



Home country influence on the mode of internationalisation - the case of Indian and German automobile manufacturers

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Abstract

Globalisation has eased organisations to access international markets, confronting MNEs with various institutional environments worldwide. These institutional environments subsequently increased MNEs management complexity regarding cultural differences, host country government policies and coordination which resulted in liabilities of foreignness. Mode of internationalisation is critically influenced by the host and home country institutional environments, therefore to understand the internationalisation of MNEs, business researchers use institutional theories extensively. Institutions play a crucial role as home country drivers to push firms to pursue international business opportunities (Xiaoming & Lin, 2012). Xiaoming & Lin (2012) believe that the higher level of internationalisation of MNEs is observed from those countries with a higher quality of governance.

This project would be secondary research which would analyse the home country's influence on firms to internationalise in the case of German and Indian automobile firms and highlight the issues faced during the internationalisation process. In this research project, would present the synthesis of international business theoretical context and findings of existing studies. Secondly, I would discuss the obtained literature and data to describe their implications to achieve internationalisation which would be contributing to international business practices. The focus of this research is to assess if the home country of multinational enterprises impacts internationalisation, if so then how do home country factors influence internationalisation in the case of German and Indian automobile manufacturing firms differently? This research project would help to understand the internationalisation of German and Indian automobile manufacturers (developed and emerging market multinationals) and how the home-country environment influences the same. As a result, a better understanding of the difference between the established and emerging markets' institutional influence on the mode of internationalisation.

I. Introduction

(Internationalisation of Automobile Industry)

For the last century, the automobile industry has been one of the most profitable and largest industries across the globe. In comparison to any other industry, the automobile industry has evolved in every aspect and shaped the global economy as well as eased the lives of billions (Mohr et al., 2013). The inception of the automobile industry's internationalisation dates back to the early 1900s, during which the assembly of Fiat and Mercedes luxury cars were in the United States and Ford in Ireland and Great Britain. Toyota was the fourth largest seller in the United States in the 1980s even though it did not have a manufacturing unit in the US. Followed with the development of the European Economic Community, exports became stagnant and imports penetrated between 20-50 % of most European markets (Doz, 1981). Presently, the automotive industry employs roughly about 25 million people across US, Japan, and Europe. Kiichiro Toyoda, Ferdinand Porsche, and Henry Ford would have been astonished witnessing the constant changes in this industry like increasing demand for eco-friendly and drive assistant vehicles (Mohr et al., 2013). Recently due to globalisation, manufacturing internationally has proved more cost-efficient. Therefore, presently Volkswagen and Mitsubishi manufacture the critical parts for Chrysler; auto parts come from Brazil, Germany, and Mexico for those Volkswagen cars sold in the US; the production plant of an engine is shared by Volvo, Renault, and Peugeot in France (Doz, 1981). The automobile sector is a globally operating industry, which makes the study and implications of international business strategies an essential part.



II. Methodology

This project would be secondary research which would analyse the home country's influence on firms to internationalise in the case of German and Indian automobile firms and highlight the internationalisation process. In this research project, would present the synthesis of international business theoretical context and findings of existing studies. Secondly, I would discuss the obtained literature and data to describe their implications to achieve internationalisation which would be contributing to international business practices.

Secondary data is vital in this study and would be obtained through various departments like Germany Trade and Invest, India Brand Equity Foundation, authenticated news publications (The German times, economic times, the guardian, etc.), significant business journals (Journal of International Business Studies, Strategic Management Journal, Academy of Management Journal, Management International Review, Journal of International Marketing, International Business Review etc.), McKinsey & Company, World Bank data, KPMG, Directorate General of Foreign Trade, and PWC etc. This research project would help to understand the influence of the home country environment on the internationalisation of Indian and German automobile manufacturers as emerging and developed market multinationals. As a result, a better understanding of the difference between the internationalisation process of emerging and developed market firms.

III. Discussion

From above chapters, we observe that all MNEs are different from one another for various factors due to their home country influence. Firms hailing from developed countries like Germany globalise with every competitive advantage (like technological advancements, monetary, market access etc) that Europe can offer. Unlike developed market firms, emerging market enterprises don't internationalise with these points of interest. The above concepts and theories in literature and data, strongly justify that the EMMNEs from India internationalise differently from that of German (advanced nation) MNEs. The above chapters clearly demonstrate how Mathews LLL model provides an amazingly hypothetical viewpoint to clarify the fast ascent of emerging market MNEs.

In current times, with financial development and internationalisation at a high pace, both India and Germany's development and innovation industries are progressively examined with its ability to improvise, persist and surpass expectations against international rivalry – both locally and globally. This international competitiveness has, in turn, led to competition between the different sectors and the basic evaluation among the corporations of the similar nation will never be sufficient again. The Porter Diamond show is a tactical business framework which helps to understand a nation's competitive advantage over other nation for a specific industry.

3.1 German Competitiveness in the context of the Porters Diamond Framework

➤ “Firm strategy, structure and rivalry”: Considering Germany's both political and geographic position, it can be viewed as the point of focus in the European region, which provides Germany the opportunity to deal with an applicable enhancement of its internal economy and to lead the European market; through which Germany intends to make an immensely focused business conditions for its indigenous firms. With the intentions to make Germany the most competitive economy in the European Union, incredible measures like outsourcing and off-shoring are practised due to which the German MNEs and SMEs have a higher production rate than the global standards. As per the “2010 Work Competitiveness Yearbook”, the German SMEs' surpassed the American competitive standards, along with better performance than the German MNE segments throughout the 2000s (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

The German economy is viewed as the finest private driven economy, due to the fact that the efficiency rate of European Unions' any massive state-owned enterprises in comparison with the developed nations, German SMEs are performing the most critical job in boosting employment rate and funding. With its 80 percent of the manufactured goods sold worldwide, SMEs are also one of the reasons for Germany's accomplishment in trade and exports (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Sofka & Sprutacz, 2016).

These organisations effectively contend on innovation forms and on enhancing effectiveness, getting an incredible profit by both the astounding German and European intellectual property protection. As indicated by the WEF (“World Economic Forum”), in the arena of contracts and intellectual property rights protection Germany is one the foremost states along with operating security and planning (Kutschke, Rese & Baier, 2016). The above was the reason for Germany to get enlisted in the 3 most imperative international copyright bureaus (“European Union, Japan and the American patent bureaus”), thus became the leader across the European Union



in "triadic licenses". In the year 2010, Germany conceded more than 12,500 copyrights at the European Union copyright bureau (Nagy & Jámor, 2018; Grant, 1991).

In the long run, Germany has built up a remarkable corporate administration framework that makes a righteous match among employers and employees conceivable so as to keep away from tedious and esteem breaking debate: it turns into a key achievement factor to ascend during the periods of recession. Important choices are made by "Employment Associations" that empower protection on employment market so as to retain organisations focused while keeping up occupational positions (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

➤ "Factor conditions": Germany profits from its abundant availability of naturally occurring resources like crude oil, natural gas, mineral deposits, building resources and other vital natural deposits. Its massive geography provides the nation with a great deal of land-mass that can be utilised to an emphasis on the generation of clean energy. In addition to that, the predominance of valleys in the northern part of Germany which enjoys continuous airstream, assisting Northern Power Group to deliver clean-energy which signifies its atmosphere as an imperative (Sofka & Sprutacz, 2016; Nagy & Jámor, 2018; Grant, 1991).

Incidentally, government's greatest test is to keep on expanding the officially huge stream of FDI (Foreign Direct Investments) and to enhance the venture capital system as much as possible, through the implementation of explicit policies. Today, German lawful structure sees no difference amongst foreign and national investments encouraging principles such as the reduction of barriers and freedom in trade and payments (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

Further, there are extraordinary opportunities and treatments for young business visionaries and new companies through recommendations for VC ("Venture Capital") corporations through financial institutions & the "German Private Equity and Venture Capital Association", and, unique measures & consultations such as "German Equity Forum". Additional monetary aid is given at national, local and EU ("European Union") level through an extensive financial source like public guarantees, money impetuses, R&D stipends, work-related impetuses and low-interest loans (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

➤ "Demand conditions": "Domestic demand is, therefore, becoming a more significant driver of Germany's economic expansion" (from CIA World Factbook). All the European Union states faced the misfortune in terms of international trade due to the Euro financial crisis in the year 2008. In this point of view, a government did a crucial job by providing subsidiaries and boosting ventures: readily accessible low-interest federal advances for both SMEs & MNEs so as to empower them with cost advantages, thus, have the capacity to offer lower costs to the buyers' market (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

Because of the top-level of quality and environmental standards portrayed by the German protocols, thus creates the demand for German-made products. Amid the 1900s until today, Germany has an upright direction history, beginning with the DIN ("Deutsches Institut für Normung"): an immense amount of advancements like self-governance practices associated to the new public administration framework has been presented in many sectors (Kutschke, Rese & Baier, 2016; Nagy & Jámor, 2018; Grant, 1991).

➤ "Related and supporting industries": Both local and national level scientific foundations set up by the well-organised German system firmly braces its most vital number of indigenous providers. Germany comprises of different kinds of research sites like non-college foundations, universities, federal organisations, Länder institutions and laboratories. Likewise, directly contributing to the nation's competitive advantage, German industries coordinating amongst each other for innovation and research is an incredible case of management by the AIF ("German Federation of Industrial Research Associations"). The AIF, for the most part, adds to the research and innovation exchange process in the developing business sector of sustainable power sources like wind and solar. Germany being the home to many innovative foundations like the DESY ("Deutsches Elektronen-Synchrotron") and the DKRZ ("German Climate Computing Center") with global supremacy in the space science, climate research, earth science and physics (Kutschke, Rese & Baier, 2016; Sofka & Sprutacz, 2016; Grant, 1991).

Several factors influence and define the industrial policy. In one point of view, it includes all the major activities, intentions and instruments that subsequently have major effect on the industry. Whereas under other conditions the standard industry has advanced to a new type of industry due to major changes in digital platforms, advanced techniques, access to state-of-the-art technologies, business models, consumer needs and expectations. This has resulted in a wide variety of industrial policies which includes everything from limited programmes that are dedicated to selected traditional industries to a wider range of activities run by mostly business contractors. With respect to the objectives of the traditional industrial policies, one can observe that most of them are solely dedicated to particular sectors of the industry. These are mostly associated with the



following: (i) strategic industries; (ii) start-up businesses; (iii) organisations in financial trouble; and (iv) other firms that are based on certain benchmarks chosen by the government (Ambroziak, 2017).

4.2 Indian Competitiveness in the context of the Porters Diamond Framework

➤ Factor conditions: With the availability of adequate English-speaking trained engineers who specialise in machining and designing skills that are required by the automotive and engineering industries, the workforce of India has been developing gradually. Amidst high importance given to capacity expansion of export-oriented units, innovation and research development, there is a growing competition between Indian companies and foreign companies (Sardy&Fetscherin, 2009; “Country Reports – India”, 2018).

➤ Demand conditions in Indian Automobile Industry: The domestic sales, export performance, as well as industry volumes, have been gradually increasing at a constant rate. When compared to Europe/US (over 100percent) and Sri Lanka/Pakistan (12 percent), India has much greater potential for growth in the domestic market as the present car penetration level in India is merely 7 cars per thousand persons. Acting as the global hub for exports, the domestic manufacturers are gaining significant approval. The domestic players maintain capacity utilisation at a healthy level and increase exposure even though exports are not necessarily profitable. Presently the development of auto component industry in India is obvious (Sardy&Fetscherin, 2009).

1. The intermixture of the industry has gained a significant boost. Automobile companies from the foreign market have arrived in India are waiting in a row. Together with their Indian counterparts, a large number of foreign automotive companies are building strong alliances. Among these alliances, corporate involvement varies from 10 to 100 percent of the equities (i.e. entirely retained overseas holdings) (“Country Reports – India”, 2018).

2. Since it is sufficiently outfitted to take up engineering, design and component manufacturing, India has now become one of the leading countries for automobile research and development (“Country Reports – India”, 2018).

3. One of the major factors propelling the massive competition among the chief players of the automobile industries worldwide are the customers who have a growing expectation from products and services and are equipped with higher buying power (Sardy&Fetscherin, 2009).

The above is some of the common inclinations in the different sectors of the industry. In terms of greater economy for the transportation they provide, Commercial vehicles are a rising trend and are much likely to increase in the near future especially in the case of light commercial vehicles, multi-axle and large-tonnage vehicles. In India principally in the passenger car sector, the industry has become a dominant basis of competition and has changed from price to price value. A demand change has been caused by the strong growth in motorcycle sales which in turn has led to a decline in scooter sales in the general two-wheelers market of India since past years (Sardy&Fetscherin, 2009).

➤ Related and supporting industries: Consisting of important component manufactures mainly concentrated in the regional areas, the Indian automotive sectors have a strong existence in all segments of the vehicle (Sardy&Fetscherin, 2009).

Presently, the Indian automobile industry is still in the early stages of its evolution, and hence no widely accepted or fixed method of segmenting has developed yet. On the basis of product uses, its weight/size or product uses the necessary steps for segmentation is carried out. Therefore, it can be characterized into 4 following segments: 2-Wheeler (77 percent) and 3-Wheeler (4 percent), Passenger Vehicles (14 percent) and Commercial vehicles (5 percent) covers the entire shares of the market in the automobile industry of India (“Society of Indian Automobile Manufacturers”, 2007; “Country Reports – India”, 2018).

Linked by common and complimentary industries, it is observed that the automotive industry has developed in groups of inter-connected companies because of its robust backward and forward connections. Certain areas of India have been given more importance to setup up auto manufacturing units even though, generally, they are present in all regions of the country. In the Indian automobile sector, Regional automotive groups have been formed since most of the auto suppliers tend to be situated in close proximity to the manufacturing locations of Original Equipment Manufacturers (OEM) following global trends. Delhi, Chennai and Mumbai mainly constituents the three main groups along with Pune being an emerging new group in India (“Society of Indian Automobile Manufacturers”, 2007; “Country Reports – India”, 2018).

➤ Competitiveness Index, Firms strategy, structure and rivalry: It is a well known fact that no consent exists on measurement and definition in spite of known acceptance for its importance of economic development and performance; this is a growing problem in analysing competition. Competitiveness is defined as ‘an aggressive willingness to compete’ according to The Free Dictionary, and as per The Oxford Dictionary of Economics it is defined as ‘the ability to compete in markets for goods or services’. Even though they defy the



vague concept, they are the primary definitions of competitiveness. The notion of Competitiveness can be explained in terms of several explanations. One of the most important aspects of this definition is the difference between macroeconomic and microeconomic concepts. Through national economics, industry, firms, products and branches of the economy, competitiveness can be observed through various viewpoints. The measure of competitiveness is shown by various levels of aggregation. The second major aspect in relation to the number of dimensions competitiveness measures and integrates is its issue with differentiating multi-dimensional and one-dimensional concepts (Sardy&Fetscherin, 2009).

IV. Conclusion

As per the study, it has been observed that internationalization of MNEs depends on the home country's institutions, market size, JVs & partnerships and innovative conditions. From previous chapters, it is inferred that when compared to MNC from a developing country to that of a developed country, the difference between the internationalisation process between the two is quite significant. For example, in German firms, it is evident that there is a learning curve when it comes to the process of internationalisation which remains consistent especially when involved with the companies of developed nations global involvement. Here most of the times a firm develops its global connections with the developed nation while at the same time expands into various other markets over a period of time. Hence, the process of globalisation of the German automobile manufacturing firms targeted those countries with low psychic distance (e.g. European & North American countries). On the other hand, the Indian firm's internationalisation as explained in the above chapters has been a slow and steady process with its exploring and entry to foreign markets began with moderately alike market arrangements at a local level (Surrounding Asian countries). In spite of this, even when Indian firms have a useful strong advantage relating to its firm's ownership advantages (i.e. low-cost labour, technological skills etc) so as to set foot in international markets, they were nowhere close to Germany and are quite limited comparatively.

Summarizing, this paper, there is an enormous opportunity for upgrading corporate and financial alliance between the two nations. Indian market's robust R&D, low-cost advantage, skilled workforce, promising demographics along with wider & immense growing market attributes are very much coordinated with Germany's quality in innovation. Liberation of recent Indian government policies along with Make in India program, a massive inflow of German investment is expected along the automobile production line. To enter the markets of European Union and for the top of the line innovation, Germany would be the gateway for India.

As built up in the literature, the organisation's experience and skills about the international markets are the variables that shape an organisation's process of globalisation - a learning procedure which is said to support its steady pace. Over time, both German and Indian automobile manufacturing firms have demonstrated the gradual process of globalisation. In the case of German automotive manufacturers, initially entering international markets in the European region and progressively moving towards the Americas, its globalisation has been rapid and robust. On the other hand, Indian automotive manufacturers globalised through mergers and acquisitions of MNEs having high market value and reputation. Both German and Indian manufacturing firms were successful in maintaining a stabilised and sustained globalisation from the beginning of the exports and sales subsidiaries to the point of their direct investments and acquisitions respectively.

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