary focus of this article is to investigate how multinational businesses deal with the institutional voids of emerging markets such as the Indian automobile market, and how the different strategies affect the players’ performances. By comparing Hyundai Motors Company and Volkswagen Auto Group’s different strategical approaches, this research demonstrates that better creation of a local value chain and ecosystem leads to better performance in emerging markets. Survival within emerging markets requires thorough market analysis in an institutional context, and rapid response to environmental shifts resulting from institutional voids. Localization can help in both aspects.

**Keywords:** localization; institutional void; emerging market; automobile industry; Hyundai; Volkswagen



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## 1. Introduction

Over the years, numerous companies have been operating in the Indian automobile industry, seeking potential opportunities in this rapidly growing market. According to India’s National Investment Promotion Agency, India is currently the fourth largest vehicle market and is also expected to be the world’s third-largest automotive market in terms of volume by 2026 [1]. Although many big multinational enterprises (MNEs) have tried to take advantage of this emerging market, it was not easy for most of them. The market share of the industry is mostly dominated by domestic companies with few MNEs barely making up 10% of the share [2]. It is clear that the Indian automobile industry is rather more difficult and trickier for global companies to settle down in, since more than a decade has passed since certain MNEs have entered and they are still struggling to win the hearts of Indian consumers. This led to the following research question: “How do different strategical approaches taken by the MNEs in the Indian automobile industry influence the firms’ performances?” This question will be answered through two sub-questions:

1. “How are emerging markets different from mature markets, and what factors make them so distinct?”
2. “How do MNEs deal with these factors, and what strategy is most effective in terms of performance in emerging markets?”

To investigate on the first sub-question, we examined the distinctive characteristics of the Indian automobile industry using “Institutions Theory” [3]. The most significant element of emerging markets that should be considered for MNEs while formulating their

business strategies is the existence of institutional voids [4]. Based on this perspective, we have created a framework categorizing these voids, and apply this framework in order to analyze both the cases of Hyundai Motor India Limited (HMI) and of Skoda Volkswagen India Private Limited (SVI).

To examine the second sub-question, we have chosen two representative MNEs with contrasting sales status competing in the Indian automobile industry and compared their different business strategies in depth. Hyundai Motor India is one of the leading companies making an adequate performance in the Indian automobile industry. Having entered in 1996, the firm accounts for 17% of market share currently. On the other hand, Skoda Volkswagen India is an example of a company that still needs extra effort in order to achieve competitive advantage over its competitors. The company entered the market relatively late compared to Hyundai in 2001, and is struggling to take a strong position with only approximately 1% market share.

To achieve the research objective, we first review the literature relevant to the concept of Institutional Theory and Institutional Voids to define distinctive characteristics of emerging markets, then review the literature related to the concept of Localization. We then analyze the case of Hyundai Motor India and Skoda Volkswagen India as an example of two comparable cases of how firms took action regarding existing institutional voids. By analyzing the business strategies of HMI and SVI, this paper provides deeper insights into the competitive dynamics of the Indian automobile industry, and emerging markets overall.

## 2. Literature Review and Research Framework

This case study is established based on the theoretical framework that defines emerging markets in an institutional structural context. The concept of institutional voids is further explained in order to help understand emerging markets and different approaches for dealing with them [4,5].

### 2.1. Emerging Markets and Institutional Voids

According to Khanna and Palepu (1997), institutional voids are the absence or underdevelopment of formal institutions that support business activities [4]. Institutions are often defined as “humanly devised constraints that structure human interaction”. North (1990) suggests that institutions affect the performance of economies [3]. This concept is utilized in market definitions, in which Khanna and Palepu (2010) define emerging markets as those in which specialized intermediaries are absent or poorly functioning [5]. In other words, an emerging market is a market where ‘institutional voids’ are particularly pervasive. Emerging markets’ distinct and unique characteristics that stand out from developed markets can be explained through these ‘institutional voids.’

Some scholars also identify emerging economies through various defining features such as income rates and growth. According to Hoskisson et al. (2000), emerging economies are low-income and rapid-growth, using economic liberalization as their primary engine of growth [6]. Arnold and Quelch (1998) have adopted the idea of emerging markets in a rather broad way by encompassing three definitions that stem from these three aspects of a country’s economy: (1) the absolute level of economic development, (2) the relative pace of economic development and (3) the system of market governance and the extent and stability of a free-market system [7].

Unlike prior literature that focused on size, growth rate, and openness to the global economy, Khanna and Palepu (1997) emphasize how the economy works as a helpful foundation for buyers and sellers. Considering its institutional context, emerging markets have three main sources of market failure: information problems, misguided regulations, and inefficient judicial systems [4]. The more developed and ideal the market, the more it is equipped with institutions that facilitate the functioning of markets. However, developing countries fall short of this provision of institutions [4]. The first source is information problems. Buyers need reliable and relevant information for business, but the holes existing in the infrastructures that support these processes regarding information hinder

the market. The second source is misguided regulations. In developing countries, it is more likely for regulators to place economic goals over economic efficiency, distorting the functioning of markets. This results in a firm's struggle to take advantage of business opportunities compared those in advanced economies. The last source is inefficient judicial systems. Markets depend on judicial systems that are strong enough to enforce contracts in a reliable way, since contracts facilitate cooperation by aligning the incentives of different parties. The inefficient judicial system hinders the market in developing countries in this respect [4].

Understanding markets through an institutional perspective is important because it helps to acknowledge the contextual factors that affect the competitive environment and the development of firms' sustainable competitive advantages [8,9]. Institutional voids such as lack of reliable key market information, unestablished contract enforcement rules, and high involvement of the government make emerging markets unpredictable, and leads to firms facing additional uncertainty and challenges [4,10]. Formulating a strategy that better responds to these aspects of the institutional environment is the key to obtaining competitive advantage.

## 2.2. Strategies Responding to Institutional Context

Implementing the right strategy for the given institutional context works as the foundation for whether or not a firm will gain competitive advantage over its competitors, both multinational and domestic. Different strategies in response to institutional voids position multinationals and domestic firms to reach different segments [5]. Therefore, discovering these voids by reading the institutional context is the first step for firms that are competing in emerging markets.

Based on the sources of market failure, scholars have identified relevant factors through an institutional perspective. Marquis and Raynard (2015) define the comprehensive set of plans and actions directed at leveraging and shaping socio-political and cultural institutions to obtain or retain competitive advantage as institutional strategies, which include relational strategies, infrastructure-building strategies, and socio-cultural bridging strategies [9]. We have utilized this strategic classification to define and clarify which institutional voids are specifically significant in terms of developing strategy in an emerging market. In order to perform an eloquent comparison of the strategies of two MNEs, we defined a framework that classifies institutional voids that are to be discovered in emerging markets as: (1) Relational voids, (2) Infrastructural voids, and (3) Socio-cultural voids. Relational voids are missing intermediaries associated with relationships with the government and key stakeholder groups. Infrastructural voids are missing or inadequate regulatory, commercial, technological, and physical infrastructures that are needed for market functioning. Socio-cultural voids are distinct characteristics of the people in developing countries linked to socio-cultural and demographic factors.

## 2.3. Localization

Given the complexity of cross-country differences which results in differences in consumer needs and values, manufacturers and marketers often use a localization strategy to create viability for their product in the target market, and to create relevance for their brand with local consumers [11]. For example, localization refers to the strategy of associating a global brand with symbolic meanings, values, beliefs, and norms of local cultures; it reflects a local cultural identity or portrays the brand as created for local consumers [11]. However, localization is not only defined in terms of symbolic association. This is one example of the many aspects of how localization could be applied as a strategy in business. Wu and Jia (2018) apply localization in the supply chain and operation. They define the term "supply chain localization" as the process of setting up end-to-end supply chains (value chain creation) in emerging economies [12]. According to the Localization Industry Standards Association (LISA): "Localization involves the alteration of any aspect of a product or service that is needed for a product to be sold or used in another market" [13].

These examples of how localization is defined all include the process of establishing the most adequate system in the target market according to the given environment to produce the right product that is most viable in that market. This paper defines localization as the establishing and instituting of a firm's own system of value creating activities in the target country. As Pfeffer and Salancik have stated, establishing "created environments" gives MNEs access to materials and relational resources in a new country [14]. We define "localization" in a similar context to Pfeffer and Salancik's "created environment," in which companies establish their own ecosystem of value creation and resources. This could be described in North's institutional point of view as when institutional environments change, and organizations change to take advantage of opportunities while avoiding the threats that arise within the institutional framework [3,15].

Since emerging markets have unique environments for MNEs due to institutional voids, the localization strategy of establishing a firm's own "created environment" and ecosystem is the best strategy. Therefore, based on institution theory, this study shows that localization is a critical factor for MNEs to consider when entering emerging markets.

### 3. Methodology

This study focuses on localization as a strategy to fill the institutional voids in an emerging market—India in this case—and compares two cases of automobile multinational enterprises and how they dealt with the market situation. By analyzing the success factors of Hyundai Motors India in depth, we can reach a conclusion that, to win in an emerging market consisting of uncertainties, establishing a localized ecosystem adapted to the environment ("a created environment") is necessary. This study also covers Skoda Volkswagen, which is recording poor sales in the market, and discusses the reasons why it could not gain competitive advantage in India, unlike other target countries. This clearly shows that India's automobile industry has distinct features that differ from other markets and implies that difference in strategies is needed. To draw this implication, we gathered journals and formal annual business reports. Through triangulation, a search method using multiple sources of data, this paper aimed to enhance construction validity [16]. Furthermore, the first three authors used cross-validation by comparing data and analysis to increase reliability [16].

For the purpose of this study, a qualitative method was used in order to conduct an in-depth analysis. A case study approach is frequently used in qualitative research to explain the detailed factors as to why and how a particular situation occurred. This type of case study is used to describe a phenomenon and the real-life context in which it occurred [17]. In addition to identifying the case and the specific type of case study to be conducted, researchers must consider whether to select a single case study or a multiple case study in order to gain a better understanding [18]. The goal of a multiple case study is to replicate findings across cases which can be used to predict contrasting results, but for predictable reasons [17]. Accordingly, this met our research purpose to compare cases and draw a meaningful conclusion. Two different cases in the emerging market serve as effective material to help understand what makes the key difference in the business outcomes of MNEs in an exceptional market like India. Within-case analysis produced a detailed description of the patterns that characterize the localization processes in each firm. We also performed across-case analysis to compare similarities and differences across two firms. We cycled between data analysis, connecting with relevant literature to develop theoretical arguments and concepts and to guide subsequent data collection. The emergent relations among constructs were refined with the use of replication logic, in which each case serves to confirm or disconfirm inferences drawn from the others [16].

Then, we wrote analytic memos to synthesize different pieces of data into recognizable patterns and to explore the relations of different concepts to one another [19].



## 4. Indian Automobile Industry (Local Market Analysis and Case Study)

### 4.1. Local Market: Indian Automobile Industry

India's automobile industry began in the 1930s. In the earlier stage of the industry, it was hard for multinational enterprises to enter due to various regulations imposed by the Indian government, related to taxation and production capacity. Restrictions on production capacity and high commodity taxes led to slow growth until the 1980s. With the growth of the country's population and per capita income, a demand for passenger cars started to increase. Relaxation of regulations helped the influx of FDI and, during this period, some early entrant global automobile companies started their business in India. The government especially encouraged Indian companies to form joint ventures with Japanese companies. In 1981, an Indian company named Maruti created a joint venture with Suzuki Motor Corporation, which enjoyed beginner's luck and today holds the highest market share in the industry [20].

In 1991, the Indian Government made a significant change regarding policies and tariffs. It introduced a memorandum of understanding (MOU) system that highlighted the need to localize components up to 50%. Due to liberalized policies and the attraction of a huge unsaturated market, global companies started to enter the passenger car market continuously [21]. The post-liberalization period has led to intense competition in the industry.

Despite the fact that this industry is a "red ocean", India is an appealing market and is filled with opportunities due to numerous market growth drivers. First, the immense size of the market enables capitalization through economies of scale. In fact, India's population is expected to be the second largest in the world by 2021 and, as for the auto industry, it is expected to become the world's third largest market by 2026 [1]. The rising middle class and the increasing demand from rural areas are also key growth factors of the Indian automobile market, and India holds an advantage of using English as a common language, as 87.6% of Indians in urban regions responded that they could speak English [22]. Next, automotive firms have cost advantages that enable firms to save 10–25% on operations vis-à-vis Europe and Latin America. Steel production and skilled labor at low-cost are available. Lastly, there is strong government support. The Indian government proposed to reduce Income Tax by reducing GST from 12% to 5% which can boost consumption. The government also allowed 100% FDI, aiming to develop India as a global manufacturing center. In summary, the industry is competitive, but is highly attractive due to the immense growth of the market.

In spite of favorable factors, India's automobile industry is still limited in achieving its true potential due to the presence of institutional voids. Institutional voids not only hinder multinational enterprises in successfully implementing a global strategy from their headquarters, but also makes companies lose a significant amount of money and time. As an emerging market, India has less formalized infrastructures, and less developed government and regulations [23,24]. Hoskisson et al. (2000, p. 252) pointed out that "government and societal influences are stronger in these emerging economies than in developed economies" [6]. The institutional voids factor affecting the Indian automobile industry performance is described below [9].

#### 4.1.1. Relational Voids

One of the key deficits of emerging markets is that there is a lack of functional governance structures, which results in high potential transaction uncertainty [5,6]. Lack of effective political, governance, and regulatory institutions also make it hard for participants in the economy to exchange [25].

As effective management of relationships with both internal and external stakeholders is important for competitiveness in the market, corporate political strategy that includes the relationship between business and government is an important concern for firms to consider [9]. Research suggests that, by strategically managing this relationship, firms can

enhance political legitimacy, receive preferential policy status, and gain access to critical state resources [23,26,27].

However, whether an intervention of the government in the industry development is necessary is an on-going issue. Porter (1990) suggests that the government could play a direct role in providing capital and subsidies in the early investment-driven stage of the development, but as the industry progresses to an advanced stage, the government's role should be indirect and facilitating [28]. The Indian government committed to 'minimum government and maximum governance' after the post-liberalization period. An example of this commitment is the introduction of the Goods and Services Tax (GST) which places less burden of tax on the end consumer. It also enables improved supply chain mechanisms that can help manufacturers procure auto parts at a cheaper price.

Even though the integration of corporate political strategies and market strategies is important for firms to gain a competitive advantage, because the Indian government still holds a high degree of control over corporate business conditions, some constraints exist in these strong ties between government and corporations. There has been concern that the Indian government frequently makes changes in regulations. This can be difficult for automobile companies in taking up strategies in the long-term. Gurpratap S Boparai, MD of Volkswagen Group's India business, stated that "India lacks ease of doing business and well-defined, long-term policy direction from the government is needed instead of sudden changes to regulations" [29]. High taxes on four-wheelers and two-wheelers and excessive levies act as barriers for both consumers and companies, making it challenging for automobile companies to invest and introduce new products.

A strong action from the Indian government on the automobile sector is the "Make in India" program launched in September 2014. This was an initiative aimed at nation-building. Because the automobile industry is one of the core industries in India, the government invested massively with an aim to make India one of the biggest passenger vehicle markets in the world. This program has brought a need for localization in the Indian automobile industry.

#### 4.1.2. Infrastructural Voids

Infrastructure deficit is one of the institutional voids in the industry. It is the result of slow industrialization including poor roads, logistics solutions, and infrastructure projects burdened with bureaucratic delays and corruption [30]. Poor roads make transporting goods and working with suppliers difficult, and environmental and land clearances often cause project delay. Additionally, poor road conditions in India have raised the importance of vehicular safety in car buying decisions among Indian consumers. Holes and cracks on the road often damage tires and vehicles, increasing the importance of after-sales service.

Underdeveloped physical infrastructure is negative for India's economy. According to interviewees in ACMA (Automotive Component Manufacturers Association of India), there are factors that have resulted in negative growth in the passenger vehicle industry; high fuel prices, interest rates, and inflation; and weak income growth [30]. India has also received criticism for severe air pollution. According to [31], the rapid urbanization in India accelerated increase in mobility and consequent congestion. This became the main source of air pollution in India [31]. Addressing the environmental issue, the Indian government has implemented policies to complement the infrastructure by committing to 100% electric vehicles in the public sector and 40% in the private sector by 2030. However, this ambition can only be realized when the industry infrastructure has established standards and the maintenance of conventional vehicles is effectively managed.

Absence of commercial infrastructure is another example of infrastructural void. Commercial infrastructure relates to the communication channels between buyers and sellers needed to facilitate commercial transactions. A market where these infrastructures are not present faces additional uncertainty and challenges [10]. According to a PwC report on India's infrastructure (2008), "foreign firms do not get their own infrastructure to execute projects, such as skilled manpower, plants and equipment. They usually try to employ

locally available resources in order to cut costs" [32]. However, not many MNEs have really been able to achieve a cost-competitive proposal, because India has evolved its own model of cost competitive delivery. This arose from the advent of a unique characteristic of Indian automobile industry, the dealer network. This locks up consumers to a well-known brand and disables their switching behavior. In general, Indian dealers sign a contract and invest in a brand, relying on that brand's success. If a contracted brand records poor sales, it will have few dealerships, and there will be limits to reaching more customers. As a result, this will lead to poor sales again and work as a vicious circle. These unique factors of the market create a high entry barrier for firms, raising the need for a differentiated strategy.

#### 4.1.3. Socio-Cultural Voids

With 28 states and 7 union territories with different languages, costumes, religious observances, arts and food, India is a country with high diversity, where different social ranks still exist within each region. Indian society is known as hierarchical and strict, mainly due to its Caste system. A combination of tropical monsoon climate, an agriculturally oriented traditional society, Hinduism and the remnants of English colonialism influenced the local culture of Indian citizens [33]. These characteristics appear in workplaces where Indian workers tend to give in to authority. On the other hand, they often show lack of loyalty toward the company and lack of desire to achieve a goal.

India also shows one of the key aspects of emerging markets—local hires are preferred over expatriates [34]. According to Yoon (2002), local employers in Hyundai Motor India appeared close-minded to other classes and had low unity due to the influence of the caste system. This hindered the manifestation of corporate synergy. Because of the long-term colonial lifestyle, obedience and disobedience coexisted among Indian workers, which triggered responsibility avoidance problems. Therefore, it is difficult for multinational enterprises located in India to find suitable local managers [35].

In terms of socio-cultural issues, India has a number of institutional voids that emerging markets often face: demographic disparities, ideologically fueled social unrest, and local hostility toward growing migrant worker populations [36,37]. These voids could pose a problem for the country when keeping pace with global markets. Indian consumers prefer to buy products from domestic companies with higher reputation and familiarity than from those of MNEs. Their ranking of needs—such as after sales service and maintenance cost—owing to poor infrastructure as formerly discussed, raises a need for a different strategy from that used in other countries. Labor laws in India are very complex and inflexible, and besides cannot be easily changed or discussed due to the strong power of labor unions and close affiliation to political parties [30]. This is an absolute barrier that hampers the growth and competitiveness of the industry because rationalization and flexibility are key factors needed in the successful settlement of MNEs in India.

#### 4.2. Case Studies

By comparing how Hyundai Motor India Limited (HMI) and Skoda Auto Volkswagen India Private Limited (SVI) coped with voids in the Indian market, this study highlights the importance of localization as a strategy to fill these voids in emerging markets. India, one of the representative emerging markets, shows high government control over business operations, lack of infrastructure related to road and commercial channels, and a rapidly growing middle class. In particular, our study will compare in detail the cases of successful and poor performances of two companies, and how they dealt with each of the three voids mentioned above: relational, infrastructural, and socio-cultural voids. The scale of the firms' efforts is divided into three categories: proactive, moderate, and weak. "Proactive" refers to efforts to actively fill the institutional voids and those actually leading to operation as a firms' competitive edge in the market. "Moderate" indicates taking action to fill the voids, but only to an insufficient point, requiring more effort in order to operate to the firm's competitive advantage. Weak signifies the most passive response to voids, which is inaction.



#### 4.2.1. Hyundai Motors India

Hyundai Motors Company (HMC), founded in 1967, is a South Korean multinational automotive manufacturer well known for its manufacturing capabilities and global presence. Since 2005, HMC has been listed within Interbrand's top 100 global companies which is one of the indicators of brand value, remaining in the list for 15 consecutive years [38]. Headquartered in Seoul, HMC operates the world's single largest integrated automobile manufacturing facility in Ulsan which produces 1.6 million units annually [39]. Furthermore, HMC controls the entire value chain of automobiles from production to distribution through steel-making affiliate Hyundai Steel and automobile logistics company Hyundai Glovis. Leveraging its manufacturing capabilities mentioned above, HMC has been striving to expand globally by applying a geographical diversification strategy.

Hyundai Motors entered India in 1996 with the establishment of a wholly owned local subsidiary. HMI built a production plant near Chennai, India and took first place in the market share of the compact car segment after two years of entry. Since then, in March 2006, it succeeded in producing 1 million vehicles in 8 years from the start of production, which set the record for producing 1 million vehicles in the shortest period of time among automobile companies operating in India [40]. Currently, HMI accounts for 17% of the Indian passenger car market share as of November 2020, holding the second largest pie right after Maruti Suzuki which accounts for 47.4% [41]. In addition, HMI's manufacturing plant near Chennai has emerged as the company's second largest production plant after its mother plant in South Korea, producing 682,000 units in the year 2019 [42]. Through these high production capabilities, HMI has grown to become one of HMC's most important global hubs which exports to around 88 countries across Africa, the Middle East, Latin America, Australia and Asia Pacific.

##### Efforts to Fill Relational Voids

Mentioned in the case study of Hyundai Motors in the India market by Park and Rhee (2015), Hyundai Motors constantly appealed to India's government by proposing massive production in India along with over 70% localization of parts within four years, as well as transferring technologies to India [33]. Through these efforts, Hyundai Motors received authorization for independent investment from the Indian government in 1996, while other multinational enterprises were struggling with their local partners.

To be more specific, HMI exports 10 attractive models: ATOS (SANTRO), GRAND i10, XCENT, GRAND i10 (NIOS) & GRAND i10 (AURA), ELITE i20, i20 ACTIVE, ACCENT (VERNA), VENUE and the All New CRETA, to 88 countries including Latin America, Africa, Asia Pacific and Europe. By sincerely contributing to the vision of the Indian government and the development of India, HMI gained trust from the government and its key stakeholders. HMI is still striving to fill relational voids remaining in the Indian market by affirming Hyundai's commitment to the country.

##### Efforts to Fill Infrastructural Voids

According to Park and Rhee (2015), India displays 'ultimate road chaos' due to backward infrastructure and decline in traffic safety awareness [33]. To overcome these infrastructural voids, HMI focused on CSR campaigns to increase awareness of traffic safety. 'Safe Move' is one of the key pillars of HMI's CSR campaign. With India's national actor Shah Rukh Khan, Hyundai launched its traffic safety campaign and visited five major cities in India, including Delhi and Mumbai, to hold traffic safety classes for children. Furthermore, along with TV airing, HMI designed a special website called 'Kids Hyundai' ([www.kids.hyundai.co.in](http://www.kids.hyundai.co.in), accessed on 11 August 2021) to further educate children in traffic safety (Hyundai Motor India, n.d., Gurugram, India). To overcome this ultimate road chaos, Hyundai strived to raise India's low traffic safety awareness and created a safer environment for drivers and pedestrians. This campaign is especially noteworthy among other activities and has made a great contribution towards earning the trust of Indian consumers.

To fill the voids related to the absence of commercial infrastructure, HMI focused on expanding its dealer network across the nation [43]. By aggressively expanding its dealership, HMI tried to strengthen its presence in India and meet the growing demand for Hyundai's automobiles. HMI tried to expand its markets not only in metro markets but also in rural and semi urban markets, as well as increment in total volume [44].

#### Efforts to Fill Socio-cultural Voids

One of the most crucial success factors of HMI in India is developing a strategic model by deeply understanding the Indian customer's needs and their local situation. Unlike other global automakers importing, producing and selling old global models of their brands, HMI developed and put the latest models into its production line [45]. The most representative strategic models in India are the Santro and Creta [46].

Santro was the first strategic car that Hyundai developed. According to India Market Research, the small car segment was expected to become competitive due to the existence of high demands for automobiles among consumers, while at the same time the economic conditions of India make them reluctant to purchase [40]. Moreover, the name of the Santro was created with initial 'S', which India customers like, and the ground clearance (height from the ground to the bottom of the car) was increased in consideration of poor traffic conditions, due to many unpaved roads [46]. In addition, the Santro was designed to be easy for women who wear turbans or saris, Indian traditional costume, by choosing the 'Tall boy style', which is a design with a high ceiling. As a result, 1,322,335 units of the Santro were sold from 1998 to 2014 until it was discontinued, and it was one of the most representative light cars, loved by Indian consumers [47].

Another strategic model that won the hearts of Indian consumers is the Creta, a compact SUV, one of Hyundai's best-selling cars in India. Hyundai quickly identified changes in the Indian automobile market by researching consumer behavior, and applied these insights to its strategic models. The Creta was developed with the prediction that the SUV market would grow in India due to its poor road conditions and the growing popularity of SUVs among the middle class, along with improvement in consumer's income [47]. From the development stage, Indian developers participated to reflect the preferences of Indian consumers [48]. Through these efforts, Hyundai found out that it is important to consider socio-cultural voids such as the consumers' caution towards India's weak road conditions, the rising trend of female drivers and hot weather. This led to elevating the height of the driver's seat to secure more visibility, equipping the latest automatic transmission, and installing air conditioner in the back seat to attract consumers, especially India's female drivers.

Furthermore, HMI identified the cultural characteristics of Indians and applied them effectively in human resource management. Due to the unique culture that is derived from the caste system, Hinduism, and English colonialism, Indians display a characteristic of having low loyalty towards the company with high absenteeism [33]. HMI applied the cognitive structure that lies behind the caste system to manage employees and tried to increase employees' sense of ownership towards the company. The company offered high payroll standards and managed local employees through in-depth site management, along with education considering cultural understanding. They also recruited employees with a 'soft' personality and divided the type of work according to the level of education and age. For example, for production workers, the highest level of their education was limited to technical high school graduates, and young university students were selected for general administrative positions.

#### 4.2.2. Skoda Volkswagen India

Volkswagen, founded in 1937, is a major German automobile manufacturer that has a strong presence in the industry on a global scale. Its headquarters are in Wolfsburg, Germany, and the firm divided its car business into two groups in 2002, Volkswagen and Audi. Volkswagen sustains its competitive advantages through diverse strategies including,

as for some of the most representative, innovative R&D technologies and large product portfolios [49].

Volkswagen entered the Indian market relatively late compared to its competitors with the launch of SKODA in 2001. It has five brands: SKODA, Volkswagen, Audi, Porsche and Lamborghini. After introducing SKODA in 2001, the firm introduced Volkswagen and Audi in 2007, and Porsche and Lamborghini in 2012 [50]. Even though Volkswagen is one of the most well-known automobile companies in the world, the firm had and still is having difficulties achieving a high market share, currently only approximately 1% [2]. To recover from its poor performance in the industry, the group announced its India 2.0 plan in 2019, which is the merger of three passenger car subsidiaries –Volkswagen India, Volkswagen Group, Skoda Auto India–into Skoda Auto Volkswagen India Private Limited (Pune, India). This plan aims to capture 3% of market share in the next 3 years and reach 5% by 2025. India 2.0's major priority is to grow its portion in the market through heavy localization [51]. However, unlike Hyundai, which pre-emptively responded to voids through a localization strategy in India, Volkswagen's late response acted as a major factor for failing to leave a mark in the Indian market.

#### Efforts to Fill Infrastructural Voids

SVI's response to infrastructural voids was late compared to its competitors. Problems due to late establishment of its local supply chain in India and slower than expected expansion of dealership networks are factors hurting SVI's competitiveness [51]. In addition, this lack of local infrastructure in the target market led to high import costs and less product localization [29]. SVI recently started to realize the importance in putting effort into filling infrastructural voids, and started implementing additional localization strategies for building supply chains and dealer networks in India [52].

Currently, in terms of operation and outbound logistics, two factories that are located in Chakan, Pune and Shendra, Aurangabad assemble the models of its Skoda and VW brands [53]. SVI is building new production facilities for developing new models that target Indian customers such as newly launched SUV models, and partnering with local manufacturing and logistics companies to increase its production capacity and spare parts logistics [54]. This will allow SVI to revise its current cost structure and reduce the price and maintenance cost of its products. However, SVI still has a long way to go to catch up with HMI, which not only succeeded in building an integrated local value chain, but is also striving to expand dealer networks that replace poor commercial infrastructure, and even road infrastructure. Therefore, SVI should be more considerate in establishing the overall infrastructural foundation in India to fill the detected voids in the market, and contribute to the market growth itself that will eventually act as a competitive advantage for SVI.

#### Efforts to Fill Socio-Cultural Voids

The most critical factor that affected SVI's performance negatively was failure in executing the right strategy to help fill socio-cultural voids in India. This led to low brand attractiveness in the market. Due to late localization in India, SVI has failed to provide satisfactory customer experience including marketing, after-sales service and lack of service centers. Unlike infrastructural voids, where the company is currently in the process of aggressively making up for its past mistake, more strategic effort seems to be necessary in this particular category.

With marketing & sales, SVI positioned itself as a premium luxury brand when it first entered the Indian market, but soon to realize the socio-cultural voids. Due to consumers' high preference for entry-level compact cars, resulting from local consumers' high price sensitivity and the government's incentives such as lower excise taxes for smaller cars, SVI increased its products' affordability through lowering costs by standardizing its parts [55]. However, efforts to lower the price were not enough to win the Indian consumers' hearts since high price was not the only factor that negatively affected the brand. Lack of product portfolio and low brand awareness among consumers were also important factors that

made the brand less appealing compared to its competitors [56]. Currently, SVI offers these models in India: Kushaq, TSI, Superb, Octavia [57]. SVI is working on creating diverse models in various segments, but in 2019 SVI faced stiff competition in the small car segment from the Polo and Ameo, while being absent from the growing compact and mid-size SUV segments [50]. In order to change the negative perception remaining among Indian consumers, SVI is currently focusing on localizing its innovative car production ability and achieving price competitiveness [58]. In 2019, SVI opened a new technology center in Pune to develop its new automobiles based on the localized MQB-A0-IN platform tailored to the needs and requirements of local customers [59]. However, SVI still has a long way to go to reach its competitors that have already achieved both price competitiveness and brand awareness.

Second, as regards service, the after sales service of SVI has always been the largest aspect affecting its sales negatively in India [51]. Certain events such as Skoda dealers swapping fake parts in their service center made a negative impact on the brand reputation. Even though this kind of practice are now stopped, the accessibility of service centers and issues regarding part availability still exists [60]. Currently, SVI is putting in efforts to deliver better customer service by launching the 'Doorstep service', which provides small repairs to customers for basic maintenance without visiting the service center [61]. However, this still seems insufficient to restore consumers' lost trust in the brand, or to provide a service that exceeds that of its competitors.

Furthermore, SVI has significantly few service centers and this led to provision of poor service. As mentioned before, Indian customers consider car service as an essential matter due to poor road conditions and low safety awareness. Car service and maintenance cost are the priorities which Indian consumers consider the most when making car buying decisions. Currently, SVI only has 219 service centers, only one-fifth as many as Hyundai which has 1102 service centers in India. After-sales efforts are generally perceived to help build a strong company image and goodwill from customers and distribution channels [62]. This lack of localized car service centers resulted in the company being unable to raise consumer surplus. SVI only provides basic maintenance services compared to other competitors' customer-oriented customized services, such as smart care and quick response team service. Thus, with the lack of differentiation in service activity, SVI is not able to create a competitive advantage.

#### 4.2.3. Comparing the Two Cases

Overall, Hyundai Motors India has succeeded in building an environment that works through aggressively overcoming all three barriers within the market: Relational voids, Infrastructural voids, and Socio-cultural voids. In terms of Relational voids, HMI overcame high governmental influence through continuous appealing to and active communication with its target country's government, gaining its trust eventually. On the other hand, Skoda Volkswagen India did not show any significant action regarding this issue and struggled to settle down and take its part in the market for several years due to troubles with its local partners. As for infrastructural voids, HMI newly created and developed a solution for every factor that got in its way, including road infrastructure, commercial infrastructure, dealer network, and many more. SVI entered comparatively late, and is still putting effort into developing localized supply chains and dealer networks as of now. Compared to Hyundai, which leverages from its local infrastructure, SVI has a long way to go in order to catch up. Finally, as for socio-cultural voids, the situation is no different. HMI overcame the void and developed products customized to the consumers' needs while SVI stuck with its global product portfolio. Currently, SVI is stepping into the game of compact SUVs, working hard to meet the tastes and needs of local consumers. However, further efforts are needed in order to change the consumers' already-established perceptions and product image of SVI.

We have summarized the comparison of the two cases in the Table 1. The scale of these two firms' efforts to resolve each of the three types of institutional void in the Indian

Automobile Market can be divided into three: proactive, moderate, and weak. “Proactive” refers to efforts to actively fill the institutional voids and leading to a competitive edge in the market. “Moderate” indicates taking action to fill the voids, but insufficiently and requiring more effort in order to operate to the firm’s competitive advantage. Weak signifies the most passive response to the voids, which is inaction.

**Table 1.** Each firms’ efforts in responding to all three categories of institutional void.

Response/Action	HMI	SVI
Relational voids	Proactive	Weak
Infrastructural voids	Proactive	Moderate
Socio-cultural voids	Proactive	Moderate

## 5. Discussion: Localization of Automobile MNEs and Local Open Innovation

### 5.1. Localization of Automobile MNEs

This study analyzed Hyundai Motors Company and Volkswagen Auto Group’s strategic response to the institutional voids in the Indian automobile market. Comparing these two players, the main difference we have found is in whether the firm has succeeded in localizing its system and products in the target market to better respond to external challenges resulting from institutional voids. Therefore, the study shows that localization, which helps fill these institutional voids, is especially important as a strategy to succeed in emerging markets.

### 5.2. Localization of Automobile MNEs and Open Innovation

To survive in fast-changing, competitive emerging markets, it is important for MNEs to unlock hidden opportunities. However, according to existing research, lack of infrastructure in emerging markets hinders SMEs’ active transmission of their experience and expertise [63], and this problem also applies to the case of MNEs. MNEs’ executives nowadays feel a strong need for open innovation as their solution—a business management model that promotes collaboration with people and organizations outside the company [64]. This business model can be related to the Indian automobile industry where competition is fierce and has unique characteristics. Combined with a localized value chain, companies can benefit from open innovation by identifying new local needs and ways to satisfy them. Furthermore, considering that new adoption of technology is critical, open innovation approaches in the automobile industry will enable the inflow and outflow of fresh technological knowledge and lead to efficient decision-making.

## 6. Conclusions

### 6.1. Implication

Hyundai Motors India Limited has successfully grown into one of the largest automobile manufacturers in the Indian market with 17% of the market share in November 2020 [40]. HMI perfectly adapted to the Indian market by leveraging its localization strategy to cope with institutional voids. On the contrary, Skoda Auto Volkswagen India Private Limited has been suffering in the Indian market for years with a market share lower than 1% as of the end of 2020 [57]. This results from Volkswagen’s passive responses in identifying the institutional voids existing in the Indian market, which led to late adoption of a localization strategy. To recover from this low performance, SVI recently announced its “India 2.0 plan” to localize its development and production of automobiles and expand its sales and service network. From Hyundai and Volkswagen’s contrasting strategies in the Indian market, our study found out that localization is the key strategy to achieve high performance in emerging markets such as India.

This study helps MNEs to understand the importance of capturing and filling the voids in emerging markets. Moreover, MNEs can refer to this study when trying to create a more favorable environment for operating business in emerging markets. Automobile MNEs



that are looking forward to running a business in India can not only gain insight related to India's automobile industry but also gain knowledge of India's overall infrastructure related to transportation.

### 6.2. *The Value of This Paper*

First, it provides a real-life case study of a MNE that has successfully applied localization strategy in the emerging market. The example of Hyundai Motors Company's success highlights the importance of leveraging a localization strategy which eventually led to making the best business environment and high consumer loyalty to this multinational company.

Second, it examined the key characteristics of institutions in emerging markets, especially focusing on the Indian automobile industry. Prior studies on institutional theory revealed the importance of examining institutional voids in specific contexts and suggested different strategies for different contexts. However, our study went further by categorizing the institutional voids into three representative categories: relational, infrastructural, and socio-cultural, to analyze the environment of the market specifically and in detail from the institutional point of view. Thus, we emphasized the necessity of understanding institutional voids thoroughly prior to entering the market in order to take better strategic action in such a unique environment. Our study focused on identifying institutions in India, which is one of the fastest growing emerging markets globally with the highest economic growth rate of 11.5% expected in 2021, according to the IMF. More specifically, we tried to capture the institutional voids shown in India by analyzing the automobile industry, where many multinational companies are concentrated [65].

Finally, comparison of two MNEs apprehends the effect of localization strategy on emerging markets. The strategic behavior of two MNEs was described in detail to show that application of a localization strategy was the main factor determining high performance and market penetration in the Indian market. According to the observations resulting from both cases, all three kinds of institutional voids require localization as the most advantageous strategy. Since all voids require proactive responses such as "filling," "redesigning," or "adapting," (other than leaving the market) the best condition for a firm is the establishment of its own local ecosystem within its target market, which enables quick and effective action.

### 6.3. *Limits and Future Research Agenda*

Further research should focus on uncovering whether localization strategy is still effective in filling the institutional voids of other emerging markets. This study used a case study method, a qualitative approach without any quantitative analysis, which has the limitation of low generalizability of the key findings to other emerging markets, and the possibility of bias. As a means to further develop the research, empirical research can be suggested. To be more specific, the emerging market is specified to India in this study. It would be meaningful to investigate institutional voids in emerging markets other than India, such as Vietnam and Brazil, to figure out whether localization is still effective as a business strategy in those environments. In addition, it seems interesting to uncover the differences in institutional voids by industry within the same country. This study is centered on the automobile industry of India, which is considered a high-value added industry, but it seems necessary to conduct research in other industries such as consumer goods, which have relatively low-added value, and find out whether there are also differences between industries.

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