St. Petersburg University Graduate School of Management
Master in Management Programme

LOCALISATION STRATEGY OF AUTOMOTIVE COMPANIES IN THE RUSSIAN MARKET

Master's Thesis by the 2nd year student
Concentration — Master in Management
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ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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07.07.2021

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Abstract

Master Student's Name	Vasily Taran
Master Thesis Title	Localisation Strategy of Automotive Companies in the Russian Market
Educational Programme	Master in Management
Main field of study	Management
Year	2021
Academic Advisor's Name	Ioannis Christodoulou, Associate Professor
Description of the goal, tasks and main results	The goal of the research is to expose different localisation strategies among automotive manufacturers in Russia, describing each stage of the value chain. To achieve this research goal, the theoretical background was examined and data analysed. The research methods included primary data collection via semi-structured interviews as well as content analysis. The main results of the study include identification of different ways of value chain localisation among automotive companies as well as the analysis of benefits and challenges associated with each of the localisation strategies.
Keywords	Localisation strategy, automotive industry, adaptation; standardisation

Аннотация

Автор	Василий Таран
Название ВКР	Стратегия локализации компаний автомобильной промышленности на российском рынке
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Описание цели, задач и основных результатов	Цель исследования – выявить различные типы стратегий локализации среди автопроизводителей в России, описав каждый этап цепочки создания ценности в отдельности. Для достижения этой цели была изучена теоретическая основа и проведен анализ данных. Методы исследования включали сбор первичных данных с помощью полу-структурированных интервью, а также контент-анализ. Основные результаты исследования включают выявление различных способов локализации цепочки создания ценности среди автомобильных компаний, а также анализ преимуществ и проблем, связанных с каждой из стратегий локализации.
Ключевые слова	Стратегия локализации, автомобильная промышленность, адаптация; стандартизация

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Introduction

Relevance of the Study

With the development of globalisation, the supply chains of large companies have become multinational, and the interdependence of markets has strengthened. For MNEs, the global trend provides an opportunity to penetrate remote markets as countries become more open to foreign investors. At the same time, managers face multiple difficulties while operating in different cultures. The debate among scholars and practitioners on managing MNEs has been going on for decades. One of the crucial questions is whether companies should pursue a standardisation or a localisation strategy while being present in diverse markets. The debate continues almost as long as the term globalisation exists. The theoretical concept referred to standardisation and localisation continuum is often described as “glocalisation” (a blend of two words), meaning the simultaneous occurrence of universalising and particularising tendencies.

This dilemma has become especially vital in Russia due to the aggravation of socio-economic life in the country in recent years. Due to Western sanctions and the subsequent import substitution policy in Russia, many companies were forced to adapt or leave the country. One of the sectors of the economy most affected by the events of recent years is the automotive industry. The Russian state has provided car manufacturers with a wide range of benefits in exchange for localisation of production, which has prompted many car manufacturers to localise their business in Russia.

At the moment, many researchers have paid attention to the issue of the localisation of production in Russia. Many studies have also focused on the localisation of automotive companies. However, these studies are rather fragmentary and do not contain data on the localisation of car manufacturers in Russia at all value chain stages. In addition, there is no full-fledged comparison of various cases of different car companies with a discussion of the pros and cons of their strategies. At the same time, understanding the main components of a localisation strategy in Russia is necessary for the successful functioning of car manufacturers in Russia, as well as for the academic understanding of the topic.

This proves both the scientific and practical relevance of the present research. It is necessary to develop the basic principles of localisation of automotive production in Russia, which will be based on the practical experience of leading companies.

Research Questions

This study aims to study the experience of localisation strategies of leading automakers in the Russian market. In this regard, the following questions will also have to be answered:

1. What are the different localisation strategies amongst various automotive manufacturers in Russia?
2. What are the main reasons and benefits for localisation in the automotive industry in Russia?
3. What are the main challenges of localisation in Russia amongst automotive manufacturers on each stage of the value chain?

The structure of the present research is built as follows. The first chapter discusses existing academic knowledge, concepts, and tools on the subject matter used to design the study. The second chapter discusses and justifies the methodology chosen for the research. The third chapter describes the research findings. The fourth chapter is devoted to a discussion of the research findings and their implications, as well as research limitations.

Chapter 1: Theoretical background

1.1. Standardisation vs localisation

Before starting the analysis, it is necessary to state the main definitions and concepts. An important topic in the academic literature on strategic management is the discussion on localisation and standardisation strategies. The discussion was started by Theodor Levitt in 1983 and continued by many of his opponents and supporters. T. Levitt emphasised the importance of standardisation (centralisation, globalisation) strategy, which is an international strategy that refers to companies that use the same approach for all markets, regardless of cultural diversity (Levitt, 1983). The supporters of the theory consider the world as a heterogeneous market with similar needs and values. Hence, they argue that organisations should offer globally standardised products ignoring national and regional boundaries.

On the other hand, the supporters of localisation (adaptation, customisation, regionalisation) theory underline the necessity to adapt products and services to each culture and language in particular. According to the localisation approach, there are too many diverse countries and cultures for the standardised approach to be feasible. Proponents of different concepts provide multiple arguments about the benefits and drawbacks of standardisation and localisation strategies. Let's discuss each side's arguments starting with the standardisation theory:

The first argument is the positive effect of economies of scale, enabled by standardisation strategy. First of all, proponents of standardisation emphasise that globalised products help companies achieve economies of scale in production and marketing (Saporito, 1984). Supporters of standardisation theory argue that this allows companies to gain a competitive advantage associated with lower costs and greater profitability (Levitt, 1983). The second advantage is the possibility of experience transfer between the national branches of an organisation. Since the national departments perform standardised actions independently of a specific country context, it opens up a possibility for greater coordination and transfer of experience, leading to better design-making (Douglas and Craig, 1986). The third advantage of the standardisation strategy is the preservation of a single global branding. Unified and recognisable branding elements and standardised products make it easier for buyers to navigate in any country or region (Douglas and Craig, 1986). Finally, Levitt and his followers claim that the standardisation strategy provides better coordination and greater control over processes (Douglas and Craig, 1986). Some authors also argue that often consumers from developing countries perceive greater source honesty when, for example exposed to English language advertising and showed more positive attitude towards the brands, as opposed to advertisement in the native language (Toffoli and Laroche, 2002). Because of these arguments, they claim the standardised approach should be applied.

On the other hand, critics of the standardisation theory emphasise the importance of external differences related to legal norms, culture, politics, etc. In this regard, proponents of localisation claim that managers of international companies should understand that consumers in different countries often have different needs (Kotler, 2009). There are several disadvantages of the globalised approach. First, the standardisation strategy may be complicated by the state regulations and tariff policy. Moreover, different countries may introduce preferential trade regimes for domestic producers, making life difficult for foreign enterprises (Cateora & Graham, 2005). To illustrate, one can refer to the US-China trade war or the import substitution policy in Russia. The second disadvantage is the difference in the competitive landscape in various countries. In different markets, the same products and services may occupy various market segments, which requires particular promotion strategies. In addition, certain players may have distinct competitive advantages, which require a separate competitive response in each situation. Finally, each country or region has specific consumer preferences, which requires companies to adapt their strategies.

In connection with the indicated disadvantages of the standardisation theory, an opposite approach has emerged, called the localisation strategy. Griffith, Lee, Chang, & Calantone (2014) define the localisation of a product as "the degree to which its elements are adapted to the external markets in order to adjust to the differences in the environment, consumer behaviour, standards of use, and competitiveness". Thus, adaptation means adjusting a product or service to a particular region, country, or culture to meet local needs (Bustamante, 2011).

Proponents of localisation theory such as Fisher (1984), Kotler (1985), Vedder (1986) and Kashani (1989) emphasise the importance of cultural issues and local peculiarities in different markets. They underline several advantages of this approach. First, the researchers argue that despite the significant initial costs of localisation of business processes, in the end, most international organisations have better financial performance. The main reasons for it are beneficial tariff and tax policy and a better understanding of stakeholders' expectations. Another argument is that localised products are better perceived by customers, as they represent their values and needs (Kotler, 1985). In accordance with the author's views, this helps to establish a better connection with customers. Regionalised products allow companies to compete with local brands, while customers poorly recognise standardised goods. The next argument is the opportunity to acquire new business insights from closer cooperation with national counterparties. Proponents of the localisation strategy believe that such practices allow organisations to accumulate experience and generate know-how (Santos and Williamson, 2015). Finally, localised companies can mitigate exchange rate fluctuations and sometimes save costs on logistics or personnel (Huang, 2019).

Nonetheless, it is also necessary to note the shortcomings of the localisation strategy. First of all, it is essential to emphasise the large initial investment associated with developing a national or regional strategy (Yakhlef, 2010). Moreover, in addition to financial costs, the development of local strategies is associated with more complex processes and longer terms of market entry. For governments, the localisation policy also increases internal competition (Y. Lavrikova, E. Andreeva, 2020).

Thus, it can be concluded that both theories have their advantages and disadvantages, emphasised by the proponents of a particular concept. Some researchers also apply the term *glocalisation*, which refers to the interface between global and local strategies by combining cultural homogenisation and heterogenisation. This glocalisation strategy strives to achieve the slogan “Think globally but act locally,” through dynamic interdependence between headquarters and subsidiaries. (Hollensen, S., Møller, E., 2017). Several academics believe that the benefits and drawbacks of globalisation or localisation are not absolute and consistent, but rather rely on a variety of factors. For example, Terpstra and Sarathy (1994) looked at a variety of factors that influence a company's decision to follow a standardisation or localisation approach. These factors include the type of product, the degree of variation in consumer needs, technical standards, usage conditions, income levels, cultural similarity, and raw material availability, as well as the degree of corporate centralisation, the role of government standards and regulations, and the degree to which competitors have successfully used standardisation or adaptation. Luo (2001) revealed three drivers as determinants of localisation, which are environmental, structural, and organisational. He defined environment factors as environmental complexity, local business practices, and cultural differences, structural factors as market competition, heterogeneity demand, and content localisation and organisational factors as market penetration, experience operating in the hosting country, and the establishment of a local network.

Lastly, it is necessary to state that there is no single understanding of the scope of standardisation / localisation strategies in the literature. While some authors mainly emphasise marketing and product localisation, others refer to the whole value chain (Hollensen, S., Møller, E., 2017).

Another theoretical concept that has to be studied within the localisation / standardisation debate is the question on the internationalisation approaches of MNEs. It can be better understood with the framework on the typology of multinational companies introduced by Bartlett and Ghosal in 1989. The authors clustered international business strategies based on two criteria: global integration and local responsiveness. Together these two factors generate four types of strategies that internationally operating businesses can pursue: Multidomestic (low integration and high level of responsiveness), Global (high integration and low level of responsiveness), Transnational (high integration and high responsiveness) and International strategies (low integration and low level of responsiveness).

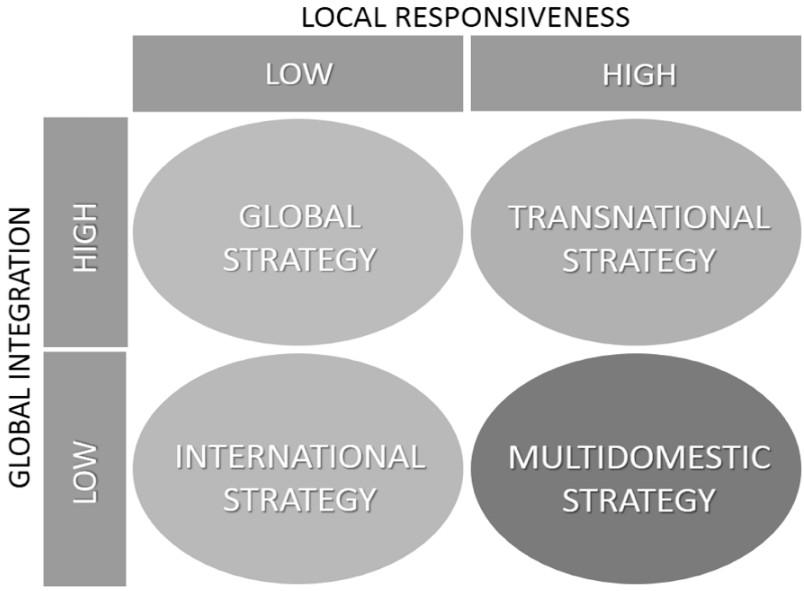

Figure 1: Typology of multinational companies

According to the framework, multidomestic firms often have a decentralised structure with relatively independent or autonomous subsidiaries. Headquarters usually have little control over local branches, which aim to satisfy the needs and desires of customers in a particular region. An example of multidomestic company is Nestle. Despite having global brands, Nestle has a wide range of regionally customised products specific to a particular country or region. Global companies, on the other hand, offer standardised products and aim to reduce costs. Such companies are usually centralised with little independence among subsidiaries, which implement the strategy of headquarter. An example of a global company is the pharmaceutical firm Pfizer that has a worldwide supply of standardised medical drugs. Transnational firms present a hybrid of multidomestic and global companies. Transnational enterprises are characterised by an integrated yet interdependent network of subsidiaries all over the world. They can be described with the motto “think global, act local”. As an example of transnational companies, we can name Unilever or Procter and Gamble. Lastly, international companies are usually presented by firms with minor degree of global penetration and are not considerably localising their products. The primary operations of international companies are commonly performed within headquarters and exported overseas.

Some authors also emphasise the importance of links among those quadrants and present a dynamic view of the concept. Although the typical path of companies starts with international strategy and aims to transnational, there are multiple ways companies may act overseas (Uyen-Minh Le, 2017). Overall, it can be seen that while transnational and multidomestic companies represent a more localised strategy, global and international companies mostly tend towards standardised business processes.

In the following paragraphs, we will closely analyse the localisation strategy in Russia as well as localisation strategies among automotive manufacturers.

1.2. Localisation in Russia

Consumer behaviour cannot be understood without analysing the external environment in which business processes take place. Culture, which includes values, habits, and models of behaviour, also influences consumption patterns, encouraging international corporations to study them to improve their performance. It comprises shared values, understandings, assumptions, and goals of a group, resulting mainly in common attitudes, codes of conduct, and expectations (Hofstede, 1980). Various social institutions that influence the cultural patterns, e.g. family, educational system, government, religion or media, affect the consumption patterns in each country. Hence, ignoring cultural, social and economic differences across markets and failing to address the cultural context where an organisation is operating will undoubtedly lead to a failure (Heerden & Barter, 2008). That is why, before entering a new market, companies usually start with a market analysis. Companies should study each of the dimensions that could influence their performance, identify potential opportunities and threats and address them in particular. Moreover, there is no single strategy and procedure that companies could follow while entering a new market. Thus, each market entry case is unique (Susman, 2007).

The main objective of the localisation strategy is to meet the political, economic and socio-cultural needs of the host country so that an organisation could implement the localisation policy in production, human resources, marketing, corporate culture etc., integrating into the local market. When it comes to Russia, the localisation trend has become an increasingly important topic in recent years. Localisation began to spread in Russia, on the one hand, due to MNCs' attempt to keep their market positions during a recession, and on the other hand, as a result of domestic government import substitution initiatives. Measures taken by the host economy to promote non-commodity exports encourage localised enterprises to expand their exports. The essence of the import substitution policy introduced in 2014 is that the Russian economy should become less dependent on imported goods and services. For example, the Russian government almost entirely refused from purchasing foreign agricultural products such as meat, fish, dairy products and vegetables. The goal of the Russian Ministry of Industry was to reduce the import dependency to 50-60 per cent by implementing more than 2,000 localisation projects (Schneider group, 2016). However, although foreign products are limited in Russia, they are not entirely banned. Hence international organisations should look for new ways to operate in Russia. One of the main goals for foreign companies is to obtain the status "Made in Russia" and avoid certain limitations in their business operations.

Despite weak rouble, unstable oil prices, decreasing purchasing power of the Russian population and Western sanctions, Russia remains an attractive market for many foreign investors. First, the Russian market is big and still has significant growth potential, being part of the so-called group of emerging economies. Moreover, presence in Russia allows companies to sell their products to other countries inside the Eurasian Economic Union (with the membership of Armenia, Belarus, Kazakhstan and Kyrgyzstan). Lastly, many companies benefit from a relatively low operation and labour costs in Russia. There are specific political, economic and socio-cultural reasons for localisation strategy in Russia. Let's specify the main ones.

Due to the Western sanctions against Russia, the Russian government decided to apply countermeasures and replace many Western products with domestic substitutes. That is why, local products are prioritised over foreign ones. Federal Law "On Industrial Policy" (No. 488-FZ) announced in 2015 made it impossible for foreign products to compete with domestic goods on equal terms (Business Sweden, 2019). For example, foreign companies are almost deprived of state tenders unless they are localised. Although state and municipal authorities may purchase domestic and foreign goods, some goods from EEU enjoy a 15 per cent pricing preference over goods from other countries.

At the same time, the Russian government has created several incentives for foreign companies to localise their goods in Russia, including tax benefits and subsidies. Thus, many foreign manufacturers strive for localisation in Russia. To fulfil the localisation requirements, at least 50 per cent of the end-product must be produced in Russia (Schneider, 2016). Although many companies still import some production components, they usually open production plants to be classified as "domestic" products. However, Russian authorities still closely monitor whether localisation measures are sufficient. It also should be noted that localisation is not required if Russian enterprises produce no product equivalent.

An important incentive for localisation in Russia is also the existence of so-called Special Economic Zones. Such territories can be found not only in Russia but also, for example, in China, Singapore or Japan. In Russia, these territories are regulated by Federal Law # 116 FZ issued on July 22, 2005. They are granted a special legal status and economic benefits to attract Russian and foreign investors to priority industries for Russia. SEZs are formed under a federal programme overseen by the Russian Ministry for Economic Development (Schneider, 2016). The purpose of creating Special Economic Zones in Russia is to develop high-tech sectors of the economy, improve import-substituting industries, tourism sector, facilitate the development and production of new types of products, and achieve expansion of the transport and logistics system. With SEZs, the Russian government wants to increase both investment attractiveness and investment activity in Russia. As a result, SEZs allow Russia to increase foreign direct investments (FDI) in the country, create additional jobs, expand the export base, reduce production costs due to the absence of customs duties, develop manufacturing industries and world experience.

Currently, there are 38 federal and regional SEZs in Russia with almost a thousand companies (796), 18.3 per cent of which have foreign capital. Besides Russian companies, there are many enterprises from China, the US, the Netherlands, Japan, Cyprus, Germany and other countries. All SEZs can be divided into Industrial Production SEZs, Technology Innovative SEZs, Tourism and Recreation SEZs and Port SEZs. While some SEZ types have minimum investment requirements, other zones allow you to register a company or a sole proprietor with any amount of investment. Industrial Production SEZs exist for companies that are engaged in industrial production, technology implementation, or logistics. They have a minimum capital investment threshold of 120 million roubles. Most of these zones are in Central Russia and in the Urals — for example, in the Sverdlovsk Region. On the contrary, Technology Innovative SEZs are suitable for both companies and sole proprietors. They accept companies with the same types of activities as in industrial-production SEZs, and there is no minimum investment threshold. An example of such zones is "Innopolis" in Tatarstan or "Technopolis" in Moscow. The third type of zones exists for Tourism and Recreation and is also suitable for both companies and individuals. The minimum investment threshold is also not set. Areas of activity allowed in this type of zones are clear from the name: tourism and recreation. Due to the limited economic scope, such SEZs exist, for example, in the Altai and the Caucasus. Finally, Port-type SEZs are suitable for companies with at least 120 million capital investments. Companies are allowed to carry out port activities, including warehousing of goods and industrial production. Port SEZs can be found in Ulyanovsk and Astrakhan regions.

Most SEZs are located in the European part of Russia. The main advantages of being a SEZ resident are federal and regional tax privileges, federal guarantees, modern and ready-to-use infrastructure, favourable administrative procedures (“one window” system), preferential lease and purchase price for land and free custom zone (Business Navigator, 2018). Additionally, SEZs aid in the implementation of the investment project at the first stage of its development, as well as its further support by the SEZ management companies. According to official statements of SEZ representatives, the resident's savings may account for up to 30 per cent of initial investments. In order for a company or an individual entrepreneur to be able to operate in a Special Economic Zone, it must have the status of a resident. To become a resident, organisations or entrepreneurs should register in the SEZ in which they plan an active development in the future and prepare and submit a set of documents required by the Federal Law on Special Economic Zones. If the commission's decision is positive, the applicant is issued a decision on inclusion in the unified register of SEZ residents. (Investkaliningrad, 2021).

Preferences/taxes	Federal SEZ				Rest of Russia
	Industrial and production	High-tech and innovation	Logistics	Tourist and recreational zones	
Corporate profits tax Federal budget	2%	0% for 5 years	2%	0% for 10 years	2%
Regional budget	0-13, 5%	0-13, 5%	0-13, 5%	0-13, 5%	18%
Corporate assets tax (Property tax)	0% for 10 years	0% for 10 years	0% for 10 years	0% for 5-10 years	2,2%
Land tax	0% for 5 years	0% for 5 years	0% for 5 years	0% for 5 years	1,5%
Transport tax (rub/1 hp)	0 for 10 years	0 for 10 years	0 for 10 years	0 for 10 years	10-150
Insurance fee payment	14% till 2017 for residents involved in R&D activities	14% till 2017	-	14% till 2017	30%
Free customs regime	+	+	+	-	-
Ready-to-use infrastructure	+	+	+	+	-

Source: Ministry for Economic Development of the Russian Federation

Figure 2: SEZs

However, some authors also note the possible risks associated with doing business in SEZ. For example, attention is drawn to the fact that residents of the zones are not allowed to have production facilities outside of them. It is also noted that there is a certain complexity of expanding production capacity, which is associated with the connection of various utility services. Finally, often in order to meet localisation standards, companies must order specific components and parts from local manufacturers, which sometimes have different quality characteristics. The same problem can be sometimes applied to labour force, especially critical situation can be observed in hiring qualified technicians. (Economics and Life, 2020).

Apart from SEZs, another important localisation tool is Special Investment Contracts (SPIC). It is an agreement between an industrial investor and the state, under which the investor undertakes to implement a project on the territory of the Russian Federation, investing at least 750 million roubles, while the government guarantees him stability of business conditions and the provision of various regulatory incentives. The advantages of SPIC are access to subsidies, support from the government, tax benefits, and the status “Made in Russia” (Minpromtorg, 2021). Moreover, the so-called SPIC 2.0 removed the need for an investment of 750 million roubles, which potentially makes SPIC 2.0 open to a wider range of investors. However, SPIC 2.0 also requires the mandatory involvement of the region and the municipality where the project will be implemented in the contract (PwC, 2019).

Finally, one of the reasons for localisation in Russia is the necessity to adapt to the cultural landscape in the country. Hence, when talking about the localisation of production in Russia, it is necessary to mention not only the political and economic features, but also the cultural component. Before entering a new market, organisations usually invest substantial time, effort and resources in cultural study, as they need to be convinced of the significant influence that culture has on marketing and overall market entry strategy.

Cultural localisation considers each market’s language, traditions and social norms to determine the best expression of the company’s messages. It is claimed that culture and its distinctions are at the heart of international marketing (Curry, 1999). Thus, it is a necessity that culture is well understood in order to achieve success in international marketing. The main goal for it is to make customers, as well as employees in different markets, feel that they are directly connected with the brand as if it is a local company (Localise, 2021). The researchers note that it is important not only to translate the main messages into the native language, but also to adapt the tone, choose expressions, and check the emerging associations. Hence, the main areas of cultural localisation strategy are marketing and communications and corporate culture. Castro, F. G., Barrera, M., Steiker, L. K. H. (2010) mention that cultural adaptation involves a planned, organised, iterative, as well as collaborative process which often includes the participation of some subjects from the targeted population for whom the adaptation is being developed.

Traditionally, Russia is included in the group of so-called emerging markets. In this regard, Russia is often studied together with other BRICS countries. Speaking about the adaptation of goods to the culture of these countries, researchers note the relationship between the remoteness of the Hofstede cultural dimensions and the degree of necessary localisation. For example, in their research R. Dant and H. Jin state that the greater is the cultural distance of a particular BRICS country to the U.S., the weaker is the brand perception of U.S.-based global brands in that country (R. Dant and H. Jin, 2017). Additionally, Roth (1995) suggested that a global firm’s marketing strategies perform better in a host market if they fit cultural conditions. Consumers in a host market where the national culture is similar to the U.S. are more likely to have a favourable view towards U.S.- based global brands.

One of the useful frameworks to understand the cultural component of Russian customers is the Hofstede's Cultural Dimensions Theory. The framework was developed by Geert Hofstede and used to understand the differences in culture in various countries and to discern the ways that business is done across cultures. It uses a structure drawn from cluster analysis to highlight the influence of a society's culture on its members' values and how these values connect to behaviour. In the original theory, Hofstede proposed four dimensions to study the cultural issues: individualism-collectivism; uncertainty avoidance; power distance (strength of social hierarchy) and masculinity-femininity (task-orientation versus person-orientation). Subsequently, Hofstede added two additional dimensions: long-term versus short-term orientation and indulgence versus self-restraint. The framework was widely used not only in international management but also in phycology and communication studies.

When it comes to Russia, we can see that its cultural dimensions are quite distinct from both the ones of the Western and Asian countries. Let's assess each one of them in particular. The first dimension examined by Hofstede is the power distance. It is defined as the extent to which less powerful members of institutions and organisations within a society expect and accept unequal power distribution. With a score of 93, Russia has a very high power distance. Hence status symbols play a vital role in the culture. In this regard, researchers note that commercial companies in Russia frequently emphasise the high status of their products in the advertisement. For example, companies often involve prominent influencers, famous athletes and celebrities in their promotion activities.

The second dimension in Hofstede's framework is individualism vs collectivism, which looks at the degree of independence of an individual. With 39 points, Russia can be described as a rather collectivistic society. Hence, advertisement in Russia often depicts groups of friends or families rather than just individuals.

The third dimension is masculinity vs femininity. According to Hofstede, people who have high masculinity scores are motivated by a desire to be the best and achieve their goals. In contrast, a low masculinity score is regarded as feminine, implying that people are rather motivated by the enjoyment of their work. With a score of 36, Russia ranks poorly in terms of masculinity. Russians are humble about their own accomplishments, and dominant conduct is only tolerated when it comes from those in positions of power.

Another factor Hofstede considers is uncertainty avoidance. This metric assesses how comfortable the members of society are when dealing with ambiguity and how they try to avoid such situations. With a score of 95, Russians excel in avoiding uncertainty. Thus, translating ads into Russian may be a helpful tool to adapt foreign campaigns and make it clear that products and services are not fraudulent. Additionally, it is essential to maintain good customer service in order to reassure Russians who are hesitant to buy from foreign companies online.

Long-term orientation is the fifth dimension considered by Hofstede. Long-term orientation assesses a society's ability to keep certain ties to its history while simultaneously addressing the present and the future. Russia has a high long-term orientation score of 81, indicating that Russians are considerably more flexible with tradition and adjusting to the present. This also implies that Russians value thrift and saving, which should be underlined by corporate communication strategy.

Indulgence is the last dimension Hofstede considers. This dimension assesses people's attempts to manage their desires and impulses. Russia has a low level of indulgence (20), indicating a more restrained culture. Hofstede further points out that retrained cultures value leisure time less and exercise self-control over their impulses. Marketers should think about whether any of their marketing might be regarded as more practical uses/purchases rather than a luxury. Nonetheless, N.I. Ivanova points out that even despite the tendency to buy low-priced goods, the luxury segment has always been rather stable on the Russian market, even despite the economic recession (Russian Search Marketing, 2021).

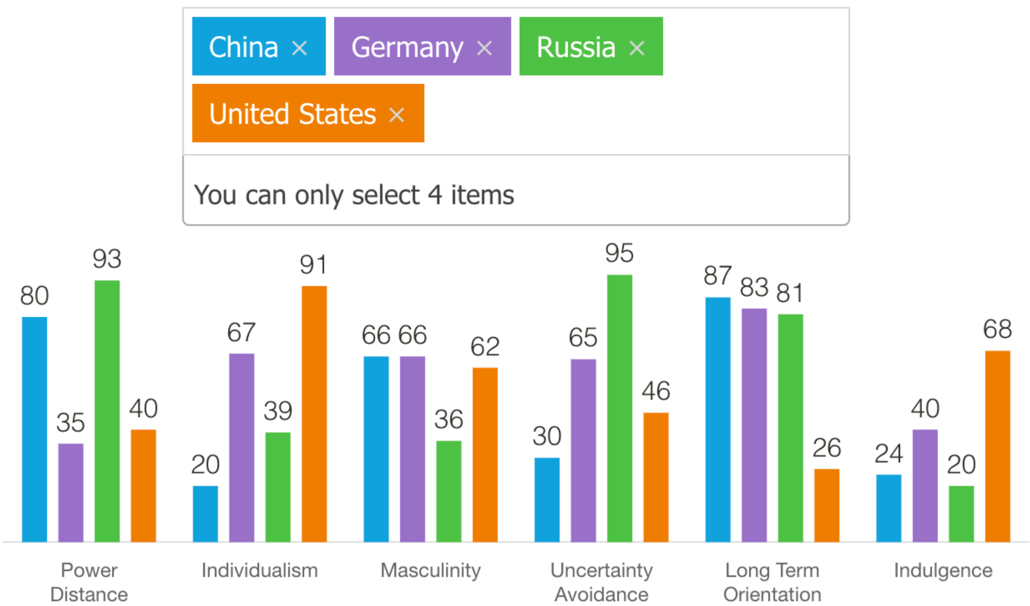

Figure 3: Hofstede's Cultural Dimensions

In their study, S. Yalcin and N. Singh (2011) confirm that multinational enterprises from the Forbes 500 ranking used techniques to follow most of the cultural patterns associated with the Hofstede’s cultural dimensions theory.

Apart from the Hofstede's Cultural Dimensions framework, it's also worth saying that some authors argue that the best way to promote a product in Russia is through TV advertising, B2B offers and internet advertising. Although Internet penetration in Russia is quite high and is constantly increasing, many Russians still watch television in their spare time (N.I. Ivanova, 2019). As for social media, it should be noted that people in Russia often prefer their national platforms such as VKontakte or Odnoklassniki. However, Western social media like Instagram or Facebook are also quite popular. Apart from that, one of the recent trends is also TikTok. Moreover, while working with SEO optimisation, companies should pay attention to that Google is not the most popular search engine, while Russian search engine Yandex is the leader.

Additionally, researchers describe several principles of advertisement in Russia: for example, ads should not include politics and religion, as it may be perceived as something unethical and abusive. Additionally, it is noted that consumers are more likely to be aware of cultural elements, hence an advertising strategy that appeals to certain cultural quirks is perceived better than a neutral one.

To sum up, it can be concluded that foreign companies entering the Russian market need to take into account both the political and economic and cultural characteristics of the country. Ignoring these points can lead to significant losses and doom a company to failure. Moreover, sometimes the localisation in Russia is also a necessity, as non-localised products cannot compete with the local or localised goods and services because of the import-substitution policy conducted by the Russian government.

1.3. Localisation in the Automotive Industry

The automotive business has been established for almost a century and consists of a diverse range of firms and organisations that design, manufacture, and sell automobiles. The global automotive motors market is expected to increase at a CAGR of 4.8 per cent from USD 20,321 million in 2020 to USD 25,719 million in 2025. Most of the growth will be achieved because of the emerging markets. In many nations, the automobile industry has been a focus of economic development as a source of employment, technological competence, and a boost to other industries through backward connections. The automobile is a complicated product with many parts and components that require varied manufacturing procedures and factor proportions. Many of these parts and components are made by independent vendors in industries like textiles, glass, plastic, electronics, rubber, steel, and other metals. The expansion of several supplementary investments by car components companies could result from the promotion of the automotive industry, setting the groundwork for broad-based industrial growth.

Localisation in the automotive industry can have several levels. First, automakers are often forced to adapt directly to the final product of their activities and adjust cars to weather conditions, legislation, traffic rules, etc. For example, the production of European or American cars for the English or Japanese market requires adaptation to right-hand traffic and vice versa. Additionally, localisation takes place in the production itself, where foreign manufacturers use local parts and labour. Moreover, the translation of the software and inscriptions present in the cars is required. Finally, an essential aspect of localisation among automakers is the adaptation of the marketing strategy. In their paper Lalit M. Johri and Phallapa Petison (2008) identify nine areas of localisation in the automotive industry: localisation of strategic decision making; building and exploiting the local knowledge pool; deployment of local human resources; localisation of R&D; localisation of products; use of local supplier networks; adaptations to manufacturing processes; local deployment of subsidiary profits; and localisation of corporate image.

Although there are multiple studies on localisation in the automotive industry, usually researchers imply different meanings in this term. While some researchers mainly talk about the localisation of production, the others mostly focus on marketing and adaptation of promotion techniques.

One of the papers dedicated to localisation of automotive production is the Japanese study of Hiromi Shioji (2017). The author examines total costs associated with automotive manufacturing and their dependency on the level of localisation. The researcher notes that the cost curve associated with greater localisation of automotive parts is not linear. The reason behind it is that usually, while adapting the strategy to emerging markets, the localisation of those parts where the specific share of the labour cost is large leads to the cost reduction. On the contrary, localisation of those parts that are not associated with a large share of labour costs often leads to an increase in the total cost of production. For example, if the cost structure of a part made in Japan is made up of 80 per cent of the labour cost and the capital investment accounts for the remaining 20 per cent, then it is worth localising it. However, if the percentage of the labour force in a particular auto-part is small, the localisation strategy is usually not beneficial. That is why, the researcher claims that initial localisation usually leads to increase of the profit margin. However, if the government continues to increase the required localisation level, localisation may have a negative impact. Hence, the researcher identifies a so-called switching point where the level of localisation is considered to be optimal. This point is different in each case of localisation, depending on a specific country and company. The researcher also defines so-called “L Parts” (those with the high percentage of labour force) and “H Parts” (those with lower percentage of labour costs). In this regard many Japanese companies often localise their production in ASEAN countries, where labour costs are usually lower.

The representation of the cost curve can be observed on Figure 4.

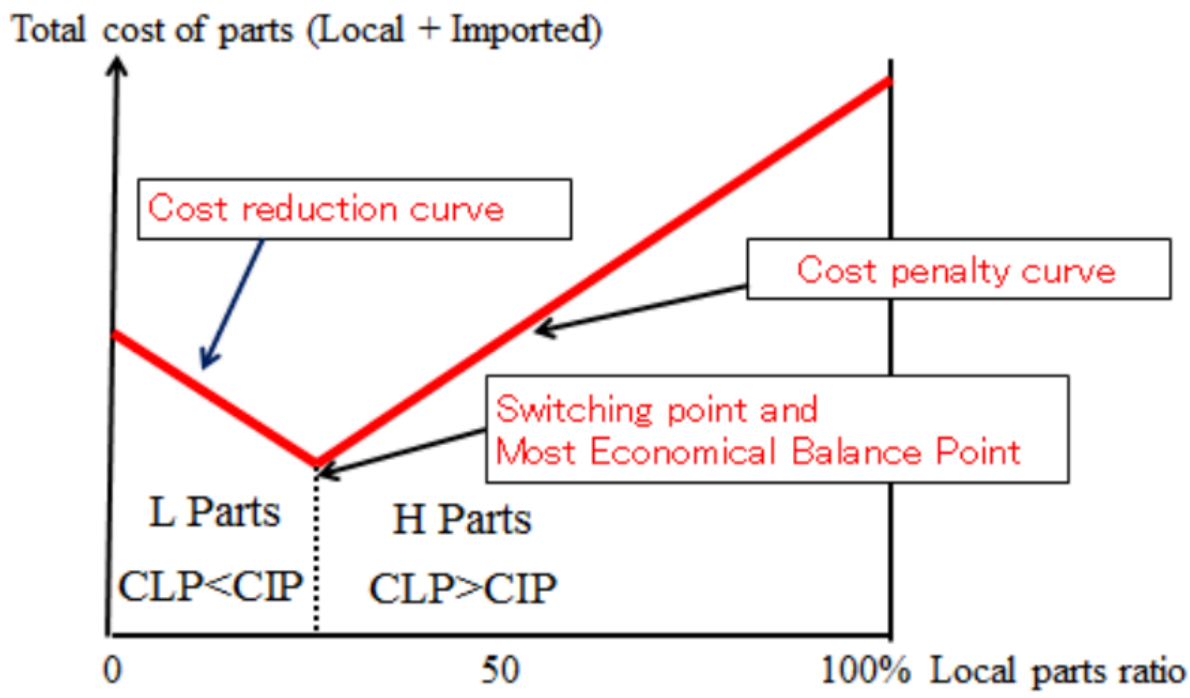

Figure 4: Local parts ratio vs. costs

As for the marketing localisation, Phallapa Petison and Lalit M. Johr (XXXX) indicate that marketing activities of automotive companies in a specific country should depend to several criteria. Firstly, car manufacturers should consider the ratio of cars to people. If the difference is too significant, cars are usually presumed as something rare and special and should be promoted respectively. For example, in Thailand, cars are considered expensive luxuries which can be seen in Thai ads of automotive companies. This is also connected with the purchasing power of the population in a specific country. Based on this metric, automakers can select a model range available for a specific market. The authors note that sometimes automakers even create special model for particular markets. Another thing is the relation towards country of car origin. If the quality of products associated with the country of origin is considered high, the company's marketing should emphasise this. In other cases, it is preferable to use images associated with the country of localisation. This is similar to what indicated in the studies by Beechler (1996), Gamble (2000), and Johri and Petison (2008). Additionally, useful marketing tool emphasised by the authors is the CSR activities, depicting company as a good corporate citizen doing positive things for a local community. The authors also conclude that usually American and European car manufacturers are more committed to promoting localisation compared to Japanese companies, as Japanese manufacturers stick to their philosophy.

To sum up, most of the studies focus on emerging markets and highlight only specific stages of the value chain. In the next paragraph we will concentrate on the localisation of the automotive companies in the Russian market.

1.4. Localisation of the Automotive Industry in Russia

With the beginning of market reforms in 1992, the Russian automotive industry fell into a prolonged crisis. Radical renewal of the production programs of Russian automobile plants was almost impossible due to the weak financial system and excessive pressure on the production of social spending, inherited by the automotive industry since the Soviet era, as well as the moral ageing and physical wear and tear of excess production capacity.

Nevertheless, industry leaders such as AVTOVAZ, GAZ and AMO ZIL were able to release new models in the 90s, which allowed them to survive the most challenging phase of the crisis. Since 2002, the assembly of foreign cars has been increasing in Russia. In June 2011, the agreement on expanding the localisation of production in Russia and other principles of cooperation with foreign companies was signed by the Government of the Russian Federation and the companies Sollers-Ford, Volkswagen, General Motors and a consortium of companies AvtoVAZ, Renault-Nissan, "IzhAvto" - OAS (now "LADA-Izhevsk") and KamAZ. With the mass opening of assembly plants of foreign companies, starting in 2009, their share in national production should has grown rapidly, but due to the crises in 2009-2010 and 2015-2016, the growth rate was not so fast. Thus, in 2016, the share of production of foreign models in the passenger car segment was 73.4 per cent (Vedomosti, 2021).

Last year was extremely difficult for the entire automotive industry. Due to the pandemic and problems with the supply of components from China, many factories around the world suspended the production of machines. The pandemic has shown how vulnerable automakers can be, especially when it comes to supply chain management. A potential answer to this challenge may be found in localisation, which in the case of Russia can not only protect automakers from gaps but also provide a competitive advantage due to exchange rate differences, as well as the absence of additional charges on carbon emissions, which are currently being considered in Europe (BCG, 2021).

In the second half of 2020, global markets, including Russia, gradually revived, car factories tried to catch up with previously planned production volumes, but it was not possible to completely neutralise the consequences of the spring collapse. According to the Association of European Businesses, in 2020, the Russian car market sank by 9.1 per cent compared to 2019. Only 1 million

599 thousand new passenger cars and light commercial vehicles were sold against 1 million 760 thousand a year earlier (minus 161 thousand cars). However, the top five automakers in Russia have not changed. The first places in the rating are occupied by Lada, Kia, Hyundai, Renault and Volkswagen cars. The Russian bestseller is Lada Granta, with 126 thousand vehicles sold in 2020 (Vedomosti, 2021).

According to various researches, the automotive industry is one of the most effective applications of localisation policy in Russia. Automobile manufacturers and component makers were among the first foreign brands to enter the local market. To mention a few, Renault, Nissan, Volkswagen, Toyota, and Ford have already established production facilities. To establish production infrastructure, automotive clusters were built in numerous Russian areas. Manufacturers are continuing to develop operations in their home countries to produce engines and other critical components. Volkswagen, for example, constructed a factory in 2015 to make 150,000 engines each year. Other car manufacturers followed the example. They began by building automobiles from parts imported from other countries, then enhanced localisation by locating local suppliers (Izvestia, 2020).

The first localisation requirements for automakers were relatively modest. Back then, the government's goal was to attract numerous assembly sites to Russia. The first level of industrial assembly required large-scale production of 25 thousand cars per year and localisation of automotive components at the level of 30 per cent. All over the world, this process is commonly called "screwdriver" assembly — it does not require complex equipment, high skills of workers, and the overall cost of the business is low. Russia offered lower customs charges on automobiles imported into the country in exchange for the importer relocating some of its manufacturing to the Russian Federation. In addition, the Russian government aided car manufacturers by offering zero duty on imported components for production in exchange for manufacturers increasing their percentage of local added value and producing a specified number of items every year. In 2012, the leading industry regulator, the Ministry of Industry and Trade, moved to the second stage of the industrial assembly project. In order to preserve the previous benefits, foreign manufacturers were offered to create capacities for 300-350 thousand cars per year, and localisation was required to increase to 60 per cent. In addition, the car companies had to build factories in Russia to produce engines, gearboxes and create research centres. In 2014, the government passed Decree 656, forbidding state bodies from purchasing automobiles and heavy equipment for public use that were manufactured outside of the Eurasian Economic Union. In 2016, the Ministry of Economic Development and the Ministry of Industry and Trade created a model for a more rigid linking of benefits for car companies to the level of equipment with components from Russian suppliers. This stage was popularly called the third industrial assembly. The transition to this mode was made through special investment contracts (SPIC), with each automaker having its own obligations. Moreover, such agreements often take into account the social characteristics of the regions (Izvestia, 2020).

Currently, only cars produced locally are allowed to take part in such state purchasing tenders. Even though the components are imported, locally built vehicles are still considered to be made in Russia (Izvestia, 2021). Starting from 2018, the local content of such vehicles must be greater than 60 per cent. To solve this problem, foreign companies began to unite in industrial unions. For example, there was a tandem between Volkswagen and GAZ Group, the Franco-Japanese Renault–Nissan alliance united around AvtoVAZ, which came under the control of Renault. The company Sollers (controls UAZ) has taken Mazda and Toyota as allies. Lorries and trucks, as well as commercial vehicles of the Daimler concern, appeared on KAMAZ and GAZ. Researchers also argue that the restriction on imported food items resulted in a significant increase in local food production throughout time, as well as an ongoing boom in the business. Thus, the automotive industry was probably one of the few economic sectors in Russia that grew significantly due to the government's protective policies.

According to E. A. Karndrashina and S.I. Ashmarina (2020), considering the level of production localisation in the largest alliances for 2018, the following results can be observed: Volkswagen production localisation is at 40 per cent, with plans to increase it to 75 per cent in the next three years. PSA Peugeot Citroen and Mitsubishi Motors localisation are at 35 per cent, with plans to increase to 50 per cent in the next three years. The localisation level of AVTOVAZ is about 50 per cent (E.A. Kandrashina, 2020). Starting from this year, this regime will be replaced with a system that establishes scores for certain localisation measures and will require a particular level of scores to recognise produced cars as Russian. However, the scoring system is still being debated, and it is unclear whether it will be implemented in its current form (CEE, 2021).

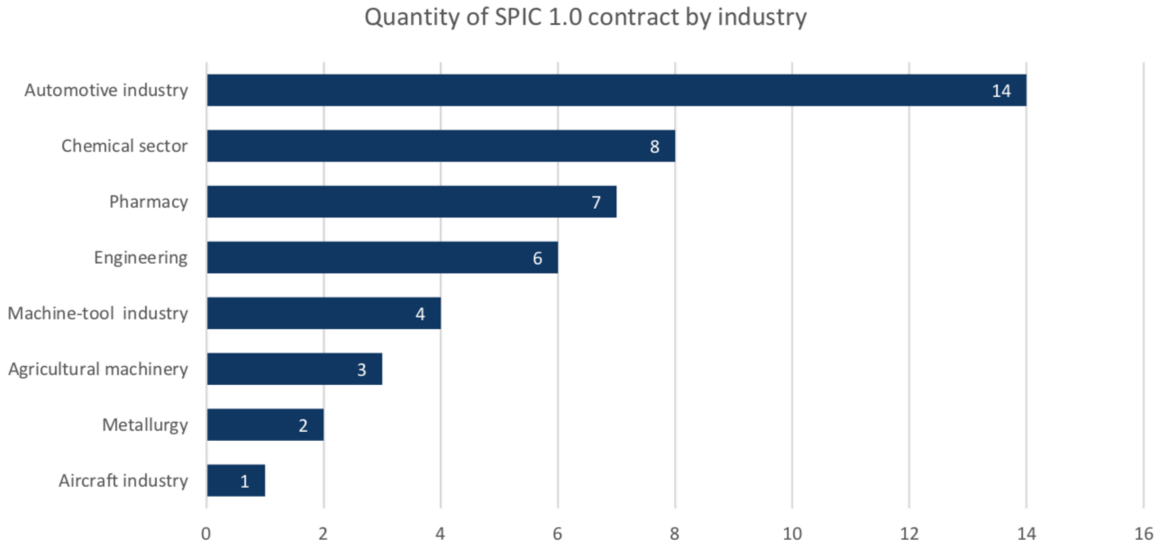

Figure 5: SPICs

An important function of the policy of localisation of automobile production is to increase the export base of Russia. Almost all foreign companies included in Expert-400 index and engaged in localisation carry out exports or plan do to it. This goes in line with the Russian government's plans to increase the technological export base in the country and reduce its dependency on recourse exports. Furthermore, the incorporation of foreign technologies and internationally renowned and well-known brands improves the competitiveness of Russian-made products and helps Russia's entry into the global market. Renault, for example, played a significant part in AvtoVAZ's export success.

At the same time, this is also in line with the plans of many companies from developed countries to move production to developing countries with cheaper production costs. For example, in 1985–2015, in Japanese firms, the share of production moved to developed countries increased from less than 1/20 to 1/4 (Y. Lavrikova, E. Andreeva, 2019).

Finally, we need to talk about the localisation of marketing in the automotive industry in Russia. According to the Avto.Auto study, the average Russian driver is an employed family man of about 35 years and has ten years of driving experience. The most popular car in Russia is the Lada sedan, which people change on average once every five years. According to Y. Vasilyeva (2021), it is critical to mix traditional advertising methods (typical offline and internet advertising) with out-of-the-box ideas (creative, unique projects, viral and experience marketing, etc.) while promoting a new automobile manufacturer or brand. At the same time, O. Popova and E. Stepanova (2018) compare French and Russian promotion techniques of the French car manufacturers. They note that while French websites depicted such value as sustainability, lifestyle choice, and the buyer's vital demands, Russian websites showed prestige, status, attractiveness, and current technology. At the same time, Russian advertisement also emphasised the financial benefits gained by its purchase. The authors conclude that these variations can be explained by the fact that the Russian-speaking audience values practicality more than comfort and sustainability. In contrast, the French-speaking audience prioritises comfort and sustainability when choosing a car (O. Popova and E. Stepanova, 2018).

1.5. Summary of the Chapter

In conclusion, it is necessary to present the results of the analysis of the theoretical block of this study, discuss the main conclusions obtained from the research of existing works and discuss further steps.

First, it must be said that both supporters of localisation and supporters of standardisation have not yet come to a single conclusion about the optimal strategy for companies in international markets. Nevertheless, it should also be noted that the situation that has developed in Russia in recent years and was caused by Western sanctions and the import substitution policy that followed them, forces many companies to a localisation strategy. The current political and economic conditions have made it almost impossible for foreign companies to compete with local producers on equal terms in a number of industries. Tax and legislative restrictions force foreign companies to abandon standardised exports and adapt production to the new conditions of the market.

In addition, as it can be observed from Hofstede's analysis of cultural dimensions, the average Russian consumer differs from both Western and Asian customers. Many studies confirm the differences in purchasing behaviour in Russia and exporting countries. Different behaviours and values force manufacturing companies to adapt both their products and the promotion strategies. This is another argument in favour of localisation.

Finally, it is necessary to note the special situation that has developed in the automotive industry in the country. With the beginning of the import substitution policy in Russia, automakers found themselves in a situation of forced localisation. In addition, the Russian state has complicated localisation standards over the past few years. On the other hand, the Russian authorities have provided a number of benefits for automakers who have localised their production. Thus, despite the apparent difficulties, automakers enjoy the support of the Russian authorities and have favourable conditions for business development within the framework of the localisation strategy.

Thus, summing up, it is necessary to say that despite the extensive range of studies on the problem of localisation, only a small part of the available works aims to study the localisation of automotive production in Russia. In addition, the available works investigate only certain stages of localisation on the value chain. Usually, researchers focus either on the localisation of production, or on the adaptation of marketing strategies. In addition, there is no comparative analysis of the cases of different automakers.

In this regard, it is necessary to designate the following research gap: there is no study on the localisation of automotive companies in Russia describing the localisation of each stage of the value chain. Moreover, there is no comparative analysis of localisation cases of different automakers in Russia in the literature.

In the following chapters, we will analyse the methodology of this study in more detail and discuss the methods of data collection. In addition, we will focus on the analysis of individual cases of car manufacturers and try to find both similarities and main differences.

Chapter 2: Research Methodology

The present chapter is devoted to describing and justifying the research methodology chosen for answering the stated research questions.

2.1. Research Design

A strategy that describes methods and procedures for gathering and interpreting data is referred to as a research design. It specifies the types of analyses to be performed in order to achieve the intended study outcomes. The research design chosen is aimed to determine what kind of data are needed for a study, what research methods will be utilised to collect and analyse data, and how the data and the data analysis methods will answer the research questions (Zikmund et al., 2002).

Exploratory, descriptive, explanatory, and experimental research are the four research designs identified by Akhtar (Akhtar, 2016). According to the conception, exploratory research is applied to uncover new ideas and insights so that hypotheses can be developed for further in-depth examinations of the subject in the future (Kothari & Garg, 2004). Ultimately, preliminary research examines a problem that has not yet been thoroughly examined and serves as the foundation for future research (Singh, 2015). Notably, explanatory analysis is carried out to identify and report some connections between various parts of the phenomenon under investigation (Singh, 2015). Moreover, exploratory research has several advantages. Firstly, researchers have great flexibility and can adapt to changes as the research progresses. Secondly, it helps lay the foundation of a study, which can lead to further research. Thirdly, it can aid other researchers in identifying potential causes for the problem, which can then be investigated further to determine relevant aspects of an issue. Lastly, it allows the researcher to determine whether the topic is worth investing time and resources in and pursuing at an early stage. On the other hand, one should be aware that the main drawback of exploratory research is that it only yields qualitative data. Such information can be interpreted in a judgmental and biased manner. Additionally, because exploratory analysis usually involves a smaller sample size, the results cannot be accurately applied to a larger population.

As the localisation of the automotive manufacturers in Russia is poorly studied, the present study is designed as exploratory research. The findings of the exploratory research will serve as a foundation for more in-depth research on the subject in the future.

2.2. Research Method

Researchers generally accept three types of research methods for conducting business research: qualitative, quantitative, and mixed research (Ayiro, 2012). Qualitative research is an understanding inquiry process that analyses a topic, allowing for the formation of a comprehensive, holistic picture, the analysis of detailed informant viewpoints, and the study's conduct in a natural context (Bacon-Shone, 2013). A qualitative study, in essence, allows a researcher to delve deeply into a research topic (Myers, 2013). On the other hand, to establish a cause-and-effect link between variables, quantitative research is usually applied, employing mathematical, numerical, and statistical approaches. It examines and generates numerical data as well as hard facts (Ahmad et al., 2019). Lastly, a mixed research methodology study is one in which the researcher uses both qualitative and quantitative methods to collect and analyse data, incorporate the findings, and draw conclusions (Tashakkori & Creswell, 2007).

The exploratory character of this study and the nature of the subject under inquiry necessitate the use of a qualitative research method.

2.3. Methods of Data Collection

2.3.1. Primary Data Collection Methods

Qualitative research encompasses a wide range of primary data collection techniques, including observation, focus groups, interviews, open-ended surveys, ethnography, and content analysis. Interviews and content analysis are of special importance for the purposes of this study.

According to Swell, an interview in qualitative research aims to understand the world from the subject's perspective, to unravel the significance of people's experiences, and to uncover their lived reality before scientific explanations (Sewell, 1998). Essentially, during an interview, an interviewer gathers detailed information on the research topic and analyses it using the meaning that the interviewee assigns to it (Somekh & Lewin, 2005).

For the present study, a semi-structured interview was chosen as the primary data collection approach as it allows the gathering of opinions on a specific topic and, with important informants, collecting the background information or an institutional viewpoint (Hammarberg et al., 2016). According to the literature, a semi-structured interview usually involves pre-prepared themes and questions for conversation. However, as there is no rigid format, it allows both the interviewer and the interviewee to be flexible. Hence, the way how the interviewer reacts to the researcher's questions on specific themes determines the success of a semi-structured interview (Adhabi & Anozie, 2017).

In the present research, two large groups of experts were used as respondents for the analysis. First, interviews were conducted with managers of car manufacturers. The main advantage of these interviews is that respondents have direct knowledge of the organisation of production in Russia and can provide first-hand data as well as their own perception of the situation. Besides, managers of automotive companies usually have significant experience of working in the industry to offer valid insights. However, for the sake of validity of the present research, it should be noted that there is a certain risk of biased assessment. The biases associated with interviews with management can be explained by the concept of impression management, defined as an intention, conscious or unconscious, to control the image represented in social interactions (Schlenker, 1980).

The second group of respondents consisted of strategy consultants of the most significant consulting firms in Russia who have experience of interaction with automakers. Their experience was helpful in terms of the possibility of getting an unbiased assessment and the possibility of comparison of various automakers that they could provide. Interviews with strategy consultants were chosen as a complementary way of data collection to solve the impression management issue, as consultants, in this case, can be regarded third parties monitoring the strategic actions of automotive companies. In the present study, we aimed to conduct interviews with consultants of the following companies: Big-3 firms (McKinsey & Company, The Boston Consulting Group and Bain & Company), Big-4 companies (PricewaterhouseCoopers, Ernst & Young, KPMG and Deloitte) and Strategy Partners – the leading consulting firm with the Russian origin, which has solid local experience.

The type of data that will be analysed is determined by the data collection method employed. In the present research, primary data was obtained through the use of semi-structured interviews. Primary data is referred to as original data acquired for a specific research purpose (Hox & Boeije, 2004). To put it another way, primary data is information obtained directly from the source. In this study, the primary data was collected with the help of two groups of respondents. Both groups provide valuable insights and complement each other, providing first-hand information about companies and a more detached analysis of strategic consultants.

2.3.2. Secondary Data Collection Methods

In order to supplement the information obtained during the interviews, in the present study, secondary data was used. Secondary data is referred to as data that is gathered by someone other than the primary user. It should be noted that secondary data analysis has several advantages for the research. Firstly, it can save time on gathering data and, in the case of quantitative data, can produce larger and higher-quality databases that would be impossible for a single researcher to obtain on their own. So, most of the prior work, such as literature reviews or case studies, has already been done. Moreover, secondary data usually has a pre-determined level of validity and reliability, so the researcher who is reusing it does not need to spend much effort and time to re-examine it. In this regard, secondary data is crucial to the notion of data enrichment, which involves connecting data from secondary sources to study data in order to improve precision by adding critical traits and values. Books, personal sources, journals, newspapers, websites, and government records are all examples of secondary data sources. Thus, to conclude, when compared to primary data, secondary data is known to be more readily available. Using these resources involves relatively little effort from the researcher and provides multiple benefits.

For the purposes of this study, several sources of secondary data were used. First, the official reports and presentations of the automobile companies considered in the study played an important role. These sources helped to correct the information obtained during the interviews and clarify the necessary details. For example, accurate data on the production of various car models was checked. The second source of secondary information was articles in the business and industry media. These materials were useful due to the opportunity to get information on important transactions and other events in the life of automobile companies that relate to the localisation of production in Russia. Finally, the third source of secondary information was the reports and presentations of consulting companies. Special attention was paid to presentations directly devoted to the localisation of car manufacturers' production in Russia. The reports of the Big-3 (McKinsey & Company, The Boston Consulting Group and Bain & Company) and Big-4 (PricewaterhouseCoopers, Ernst & Young, KPMG and Deloitte) companies were used as materials. Secondary data was obtained from open resources on the Internet. Mainly, secondary data from corporate websites of consulting companies, as well as online-press materials, were used for research purposes.

Thus, in this study, primary and secondary data are meant to complement each other, creating a complete picture of the localisation issue in Russia. The primary data should provide professionals' perception of the localisation situation in automotive companies in Russia, as well as depict information about the main advantages and challenges associated with localisation. On the other hand, secondary data is supposed to correct the information obtained during the interviews and provide an abstract view of the situation. Together, primary and secondary data should create a specific synergetic effect and increase the overall reliability of the study.

2.4. Data Collection Process

Now that we have determined the main data collection methods, it is essential to describe the process of data collection.

In order to collect primary data for the study, twelve semi-structured interviews with managers of automotive subsidiaries in Russia and strategic consultants were conducted. Initial target in number of experts was 30, but due to the difficulties in finding respondents it was decreased. In the present study, non-random sampling was chosen as a sampling type due to the limitations of the professional network of the researcher as well as for the sake of data validity. Non-random sampling is referred to as sampling in which the selection of units is based on factors other than random chance, e.g. convenience, prior experience, or the judgement of the researcher. According to Guest and Bunce, the full range of thematic discoveries occurs almost completely after twelve in-depth interviews are conducted (Guest et al., 2006). The validity of a sample of twelve for data saturation was later proven in a study by Fugard and Potts. It's worth noting that the group must be homogeneous (Fugard & Potts, 2015). In accordance with these findings, a sample of twelve respondents was chosen for the research purposes. The group of respondents may be considered homogeneous due to several factors: experience in working with the automotive industry of more than five years, managing positions in companies, as well as the Russian focus of the interviewed respondents.

In this study, managers of the following automotive companies were interviewed: Renault-AvtoVAZ, KIA Motors, General Motors (GM Uzbekistan), Nissan, Daimler and Haval. As a result, companies with headquarters in the US, China, Republic of Korea and Russia were covered. Additionally, primary data was obtained from consultants of the following companies: The Boston Consulting Group, McKinsey & Company, Strategy Partners, PwC, KPMG and E&Y.

The academic literature generally accepts five sampling techniques: convenience (or opportunistic) sampling, purposive sampling, snowball (or word-of-mouth) sampling, quota sampling, and self-selection sampling (Luborsky & Rubinstein, 1995). Two sample approaches were chosen for the purpose of this study. Purposive sampling was utilised first. Purposive sampling is described as the deliberate selection of a participant based on the participant's characteristics (Etikan, 2016). The second technique employed in the research was the snowball sampling technique. Snowball sampling generates a study sample by making referrals among people who know of others who share some of the traits of interest to the researcher (Biernacki & Waldorf, 1981). Interviewees were asked to find colleagues who meet the sample criteria given above.

The initial respondents were found through the professional network of the author of the present research. They were approached via Telegram career chat and LinkedIn. Subsequently, the interviews were conducted via telephone network as well as Telegram calls, WhatsApp calls, or Zoom calls.

The respondents were asked questions according to the same interview guide with some deviations due to specific areas of expertise of the experts. The first section addressed the position of the interviewee in the company as well as the experience in the automotive industry – the scope and the character of the implemented projects. The second section was aimed to reveal the localisation practices in the company experts had experience with. The questions in this section followed the value chain of the automotive industry. Initially, the respondents were asked about the localisation of supply chains and the location of the plant. For example, they were asked to specify whether the company they worked with is located within a Special Economic Zone. Then, they were asked about operations within the company and to what extent the company they had experience with localises its labour force. After that, questions concerned marketing and sales activities and finally, the service provided to the final customers by the automotive companies.

After questions about the value chain, respondents were asked to assess their company's localisation level and name the main reasons why the company works according to the localisation strategy. Lastly, the respondents were asked to evaluate the major benefits as well as the major threats associated with the localisation strategy in their company at each stage of the value chain. As a result, the questionnaire helps to analyse the basic data on the localisation of all the main business processes throughout the value chain, as well as to assess the main advantages of localisation and the difficulties that companies experience at different stages of localisation.

As for the collection of secondary data, it was collected from open sources on the Internet as well as provided by some of the respondents after the interviews. Usually, secondary data was applied as additional information and was used to clarify the information obtained during the interview.

2.5. Data Analysis Process

In order to acquire primary data for the research topics, semi-structured interviews were undertaken. After that, the results of the interview were analysed with the content analysis technique. Content analysis is a research method that allows researchers to extract clear conclusions from verbal, visual, or written data in order to explain certain events in a methodical and analytical manner (Downe-Wamboldt, 1992). Using content analysis, researchers can quantify and analyse the presence, meanings, and relationships of specific words, themes, or concepts. In essence, any type of recorded communication might be the subject of content analysis. In the present study, we used audio recordings obtained during the interviews that were subsequently transcribed into text. The machinery transcripts of recordings were made using AmberScript software. Once machinery transcripts were collected, manual transcription was used to ensure the accuracy of machinery transcription. The text was then classified or broken down into manageable code categories for analysis (i.e. "codes") before being analysed with content analysis methods. The methodology behind it is the so-called Thematic analysis. Thematic analysis is the process of organising qualitative data into logical groupings and looking for patterns and connections between them (Figgou & Pavlopoulos, 2015). Notably, not only was the content of the recorded communication evaluated, but also the so-called latent content, or communication environment (Mayring & Brunner, 2007). This type of analysis was helpful in the systematisation of acquired data and the discovery of consistent patterns in interviewee responses. Later, the findings of the analysis will be discussed in the following chapter of this study.

According to the academic literature, content analysis can be divided into two categories: conceptual analysis and relational analysis. While the former determines the presence and frequency of concepts in a text, the relational analysis studies the relationships between concepts in a text and expands on conceptual analysis. In the present study, we used relational content analysis. The conclusions derived from the primary data collection conducted via semi-structured interviews were transcribed and structured according to the research questions. In this way, it was possible to obtain primary data on the reasons for localisation, its advantages and related difficulties for each of the examined companies.

A similar technique of content analysis was also applied to the secondary data. Reporting presentations of companies, as well as media materials and reports of consulting companies, were systematised into semantic blocks following the research questions. After that, the information was brought to a general form and summarised in tables. Finally, based on the primary and secondary data information, available results were obtained for each of the analysed automakers. After that, a comparative analysis was carried out. A comparative analysis is a research method in which two things are compared and contrasted. It usually refers to the comparison of two or more processes, documents, data sets or other objects to learn something new about one or all of them (Heidenheimer, Heclo & Adams, 1983). In this study, the comparative analysis was used to determine the similarities and differences in the localisation cases of the selected automakers. Specifically, the main reasons for localisation, benefits and difficulties faced by the manufacturers selected for the study were compared. The next chapter will present the main results obtained from the comparative analysis.

2.6. Research Limitations

In order to understand the holistic picture of the research methodology, it should be said that there are certain restrictions imposed by the chosen study approach, data gathering techniques, and data processing methods.

First, it should be noted that the selected type of primary data collection is associated with a limited number of respondents. Despite compliance with the principles of achieving the study's validity, a relatively small number of interviews imposes the possibility of distorting the conclusions. In addition, the respondents were often in different managerial positions (for example, while some executives were more experienced in marketing, the others had expertise in logistics), which also left an imprint on their perception of the situation. This factor was partially adjusted by collecting secondary data, which helped to achieve greater objectivity. The second restriction is related to the limited number of interviewed strategic consultants. In addition, despite the extensive experience of interaction with the automotive industry, respondents often did not have the latest information about the localisation in a particular company. Finally, the limited time of the interviews was not always enough to gain a deep understanding of all stages of the value chain in the company and its localisation. We tried to cover all the limitations associated with the primary data by the information from secondary sources.

As for the limitations associated with content analysis, it is worth noting that there is a restriction of focusing on individual words and phrases without the ability to fully understand the interview context. Second, content analysis entails some subjective understanding of the examined content by both the researcher and the author, which may impact the conclusions' trustworthiness and validity. To overcome these restrictions, the widely regarded as credible sources of data collection in the corporate and academic worlds were utilised, focusing on original data sources. Furthermore, the content's context was considered during the analysis, including time, the country's and world's economic and political situations, the author's background, and his attitude toward the unit of analysis.

To conclude, the study's limitations are fully understood by the author of this research.

2.7. Chapter Summary

To sum up, the exploratory character of this study and the nature of the subject under inquiry necessitate the use of a qualitative research method.

In this regard, the collection of both primary and secondary data was used for the study to achieve greater reliability and reliability. To collect and analyse primary data, non-random sampling was chosen as a sampling type. Furthermore, two sampling techniques were used: purposive sampling and snowball sampling. It helped us to gather the primary data from the managers of the chosen automotive companies. This data was also complemented by the information obtained from strategy consultants in order to get a more independent perspective. Lastly, specific details were checked in the secondary data – such as consulting reports and press materials.

The data obtained by the described methods was structured and subjected to content analysis. When collecting and analysing the information, the basic principles for achieving reliability and validity were noted. However, it is also necessary to consider certain limitations associated with the methodology and the data used in this study.

The next chapter of the present research is devoted to presenting research findings regarding the main reasons, benefits and challenges associated with the localisation strategy among the chosen automotive manufacturers.

Chapter 3. Research Findings

The present chapter is devoted to presenting research findings regarding the different localisation strategies amongst various automotive manufacturers in Russia, as well as the main reasons and benefits and challenges associated with the localisation strategy of car producers. The structure of the present paper is built according to the research questions as well as the interview guide.

In this chapter cases of six different companies will be analysed. Specifically, we will explore the main differences in localisation cases of Renault-AvtoVAZ, KIA Motors, General Motors Uzbekistan (UZAVTO), Haval, Nissan and Daimler. Firstly, we will examine the process of localisation on each stage of the automotive value chain and then focus on the main benefits and reasons of the localisation strategy in each particular case as well as investigate the most significant challenges and treats of each localisation case.

Before we start with the analysis, it is important to give a short description of each automotive company analysed in this study. AvtoVAZ JSC is a Soviet and Russian automobile manufacturing company, a consolidated subsidiary of the French Renault Group since 2016. At the moment, the company is the largest manufacturer of passenger cars in Russia and Eastern Europe. At the production facilities in Russia, the company produces cars under its own trademark “Lada”, as well as cars of the Nissan, Renault and Datsun brands. The company has four plants - in Togliatti, Izhevsk, Moscow and St. Petersburg, while most production is concentrated at the Togliatti plant. In 2020, the company produced 457,412 cars in Russia, and in 2019 (before the pandemic) – 541,000 units.

The second automaker considered in this study is KIA Motors. It is a South Korean automobile company, the second automaker in the Republic of Korea and the seventh in the world. In Russia, the company has two factories – the first one is located in Izhevsk, the second – in Kaliningrad. The company is an important manufacturer on the Russian market, regularly occupying leading positions in sales of foreign cars. In 2018, 227,584 Kia cars and light commercial vehicles were sold in Russia. The best-selling car of the KIA is the Kia Rio, with annual sales of 100,148 units.

The third analysed company is UzAuto Motors (also GM Uzbekistan), a company for the production and sales network of passenger cars, part of the General Motors Group located in Uzbekistan. The company's production operates in the city of Asaka, Andijan region, in the city of Tashkent and in the city of Pitnak, Khorezm region, at the car factory created "from scratch", the largest in post-Soviet Central Asia with a design capacity of 250 thousand units per year. Over the years, the company has produced such car brands as Chevrolet, Daewoo and Ravon. The company does not have production facilities in Russia, but closely interacts with the Russian market, carrying out export sales.

The next company is the Chinese concern Great Wall Motor. In 2019, the concern became the first of the Chinese automakers to launch a plant for its Haval brand in the Russian Federation and during this time increased annual sales five times. In March 2021 it entered the top 10 of the market altogether. In Russia, the Hover model of the Great Wall company has been presented since 2005, the large-node assembly of the model was carried out at the Avtotor enterprise, then in the Moscow region and at the plant in the Lipetsk region. Moreover, Russia became the first foreign market where the Haval brand was presented. Since 2015, the Haval plant has been under construction in the Uzlovaya Industrial Park in the Uzlovsky district of the Tula region. In the first phase, the site will be able to produce 80 thousand cars annually at a localisation level of about 30%.

Nissan Motor Co., Ltd. is a Japanese automaker, one of the largest in the world. The company sells cars under such brands as Nissan, Infiniti and Datsun brands. Since 1999, Nissan has been part of the Renault–Nissan–Mitsubishi alliance (Mitsubishi joined in 2016), a partnership between Nissan and Mitsubishi Motors in Japan, with Renault in France. Since October 2016, Nissan has held a 34 per cent controlling stake in Mitsubishi Motors, while Renault mostly controlled Nissan. In 2012, the Renault–Nissan Alliance created a joint venture with Rostec Auto BV (Alliance Rostec Auto BV) with the aim of becoming a long-term controlling shareholder of AvtoVAZ, the largest Russian automobile company and the owner of the country's largest Lada brand. Carlos Ghosn was appointed Chairman of the Board of AvtoVAZ in 2013. However, in 2017, Nissan left the AvtoVAZ company. Currently, Nissan cars are manufactured in Saint Petersburg. The production capacity is up to 100 thousand cars per year. As of the end of 2020, the company produces Nissan Qashqai, Nissan X-Trail and Nissan Murano models. Also, Nissan “Manufacturing RUS” will use the capacities of the Renault plant in Moscow: the Nissan Terrano SUV is produced here.

Lastly, Daimler AG is a multinational automotive concern with the headquarter in Stuttgart (Baden-Württemberg), Germany. In the Russian market in 2009, a joint venture between Daimler and KAMAZ was formed in shares of 50/50. The most well-known and popular mark of the automaker is the Mercedes-Benz. Joint Stock Company "Mercedes-Benz RUS" is a Russian company, a subsidiary of Mercedes-Benz AG. Notably, Daimler Concern became the first foreign automobile company to establish a subsidiary of JSC Mercedes-Benz Automobiles on the territory of the Russian Federation, which was opened on December 8, 1994.

To conclude, in this research we will analyse localisation practices of six automotive companies. All companies have unique cases of localisation as well as different countries of origin.

3.1. Different Localisation Strategies

This paragraph is aimed to discover the main differences in localisation strategies of the selected companies on each stage of their value chain. In order to conduct the analysis, we should firstly define the concept of the value chain as well as explain the major peculiarities in the value chain of the automotive manufacturers. The concept of the value chain was firstly introduced by Michael Porter in 1985 in his best-seller book *Competitive Advantage: Creating and Sustaining Superior Performance*. A value chain is defined as a business model that describes the full range of activities needed to create a product or service (M. Porter, 1985). The value chain concept is based on the process view of organisations, which views a manufacturing (or service) company as a system composed of subsystems with their own inputs, transformation processes, and outputs. For manufacturers, a value chain unites steps that involve bringing a product from its conception to distribution, and everything in between – such as procuring raw materials, supplier relations, manufacturing, sales and marketing activities, and service. In the original framework, Porter indicated the following five primary stages: Inbound Logistics, Operations, Outbound Logistics, Marketing and Sales and Service. These primary stages are also complemented by the so-called support activities, such as – Firm infrastructure, Human Resource Management, Technology and Procurement. Together, all these components lead to the margin for the company (M. Porter, 1985).

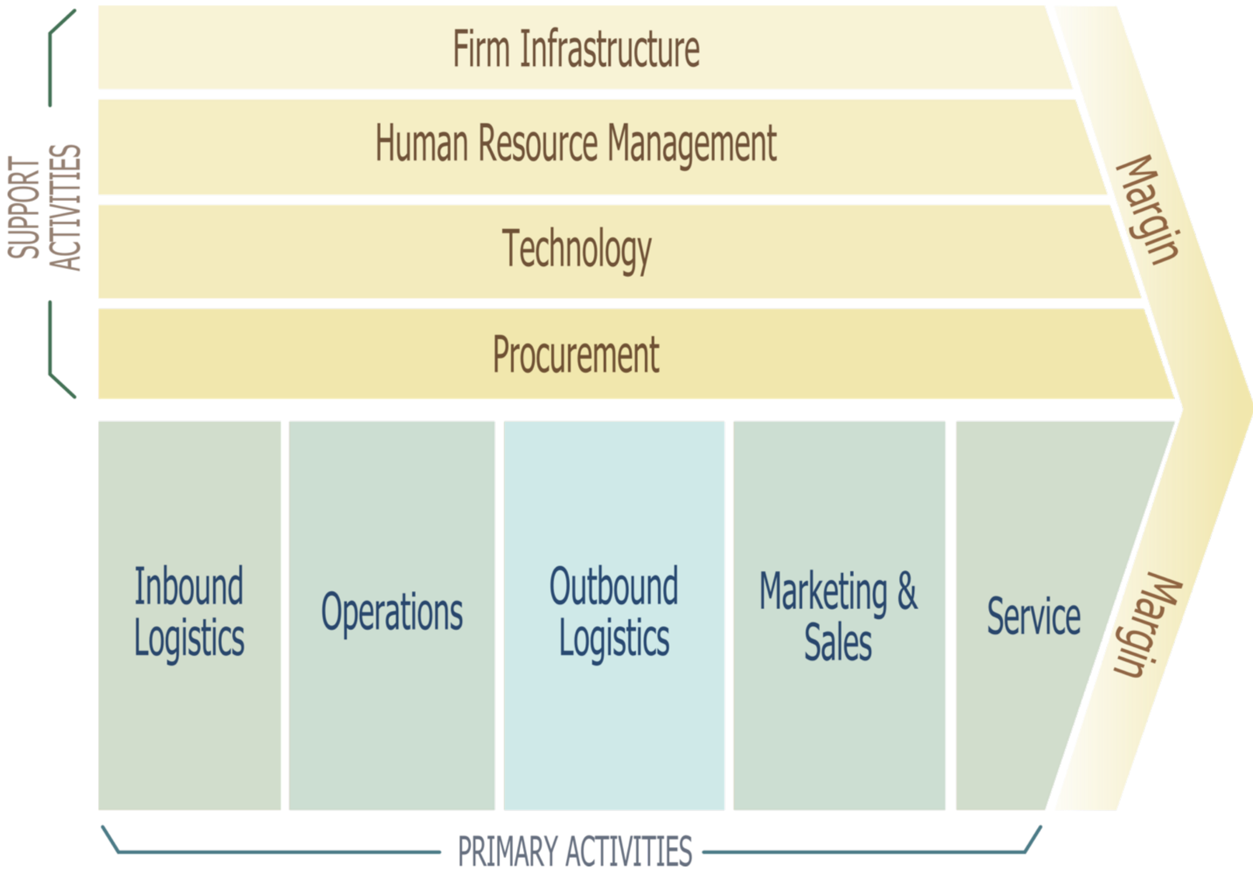

Figure 6: Value Chain framework

In the automotive industry, the value chain has its own peculiarities. Firstly, automotive companies have to deal with a wide range of various suppliers. The first level of suppliers includes companies that supply primary materials for the manufacture of cars - for example, steel, aluminium or rubber. More complex deliveries of second-level suppliers include the supply of individual finished parts of the body and chassis of the car, as well as electronics. To illustrate, automotive companies purchase seats or transmissions or even engines. These components are usually purchased form multiple producers around the world. This is also an important place where localisation level is calculated by the government authorities. Often, car manufacturers own a certain per cent of its suppliers in order to have a greater level of control over the supply process. The next stage includes internal operations within an automotive company. At this stage, components received from suppliers are usually assembled into a single car. In addition, automakers usually make some of the parts themselves. In factories, workers put all these components together and produce the final product – a car. The next stage is defined as sales and marketing activities. Car manufacturers usually implement a wide range of marketing activities – from the VT advertisement to sponsorship programmes and ambassadors. Sales are usually performed via special dealer companies, however some companies (such as Tesla) sell their cars directly from the website. Often, dealers sell not a single but multiple brands at the same time.

Dealers sell cars to final customers which are mostly individuals, but also businesses (such as rent car services, taxi parks, hotels, etc.). Lastly, service includes such activities as maintenance, repairs or extended warranty services.

Additionally, car manufacturers have to consider such support activities as factories where cars are assembled, personnel, R&D and technology which is often the key success factors of automotive companies as well as procurement. Thus, to sum up, the value chain of automotive companies is somewhat different from the traditional one, which was taken into account in the interview questionnaire.

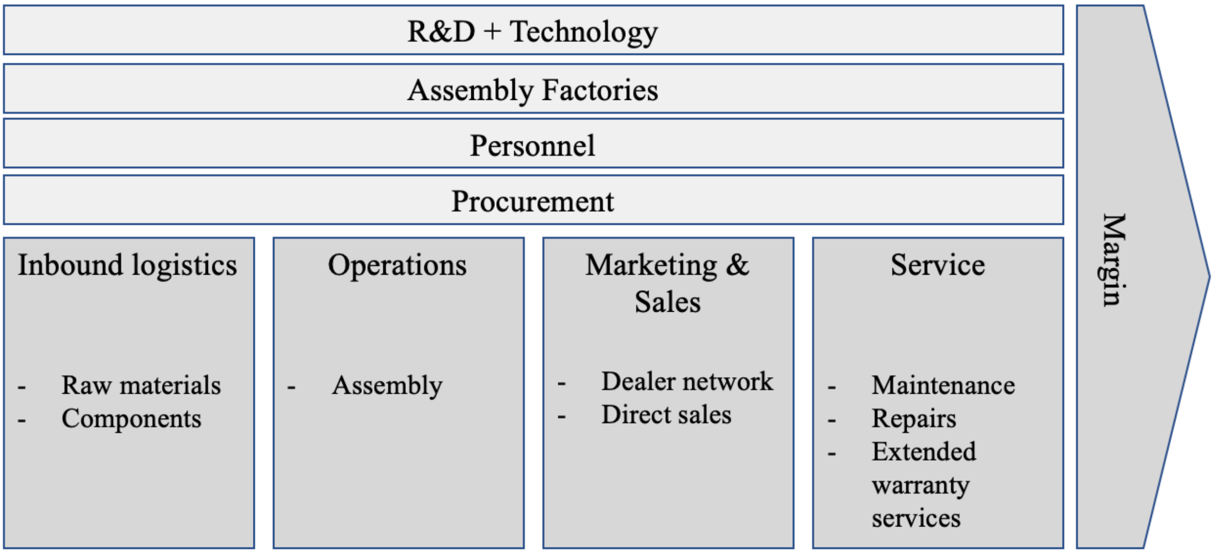

Figure 7: Value Chain in the automotive industry

3.1.1. Localisation of Inbound Logistics

The first section of the interview questionnaire concerned the supplier relations. We compared several automotive companies in terms of their relations with various levels of suppliers and established their policy on inbound logistics localisation strategy.

The first company to be analysed is the alliance of Renault-AvtoVAZ. As most of the automotive companies, the alliance purchases plenty of raw materials and ready-to-use auto parts. In the case of Renault-AvtoVAZ, all purchases are carried out by a single subsidiary of the alliance. In addition, this organisation carries out purchases for Nissan, which is also one of Renault's strategic partners. Procurement work is carried out from a number of suppliers with a high degree of localisation. In particular, the company cooperates with small Russian manufacturers of individual parts. Only a few components are purchased from foreign suppliers. Nevertheless, the experts surveyed note a different degree of localisation of different models. To illustrate, the SUV

4*4 (also known as NIVA) produced by the company is localised by almost 100 per cent. This means that almost all of its parts are produced in Russia. At the same time, more modern models - for example, Lada X-Ray, are localised only by half (40-50 per cent). This can be explained by the larger percentage of the more complex details in the new models, for which it is impossible to find Russian components. Nissan cars produced in Saint Petersburg are localised less compared to Renault and Lada, as many supplies require more sophisticated details.

On the contrary, the experts of KIA Motors note a relatively low degree of localisation in the purchase of materials for the assembly of cars. Basically, the company buys only the simplest raw materials from Russian suppliers (for example, metal). At the same time, more complex components are imported from abroad. Similar to the Renault-AvtoVAZ alliance, purchases in the company are carried out by a subsidiary organisation that deals with all deliveries. In KIA Motors, this company is called Glovis.

An even more insignificant degree of localisation of relations with suppliers is observed in General Motors, which produces the Daewoo / Raven brands. Basic simple materials are purchased at a cheaper market in Uzbekistan. More complex parts can be purchased in other foreign markets.

As for Haval, it operates according to its commitment in SPIC to further increase localisation. Some models already have localisation level of 98 per cent, while others (e.g. pick-up Great Wall Motor) are still largely dependent on import.

Lastly, Daimler uses many localised components for its lorries and trucks, but lesser fraction of Russian details for its flagman Mercedes cars.

3.1.2. Operations

When it comes to operations, usually the main factor affecting the degree of localisation of production is the location of production facilities of companies. This determines the relationship of the automaker with the Russian authorities, and also affects the national composition of the staff. As for the Renault-AvtoVAZ alliance, the company has four main production locations located in the cities of Togliatti, Izhevsk, St. Petersburg and Moscow. At the same time, each plant produces only a certain type of models and car brands. The largest plant in Russia for the alliance is the production facilities in Togliatti. This is the largest automobile factory in Russia with the potential to produce up to a million cars per year. It is also the largest factory for export production – both for Lada and Renault models. The main part of the working staff in Togliatti is made up of Russian citizens. Nevertheless, the majority of the senior management staff is formed by foreign managers. Mostly in the management team there are people from France, which is explained by the French origin of the Renault brand. It is important to note that at the company's other plants in

Izhevsk, Moscow and St. Petersburg, the basis of the managerial staff is made up of Russians, since the plants are relatively less important for the alliance. Hence, Nissan facilities are also operated by Russian employees.

As for the assembly of Kia cars, it takes place at two factories - at the factory of the sister company Hyundai in St. Petersburg, as well as at the plant in the Kaliningrad region. At both factories, 100 percent of the workforce is made up of Russian citizens. GM's Daewoo / Raven car manufacturers are using a factory in Uzbekistan to produce cars for the Russian market, taking advantage of both cheaper labour and cheaper rent for the plant. Thus, the company refuses to localise production in Russia, preferring to export its products.

Speaking about the localisation of internal operations, it is also necessary to mention the features of the model range of cars produced by the companies selected for the study. In the Renault-AvtoVAZ concern, LADA cars are produced mainly for the domestic Russian market, and therefore it is impossible to talk about special models for Russia. As for Renault, this brand is one of the most popular foreign brands in Russia. The popularity of the brand led to the creation of a special Renault model designed specifically for Russian consumers. Renault Arcana is a C-segment model, which is a more stylish and prestigious version of the cheaper Duster and Kaptur. The positive sales experience allowed us to expand the production of the model at the Renault Samsung capacity in South Korea, where this model with significantly richer equipment is produced for the domestic Korean market as the Renault Samsung XM3. However, initially the model was created for the Russian market.

Certain adaptations of cars are also used in KIA MOTORS. For example, the Kia Rio for Russia and China is somewhat different from the global version of the car. More specifically, the design of the rear of the car is somewhat different, but the differences are relatively insignificant, since the car has similar equipment and belongs to the same B-segment.

As for General Motors, after the liquidation of the global Daewoo brand specifically for the Russian Federation in 2015, the Ravon brand was launched jointly by global GM and GM Uzbekistan. The reason was the collapse of the mass Chevrolet brand in the Russian Federation in 2015. Due to the crisis, it was decided not to grant the Uzbek subsidiary the right to use it independently. In 2019, the decision was canceled, Uzbek-built cars, which were delivered as Chevrolet until 2015 and then as Ravon, are again delivered as Chevrolet. From a technical point of view, there are no special improvements for the Russian Federation, but the configuration of the Uzbek assembly for the CIS differs in a set of units.

The Chinese brand Haval is manufactured in Tula region, which was chosen because of its proximity to Moscow and possibility to hire qualified employees. The manufacturer also receives support from the regional authorities. However, operations are still largely dependent on Chinese managers and employees. The reason for it is the establishment of new facilities and relatively low labour force in China. Currently, there are about 150 Chinese employees, which is about 10 per cent of all labour force. The further development plan also includes increasing the share of the local workers.

Lastly, Daimler uses KAMAZ and used to work with GAZ facilities to produce its lorries, vans and trucks.

Thus, it can be summed up, that at the stage of internal operations, the Renault-AvtoVAZ concern and KIA Motors use Russian workers, but Renault-AvtoVAZ and Haval actively use expats for management functions. In addition, Renault has a special model for the Russian market, and KIA adapts its Kia Rio model. GM, which does not use the production facilities in Russia, nevertheless produces a special brand that is supplied to the Russian market. As a result, we can say that at the stage of operations, the global Renault and Kia alliance are more localised, while GM is only partially adapting its strategy to the Russian market.

3.1.3. Marketing and Sales

Marketing is an important part in the value chain of automotive companies. Automakers use a huge number of channels to promote their final products - cars. In addition to traditional advertising on television and on the Internet, automakers often sponsor sports and social events, as well as work with brand ambassadors. In this study, it is also important to note that the marketing positioning of various brands depends on their price, the history of the brand in Russia and the company's global strategy. In addition, often different lines of cars and even specific models have their own message for the buyer. For instance, often happens that within the same brand, it is possible to find both budget and premium models.

Speaking about the strategy of promoting the Renault-AvtoVAZ alliance on the Russian market, it is necessary to divide marketing activities in accordance with the different brands of the company. LADA remains the largest brand in Russia by the number of cars sold. All different types of advertising are used to promote LADA - both ATL and BTL. According to the interviewed experts, the main message of the brand's advertising companies is a popular car, known to every Russian, which every family in the country has a history with. At the same time, in recent years, in addition to the obvious price advantages of a domestic car, the improved quality is also emphasised, which still allows the brand to keep prices at a low level. The company broadcasts improved to world standards quality and fresh design for reasonable money. As for the Renault brand cars, the main message for the Russian audience is a real European car for the most affordable purposes. This marketing focus is an attempt to distinguish Renault from other budget foreign cars, most of which are of Asian origin. Renault focuses on the practicality of the car and on the French quality of its products.

As for GM brands, the company uses relatively moderate advertising activity, largely based on the historically good perception of the Daewoo brand in Russia. Daewoo Nexia is one of the first truly mass-produced foreign cars on the Russian market, as well as the best-selling foreign car for a long time, before this title passed to Ford Focus and then Kia Rio. The company is of the opinion that " those who need such cars already know about their existence." Thus, in comparison with the Renault-AvtoVAZ concern, GM does not actively promote its cars, since most of them belong to the budget segment and, as it is believed in the company, are already recognisable by customers.

When it comes to KIA Motors, it uses a massive, aggressive presence in all available media, expressed in intensive ATL, BTL, TTL promotion. The main message of the automaker is "high-quality world-class cars at affordable prices". Such activity helped turn the flagship model Kia Rio into the best-selling foreign car on the Russian market.

As for Haval, the Chinese brand emphasises the importance of the Russian market for the global brand, making it to top-1 priority. It applies multiple sources of promotion. For example, Haval is the sponsor of the local football team “Arsenal” in Tula.

Mercedes in Russia still remains one of the most popular premium cars and is promoted appropriately. Advertisement often refers to social status issues using prominent brand ambassadors and high-level sport and social events. As it is commonly used in the upper segment of the market marketing activities do not emphasise sale prices but rather focus on quality issues and differentiation of the product.

Thus, it should be noted that each car manufacturer tries to use its strengths perceived by the Russian consumer. In addition, automakers take into account the history of relations between Russians and each of the brands. Finally, it should be pointed out that many experts noted the need to adapt promotion strategies in Russia to the norms of Russian legislation. For example, because of the law on the promotion of homosexuality, all brands refrain from repainting their logos in rainbow colours during the so-called Pride month, which take place in June. This is clearly seen in the promotion strategy in national subsidiaries, when most representative offices repaint their logos, while countries such as Russia or Saudi Arabia leave their logos in traditional colours.

3.1.4. Service

As for the service, it usually includes such service categories as maintenance, repair and extended warranty services. Experts who have experience working with the described automakers note similar features of localisation of this stage of the value chain in Russia. First, Russian consumers tend to use traditional methods of communication - primarily telephone communication. This correlates with the low level of tolerance to uncertainty described in Hofstede's Theory of Cultural Dimensions. In addition, for most Russians, such quality as financial accessibility and profit plays a primary role, so companies often emphasise various guarantees and discounts. Price issues are often the determining factor when switching from an official service centre to third-party repair companies, so automakers try to monitor this aspect of interaction with motorists.

3.1.5. Conclusions on Value Chain Analysis

Concluding the analysis of localisation strategies of various stages of the value chain selected for the study of manufacturers, it should be said that localisation is present to some extent in all the analysed companies. However, it is also important to emphasise that the degree of this localisation varies greatly. According to the results of expert interviews, we can say that the greatest degree of localisation is used in the Renault-AvtoVAZ alliance. Initially, the Russian LADA brand was designed for the Russian consumer from the very beginning. In addition, Russian parts are used in most LADA models due to historically close ties with Russian manufacturers of parts. However, the French brand Renault, which owns AvtoVAZ, has a significant degree of localisation at all stages of the value chain. The most striking example is the development of a separate Renault model for the Russian market.

KIA Motors also significantly uses the localisation strategy, adapting to the Russian market. This is largely due to the historically successful sales of Kia cars in Russia, which attracts the special attention of the global office to the market. The last imported model was the KIA Picanto - a low but stable demand for the model, excellent optional filling and almost complete lack of alternatives in the A-segment allowed even non-localised cars to be sold. However, after the onset of the 2014 crisis, the import of the model was stopped.

General Motors cars use the minimum level of localisation for the Russian consumer. The main production is located in Uzbekistan, which allows us to maintain relatively lower production prices and import cars, paying certain additional duties. In addition, the budget class and high recognition of the Daewoo automobile line allows you to do almost without advertising. Experts also express the opinion that a certain success in the sales of non-localised cars from Uzbekistan can be played by a certain agreement on preferential import supplies from Uzbekistan (where automobile production plays a significant role in the national housing economy) in exchange for loyalty to the country's political line towards Russia.

As for Haval, its localisation still needs further improvement, however the company sticks to its commitment to become a fully localised manufacturer. Mercedes, on the other hand, applies only partial localisation.

TOP-10 brands

brand	sales, units	19/18,%	share,%
LADA	362 356	+0,6%	20,6%
KIA	225 901	-0,7%	12,8%
Hyundai	178 809	+0,3%	10,2%
Renault	144 989	+5,8%	8,2%
Volkswagen	104 384	-1,6%	5,9%
Toyota	103 597	-4,5%	5,9%
Skoda	88 609	+8,8%	5,0%
Nissan	64 974	-19,7%	3,7%
GAZ	63 910	+5,3%	3,6%
Mercedes-Benz	42 046	+11,3%	2,4%

Figure 8: Top brands (sales)

	2019	2018	19/18
in December	179 235	175 240	+2,3%
January - December	1 759 532	1 800 591	-2,3%

TOP-20 models

model	sales, units	19/18%
LADA Granta	135 831	+27,8%
LADA Vesta	111 459	+2,9%
KIA Rio	92 475	-7,7%
Hyundai Creta	71 487	+5,8%
Hyundai Solaris	58 682	-10,5%
Volkswagen Polo	56 102	-5,6%
LADA Largus	43 123	-2,2%
Renault Duster	39 031	-5,7%
Volkswagen Tiguan	37 242	+11,1%
Renault Logan	35 391	+16,9%
Skoda Rapid	35 121	+0,1%
KIA Sportage	34 370	+5,2%
Toyota Camry	34 017	+0,9%
LADA 4x4	31 923	-3,1%
Toyota RAV4	30 627	-1,7%
Renault Sandero	30 496	-3,4%
LADA XRAY	28 967	-16,8%
Skoda Octavia	27 161	+8,5%
Renault Kaptur	25 799	-14,1%
KIA Optima	25 707	+23,4%

Figure 9: Top models (sales)

3.2. Reasons and Benefits of Localisation Strategies amongst Automotive Companies in Russia

And the localisation of automakers in Russia is caused by a number of both external and internal reasons. On the one hand, the current political and economic situation in Russia forces automakers to adapt their production chains to legislative norms and the economic context. On the other hand, each company has its own internal features related to the strategic orientation of the brand, as well as operational peculiarities. As for the general macroeconomic reasons for localisation in Russia, the interviewed experts point to several key things. First, the Russian state provides a number of tax benefits when localizing production in the country, which ultimately allows us to achieve better financial indicators. Secondly, localisation allows you to avoid the volatility of exchange rates associated with the unstable exchange rate of the rouble against the Euro and the Dollar. Buying parts and other materials for production allows you to avoid the risk of price increases due to the fall of the rouble. Finally, experts note the importance of localisation for a more accurate understanding of Russian buyers.

It is important to note that if external reasons more or less equally affect the desire of companies to resort to a localisation strategy, then internal reasons distinguish companies from each other. For this reason, in this paragraph, more attention will be paid to them.

In the Renault-AvtoVAZ alliance, the main localisation requirement comes from the global Renault brand. This is primarily due to the fact that Lada cars produced by AvtoVAZ are already sufficiently localised in view of the Russian origin of the brand. As for the Renault brand, the company largely proceeds from positioning in the budget segment on the Russian market. Due to the company's policy of not allowing unprofitable car models to be sold, more expensive models from the A segment were forced to leave the Russian market. This has led to the fact that in the Russian market, Renault has become associated with relatively high-quality, but budget cars. In addition, it is important to note that the localisation of Brands belonging to the Renault Corporation (Nissan and Mitsubishi) is largely due to the connection with AvtoVAZ. Often, the same pool of suppliers is used for the production of foreign brands of the alliance, which is used for the production of Lada cars. In addition, Renault uses the production capacities of the plant in Togliatti, which are not fully loaded, to produce models under the Renault brand. Thus, the alliance gets rid of the search for additional suppliers, and gets the opportunity to produce at ready-made production facilities. This also allows Renault to maintain high profitability and position its cars as European foreign cars at an affordable price.

An important reason for KIA Motors ' localisation strategy is their strategy of aggressive capture of the budget car segment. This forces the automaker to reduce costs at all stages of the production chain, which is largely facilitated by the localisation policy. The main advantage of Kia cars, as well as the affiliated Hyundai brand, is that they offer budget cars with greater functionality and modern design compared to competitors. Nevertheless, an important feature of KIA Motors is also the fact that with the help of various brands and a wide range of models, the company manages to occupy almost all segments in the automotive market in Russia-from class A to class F. So, starting from the cheapest models, the model line reaches such a brand as Genesis, which is part of the luxury car segment. At the same time, the localisation of production in Russia allows the brand to be present in all designated segments due to the popularity of the company's "cash cows" - Kia Rio and Kia Sportage.

As for General Motors, it is important to take into account the low level of localisation to the Russian market in the company. Nevertheless, the main elements of localisation are focused on targeting the budget segment in the Russian market. Initially, Chevrolet cars produced by GM were rather in the B segment, but their gradual lag behind the norms of this class led to the fact that GM cars in Russia mainly began to maintain their competitiveness due to the price of cars. At the moment, the localisation project in Russia has been curtailed in the company, but changes may follow in the case of Uzbekistan's entry into the Eurasian Economic Union, which is periodically negotiated.

Chinese brand Haval works according to the SPIC with Tula regional authorities. Respondents of Haval underline the long-term strategy of operating in Russia with plans to occupy 5 per cent of the Russian car market by 2025. The potential of the Russian market is the main reason why company opted for the localisation policy. As for the main benefits, the company was aided in construction of the plan and road facilities. Additionally, the “Nade in Russia” status enables Chinese company to sell its products to Kazakhstan, Belarus and Azerbajdzhan.

The main reason for localisation for Daimler is the system of tax preferences and reduced production costs. However, an additional unofficial goal is also the ability to participate in public subcontracts.

The main benefits of Nissan from localisation are similar to what can be seen in the Renault-AvtoVAZ alliance. As part of the Renault system, Nissan also uses the capacities and experience of AvtoVAZ, and is located at the plant in St. Petersburg.

Thus, we can conclude that in addition to the general reasons that influence the desire of automakers to localise their strategies in Russia, each company has its own internal motives and advantages that they get from the policy of adaptation in the Russian market.

3.3. Main Challenges of the Localisation Policy in Russia amongst Automotive Manufacturers

It should be understood that localisation strategy brings not only benefits, but sometimes also leads to specific problems. Moreover, each compony faces various challenges depending on their strategic and operational issues. In this paragraph we will try to assess difficulties that occur in the chosen companies while localising their production and marketing activities in the Russian market.

The interviewed managers of Renault-AvtoVAZ as well as strategic consultants which had experience working with the company highlight several major problems associated with the localisation activities within the company. It should be noted that Renault cars in Russia mostly occupy the low-cost segment of the market. Due to the image of the budget "actual foreign car", it has become almost impossible to enter more differentiated market segments. The situation is even more complicated because of the significant improvements of the quality of Lada-cars. Compared to Renault, Lada is still cheaper, however the difference in quality in not that remarkable, which leads to cannibalization between brands. The advantages of buying Renault instead of Lada have become not quite obvious. Further difficulties are related to rather skeptical perception of the French quality when it comes to car manufacturing. Thus, while Lada occupies the cheapest segment, Renault is somewhere between Lada with its improved quality and Korean budget cars, which are more prestigious. Another difficulty of Renault in Russia is that it still has to manage the factory located in Moscow ("Avtofarmos"). Due to its location, the plant is quite expensive, which leads to lower profit margins in result. Finally, the company faces the need of operating large facilities in Togliatti with necessity to maintain a large number of working staff. Several experts mention that it is extremely difficult to find qualified employees and managers, as mostly all the personnel comes solely from the city of Togliatti.

KIA MOTORS has its own challenges. The company still buys some raw materials (for example steal) and large components from abroad. The reason for it is the issue of quality, as management of the company does not believe these parts can be manufactured in Russia. Hence, there is a certain problem with finding right suppliers. On the contrary, smaller parts are mostly manufactured in Russia, with plenty of companies working as suppliers for KIA MOTORS. In result, it leads to difficulties in managing the relationships with that many counterparts complicating the quality control and documentation issues within the company.

As for the General Motors in Uzbekistan, complications they face in Russia mostly come from the positioning of the company in the Global GM system. GM Uzbekistan only produces low-cost models with limited number of sales. Additionally, the Uzbekistani subsidiary is responsible for sales in multiple markets in the Eurasian region, which leads to limited resources allocated to operatig in Russia. The company has scarce promotion budgets and cannot afford manufacturing in Russia. Moreover, the company has multiple Uzbekistani suppliers, and it would not be feasible to find a suitable replacement in Russia in short terms.

The difficulties of Haval include the necessity to promote their cars in situation where people still have trust issues with regards to the quality of Chinese vehicles. However, as Geely and Chery also increase their sales, the situation is expected to improve in the future, with Chinese vehicles competing with European, Japanese and Korean brands. Additionally, respondents from Haval mention the volatility of the Russian market, which affects the forecasts of the company. As the company is rather a newcomer in the automotive market, it has to establish its brand which is quite difficult in Russia with low level of uncertainty tolerance. Moreover, the company had issues with some morels breaking down in cold conditions in the northern regions of Russia. It led to car recall campaing and affected the brand image.

As for Mercedes, the difficulty of localisation for Daimler is the preservation of the prestige of the brand. Production in Russia may reduce the value of the product in the eyes of some visitors who expect real German quality for large sums. In addition, a certain difficulty is the search for local suppliers who produce engine, exterior and interior elements with the appropriate quality. Nissan is also experiencing similar difficulties with quality with a built-in model of Japanese quality control.

It is also necessary to underline common difficulties such as weak rouble and lowering purchasing power to the population in Russia. Additionally, the localisation commitment goes hand in hand with difficulties in supply management, as companies have to look for the local suppliers ensuring there will not be any worsening of quality.

3.4. Chapter Summary

Summing up, we can state that almost all car manufacturers implement localisation strategy on each stage of the value chain. However, each case is individual and automotive brands apply different tactics and deal with diverse benefits and challenges from localisation in the Russian market.

In this chapter, we analysed the automotive value chain and localisation and discovered how different companies adjust their strategies on every stage including inbound logistics, operations, marketing and sales and service. We can conclude, that localisation is to some extent applied by all companies analysed in the study. The smallest degree of localisation can be observed in case of General Motors, as production in Uzbekistan is still cheaper compared to localisation in Russia.

Hence, the company does not use any production facilities in Russia. The company also does not use aggressive marketing campaigns, as the budgets allocated for the Russian market are rather low.

On the other hand, such companies as Renault-AvtoVAZ, KIA Motors and Haval largely localise its business cycles in Russia. The greatest degree of localisation can be observed within Renault-AvtoVAZ, which can be explained by several reasons: ownership of the Russian brand AvtoVAZ with its large production facilities and well-known brand; large fraction of the market occupied by the company; large fraction of sales coming from Russia within the global sales structure; necessity to compete with Korean brands. However, Renault still has not fully localised its management in Togliatti, as many managers come from France. Kia and Haval also have significant level of localisation, competing in the low- and middle-cost segments. Haval is less localised due to the necessity to establish new facilities, while Kia does quite well in terms of localisation, being able to compete in almost all market segments – from cheapest models to luxury segment.

As for the main reasons and benefits from localisation, each case has its own peculiarities. Apart from such common benefits as tax reduction and better meeting of customer expectations, each company sees its special advantages in localisation strategy. To illustrate, Haval receives aid from the regional government of Tula in building ist plant. Additionally, it helps to sell cars to other countries of the Eurasian union. On the other hand, Renault can use the facilities of AvtoVAZ, while Kia gets the opportunity to compete in all segments because of the best-seller Rio model. Lastly, localisation helps Mercedes to get access to public subcontracts.

Lastly, the main challenges emphasised by the respondents are the difficulty to hire qualified labour force – especially in management; quality issue in dealing with multiple small suppliers; marketing perception (especially dealing with stereotypes) and general economic conditions such as weak rouble and lowering purchasing power of the population.

Chapter 4: Discussion of Findings and Implications

The results of the empirical study provided insights into the issue of localisation strategies of various automotive manufacturers in the Russian market. The present chapter addresses the research objectives and answers the research questions stated in the present work.

4.1. Discussion of the Empirical results

The aim of the present paper was to explore the experience of localisation strategies of large automakers in the Russian market. In this regard, the following questions were stated:

1. What are the different localisation strategies amongst various automotive manufacturers in Russia?
2. What are the main reasons and benefits for localisation in the automotive industry in Russia?
3. What are the main challenges of localisation in Russia amongst automotive manufacturers on each stage of the value chain?

Let's discuss the results we achieved after the interviews.

Q1: To answer this question we conducted twelve semi-structured interviews with managerial personnel of automotive companies in Russia as well as with strategy consultants of the leading consulting firms in Russia. In result, we understood how the observed companies implement various localisation techniques on different stages of the automotive value chain. It can be observed that although all companies somehow localise their business processes to the Russian market there are significant differences in each case. One of the popular strategies is the collaboration with the Russian company or its acquisition. For example, Renault acquired AvtoVAZ, which not only enabled the company to produce its cars under the Renault and Nissan brand at AvtoVAZ factories, but also gave access to a network of local suppliers and a large amount of experience in operating on the Russian market. The beneficial position of Renault (as the owner of the largest Russian car manufacturer) even enabled the company to produce special models for Russia. Similarly, Daimler partnered with Kamaz and previously with GAZ in order to get access to its facilities and improve its localisation scoring.

On the other hand, companies like Kia or Haval build their own facilities showing long-term strategic orientation in Russia and taking special obligations for the support of the Russian regional and federal authorities. Lastly, General Motors still opts for simple export techniques and scarcely localised marketing preferring to reduce costs.

Q2: As for the second question, it was identified that while there are some common benefits that all companies gain from the localisation – such as exchange rate fluctuation risk management, tariff and tax preferences etc., there are also additional advantages brought be the localisation. To illustrate, automotive companies with the joint venture strategy may gain ready-to-use factories, while budget Chinese car manufacturer Haval can sell its products in the growing market of Eurasian Union countries and Mercedes gets access to public subcontracts.

Q3: Lastly, apart from the common challenges (such as difficulty of dealing with multitude of suppliers and quality issues), all of the observed companies often face company-specific issues while localising their strategies in Russia. While Haval is willing to emphasise its local Russian origin, from a marketing point of view, Mercedes is at a disadvantage from the localisation of its production in Russia. Hence, the challenges of the localisation are largely dependent on the positioning of a particular company.

4.2. Theoretical Contribution

This study has a number of important theoretical aspects. First, research presents the value chain model, adapted for analysing the cases of automobile companies. This framework can be used as a basis for analysing additional cases of automakers - both as part of a conversation about localisation, and for other needs.

Moreover, the paper combines the analysis of various large automakers engaged in mass sales of cars in Russia and uses a comparative analysis technique built through in-depth interviews with industry experts. This is an important contribution for future research of the car market in Russia, since the work captures a specific situation on the market at a time.

Finally, the story continues a number of works on the discussion of localisation and standardisation strategies. What is especially important, the paper focuses on one of the so-called emerging markets with specific focus on one of the biggest industries under the policy of localisation in Russia, that arouse the greatest interest of researchers of the discussion.

4.3. Managerial Implications

The research results have practical value as it contributes in the understanding of the different possibilities of reaction to external conditions in the Russian market. Specifically, the research provides executives with insights on managing Russian subsidiaries of automotive companies allowing the possibility of comparison among various cases and finding the most suitable action depending on the value chain stage as well as competitive position of the company and its strategic orientation.

Hence, the research can be used as a manual emphasising best practices and potential threats of managing automotive subsidiaries in Russia. Managers of individual divisions of automobile companies in Russia can get acquainted with the potential options for conducting an automobile business in Russia and learn about the benefits and dangers associated with a particular strategy. Thus, the study is designed to help in more competent decision-making.

4.4. Limitations and Opportunities for Further Research

The present research has a few limitations that could be addressed in future studies.

First, it is necessary to note a limited set of cases taken for this study. Despite the significant percentage of the car market occupied by the considered automakers in Russia, the experience of the studied companies may not be representative in some cases - for example, in certain market segments. The methodology of the selection of companies studied in this research was determined to a greater extent by the presence of contacts in the professional network of the author, rather than by the consistent selection of individual manufacturers.

Secondly, it is necessary to state the limited base of the experts interweaved for the purpose of this study. Despite the fact that for each case of most of the cases considered, we tried to use several experts from different divisions of the company (for example, a manager from the logistics department and a marketing director), some cases were covered by only one respondent. This does not exclude the risk of providing incomplete or biased information, which as a result may distort the final conclusions. It is important that despite the fact that the respondents had a number of common characteristics - for example, many years of experience in the automotive industry in the Russian market and leadership positions in companies and their divisions, the respondents often had different positions, which distorted their perception of the situation. For a more complete picture, a more representative sample is needed in the future, including a larger number of both the experts interviewed and the companies involved in the investigation.

In addition, it is necessary to take into account the main limitations of qualitative research. For a more complete picture in the future, qualitative analysis can be combined with the analysis of quantitative data. For example, the impact of localisation of each of the designated stages of the value chain can be studied on the financial results of the company and on the payback period on initial investments. At the same time, it should be borne in mind that the number of automakers in Russia is limited.

These limitations should encourage future researchers to take a critical look at the results of this paper and use its conclusions as the starting point in the study of localisation cases among automakers in Russia. Due to the indicated novelty of such a study, these limitations are unavoidable and correspond to the nature of exploratory research.

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