국제학석사학위논문

Study on the FDI Strategies of Korean Automobile Industry:

Success Case of Hyundai Motor Company

한국 자동차업계의 해외직접투자의 단계 및 전략:

현대자동차 성공 사례

2017년 2월

서울대학교 국제대학원

국제학과 국제통상전공

조 재 준

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by

Jae Joon Cho

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Graduate School of International Studies

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위 원 장 안 덕 근 (인)

부 위 원 장 이 영 섭 (인)

위 원 문 휘 창 (인)

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Jae Joon Cho
International Commerce Major
Graduate School of International Studies,
Seoul National University

ABSTRACT

Since the 1980s, Hyundai Motor Company (HMC) has gained successful achievements in the foreign investment. While several researches have attempted to analyze the strategies behind the successful stories of the HMC in the Foreign Direct Investment (FDI) by focusing on specific countries or cases, there has been no a comprehensive study that investigates the firm's entire picture of success in relation to its FDI strategies from a broader point of view. In order to comprehensively address the HMC's entire successful story, this dissertation conduct the HMC's empirical analyses from the beginning to the most recent period at a firm level by linking existing business frameworks with FDI theories. More specifically, this research divides the HMC's entire successful story into four developmental stages based upon Moon's extended model of Porter's generic strategies, and explain each stages by applying two FDI theories, Dunning's Eclectic Paradigm and Moon's Imbalance theory.

The four developmental stages of the HMC's success in FDI based on Moon's model are following: first stage as the preparation level, second stage as the cost focus

strategy, third stage as the cost leadership strategy and the last stage as the broad differentiation strategy. Since the first stage is the preparation stage in domestic market, no FDI theories can be applied. However, the second and third stage can be effectively explained by Moon's Imbalance theory and Dunning's Eclectic Paradigm, respectively, and the last stage can be supported by both Dunning's and Moon's. While all stages are necessary for the HMC's success, this research argues that the second stage is the most critical stage.

Keywords: *FDI, Eclectic Paradigm, OLI Framework, Imbalance Theory, Dynamics of Generic Strategies, Hyundai Motor Company*

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CHAPTER I. INTRODUCTION

1. Background

Throughout history, most of the successful business cases that relates to Foreign Direct Investment (FDI) have been from developed countries to less developed countries. For instance, the most popular sectors of FDI was the manufacturing sectors; therefore it would make sense for countries like; U.S., Japan, Germany to enter countries to less developed countries in order to gain competitive advantage by lowering the cost of production from the low labor cost. For example, Inter Corporation, world biggest semiconductor chip making Multinational Corporation, headquartered in United States faced a decision in choosing which country they should make a foreign direct investment in. The company's choice of countries to enter were Indonesia, Thailand, Brazil, Argentina, Chile, Mexico and lastly Costa Rica, which can be classified as developing countries. Intel's final decision was to enter and invest in Costa Rica. This brought a huge opportunity to boost the countries' economy and huge cost decrease for Intel's product.[1]

Intel's investment to Costa Rica is known as a downstream investment, since the investment was from a developed country to a less developed country. This downstream investment can be explained through Dunning's Eclectic Paradigm, where it states that firms with any kind of advantages are most likely to locate to another

[1] Larraín, Felipe, Lopez-Calva, and Andres Rodriguez-Clare. (2000).

country and then finally internationalize. However, there has been a case from a Korean automobile industry, Hyundai Motor Company (HMC), which made an investment that cannot be explained with Dunning's Eclectic Paradigm. HMC from Korea made an investment to U.S., to a more developed country. This kind of investment is known as an upward investment where a less developed country invests to the more developed country. HMC had invested in the U.S. in 1986; however from the viewpoint of Dunning's theory, this investment made by HMC is not appropriate, hence it violates his theory. However, even though HMC violated the Dunning's paradigm, they were able to gain a tremendous achievement. Now then, what other theory could possibly explain the success of HMC's strategic investment to the U.S.?

In order to examine the success story of HMC, this thesis applies Moon's extended model of Porter's Generic Strategies model to analyze the different strategies the company had adopted to achieve such great outcomes. The three strategies Porter notes are; cost leadership, differentiation and lastly focus. He emphasizes that a firm should not choose more than one strategic positioning for their company or else they will have a high chance of wasting the company's resource. It is the best to stay with one strategic positioning and he additionally notes that if a company fails to choose one positioning, they will highly be "stuck in the middle". This stuck in the middle is a term made by Porter which means that if a firm cannot choose their strategic positioning, their business may not have a clear goal and be as successful. However, HMC's successful strategies were very dynamic where it started from cost focus strategy to cost leadership strategy and finally to broad differentiation strategy. Once

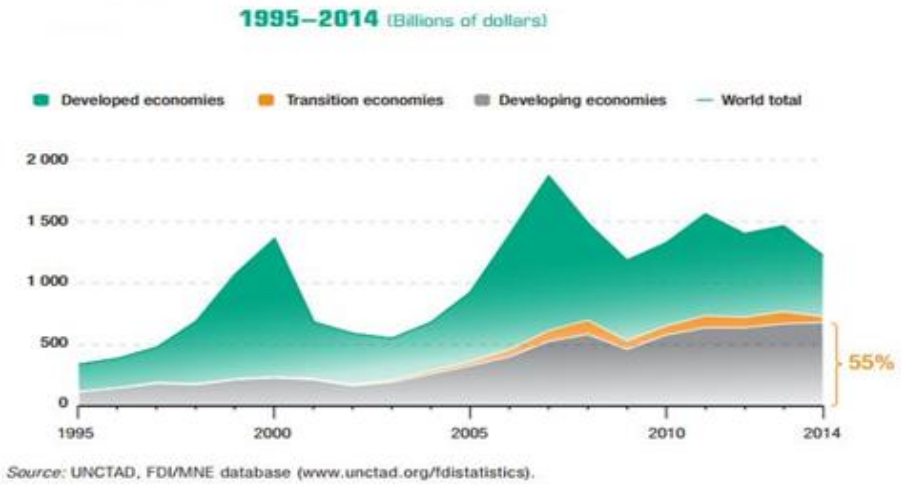
again, this kind of action by HMC had violated another famous business framework. The details of HMC's empirical evidences will be analyzed and elaborated throughout the paper. In continuation, it will further investigate HMC's unexplainable behavior and actions that violated two famous business frameworks but still be able to achieve the unbelievable accomplishment.

2. Global FDI Trend

It is essential to note the importance of the current FDI around the globe. The amount of FDI both Inward FDI (IFDI) and Outward FDI (OFDI) has been a great interest by many countries which have created greater opportunities to the global firms. Manufacturing sector played the major part of the FDI in the beginning for ten years, however the percentage slowly dropped in the year 1998 due to the increase in the service related sectors.[2] Figure 1 below, shows the global FDI net inflows from 1995 to 2014 (amounts in U.S. dollars). This figure shows four different categories of group economies for the global FDI which are; developed economies, transition economies, developing economies and world total.

[2] Lee C. W. (2003).

<Figure 1> FDI inflows, global and by group of economies



For the world total, from year 1995 there is a slight rise for five years and then slight decline for three years. After the declination of three years, the FDI increases again. From this figure there can be several analyses that can be made and it will further be invested by looking at the smaller sub-factors.

The majority of the FDI inflows are from the developed countries before 2014. However, by 2014, the FDI inflows from developing countries surpasses the developed economies holding 55% of the world totals' FDI. By looking at these numerical figures, although at times the world's FDI declines, it still shows a great potential to rise back and also note how important FDI is today and how it impacts the global world. The explanation of the decline in global FDI for 2014 is "the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks."[3] However, according to the data from World Bank 2015 of Foreign Direct Investment New

[3] World Investment Report 2015.

Inflows, the global FDI inflows rose back again from 1.771 trillion U.S. dollar in 2014 to 2.165 trillion U.S. dollar in 2015.[4] In addition, according to the UNCTAD's business survey, the global FDI inflows are expected to keep rising until 2017.[5]

3. Korea's FDI Trend

Korea's Outward FDI (OFDI) started to rise from 1986. Figure 2 below, shows the number of cases of OFDI project flows from Korea since 1981 to 2004. By looking at this figure, the number of OFDI cases starts to rise since 1987 until 1993. In 1994, there is a huge increase in the amount of OFDI and this similar amount maintains for four years until 1997. However, there is a sudden decline in 1997 to 1998 and this decline of OFDI can be best explained due to the cause of IMF crisis in 1997 that hit South Korea and other countries as well. Shortly after, South Korea was able to recover this catastrophic situation and the OFDI cases started to rise dramatically from 1998 amounting total of 614 cases. Six years later, the amount of the cases increased to 3,772 cases in 2004. By looking at the changes in the numerical values with the figure, it can be implied that OFDI becomes more crucial to the South Korea's economic development as time passes by.[6]

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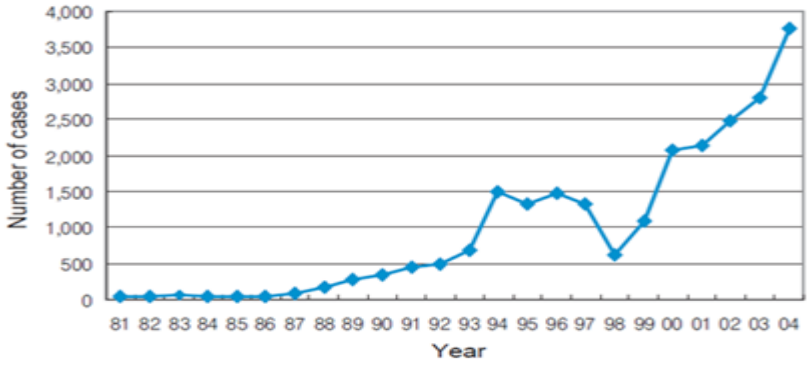
[4] World Bank 2016.
[5] World Investment Report 2015.
[6] Moon. (2007).

<Figure 2> Korean OFDI Projects Flows 1981-2004, number of cases



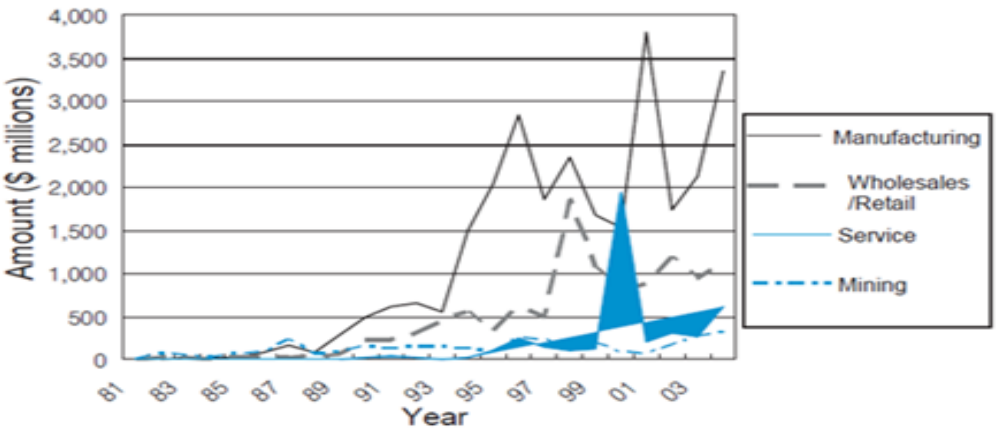
Source: UNCTAD 2004

As time kept passing by the Korean market gradually became saturated and at the same time the labor cost was rising at a rapid pace. This naturally became a threat to many Korean firms, therefore the business trend started to alter a bit. Many companies started appreciating "export promotions" to foreign countries to enlarge their market share. Due to this "export promotions" many companies started moving abroad and started to focus more in enlarging their market globally. One of the main reasons many Korean companies relocated to foreign countries was mostly due to the cheap labor cost. This way the companies could compensate for the rising labor cost in Korea and able to gain more competitive advantage. Such labor intensive industries like textile, shoes, toys, and clothing were mostly relocated to China or Southeast Asian countries since the labor cost were relatively much cheaper than Korea. More capital related industries such as steel, automobile, electronic goods and products that needed intensive technology goods were relocated to the more developed countries

such as U.S. and European countries.[7]

OFDI cases in Korea kept increasing; therefore there is a necessity to take a look at which kind of industries were flowing outward from Korea; more specifically, to see the how the outward FDI differs by industry sectors in Korea. As shown in Figure 3 below, industries are divided into four categories; manufacturing, wholesale / retail, service and lastly mining.

<Figure 3> Korean OFDI Flows Amount by Industry, # in millions of dollars



Source: UNCTAD 2004

Amongst the four categories, manufacturing industries played the majority OFDI flows in Korea. This is mainly due to the low labor cost countries that plays a key pull factor for firms in countries especially with high labor cost. This kind of factor greatly attracts firms to go abroad and which is why manufacturing industries tends to have the highest percentage of OFDI amongst other industries. Amongst the many

[7] Moon. (2007).

manufacturing companies that had experienced OFDI, one of the most outstanding cases can be seen through the case of HMC. HMC OFDI had begun in the 1970s through export promotion to North America. As their business slowly prospered, they started to create manufacturing facilities, research and development centers, and technical centers around the world to maximize the companies' competitive advantage. With all these kind of investment and time spent, HMC now stand as the fifth largest global automobile company in the world.

4. Hyundai's Background

HMC now a successful global automobile company ranks fifth in the global sales for 2015. The company succeeded to maintain the fifth place continuously for six years after passing the Ford Motor Company. In 2014, the total sales of the Hyundai-Kia Motor Group reached to 8,030,000 cars and for the sales in 2015 it increased 0.2 percent which makes it 8,031,606. An interesting fact to add is that while HMC group had increased its sales for 2015, the top three automobile companies; Toyota, Volkswagen, and General Motor's sales have "dropped 0.8 percent, 2.1 percent and 0.8 percent, respectively."[8] Whilst these top leading automobile companies sales have dropped, HMC group was able to expand their sales' growth. Now then, what kind of theories and strategies can be applied to explain such achievements HMC had made?

[8] Park J. (2016).

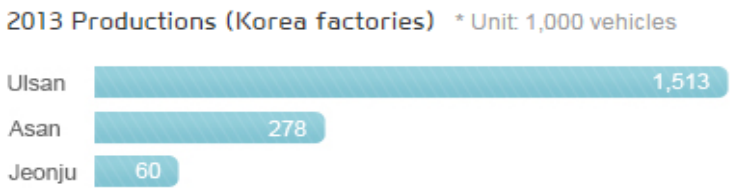
5. Hyundai's Global Operation Achievement

HMC is a multinational corporation in the automobile industry. They operate in many different parts of the world which makes them a global leader in the industry. They are also "the fourth largest vehicle manufacturer in the world. [In addition, HMC] operates the world's largest integrated automobile manufacturing facility."[9] More importantly, it should be noted that although manufacturing plants are important, R&D centers and technology facilities are equally important since all the technology and high skills are developed from there to be applied in the manufacturing process. Therefore, this part of the thesis will go over HMC's manufacturing plants and technical research centers in a comprehensive picture both domestically and internationally.

HMC operates manufacturing facilities both domestically and internationally. In the domestic operation they have three manufacturing plants in; Ulsan, Asan, and Jeonju. Ulsan's manufacturing plant is the single largest automobile plant in the world. In addition, Jeonju's plant is known for its biggest production center in the world for commercial products. Figure 4 below, shows the production capacity in numbers for the domestic factories.[10]

[9] Taylor III. (2010).
[10] Worldwide Hyundai Manufacturing. (2016).

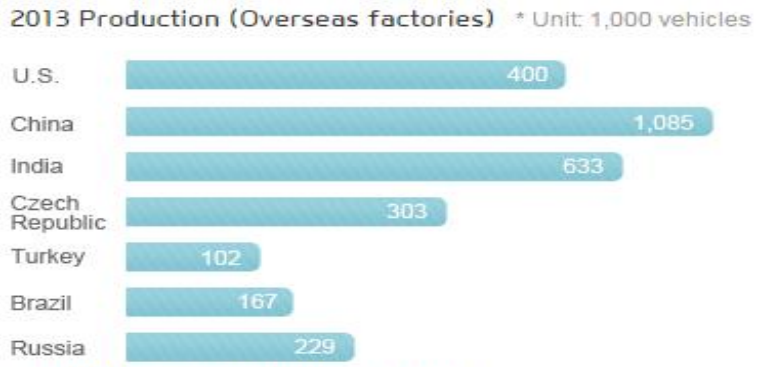
<Figure 4> HMC's Domestic Production Capacity, 2013



Source: Worldwide.hyundai.com/Manufacturing

For the overseas production plants, HMC operates in seven different countries; U.S., China, India, Czech Republic, Turkey, Brazil, and Russia. Figure 5 below, shows the production capacity in numbers of unit for the overseas production site.

<Figure 5 > HMC's Overseas Production Capacity, 2013



Source: Worldwide.hyundai.com/Manufacturing

HMC's plant in the U.S. Alabama is the ideal model for their overseas plants. HMC in China has the company's largest manufacturing capacity with three factories and it is planned to build the next fourth and fifth factories by 2018. With the completion of the additional two plants, the company estimates their annual capacity in China to be

1,650,000 units of cars per year.[11] Next, the India's plant was invested for "a manufacturing base for emerging markets …"[12] In continuation, the Czech plant's purpose was to seek and focus in the European market with the i-series. They have been awarded for "excellence & quality" award for two consecutive years. The plant in Turkey was actually the first overseas plant built by the company and now it has a manufacturing capacity of over 1,000,000 vehicles. The next plant which is located in Russia focuses mainly on the domestic market. Its main production is called "Solaris" which in known as Accent in Korea. The last production site for HMC is the Brazilian plant. This plant is located in Sao Paolo and it also focuses on the domestic market.[13] This was a comprehensive view over the manufacturing plants of HMC's and the next part will look at the companies' technical centers.

HMC has two technology centers in Korea and one research institute. Namyang's Technology Research Center employs 11,000 researchers putting emphasis in the product's "design and engineering, power training, performance and test driving, aero-acoustic wind tunnel, and environmental R&D."[14] The other technology research center focuses in the environmental issues and the research institute concentrates in developing the engine technologies. Additionally, there are five technical centers in other regions: U.S. has the "State -of-the-art R&D center located in Ann Arbor, Michigan [which] operates Hyundai California Design & Technical Center, and driving tracks." Germany focuses on developing "quality automobiles and engines that meet

[11] Hyundai Motor Group. (2014).
[12] Worldwide Hyundai Manufacturing. (2016).
[13] Worldwide Hyundai Manufacturing. (2016).
[14] Worldwide Hyundai Global Networks. (2016).

environment regulations". Japan focuses "cutting-edge electronics and hybrid technology". India focuses in designing the local market's "strategic vehicles and supports back-end operations." China "develops vehicles tailored to the Chinese market, which is rapidly emerging as the biggest automotive market in the world [and] expected to serve as a global R&D hub that will make Hyundai presense in China to the next level."[15] This was a summary of HMC's technical research centers both domestic and international.

Summarizing HMC's facilities in manufacturing and technical developments, it can be implied that they have brought a great success as their business flourished. HMC began with the Ulsan manufacturing plant in 1968 and now expands globally in different parts of the world to be one of the top global leaders in the automobile industry. Having seen the HMC's global accomplishment, how can one describe the success of the firm using theories and business frameworks? This paper analyzes the prodigious accomplishment of HMC explained through several business frameworks, strategies and theories in relation to FDI.

[15] Worldwide Hyundai Global Networks. (2016).

CHAPTER II. LITERATURE REVIEW

According to the online dictionary, Foreign Direct Investment (FDI) is defined "an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company".[16] The concept of FDI was first introduced by Stephen Hymer in his Ph.D dissertation paper, which was later published by his thesis adviser Charles Kindleberger. His main contribution to FDI was the theory of "market failure". He said that FDI would only succeed when market failure exists which creates advantages and reduce conflicts in home and host countries.[17] After Hymer's introduction of the FDI theories, Dunning's Eclectic Paradigm is the most used theory in the field of business by Multinational Corporations.

1. Eclectic Paradigm

The Eclectic Paradigm which is also known as OLI framework was introduced by John Dunning in 1979. This paradigm is an extended study of the previous study by Hymer. Dunning's intension was to make a FDI theory that could easily identify the factors were influenced to the firms. Therefore, he came up with three factors in his new paradigm; Ownership advantages, Locational advantages, and

[16] Investopedia 2016.
[17] Dunning and Pitelis. (2008).

lastly Internalization advantages (OLI) and this is why it is also known as the OLI framework. However, Dunning himself said that the FDI theory keeps evolving due to the changes in the environment, situation, economy, and etc. Therefore this paper focuses solely on the concept and the general idea of the paradigm.[18]

Ownership advantage is the most important factor for this particular paradigm. This advantage refers to the firm's competitive advantages to engage in FDI. This advantage acknowledges that the more advantage you have the more likely you are to go to foreign country to compensate the cost of foreignness. For example, firms who have technology, skills, management know-how and intangible assets would more likely to be attracted to FDI.

Locational advantage refers to a firm locating to a foreign place where operations are held which concerns with the immobile factor endowments. Therefore firms who are interested in low labor cost, tax- incentives, and the existence of raw materials would be highly attracted to make FDI.

Lastly, the Internationalization advantages are when firms create and exploit their own competencies in another country by themselves exactly the same as in their home country. They are willing to create advantage by themselves rather than having partnership (usually joint venture or licensing) with the host country's firm.[19]

In addition, Dunning categorizes the Multinational Corporations (MNC) into four different types of FDI activities; 1) market seeking, 2) resource seeking, 3)

[18] Dunning. (1995).
[19] Dunning. (2000-4).

efficiency seeking and 4) strategic asset seeking. Market seeking activity is where a firm goes abroad to enlarge their market portfolio. Many firms apply the market seeking activity mostly because their home and global market is saturated. In addition they seek out to see which country they can enter to enlarge their business. Resource seeking activity is where a firm goes abroad to gain the resource they need for their country or company. Usually when firms go to seek for resource, it is mostly related to natural resource. Efficiency seeking activity is one of the most popular activities and can be understood easily why a firm goes abroad. It is usually because they need to produce their products cheaper and the only way to do that is to outsource the production to a different country where the labor cost is cheaper than the home country. Lastly, the strategic asset seeking activity is when a firm moves abroad to gain advantage from other companies to be able to compete in the current or given market.

In short, the Dunning's Eclectic Paradigm (conventional FDI) emphasizes the ownership advantage of MNC. They must have a certain kind of ownership advantage that attracts them to enter a foreign country due to the market failure system.[20] In this case, HMC should have had invested in a less developed country (LDC) instead of developed countries (DC). However, by looking through HMC's history, the Eclectic Paradigm Theory cannot fully explain "why" HMC invested in Canada/United States (U.S.) instead of investing in the LDCs. Therefore, this paper studies another theory that possibly explains HMC's investment to the U.S.

[20] Dunning. (1993a).

2. Imbalance Theory

In the previous studies regarding conventional FDI theories, most of the scholars concentrate on “how” a firm should move abroad with their advantages in relation to the OLI framework. This may be a limitation to the firms going abroad with disadvantages because according to the conventional FDI theory, firms that do not have any kind of advantages should not go abroad. However, in reality there have been many cases where firms with disadvantages still go overseas. Therefore, Moon and Roehl made an extension to the theory that possibly explains how and why firms go abroad with disadvantages. This new theory is called the “Imbalance Theory”.

Unlike the OLI framework, this theory states that a firm goes abroad due to the “imbalance” of the firm’s asset-portfolio. Therefore, a firm is likely to move abroad to balance their portfolio despite their disadvantages. In the previous theories, MNCs will tend to move abroad once they have some sort of ownership advantage, however, the Imbalance Theory emphasizes that firms with disadvantages also have the tendency to invest abroad. Consequently, from the previous OLI framework where it illustrates “how” a firm should move abroad, the new extended theory illustrates “why” a firm should go abroad. One quick example that can be made to understand this theory better is when a firm moves to a more developed country to gain and learn the high technology from the superior firms in the larger market. This means that firms move to locations where they can learn skills and absorb the technology they need rather than focusing to earn profit. In addition, the Imbalance Theory do not only support firms with disadvantages. As mentioned earlier, the key point of the theory is to show “WHY”

firms go abroad. The answer is quite simple. It is to balance their portfolio and this is why it is called the Imbalance Theory. Therefore, the theory still covers the OLI framework as well. Furthermore, this theory is not completely new because there have been several researches and scholars that have mentioned firms with disadvantages going overseas, however never contributed enough to make a new theory.[21]

An example of the Imbalance Theory can be illustrated with an actual Korean soccer player. Assuming his name as A, A's dream is to be a professional soccer player, however, his parents believes that if he wants to become a world class soccer player they should send him abroad to learn better skills. This is mainly because Korea's soccer class is not world class and even though one is outstanding there is a limit to becoming the top player. Moving abroad to train would definitely be costly and take up a big opportunity cost in A's lifetime. However, if A is trained from abroad he has the potential to become a more well-known soccer player. This soccer case is actually a true case from the Korean soccer player, Son Heung Min.[22] He moved to Germany during his junior high school to get better and proper training to become a better soccer player. With this kind of result, he had more opportunity to play with the world class players and with this experience he was able to become more outstanding player in Korea and his club team in Europe.

This paper studies the two theories regarding the FDI. However, by looking at the two theories / paradigm, there exists an inter-relation with the dynamics of the

[21] Moon and Roehl. (2001).
[22] Pröpping. (2008).

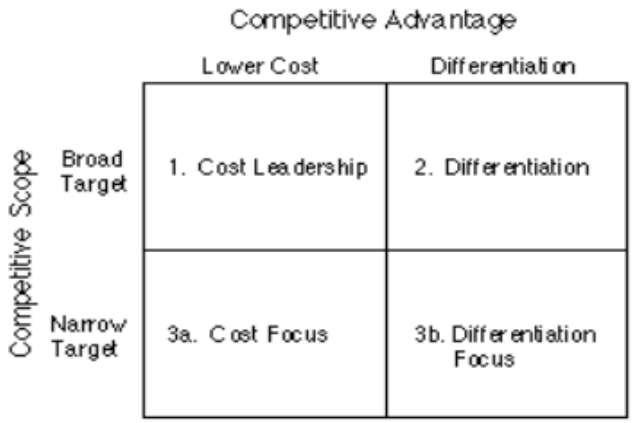
generic strategies model, an extend model of Porters Generic Strategies model. This inter-related case will be examined with the case studies in the later part of the paper.

3. Generic Strategies -> Dynamics of Generic Strategies

Porter's Generic Strategies shown in Figure 6 portrays the different strategies firms can choose to sustain their competitive advantage. This strategic theory was first written in 1980 with three general types of strategies are following; cost leadership, differentiation, and focus.[23] These strategies are mainly used by business firms to adapt and maintain their competitive advantage. The MNCs seek to achieve two competitive advantages which are cost leadership and differentiation. In the other hand, there are two variants under the focus strategy there are two variants which are cost focus and differentiation focus, "**(a)** In cost focus a firm seeks a cost advantage in its target segment, while in **(b)** differentiation focus a firm seeks differentiation in its target segment".[24]

[23] Porter. (1980).
[24] Porter. (1985).

<Figure 6> Porter's Generic Strategies

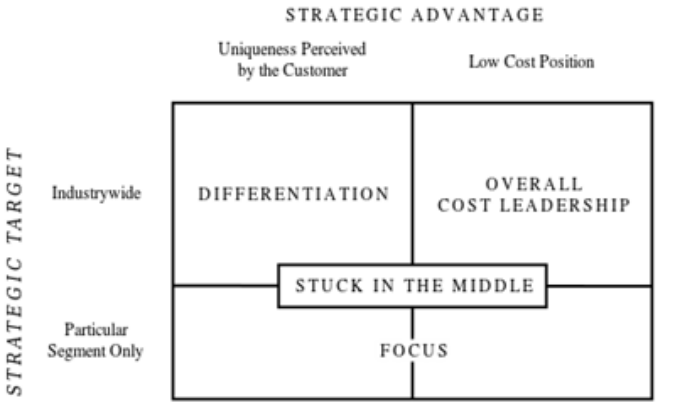


Source: Porter, Michael E., "Competitive Advantage". 1985

Later on Porter introduces the term "Stuck in the middle" as shown in Figure 7 below. He stresses the idea that a firm should focus only one strategy or else the firm will end up being stuck in the middle which is not profitable to the company and may waste a lot of their resource. This is mainly because "stuck in the middle" strategy will not offer the high value for the money to the customers compared with the companies focusing only on differentiated products. This would also apply to the cost leadership strategy vice versa. Therefore, Porter emphasizes that a firm should just concentrate on one strategy to sustain their competitive advantage. Porter also notes that the cost leadership and differentiation strategies are mutually exclusive.[25]

[25] Porter. (1980).

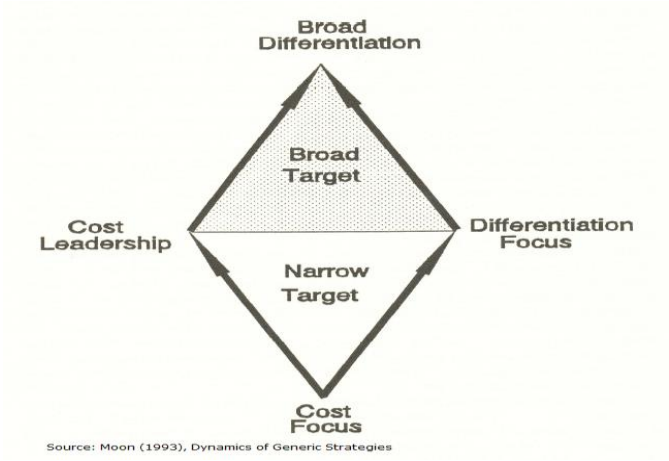
<Figure 7> Porter's Generic Strategies (Stuck in the Middle)



Source: Porter, Competitive Strategy: Techniques for Analyzing Industries and Competitors 1980

Despite Porter's arguments, there have been numerous criticisms of the generic strategies mainly due to the lack of specificity and flexibility. However, this paper will examine Moon's extension of Porter's generic strategies, which is renamed as the "Dynamics of the generic strategies" to investigate the stages of HMC success at the firm level. Basically, this new concept, shown in Figure 8 below, was created as an extension to explain how the firm's strategies change as they develop from the preliminary stage to the higher stages. This model best applies for firms entering in a new industry from scratch. In addition, HMC's successful strategies can be explained through this model in regards to answering why and how factors at each stages of the FDI.

<Figure 8 > Moon's extended model of Porter's generic strategies: Dynamics of Generic Strategies



For example, a new firm enters a market preferably home and a small market with cheap and low quality products because they are new entrants in the industry with minimum requirement of technology, experience, capital, management know how and other valuable resources. It requires significant time to gain the requirements needed until they can proceed to the next stage. The next stage is Cost Focus strategy and from this stage on FDI theories can be applied. Firms entering to the second stage can be explained by Moon's Imbalance Theory. In the case of HMC, they entered the U.S. automobile market to compensate for their imbalance in their asset-portfolio. In other words, HMC entered the U.S. market to learn and absorb the technology as well as the synergy effect. Once a firm believes that their asset-portfolio is strong enough, they acquire the opportunity to move to the next stage. According to Moon's extended model, once a firm accomplishes the cost focus strategy stage, they choose either cost

leadership or differentiation to enlarge their business. An example of differentiation focus strategy in the automobile industry would be companies like Mercedes, BMW, Audi and etc. In the other hand an example of cost leadership strategy companies would be Hyundai Motors, Toyota, Honda, KIA and etc. Despite the two different strategies, all of the car companies are rather successful up to now. Once they have pursued this stage, firms can decide whether they want to enter the final stage which is the broad differentiation strategy. Most of the firms move to the final stage to enter a new market to compete with new rivals. For example, Hyundai and Toyota as cost leadership strategy companies and Mercedes and BMW as the differentiation focus strategy companies have all pursued the final stage of Moon's extended model. For Hyundai and Toyota, they have created the luxury line up Genesis and Lexus, respectively, to compete with the high end products, whereas Mercedes and BMW have also introduced the C class and 3 series, respectively, to compete with the lower quality products. So this extended model by Moon shows how firm's strategies keep changing as they enter new segment by creating new products. In the end successful companies are likely to end up in the final stage as noted above.

Till now, the paper examines two main theories of FDI and introduces Moon's extended model of Porter's generic strategies. Next part of the thesis will be the methodology of the paper to elaborate on how these frameworks will be used together to explain the success of HMC.

CHAPTER III. METHODOLOGY

This paper applies two main theories of FDI; Dunning's Eclectic Paradigm and Moon's Imbalance Theory. In addition, this paper examines the correlation/inter-relationship between two theories of FDI with the extended model of the "dynamics of generic strategies". The relationship between the theories and the strategies will be shown through the cases of HMC at the firm level. It will examine HMC's FDI strategies in each of the developmental stage in the four stages. The purpose of using the Eclectic Paradigm is because it is "one of the most well-known theoretical models in the international business."[26] Dunning himself has mentioned that FDI "is very comprehensive and eclectic in analyzing the determinants of FDI. However, it is not perfect."[27] Therefore, he mentions the limitations of his framework and several methods for possible further studies. In addition, Dunning's theory cannot fully explain HMC's success; therefore, this paper will also apply Moon's Imbalance Theory at the appropriate stages clarify and understand the company's accomplishment.

Moon's dynamics of the generic strategies will be used as the main framework. In addition, the two FDI theories; Dunning's Eclectic Paradigm and Moon's Imbalance Theory will be applied in the stages to interpret and clearly understand the actions by HMC that brought them the great achievement. By looking at HMC's case by case in each country the company, it will enable to view the great

[26] Stoina and Filippaios. (2008).
[27] Dunning. (1988).

achievement of the company in a more comprehensive picture. In this thesis, HMC's FDI strategies are divided into four different stages. The stages are the following: first stage as the preparation stage, second stage as the cost focus strategy stage, third stage as the cost leadership strategy stage, and the last stage as the broad differentiation strategy.

The first stage is the preparation stage, which is classified as a premature level and testing whether the company is strong enough and has potential to become a bigger company. Since the developmental stage is set in the home country, the FDI theory is not applied yet.

The second stage is the entry stage of the dynamics of the generic strategies model, and this stage is classified as the cost focus strategy. From this stage on, FDI theories will be applied to explain and understand better of HMC's great success. At the second stage, Moon's Imbalance Theory will be used to analyze HMC's success case in the U.S.

The third stage is the cost leadership strategy. At this stage, HMC's business portfolio should be well balanced and now they need to seek out in order to produce their product at a lower cost and to enter new markets around the globe. This action by HMC will be explained more in depth by applying Dunning's Eclectic OLI framework.

The last stage is broad differentiation strategy and at this stage, HMC uses both the Imbalance Theory and the Eclectic Paradigm to create the luxury product division. The paper will focus on the luxury lineups of Genesis to analyze this stage of generic strategies. The four stages of HMC's success, with the combination of FDI

theories and the dynamics of the generic strategies model, will be elaborated and explained more in detail in the next chapter, which is the empirical case analyses of HMC.

CHAPTER IV. EMPIRICAL ANALYSES

1. Hyundai in the Domestic Market

Background

Hyundai Motor Company was first established in 1967 by Chung Ju-Yung and now the company stands as one of the top global automobile companies. It took a lot of effort and time to bring success to the firm. The company released its first product called Cortina, a collaboration product with Ford Motor Company (FMC) however; the cooperation between the two automobile firms did not work out as well as they expected. Due to this unexpected result, HMC decided to change their strategy. First, they applied the process of trial and error in order to gain experience and know-hows to create their own products. They thought that producing their own product was better than collaborating with other foreign companies. However, due to the lack in technology and resources, the company started benchmarking Japanese automobile companies and started hiring foreign automobile engineers from Europe and Japan to adopt the technical skills. Applying the technology from foreign workers and benchmarking foreign companies was very important factor for HMC. However, the hard working effort by the HMC workers should be credited. Their strong will and motivation was one of the reasons how they were able to survive in the early periods.[28]

[28] Jo. (2010).

Furthermore, HMC's aid by the government should also be emphasized. The strong support by the government was also a critical factor to the early achievement of the company.

The government aid to HMC was one of the critical factors to the company's great success. The Korean government emphasized the industrial policy to help the company. In addition the government announced the "long term promotion plan" which was a plan to help the domestic automobile producers to create pure local products. The result of this plan was rather successful and the company was able to create their true local product called "Pony" in 1975. After the mass production of Pony had begun, the government's aid was continuous. The government invested heavily in the financial terms and also protected the Korean automobile industry from foreign automobile companies. They protected the domestic market by putting an extremely high tariff rate to import cars. This forced most of the Korean customers with no choice but to purchase local products. This allowed the HMC to "exploit the economies of scale in the domestic market, which it soon came to dominate"[29] the local market.

Another enormous contribution to the success factor of HMC's domestic market was the worker's willingness to work hard to produce their own products. Although several foreign companies, especially from Japan, had volunteered to help HMC, the workers had a strong nationalism in willingness to produce solely by themselves. However, since Korea at that period, was in a stage of high poverty rate,

[29] Jo. (2010).

many workers were not well-educated and trained enough to have skills to contribute much to HMC. Though there may be some exceptions, many workers at that period were not as qualified. Hence, the only way to compensate this negative factor was to have the willingness to work hard and not given up from the workers point of view. From the company's point of view, they believed that training their workers was an important factor. However, since training takes a long time, the company stressed the importance automation production process and decided to invest heavily in this area for the short term view. For the long term view, HMC heavily emphasized to train and educate their workers.[30]

Implication

With all these success factors, HMC was able to get a significant amount of experience in the domestic market which allowed the company to enlarge their asset-portfolio rapidly. As time kept passing by, the company slowly started gaining the know-hows in creating better products through the trial and error system. With the great amount of investment and effort, HMC's effort slowly began appearing through the sales of the company. This was all possible through large sales in the domestic market. Once they earned advantages in the firm they were able to create better products and as more people purchased HMC's product the domestic market slowly became saturated. When the market becomes saturated and the product is decent this is when a company should move on to the next stage, which is the cost focus strategy

[30] Jo. (2010).

stage.

Once they have exploited their maximum input into their products, they must seek higher technology and skills to create even better products. In addition, Moon mentioned, once a firm completes in one stage they are likely to move onto the next stage to enlarge the market. Referring back to the dynamics of the generic strategies model, technology seeking stage is classified as the second stage in the case of HMC. According to Dunning's Eclectic Paradigm, it is more likely that HMC should move to less developed countries (LDC) such as Southeast Asian countries like, China, Vietnam, Malaysia, India, Indonesia and etc. However, by with empirical cases of HMC, instead of making a downward investment, they chose to make an upward investment and decided to locate in the U.S. Up to now, the study has investigated the empirical evidence of the first stage which referred to as the preparation stage and the next part of the study is about how and why HMC decided to enter the U.S. market explained with the unconventional FDI theory.

2. Hyundai FDI to U.S. (Cost Focus & Imbalance Theory)

Background

HMC's first experience in the U.S. was in 1985 where they established two different centers. However, the key point in HMC's success factor started when they established a HMC base in Garden Grove, California employing 227 employees and a

technical center called (Hyundai American Technical Center) in Chino, California.[31] After establishing the two bases in California, HMC exported automobile to the U.S. with the model "Excel" in 1986. It took approximately 16 years for HMC to adapt in the U.S. market and to finally announce their plan to build a production site in Montgomery, Alabama.[32]

From the mid 1975s to the early 1980s, HMC only produced cheap and compact cars because they lacked in making good quality cars. This was an eye opening to HMC because the market in the U.S. was not saturated and there were people who were willing to buy HMC's product. Therefore, HMC decided to focus on compact cars. Before entering U.S., HMC had an international experience in Canada. The experience and investment in Canada aided HMC to get the know-how of foreign experience and finally entered U.S. market with Excel in the mid-1980s.[33] This action taken by HMC was an excellent time to enter the U.S. market. At that period of time, the U.S. automobile manufacturers had highly blocked the entry of low-end products in favor for the sales of high-end automobiles. Due to this kind of action by the government, HMC was able to gain a great opportunity to enter the U.S. automobile industry after the government opened up for lower end products.

HMC in U.S. for the first year was rather very successful. The company's strategic plan to attract the untouched market, for example "first time car buyers; such

[31] Hyundai America U.S. (2016).
[32] Suh. (2004).
[33] Nam M.H. (2012).

as college students and young families who were"[34] unable to afford the expensive cars was rather very successful. HMC was able to provide these customers with values that met their needs at a reasonable price. Additionally, HMC was able to enjoy the U.S. market because it has a highly positive response by the domestic market. They were able to sell 100,000 units in just seven months. At the end of the year, HMC sold a total of 168,882 units which created an industry record in the U.S. for import cars for the first year sales.[35] However, the positive result for HMC in the U.S was not for so long. Soon the faulty products started to appear and the company went through a great catastrophe.

Despite the success of HMC in the U.S. for the first two years, they experienced a tremendous disaster throughout the next several years. Excel's faulty quality began to appear slowly and this poor quality product image brought a terrible reputation to the company. After the several cases of Excel's poor quality product, sales of HMC automobile dropped significantly. HMC in the U.S. even "became the butt of many jokes (i.e. Hyundai stands for "Hope you understand nothing's driveable and inexpensive") and even made David Letterman's Top Ten Hilarious Mischief Night Pranks To Play In Space: No.8 – Paste a "Hyundai" logo on the main control panel."[36]

After receiving all the disastrous rumors, HMC knew that they would not be able to last long in the U.S. without making any changes. The company took a high risk to overcome these obstacles by investing heavily in four important factors which

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[34] Hyundai America U.S. (2016).
[35] Hyundai Motor Manufacturing Alabama. (2016).
[36] Unknown. (2008).

are; quality, design, manufacturing, and long-term research for the firm's future business. To secure the remaining customer and to absorb interest from past and new customers, HMC created a new warranty program. This warranty program guaranteed the automobile up to 10 years in time and 100,000 miles in distance. Again, this kind of strategy quickly opened the eyes for the American consumers. Due to this new warranty program, many people started getting attracted to HMC's product. In addition, HMC decided to establish a design center in called Hyundai Design Center in Fountain Valley of California. This was established in 1990 however, after 13 years in 2003, HMC moved their facility to Irvine, California and renamed the center as "Hyundai Kia Motors Design and Technical Center". With this new technical center, it was responsible for all the matters in the U.S. However, after two years HMC technical center again moved to another location in Superior Township, Michigan. HMC imposed that they would hire 600 additional engineers and employees to enhance the technical center.[37]

By 1990, HMC regained their reputation and their sales started inclining dramatically and believe it or not, by 2004, HMC succeeded in ranking second (tied with Honda) for the quality of the vehicle product, first being Toyota. This kind of improvement continued and in 2006 they placed third "in J.D. Power's 2006 Initial Quality Survey, behind only Porsche and Lexus."[38] Hence, after studying the background and timeline of HMC in the U.S market, it can be implied that it takes a

[37] Hyundai Motor Manufacturing Alabama. (2016).
[38] Autoweek Magazine. (2006).

good ten to twenty years to catch up with the top leaders which was the case for HMC in the automobile industry.

HMC first announced their plan to create a manufacturing plant in Alabama, U.S. in 2002. After the final announcement, they completed the construction in two years and established the new plant as Hyundai Motor Manufacturing Alabama (HMMA). The reason why they chose this location was because of the vast number of the auto part suppliers. In that particular location, there were many suppliers that were already supplying for companies to Mercedes, Toyota and Honda. In addition HMC could take advantage of this useful resource clusters. The total cost of the production site was roughly 1.7 billion U.S. dollars. The models that are produced in Alabama's plant are Sonata, Elantra and Santa Fe with total capacity of 300,000 units per year. Up to now, HMMA has been very successful for both U.S. and the company. The company created 5000 new jobs for American automotive workers, 32000 jobs for Hyundai dealership and lastly 6000 jobs for other vendors. In the other hand, HMC was able to achieve enormous sales result as well.

Existing Studies

Patrokova's *FDI Motivation of Hyundai Motor Company in the U.S. Automotive Market* emphasizes the Imbalance Theory and studies why HMC entered the U.S. market. Patrokova's research limits her studies on upward FDI flows; hence into FDI to developed economy. This paper adopts her study of "Automotive Market it the USA" and the "Case study of Hyundai Motor Company" to analyze the strategy of

HMC's FDI strategies in the U.S. market.

In 2008, American automotive industry faced a rough time compared to the past. Despite the declination in the U.S. automobile industry it still maintained its largest market for the automobile industry. This is one of the main reasons why many automobile companies desire to enter the U.S. market since the industry was relatively static and remained as the largest industry market.[39]

Before the mid-1980s, U.S. automobile companies emphasized their products and strongly opposed foreign products. After many foreign companies invested in the U.S. automobile market, it automatically created a different regional production network. Japanese (as a first mover advantage), European and Korean constructed production sites in the U.S. where it created a whole new geography for the production facility. From this point on, the U.S. attracted many inward FDI's from abroad. According to the studies of the U.S. Department of Commerce in 2013, since 2006, U.S. has been the largest country that experienced inward FDI. There are several reasons for this in the automobile section. Many foreign automobile brands invested to the U.S. due to the access in the "advanced technology, and highly skilled, productive and innovative labor force. Having a strong educational system is a key component for innovation; the United States is home to 15 of the world's top 20 universities and other R&D centers."[40] On top of that U.S. has a strong community college program which focuses in training for the current's high-demanded occupation. Therefore U.S.

[39] Patrokova. (2014).
[40] Patrokova. (2014).

emphasizes its R&D center in order to greatly increase the innovative capacity. In addition the collaboration between business firms and colleges/universities creates a synergy effect to be the top leader in innovation.

Summing up the automobile market in the U.S., Patrokova's studies have showed some implications to why foreign companies have invested in the U.S. market. As the studies have showed, many foreign investments have been made to the U.S. mainly due to its technological resource. From Patrokova's studies, it can be implied that the R&D factor is a crucial factor for the automobile industry. This R&D factor also relates to education very heavily. The efficient and thriving education system is an immense factor that brings the most innovative technologies to the final product.

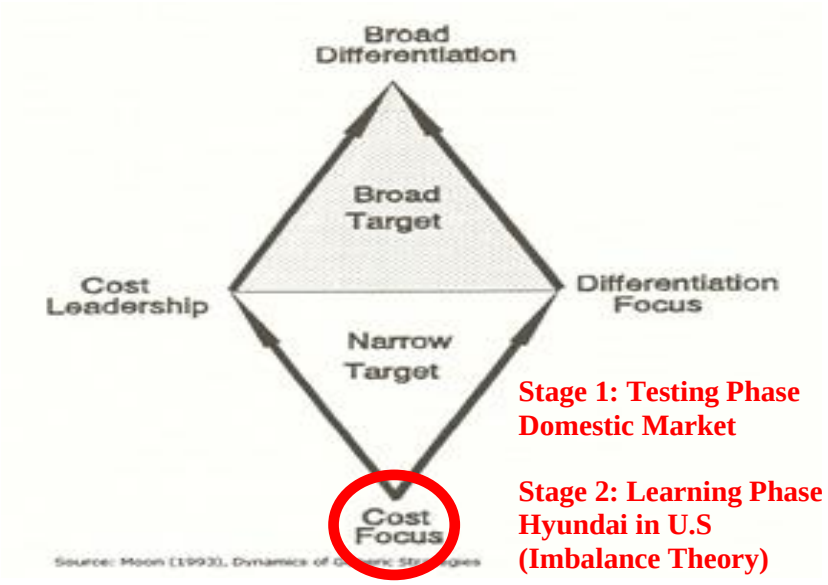
Implications

This study shows very important aspects and implications to be made by HMC entering the U.S. market. First of all, what kind of strategy could have been used when they entered the U.S. by exporting "Excel"? By using the base of Moon's dynamic model of generic strategies; out of the three strategies, cost focus strategy would best describe HMC entering into the U.S. market. Since the company did not have any superior technology in terms of automobile industry, their main focus was to produce their products as cheap as possible.

"Pony," Hyundai's first solely own product, first entered U.S. market by exporting in the 1970s. However, this was not very successful because it had not delivered great value to the customers. Hyundai re-entered the U.S. market with "Excel"

which was a cheap car that delivered great value to the customers that had not been touched by other companies except for several companies. As mentioned earlier in the background, U.S. automobile industry's market share was saturated with high end products, making it almost impossible for young families and college students to afford it their products. However, HMC was able to create a differentiated product that offered value in the new market segment. This was a strategy that HMC used which was rather successful in the beginning because many lower class people started to purchase the cheap HMC products. However, the short-term success was not the true intention for HMC. The intentions of HMC can be explained through the FDI's Imbalance Theory by Moon and Roehl (2001). Figure 9 below, illustrates the stage development from cost focus to differentiation focus strategy. In addition, HMC's investment to the U.S. can be portrayed as a strategic-asset seeking strategy, since their main purpose was to learn the technology to create better products in the future.

<Figure 9> Dynamics of Generic Strategies: Cost Focus & Imbalance Theory



Another important point that needs to be mentioned is how HMC was devoted in learning the skills and technology. They first successfully entered U.S. in 1986 with the model "Excel" but due to the quality problems their brand reputation went down. Despite the negative images in the U.S. market, the company was able to stay strong and focused on "why" they had really came to the U.S. market. This evidence can be proved with when HMC decided to heavily invest in the car's quality, design, manufacturing, and long-term research for the firm's future business. Due to the imbalance in asset-portfolio of HMC, they entered U.S. to learn (technology asset seeking) the technology from the industry's biggest market country full of engineer experts in the automobile industry field.

As mentioned earlier, HMC built a research design center in 1990, and from

that point on they were able to absorb a lot of information for 13 years. After they learned the necessary techniques, they slowly started to gain competitive advantage. However, they did not yet rush in trying to increase their profit in the U.S. market. Rather they kept investing in the technical centers. As mentioned above, they kept investing in new technical centers and also hiring many engineers and designers to enhance HMC's product. After this huge investment in the R&D field, HMC was later able to produce high quality products. Since HMC wanted to earn the customers trust again, they built their manufacturing plant in the U.S. so that the U.S. people would have more trust in the "made in U.S.A." products rather than products that were made elsewhere from a less developed country. These kinds of strategies by HMC enabled them to bring great achievement in the U.S. market and elsewhere in the future.

Lastly, HMC should be credited for being a very humble and patient company. It took them a long time for them to learn all the skills and technology they needed. In that long period of time, HMC never gave up the hard work and never rushed their businesses. To understand more clearly in the cost focus strategy stage, HMC's action to the U.S. can be explained through Moon's Imbalance Theory. With the disadvantages of the company, HMC was able to enter the U.S. market even though it took a long time in return for their success. In addition, they were able to become prosperous and make a strong well-balanced portfolio from all the heavy investments they had made. From the empirical analysis of HMC in the U.S., it is essential note how crucial this stage was in achieving their great accomplishment to now. The next part of the section will study the cost leadership stage with the empirical analyzes of

six different countries HMC entered with FDI.

3. Hyundai FDI in Turkey, India, China, Czech, Russia, Brazil (Cost-leadership & Eclectic Paradigm)

Background

After the great failure in the U.S., HMC changed their strategy to heavily invest in the products final outcome. Due to the success in the quick and heavy investment to the car's quality, HMC was to invest in other countries as well. As mentioned earlier, HMC made two different kind of investment; manufacturing, and R&D centers. Out of the eight overseas manufacturing plants, HMC's first entry was in Turkey. This strategy by HMC is known as the market seeking investment. This strategy was a big and the first test for the HMC to see whether they would be able to succeed in the future. Furthermore, this section focuses on the strategic investment methods by HMC to foreign countries. In addition this part will cover the cases of HMC's strategic FDI to different countries to enlarge their market portfolio while being able to enjoy the cost leadership as well. The first case of HMC entering abroad to Turkey will be studied briefly, and then continued on with other countries such as Europe and BRICs that will be studied more deeply due to the significance of the research.

1-1. Hyundai's first overseas plant in Turkey 1997

HMC first entered Turkey in 1990 with better quality products. Due to the heavy investment in the U.S. HMC's car products quality could improve significantly. After several years, the popularity of the car rose greatly and there was an exceptionally high demand for the car from the local market.[41] By looking at this fact, HMC was able to see a great potential demand for the future, therefore the company decided to construct a manufacturing plant in Turkey so that their products could gain more competitive advantage through lowering the cost of the car.

In 1993, HMC first announced the plan of establishing local company in Turkey. After making the announcement, they hasted the plan and by 1995, HMC made a final agreement on a 50-50 joint venture with Kibar Holding of Turkey which was said to be based in Kozyatagi, Istanbul, Turkey. Both companies agreed upon naming the joint venture company as "Hyundai Assan Otomotiv San (HAOS)". After the company was settled, set another plan together to construct a new manufacturing plant in the city of Izmit. At that very moment in 1995, Turkey had signed a contract with the European Union that exempted tariff on automobile products that were made in Turkey. The manufacturing plant was finalized in July 1997 and soon went into operations with mass production. The cars that were manufactured first were the Accent, Verna, and Starex (a commercial van). Besides Starex, the two others products were compact cars that brought great popularity to the Turkish people. The main reason for its popularity

[41] Invest in Turkey, Hyundai. (2016).

was because it was much cheaper than European cars, and due to the heavy traffic in the big cities, a lot of people preferred small compact cars to larger engine cars.[42] This strategy and action turned out to be a great achievement for the company. From that point on, HMC kept increasing the amount of investment to Turkey and it is revealed that by 2014, HMC's investment in Turkey had exceeded one-billion euros.[43]

Besides the huge success in the local market, the plant in Turkey played another very important role. Turkey's investment became an export hub country for the European market. This kind of strategy is known as market-seeking investment. HMC's FDI to Turkey was a very strategic movement, because it could both target the local market with the needs, and able to access other countries nearby including the Africa and the Middle East. Therefore, Turkey remains as a foothold for the company and a car production hub center that connects to forty countries in Europe, Africa and Middle East Asia. In addition according to 2013 figures, the manufacturing output capacity for the Turkish plant amounts to 210,000 units[44] and 90 percent of the manufactured cars are exported to European countries nearby.[45]

The investment to Turkey was rather very successful and key determinant of FDI. Due to this great achievement, HMC was able to make greater investment to other countries for various reasons. HMC's investment in Turkey can be seen as cost leadership strategy and in addition the company's first experience with the OLI

[42] Joo K. (2013).
[43] Invest in Turkey, Hyundai. (2016).
[44] Brozat. (2016).
[45] Joo K. (2013).

framework. HMC was able to use the ownership advantage since they were able to gain resource from the U.S.'s investment which located them to Turkey to produce cheaper products and to target bigger markets. Due to this great achievement from the beginning, HMC was able to invest in many other foreign countries for different reasons.

1-2. Hyundai in India 1998

Until the 1970s, India was the lowest recipient of IFDI between the developing countries. However, by the 1980s India started opening their economy and the IFDI greatly increased and by 1990s India was able to experience significant inflow for both IFDI and portfolio capital. Until 1990s, India's IFDI was mostly related with the secondary sector.[46] Secondary sector is defined as "Secondary industries take various raw materials and manufactures them into finished goods. Construction, smelting, automobile manufacturing, textiles, energy utilities, breweries and bakeries are all types of companies involved in secondary economic activity. Assembling large items from parts is also part of secondary industries."[47] After liberalization program in 1991, there was a big inflow investment in the tertiary sectors. Tertiary sector is defined "tertiary industries provide services. Transportation, health care, food service, retail sales, advertising, entertainment, tourism, banking and law are all examples of

[46] Park, Jongsoo. (2004).
[47] Reference. (2016)

tertiary-level sectors of the economy."[48] From 1990 to 1997 the percentage of the tertiary sectors increased from 5.2% to 58.7% respectively. The investment increase in the tertiary sectors especially those related with infrastructure and power generation made it even more attractive for the foreign firms.[49] Refer to Table 1 below to see the exact numbers of the FDI stock shares in India and the categories of the three different sectors.

<Table 1 > India's industry-wise shares of FDI stock (Rs. 10 million)

Industry group	Mar.1980		Mar.1990		Aug.1991~Sept.1997(*)	
	Value	%	Value	%	Value	%
Primary sector	**83.1**	**8.9**	**267.0**	**9.9**	**363.2**	**0.2**
(i)Agriculture	38.5	4.1	256.0	9.5	0.0	0.0
(ii)Mining	7.8	0.8	8.0	0.3	363.2	0.2
(iii)Petroleum	36.8	3.9	3.0	0.1	0.0	0.0
Secondary sector	**811.6**	**87.0**	**2298.0**	**85.0**	**95282.4**	**41.2**
(i)Food and beverages	39.1	4.2	162.0	6.0	14423.5	6.2
(ii)Textile	32.0	3.4	92.0	3.4	3817.1	1.6
(iii)Machinery & machine	71.0	7.6	354.0	13.0	17186.9	7.4
(iv)Transport equipment	51.5	5.5	282.0	10.0	14654.7	6.3
(v)Metal & metal products	118.7	13.0	141.0	5.2	12098.0	5.2
(vi)Electrical goods	97.5	10.0	295.0	11.0	7734.4	3.3
(vii)Chemical & chemical	301.8	32.0	769.0	28.0	17662.7	7.6
(viii)Paper & paper	Na	Na	Na	Na	3409.8	1.5
(ix)Rubber goods	Na	Na	Na	Na	837.4	0.4
(x)Other Manufacturing	65.5	7.0	Na	_	3457.6	1.5
Tertiary sector	**38.5**	**4.1**	**140.0**	**5.2**	**135884.5**	**58.7**
(i)Telecommunication	_	_	_	_	47196.2	20.4
(ii)Power generation	_	_	_	_	65488.1	28.3
(iii)Services	38.5	4.1	140.0	5.2	23200.1	10.0
Total	**933.2**	**100.0**	**2705.0**	**100.0**	**231540.1**	**100.0**

* average annual
Sources: Sharma (2000).

[48] Reference. (2016)
[49] Sharma. (2000).

In addition, the investment in the tertiary factors became very attractive for HMC as well. Due to the short term achievement of FDI in Turkey, HMC prepared another FDI to India. To see the amount of India's IFDI, refer to Table 2 below where it shows each country's IFDI to India. By looking at the table, South Korea's heavy investment to India was in 1996 and also the following year. This is when HMC decided to enter the Indian market and decided to establish a manufacturing plant by 1998.

The taxation on foreign cars was incredibly high at that time. The tax on new automobile products that were imported from foreign countries was 60%, and used products were 100%. However, the Indian government created a policy that if cars were assembled or made in India the tax would be exempted. Due to this policy, HMC was able to enjoy the tax exemption on their products which brought the cost of the car extremely down that enabled HMC to enlarge their market segment. Therefore rather than exporting cars from foreign countries, it was a good strategy for car companies to bring in their factories to India to enlarge the domestic market share. Firstly, HMC decided to manufacture Accent, which is a mid-sized car; however they were able to visualize the saturated market for that segment. Therefore they switched their strategies to target another segment which was the compact vehicle called Atoz in Korea and in India it was called the Santro. This was a perfect strategy for HMC because; over 70% of the automobiles in India had engines that were less than 1000cc. This was mainly because of the tax policies where it brought burdensome to the many Indian customers.

This kind of action by HMC also brought a threat to Maruti Suzuki, because Maruti had an 82% market share in that particular market segment. Later on, the HMC's product became very popular to the Indian people and they were able to enjoy the large market share.[50]

<Table 2 > Country-Wise FDI Approvals (Rs. Billion)

Year / Country	1991-1995	1996	1997	1998	1999	2000	2001	2002*	Total (1991-2002)
U.S.A	154.2	100.6	135.7	35.6	35.8	41.9	49.2	16.7	569.7
Mauritius	24.7	23.3	104.3	31.7	38	72.3	28.9	12.4	335.6
U.K.	38	15.2	44.9	32	29.6	4.1	49.9	8.5	222.2
Japan	28.4	14.9	19.1	12.8	15.9	8.3	7.4	3.2	110
Korea	5	32.2	19.6	3.7	36.5	0.4	0.7	0.1	98.2
Germany	22.1	15.4	21.6	8.5	11.4	5.9	4.1	0.6	89.6
Netherlands	16.5	10.5	8.7	5	6.3	0	36.9	4	87.9
Australia	20	8.3	4.3	26.4	6.5	0.6	0.8	0.3	67.2
France	6.9	16.7	7.1	5.1	14.5	2	6.8	3.7	62.8
Malaysia	14.9	0.4	21	18	1.2	0.2	1.1	2.8	59.6
Singapore	13.8	3.2	8.6	7.7	8.3	3.2	3.8	1.1	49.7
Italy	10.8	1.4	11.9	2.8	17.6	1.1	1.7	0.5	47.8

Figures 2002 are updated till May

Source: Sharma 2000

HMC was the first foreign automobile company that created a manufacturing plant in India.[51] They decided to name the company as "Hyundai Motor India Limited" (HMIL) which became the fastest growing and second largest automobile manufacturer

[50] Park Y. E. (2015).
[51] Park J.S. (2004)

company in India.[52] They first decided to locate the factory 35km west of Chennai, Tamil Nadu which is located in the southern part of India. The infrastructure was very poor nearby the factory; however HMC decided to construct the plant there by investing seven billion U.S. dollars aided by the investment funds. The main reason HMC chose India as the next FDI location was due to the market penetration. Although the roads and traffics were chaotic, they saw a big opportunity to the India's domestic market. In addition, unlike other automobile company HMC was able to enjoy the greenfield investment. HMC was the only company that made owned a wholly-owned subsidiary in the automobile industry, which became to be very beneficial. Most of the other automobile companies from Japan and Europe had entered India with joint venture where they experienced many obstacles due to the communication and management problems. HMC was also able to enjoy the government support from India where they promised to support "infrastructure for electricity, water, roads, and communication. As well, it purchased the land to support construction for Hyundai Motor's factory."[53] HMC's actual plan to establish the manufacturing plant was in three years; however with the government aid they were able to finish the construction just in one year and seven months.[54]

HMC was able to enjoy another great achievement in India. Again, HMC could make a great success with the domestic market and could earn the loyalties from the Indian people. However, they were able to enlarge their market not just focus on

[52] Hyundai Motor India Limited. (2012).
[53] Park Y. E. (2015).
[54] Park Y. E. (2015).

the domestic market segment but also as a hub country to export cars to 120 different countries across the "European Union, Africa, Middle East, Latin America, Asia, and Australia. [In addition] It has been the number one exporter of passenger cars of the country for the eight in a row."[55] Like the Turkey case, India's FDI case is also very similar. The big difference is the product type and the entry mode of the two countries. However, they both targeted the domestic market, and by entering into the country, they were able to receive a lot of benefits from the government. This is one of the reasons why HMC was able to make decisions despite with the high risk. In addition HMC succeeded to have good relations with the local people and through those good relationships HMC was able to prosper even more. By this study, HMC's FDI movement to the India can also be seen as market seeking and efficiency seeking investments. They entered India to enlarge their global market share and also to enjoy their ownership advantage which is the beginning of the OLI framework. With the ownership advantage, they were able to locate to a new place in order to manufacture the products at the cheaper cost. By this method, they were able to experience cost leadership because they were able to manufacture the automobile products locally which exempted them from the enormous amount of tax which created competitive advantage. After enjoying the domestic market share, HMC was able to slowly export the compact cars to the countries nearby due to the competitive advantage they earned and were able to enlarge their market seeking investment.

[55] Priyan. (2013).

1-3. Hyundai in China 2002

From the mid-1990s HMC actually had interest in investing to the emerging markets nearby Korea like; India, China and Russia. Therefore, from the mid-1990s HMC kept researching and studying how to enter the foreign countries. From the previous case, HMC succeeded in entering both Turkey and India, however entering China was rather more complicated due to various reasons. In addition, in 2002, it turned out that China was "one of the world's largest and fastest growing economies. Growing demand for automobiles spurred forecasts that China would become the world's third-largest automobile market even as the worldwide"[56] By looking at this quote, it is important to emphasize the difference in the automobile industry by the size and the market than to the two previous countries. This means that HMC would have to compete more fiercely with domestic and international car makers. Before entering China, HMC decided to investigate other foreign automobile company's strategy to enter China. While studying the entry strategy of many car brands, they primarily focused and studied the strategies of Peugeot entering Guangzhou, China in 1997.[57]

Once HMC's business in India was stable, they finally found the chance to enter China in 2002. In March of the same year, HMC and Beijing Automotive Group (officially Beijing Automotive Industry Holding Co.) (BAIC) signed a contract to agree upon an equally owned joint venture. That same year in October, the joint venture of

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[56] Kim J. and Rhee M. (2008).
[57] Park J.C. and Cho D.S. (2010).

the two companies became established as Beijing Hyundai. In addition this was the first joint venture China had ever established after signing into the WTO.[58]

As mentioned above, HMC did not enjoy their beginning in China due to the fierce competition between many other global firms. Many of the competitors did not worry or even care as Hyundai Beijing entering the market. Both HMC and BAIC's reputation was not high which is why it didn't threat other companies. BAIC itself was rather a low rated company in China at that period and due to this kind of reputation Sung-Kee Choi, "the senior executive vice president at the China Business Division of HMC, who was in charge of the planning and development of Beijing Hyundai in the entry period, explained: They teased us as a marriage of two low ranked classes, and lowered their guard against us".[59] However, with the great effort of Hyundai Beijing, they were able to achieve tremendous result in the first year of their product sales in 2003. Hyundai Beijing was able to sell 50,000 units of the model EF Sonata in the first year. This kind of result was almost a miraculous event for Hyundai Beijing to achieve such result, because for its competitors like Honda Motors, took them three years to achieve the same result. In 2004, Hyundai Beijing the model Elantra, which is rather a smaller car to the Sonata, was added into the assembly and together they sold 144,000 units that year. In a year they were able to increase 288% units sold compared to the previous year, which was a tremendous growth for Hyundai Beijing. The following year in 2005, they sold 234,000 units which almost doubled the amount of the previous

[58] Wang and Lee. (2013).
[59] Kim J. and Rhee M. (2008).

sales. Refer to the table below to see the yearly sales of Hyundai Beijing in China.[60]

<Table 3> Beijing Hyundai's Sales Performance in China Automobile Market

Year	2002	2003	2004	2005	2006	2007	2008 *
Sales	1,003	52,128	144,090	233,668	290,011	231,137	164,792

Notes: * Sales in the first half of the year

Source: Beijing Hyundai

Hyundai Beijing performed very well in the Chinese market, which not many people had expected. Around year 2005, the automobile industry competition in China became fierce as Kim Bang Shin, the vice president of Hyundai Beijing describe the competition as a resemblance of the "warring states period" of the Qin dynasty before the unification of China. The competition was so fierce that it was hard to mention which company was the dominant market leader. Every firm introduced their newest product in China to maximize their market share; however this became very costly to all the automobile companies because the supply exceeded the demand which caused heavy inventory cost. Hyundai Beijing's soaring business finally collapsed in 2007. However, Hyundai Beijing's ambitious goal made a critical decision to expand their capacity to compete even more fiercely with the competitors, despite the collapse of the market.[61]

[60] Kim J. and Rhee M. (2008).
[61] Kim J. and Rhee M. (2008).

Regardless of the aggressive competition in China, Hyundai Beijing was able to survive and even be more successful in automobile market. After the first manufacturing plant in China 2002, in 6 years by 2008, HMC was able to add another production facility which doubled the amount of capacity from 300,000 units per year to 600,000 units per year. Hyundai Beijing's business kept soaring which enabled them to add another production facility in 2012 that raised their capacity production over one million units per year. By looking at the number of units that were produced and also the expansion of the production facilities, it can be assumed that Hyundai Beijing was a great success and more importantly, they were able to take a big portion of the market share in the world's largest automobile market. However, Hyundai Beijing was not satisfied with their current success. Due to the surging demands of automobile in China, they decided to add their fourth and fifth production site to increase their annual capacity. The fourth plant will be located it Changzhou, Hebei province and the fifth plant in Chongqing. These two production sites are estimated to be completed by 2018, and once these two plants are in operation the production capacity would be totaled to 1,650,000 units per year. One of the main reasons for Hyundai Beijing's expansion is to compete with the bigger rivals and be able to increase their market share in China.[62]

There are many implications to be made from the Hyundai Beijing case. Firstly, the success of HMC in Beijing relies with many factors. However, the important information that needs to be emphasized is the how HMC was able to be so successful in China. Once again, it relies on how HMC was able to mature. The main

[62] Hyundai Motor Group. (2014).

reason how HMC was able to manage the fierce competition was due to the massive improvements in the quality of their products. If HMC did not enter the U.S. first to make the significant improvement, their products in China would have been crushed by the fierce competitors due to the poor quality products. In addition, HMC's movement to China can be seen as market seeking and efficiency seeking strategy. Since China's automobile industry had a surging demand in the future, there was a great opportunity to enlarge their pie in the domestic market share. It is also an efficiency seeking strategy since, HMC entered China where the cost of labor was relatively much lower than Korea. Therefore, they could be able to manufacture the products at a cheaper price. Due to the huge success, HMC continues to expand their business in China by creating more production facilities. There is one more important factor that must be discussed and studied to see how the Korea China Free Trade Agreement (FTA) affected or affects the Korean automobile industry in China.

Korea-China FTA

The negotiation between Korea and China had started in 2012.[63] After several years in December 2015, the FTA between South Korea and China entered into force. However, the impacts to both countries have rather proved to be disappointing. Comparing Korea's FTA with other countries like U.S. and E.U., the FTA between China is rather less ambitious. The main reason is because the FTA excludes many

[63] Bloomberg News. (2012).

products from both countries. Another problem in FTA between the two countries is that they have agreed upon removing the tariff 70-80% within ten years whereas South Korea's FTA with U.S. eliminated 98-99% of US and Korea's tariff. Therefore, the minimization on the FTA excludes too much tariffs for a full liberalization. Most importantly, the two countries still impose high tariff to manufacturing goods and IT related products. The big issue here is that the tariff on automobile for both countries has not enjoyed the tariff exemption from the FTA. The tariff rate for automobile still maintains "at 8 per cent and 25 per cent in Korea and China respectively."[64] Although the automobile company may not gain direct advantage from FTA, the auto parts manufacturers may gain some benefits. This means that auto parts created in China may be brought to Korea at a cheap price and vice versa due to the tax free from the FTA.[65]

Korea China FTA for the automobile industry section can be clearly seen that it is not beneficial to both countries. However, since China is the world's fastest growing market and also one of the biggest automobile markets HMC should utilize the FTA more seriously because it can be a huge access to the global investment hub. In short, Korea and the automobile companies should always be aware of the FTA between China because it may become another big opportunity for HMC to enlarge their market share globally.

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[64] Schott and Jung. (2016).
[65] Business Korea. (2014).

1-4. Hyundai in Czech 2007

Korean manufacturing companies entered the Central Eastern Europe (CEE) faster as the countries gained access to the E.U. This strategy was mainly to gain access to the European market as well as to enjoy the cheap labor from the European countries. Previous studies by Kim Sang Cheol (2005) and Lee Cheol Won (2006) have evaluated the Eastern European (EE) countries as a base for manufacturing. Both of them states that EE countries are very attractive due to the labor cost and labor productivity compared to Korea especially for manufacturing industries. In addition the EE countries does not only provide cheap labor cost, but also provides other important features such as technology, quality, productivity and flexibility.[66] In 2005, HMC had to decide whether they were going to extend the production site in Turkey or to enter a new market. Since the 1990s the automobile industry started to become a global industry and most of the major automobile companies had to "compete in all the major markets while [the] companies also manage[d] their value chain operations with a global perspective."[67] In the case of the HMC, they believed that they needed to enlarge their market share not only at a single regional market, but to actively participate in the dynamics of the global automobile industry. Therefore, HMC entered Czech to engage in the market-seeking investment, and efficiency-seeking investment. Their production base was named Hyundai Motor Manufacturing Czech Company (HMMC).

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[66] Kim N.H. (2010).
[67] Akcaoglu, E. and Erol,C. (2011).

The plant in Czech was HMC's very first plant in Europe since Turkey was not considered Europe. The production capacity for the Czech site started relatively slow. It was not until 2009 HMMC had reached over 100,000 production capacity and the most recent data from 2016 sets out HMMC's production capacity a little bit over 350,000. All the models that are produced in the local site "was specially developed for the European market at the Hyundai Technical Center in Russelsheim, Germany, to match the high requirements of local customers expecting quality, safety and attractive design."[68] The cars that were produced in Czech were i30, i30 wagon, i30 three door, IX20 and Tucson.

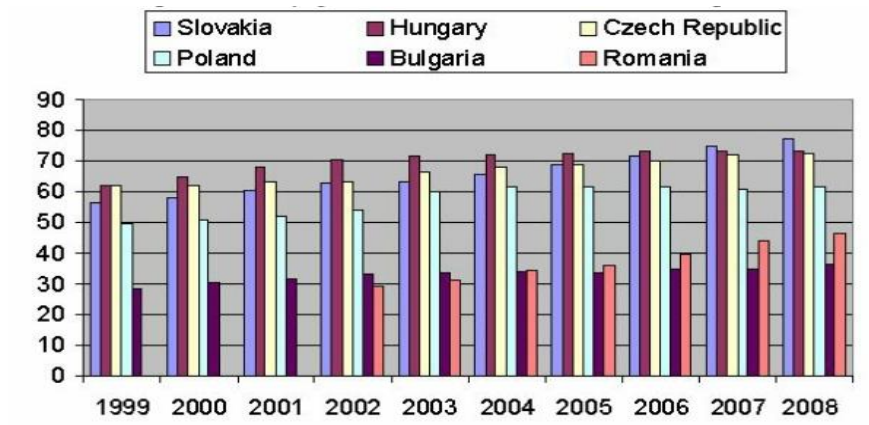
HMC's motivation in entering Czech was a great cost saving factor not just because of the cheap labor price but also due to the relatively high productivity rate. According to the data from 2007, the monthly wage of Korean workers in Korea was 4 million Korean Won (KRW), which is approximately a bit less than 4000 U.S. dollars. However, the monthly wage in Czech was nearly one-tenth of the workers in Korea. Does this mean that Czech workers productivity was one tenth of the Korean workers? The answer is NO, the productivity rate was similar or just a bit less than the workers in the Korea. Due to this kind of competitive advantage in price, HMC was able to achieve outstanding result in sales. This was a very important strategic movement because in automobile industry it is not like IT business where per unit of sales becomes value added. By looking at the high investment cost in the automobile industry the net profit sales is relatively much lower than those other businesses. For

[68] Hyundai Motor Manufacturing Czech (HMMC). (2017).

example, in 2006 the net profit sale for HMC was only 4.52%. Hence, this kind of number clearly shows how important it is for automobile companies to make improvements in the labor cost and productivity.[69]

Looking at the labor cost of the country is important; however, the productivity rate of the workers is also as important. This is because even though the workers of Czech may be one tenth the labor cost of the Korean workers, if the productivity rate of ten Czech workers were equivalent to one Korean worker, than HMC would not gain any competitive advantage with the labor cost. However, by looking at the Figure 10 below, which shows the productivity rate of the CEE countries, it can clearly see why HMC had entered Czech.

<Figure 10> Labor productivity per hour worked



Source: Eurostat, 2009

[69] Kim N.H. (2010).

Although Hungary seems to have the highest productivity rate, other factors such as; labor union, geographical advantages, local government incentives and etc. did not outweigh Czech's total benefits. In addition, the reason why HMC did not enter Slovakia was because HMC's sub-brand KIA Motors had already made an investment, therefore HMC believed in order to enlarge their market share it would be better to enter a new country.[70] In addition, HMC was offered a great incentive deal by the government which was almost impossible to reject.

The Czech government contributed 15% of HMC's investment. In addition the government offered various kinds of infrastructure nearby the area and provided government land to HMC below the average market price. In total, HMC received 20 million euros and in addition "corporate tax was reduced by 1.3 billion CZK, offers 200thousand CZK per employment Hyundai creates, subsidy for employee training is provided by 35 million CZK, difference of land supply in low price reaches 74 million CZK, government can subsidize maximum 2.4 billion CZK according to investment scale (once a firm's investment reaches 32 billion CZK), local government pay instead maximum 30 million CZK when penalties for environment control occurs, local government purchases an office Hyundai needs during construction period of plant."[71]

Another main reason why HMC had entered Czech was mainly because to enter the European market. There was no reason for the Europeans to purchase Hyundai products with the high price due to incredibly high tariff on imported cars.

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[70] Kim N.H. (2010).
[71] Kim N.H. (2010).

Competing with Mercedes, BMW, Audi and other European brands was impossible for HMC. Therefore, exporting Hyundai's product to Europe was not acceptable. The only way they could compete and enter the market was to study the local wants and needs and more importantly to get exempted from the high tariff. To get tariff exemption, HMC had to build a manufacturing plant. Before the EU accession, the automobile products that were produced in CEE countries had 10% tariff that were exported to the western part of Europe. However, after the EU accession, the whole 10% tariff became exempted. Due to this, HMC was able to enjoy the non-tariff system in EU and enabled them to enlarge their market share. Since most of the European car brands were high end products, HMC decided to target the lower class people and started manufacturing reliable and cheaper products to the people's need.[72]

1-5. Hyundai in Russia 2010

After succeeding in making the plant in Czech, HMC saw a great opportunity and potential in the European market. They decided to expand their overseas production especially focusing in the European market by entering Russia. HMC already had a good business with Russia but only through exporting over 20 years. Their first dealership in Russia was in 1992. They first released Hyundai Accent, and as the popularity increased they slowly enlarged the choices. HMC enlarged product options to Elantra XD, Sonata, Santa Fe Classic and Porter.[73] In addition HMC

[72] Kim N.H. (2010).
[73] Invest in Russia.

was the top selling foreign automobile company in Russia ahead of Japanese automobile companies such as Toyota and Honda. Due to this large potential in Russian automobile market, HMC made confirmation with the Russian government to make their first plant with an annual capacity of 100,000 units.[74] This plant was named Hyundai Motor Manufacturing Rus LLC (HMMR) which was HMC's sixth overseas manufacturing facilities right after Czech. This plant was also Russia's first "full-cycle plant of a foreign car manufacturer"[75] The environment to make a full-cycle production facility was very beneficial to HMC because the related and supporting industries were abundant and they could cooperate well with the Russia local companies. In addition, there was an industrial park where seven of the HMC's suppliers already existed just two kilometers away from the newly planned manufacturing site. The suppliers were the following; "Deawon, Donghee, Doowon, Sejong, Shinyoung, NVH, Sungwoo Hitech."[76] Despite these suppliers, HMMR was able to engage good relationship with the local suppliers as well. By 2015, the collaboration rate with the local suppliers reached up to 46 percent.[77]

The main car that was produced in Russia was the product called "Solaris". Solaris was Russia's most loved product and it had a lot of popularity amongst the domestic market. Followed up by Solaris, HMMR also produces / assembles Accent, Creta and Equus.[78] In the same production site, they also produced their sub brand

[74] BBC Monitoring Asia Pacific (2007).
[75] Global Hyundai PR. (2010).
[76] Global Hyundai PR. (2010).
[77] Global Hyundai PR. (2015).
[78] Russia Beyond The Headlines. (2016).

KIA model called Rio. This was the first production where they produced both HMC and KIA products in the same facility. By 2015, HMC produced their one millionth Solaris product. This was a great achievement for HMMR, and both the company and Russians were able to share the happiness. HMMR was able to produce and sell their products well, while the company also created approximately 7000 new jobs for the Russians. In addition HMMR had received several awards such as the "Efficiency award from "S*t. Petersburg Chapter of the American Chamber of Commerce* for achieving significant sales results in the Russian market, meeting high standards of business-ethics and the willingness to overcome the difficulties."[79] In addition, in 2014 they had also won the "Russian Federation Quality Award as a reliable manufacturer of high-quality and competitive products."[80]

HMMR's business has been very successful. They have not only succeeded in entering Russia but have been the top automobile company. They have defeated their biggest rival Toyota and the future of HMMR seems to be bright. HMMR has enlarged their market using Russia to reach out to the neighboring countries. HMMR is exporting their products from Russia to countries such as Middle East countries, Egypt, Lebanon, Kazakhstan, Belarus, Ukraine, Azerbaijan, Armenia, Kyrgyzstan, Moldova, Tunisia and Georgia. By looking at these results, although HMMR did enjoy the efficiency seeking activity, they were more beneficial with the market seeking activity

[79] Global Hyundai PR. (2015).
[80] Global Hyundai PR. (2015).

that brought them to enlarge their market share in the European countries.[81]

1-6. Hyundai in Brazil 2012

Brazil was the last country HMC had entered to produce the manufacturing facility up to date. This means that HMC had entered all the emerging market countries which are widely known as BRICs (Brazil, Russia, India and China). Hyundai Motor Brasil (HMB) was established in 2012 and held its grand opening ceremony in November. Their new Brazilian site was located in Piracicaba, Sao Paolo with total investment of $700 million U.S. dollars. HMB's main product to be sold in Brazil is HB20 followed up with two other models; HB20X and HB20X sedan, which were produced exclusively for the Brazilian automobile market. HB20 was very popular amongst the Brazilians and in 2013; model HB20 had won the Brazilian Car of the Year. The production capacity increased to 150,000 units per year and they tend to increase slowly by adjusting to the market trend. Once again, HMB succeeded in utilizing the local resources such as the suppliers and the workers. Due to this, HMB's plant created 20,000 indirect local jobs according to the estimation of the local officials.[82]

Currently, Brazil's economy has been rising and many people believe that it is the economy of the future for South America. In addition Brazil is also the fourth-largest national automobile market in the world. However, Brazil's automobile market

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[81] Russia Beyond The Headlines. (2016).

[82] Global Hyundai PR, (2012).

is rather strange compared to other automobile markets in the world. General Motors (GM) were the first to enter a Portuguese speaking country, however they faced many problems. One the main problem was the controlling of the government. In the early 1990s high-end car brands were dominating the market despite their poor economy; however, the government did allow cheaper cars to enter the country. After time had passed, the government suddenly supported the compact cars known as the "Popular Car Program" so that lower class people could also afford their own transportation. Due to this, within few years compact cars became very popular. This is the reason, why HMB created products that exclusive to the Brazilian market so that it could provide the local needs and to give maximum value to the customers. HMB was successful in search for the local wants, therefore was able to produce such products.[83]

HMB has been successful so far and they have made great achievement in having good relationship with the government and being close with the local people. The company kept maintaining good reputation to the people not just by the products, but the engagement with the Brazilian social activities. Despite all the success and good relations in Brazil, the market had showed stunning experiences which HMB should always be aware of. For example, in 2012 3.6 million cars were sold in Brazil; however in 2016 only 1.9 million cars were sold. The sales in the Brazilian market fluctuate too much that heavily affects automobile industries.[84] However, this dynamic economy may also be a great opportunity for the automobile industry because it may

[83] P.E. (2012).
[84] DeBord, M. (2016).

generate a big number of new car buyers in the future unless the government "cuts down on consumer incentives that have been propping up [the] automotive demand."[85] Therefore, HMC should be careful with the dynamics of automobile industry in Brazil. This dynamic economy will keep continuing until the economy becomes stable which will probably take a while and the best thing HMB can do is to maintain good relationship with the government and the society, which they have been doing well until now.

Implication

Now that the paper has gone through the empirical analyzes of all the FDI HMC have done, the investment in Brazil, Russia, India, China, Czech and Turkey can be classified in the third stage of the framework. The investment in the different countries can be classified as the third stage because they have similar purposes. The two main purposes that are similar in those countries are investment that relates with market-seeking and efficiency-seeking activities. Akcaoglu and Erol (2011) restate the importance of these two activities. "Market-seeking FDI aims to retain an existing export market or to enter into a new one. This type of FDI is undertaken if an exporting firm finds it more beneficial to relocate its production to the country to which it was earlier exporting. By doing so, a MNC can avoid tariffs and other cost-raising barriers and, therefore, increase its profitability. The major factors that encourage market-seeking FDI are the size and growth potential of the host country's market, or its

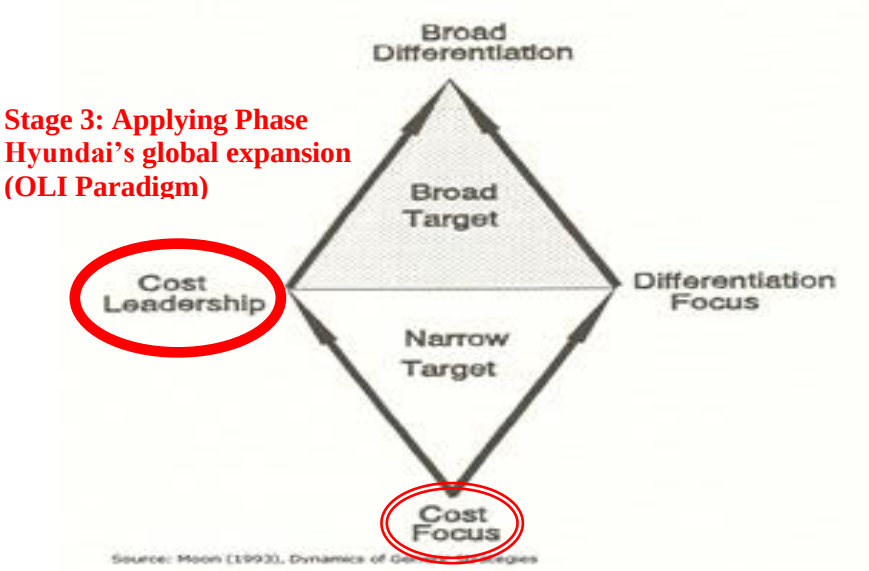
[85] P.E. (2012).

potential to be used as an export platform for the regional or global market. With regard to the latter, the growth potential of the regional market would be the key. This point is particularly related to our argument here as HMC was aiming to use the potential FDI location as a regional export platform for the European market. … Efficiency-seeking FDI is made if a MNC can get efficiency gains by investing in a foreign location. This could be related to productivity-adjusted labor costs, abundant skilled labor, business services, physical infrastructure, or the host country's trade policy. For instance, the reduction of trade costs between the European countries in the 1990s encouraged American and Asian firms serving European markets to relocate their production plants in European countries to construct export-platforms."[86]

The investment in the six countries started after HMC had gained better portfolio balance from the investment in U.S. (Stage 2 of the FDI). After applying the technologies that they have absorbed, they were able to become successful in all the six individual countries. As they gained experience in each of the different countries they were becoming better and able to utilize their global value chain. Figure 11 below, shows how HMC's strategy had evolved from cost focus to cost leadership.

[86] Akcaoglu, E. and Erol,C. (2011).

<Figure 11> Dynamics of Generic Strategies: Cost-leadership Strategy & FDI Market Seeking

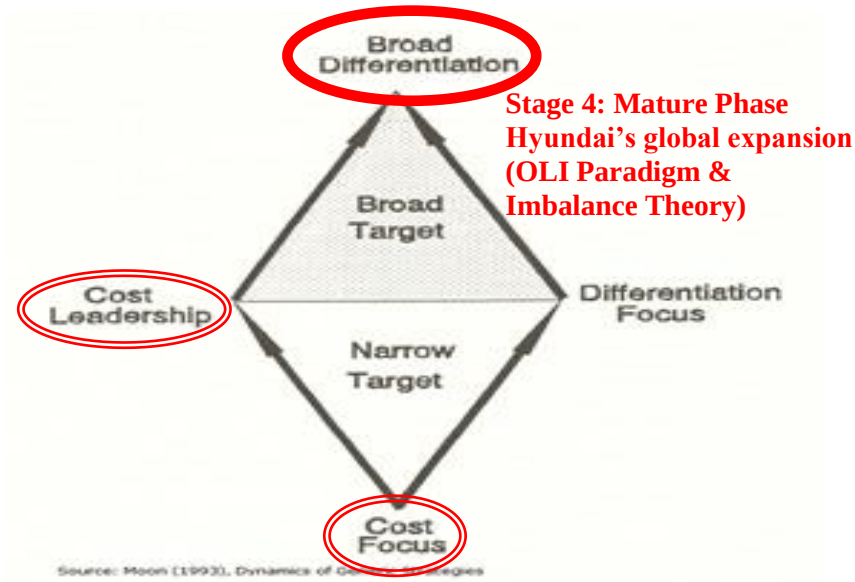


4. Hyundai final stage of FDI (Broad Differentiation, OLI Framework & Imbalance Theory)

Now that HMC has maximized its potential in the third stage, now they have the ability to move on to the next stage, which is the broad differentiation strategy. According to Moon (1993), a firm should change their strategy to maximize their potential and broad differentiation is the "final destination of strategy … where firm seeks to be unique in the industry and at the same time serves a broad competitive scope. An important implication at this stage is that broad cost strategies should encompass differentiation strategies, while differentiation should encompass cost

strategies."[87] Figure 12 below, shows the final step in dynamic model of the generic strategies where the author categorizes this as the mature phase and how HMC's strategy have evolved from cost focus, to cost leadership and finally to broad differentiation. In addition, in the process of moving their strategy to the final stage, HMC introduces the luxury line by creating two new products; Genesis and Equus.

<Figure 12 > Dynamics of Generic Strategies: Broad Differentiation Strategy, OLI framework & Imbalance Theory



Genesis was first announced in 2008, which was categorized as a premium sports sedan. Up to now, Genesis went through two generations. The first generation

[87] Moon. (1993).

was from 2008 to 2013, and the second generation started in 2013 up to present, which is now called G80. Equus is classified as the luxury vehicle of HMC. Equus was first launched in 1999 and their main target was to compete with BMW 7 series and Mercedez Benz S class. However, competing with the high end brand cars was not impossible in reality. Up to now Equus went through three generations and where the first generation was mainly sold in Korea because in the foreign countries the car was not popular at all. The second generation Equus was introduced in 2009 and this time the popularity of the car was surprising. For ten years, HMC had invested heavily to create the luxury vehicle and the product itself was changed dramatically that it was hard to believe it was an Equus. After seven years, HMC introduced the third generation of Equus in 2016, rebranding Equus as G90. HMC rebranded the luxury line up as G from Genesis.[88]

The last stage can be known also as the mature phase, since it has passed all the previous stages of the FDI. Passing each stage is like a mini test for the company, to see whether they have the potential to move up to the next stage. If they are successful and build a stronger business portfolio at each developmental stage, then they are ready to proceed to the next stage.

In the last stage, broad differentiation strategy, HMC uses both the Eclectic Paradigm and the Imbalance Theory. Firstly, it uses the Imbalance Theory to learn the technology from elsewhere. In the case of HMC, the design of the product's body took over three years costing the company over 500 million U.S. dollars. HMC

[88] Hyundai Genesis Blog. (2017).

benchmarked BMW's 5 series and learnt all different kinds of technology from BMW. In addition, Equus's first generation model's technology was also learnt from Japanese automobile company, Mitsubishi. Genesis in general also took heavy investment in their design. They hired Luc Donckerwolke, the current head designer of HMC, who previously worked in Audi, Bentley, and Lamborghini.[89] Despite all this kind of investment, HMC invested heavily in other parts as well in different parts of the world. As mentioned above, HMC had technical research centers around the world and this may be the main reason how HMC was able to make it to the final stage. This kind of action and experience can be explained once again through the Imbalance Theory. However, in the final stage, HMC uses both the Imbalance Theory and the Eclectic Paradigm. Next, HMC relocated the luxury line production site to Korea because it was too costly to locate in North America, Europe and Japan. Relocating the production site back to Korea was the optimal solution for cost saving. Therefore, considering all the benefits and the cost, HMC decided to locate back in Korea and once again this kind of action can be explained through Dunning's Eclectic Paradigm.

[89] Handi. (2016).

CHAPTER V. IMPLICATION

This paper has reviewed HMC's entire successful story in regards to FDI. There are several important implications that can be asserted to HMC's successful FDI strategies in the developmental stages. Reviewing once more, this study has combined both FDI theories and business strategy to explain the success factors of HMC. As a firm entering into a new industry at an entry level, it will go through four important stages in the initial development with different strategies.

The first stage is known as the preparation stage. This is a tough stage for all firms since they have many constraints such as "technology, capital, or experience".[90] In addition usually firms enter the home market first because they have the advantage by the government and the local customers. In the case of HMC, the Korean government gave them a lot of aid and kept supporting them.. Next, they will undergo a test by the local people, and if the product is successful and delivers that value the customer needs then it has potential. Once they have gained this potential they must continuously improve and create better products in return to show gratitude to the local customers. A company should keep investing and do what they can in the home market before making a FDI.

According to Porter "With a cost focus [strategy], a firm seeks a cost

[90] Moon. (1993).

advantage in its target segment".[91] At this point, a firm needs to find and enter a location and this can be best explained with the Imbalance Theory, because a firm is seeking to balance their portfolio whether it is a downstream or upstream investment. In the case of HMC, they made an upward investment where they could learn the technology from the bigger players in the largest market. At the current stage, the product must be differentiated from the existing market products in order to absorb more customers. In the case of HMC, since they lack technology, all they can do is to create the product as cheap as possible to make it attractive to people and to target the market that hasn't been touched. However, HMC's real motivation when entering the U.S. was not to gain market share and to maximize profit. Their main intention was entering the big market in order to learn the skills and technology to enhance their products' quality. This type of action by HMC can be best explained by the Imbalance Theory. Depending on the size and the industry of the firm, the timespan of learning and absorbing the technology will differ and it will usually take a significant amount of time. The timespan would be different because some may be easy to learn while some may not. In the case of Hyundai, it took approximately twenty years to learn the technology in the largest automobile market until they were able to fully apply the technology and to increase their market share around the globe. After twenty years of heavy investment and learning HMC products finally became popular in the global market. After this moment, the brand image of HMC soared and the popularity of their products greatly increased. Now that HMC has shown great potential at this stage in

[91] Moon. (1993).

the automobile industry, they are ready to advance into the next stage.

Now a firm moves to the cost leadership stage. This stage is rather complicated and can experience when a firm has a well balanced portfolio. Therefore, after a firm learns the skills and technology, they should utilize them and be able to produce better products. Now that a firm has the ownership advantage, they are ready to go abroad. This type of action can be explained with the Eclectic Paradigm.

In the case of HMC, going to Turkey, India, China, Czech, Russia, Brazil best describes as the cost leadership stage and can be best explained by the Dunning's Paradigm. Firms naturally choose locations that fit best with their portfolio to minimize the cost of production. At this stage, the most important factor is to minimize cutting the cost; therefore firms usually enter less developed countries or the emerging market. However, before entering a foreign country a firm must have a proper study of the country and to see whether the country provides the needs and basic requirements for the company in order to sustain the competitive advantage. This is how a firm cuts the cost of their product to gain competitive advantages against the competitors. However, despite the cheap cost of manufacturing a company may enter foreign market for market-seeking activities.

In the case of HMC, as seen in the empirical analysis, they developed and produced quality cars that the specific country needed in order to satisfy the local customers. This stage probably takes the longest time because they have to adapt to the foreign country's culture and have good relationship with the government. Once it succeeds in entering the market, slowly the market becomes saturated. Once the

companies have reached the limit, they must enlarge their portfolio in another way which is finally by entering the last stage, which is broad differentiation. By entering the last stage, in the case of HMC, they created the luxury line up to compete with the high end products.

Once a company has reached this state, they can be defined as a Global Company or Multinational Corporation. After the company has experienced cost leadership, they wish to choose a different segment of the market; usually the more luxurious industry. In the case of HMC, they created the Genesis luxury brand. However, before being able to introduce the luxury brand, HMC again undergoes the same developmental stages. Therefore at this stage, HMC experiences can be best explained with the combination of both Imbalance Theory and Eclectic Theory. HMC benchmarked and learned the technology from the luxury car brand such as BMW, Audi and etc. However, this time they are able to learn with less risk because they have all the needs like balanced portfolio, required facilities and related resources. In addition since HMC is a global company they should have a well-made portfolio in the global value chain. This is very important because this allows the company to utilize their facilities at the maximum potential around the globe. At this point, one of the most important factors to emphasize is the R&D centers. Like the past, HMC must once again learn the skills and gain technology in order to create the high end products. Therefore, it is repeating what they did in the U.S. where they made a heavy investment in order to create better products. Once a company gains the technology, they can easily access their plants worldwide to create their differentiated product at a

cheaper price. This kind of system would be very effective to their business portfolio and is one way to maximize the global resource. In addition this kind of action would be best described by the OLI framework, since it is relocating the manufacturing facilities. In the case of HMC, they relocated back to their home country Korea, because that was the optimal solution for company.

One final and important implication to be made is the level of importance in the four different developmental stages. Every stages is equally important to the firms development, however by looking at the great achievement of HMC, there is one stage that should be more emphasized than the others which is the cost focus stage. This stage was the most important and had the great contribution to HMC's success because without the investment in the U.S. they would not have been as successful as they are currently. By entering the U.S. they were able to open the company's vision in the automobile industry. Since U.S. was the largest automobile market, HMC were able to learn and stay with all the global automobile companies and learn from the spill overs. In addition the theory that can best explain HMC's FDI to the U.S. is with Moon's Imbalance Theory. With this theory, it explains and clearly shows the intentions of HMC's FDI to the U.S.

CHAPTER VI. CONCLUSION

Previously, there have been studies on HMC in a single country's success case or comparison with other automobile company cases. There has not been a study on the holistic view of HMC's entire successful story and how they were able achieve the tremendous accomplishment. Therefore, this thesis's main purpose was to find the true root of HMC's success and how they were able to achieve it and what kind of business theory and strategy that could fully explain their achievement. More importantly, most of the HMC's FDI cases concentrate on a single country and how they succeeded in that location. These success cases mostly studies the micro level factors in detail however, none of the studies have yet praised and emphasized the key root of the company's success.

HMC's first FDI was to the U.S., and who could ever imagine such action like this? If it was Dunning himself, he would have never made the same decision as HMC did. HMC violated Dunning's theory but proved to be successful. Next, Porter mentions in his generic strategy theory that a firm should not change their strategy but remain in one strategy. HMC started with cost focus; however, as time passed by they went through all of the three strategies in the generic strategies model. Once again, HMC had violated Porter's theory but still proved to be successful until now. HMC have violated two worldly famous business scholars and still proved to be success. Therefore, this paper have reviewed extended framework of the two famous scholars

by Moon to fully illustrate the success of HMC.

This paper have used two FDI theories by Dunning and Moon, OLI Framework and Imbalance Theory, respectively, combining it with Moon's extension of Porter's generic strategies to better illustrate and prove HMC's success factors. In addition this thesis has studied HMC's FDI success factors and classified four different developmental stages; preparing stage, learning stage (mix of cost focus strategy and Imbalance Theory), applying stage (mix of cost leadership strategy and Eclectic Paradigm) and lastly the mature stage (broad differentiation strategy and both Imbalance Theory and Eclectic Paradigm). Preparing and the learning stage took HMC approximately twenty years and after that there were able to use the technology and apply it for twelve years. Lastly, which HMC is currently on, the maturing stage is on its thirteenth year. HMC is investing a lot in the luxury line up and they have set up a goal to increase the variety of the luxury products.

To sum up in short; a firm enters a new market (home) where they can enjoy and take the advantage of the homes resource, while they keep learn, improve and get experience in the industry. Once they gain the minimum requirement of the industries' knowledge, they have the option to invest in the foreign country. If they lack something, they should move to a country where they can learn the technology by investing in that country (Imbalance Theory, Cost Focus). Once they absorb the technology, the company should seek a larger market preferably by moving into foreign country where the market is less saturated and to satisfy the local demand (OLI Framework, Cost Leadership). Lastly they enter the final stage, where they choose to enter the usually

the high end segment. They relearn the technology for the high end products and then relocate their manufacturing site at the place where they can create the product without lessening the quality. (Imbalance Theory & OLI framework, Broad Differentiation).

HMC has been very successful all around the globe. Once again, Hyundai-Kia now ranks fifth in the global sales as of 2015, and with all the numerous and never ending effort have brought them to a great successful. HMC ambitious business mindset still continues today and remains to have great potential to be even more successful in the future.

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국문초록 (Abstract in Korean)

현대자동차는 1980년대부터 현재까지 해외직접투자에 큰 성과를 거두어왔다. 현대자동차의 해외직접투자 성공전략을 연구하기 위해 기존의 여러 연구들이 구체적인 국가 또는 케이스에 집중하여 살펴보았지만, 넓은 관점에서 현대자동차의 해외직접투자의 성공요소를 전체적으로 분석한 연구는 아직 없다. 현대자동차의 전반적인 성공전략을 분석하기 위해, 본 연구는 현존하는 경영분석 전략과 해외직접투자 이론을 토대로 현대자동차의 해외직접투자 초기진출부터 현재까지의 과정을 기업레벨에 (firm-level) 초점을 두어 실증적 분석을 한다. 구체적으로, 본 논문은 마이클 포터의 본원적 전략을 확장한 문휘창의 본원적 경쟁 전략 역학을 바탕으로 현대자동차의 전체적인 성공사례를 네 발전단계로 나누고, 첫 단계를 제외한 나머지 단계를 설명하는 과정이론으로 존 더닝의 절충이론과 문휘창의 임밸런스 이론을 차용한다.

네 가지의 발전단계는 다음과 같이 요약된다. 첫 번째 단계는 준비단계, 두 번째 단계는 집중화 전략 단계, 세 번째 단계는 원가우위전략 단계, 그리고 마지막 단계는 브로드(broad) 차별화 전략 단계이다. 첫 번째 단계는 내수시장에서의 준비 단계로써 해외직접투자 이론이 직접적으로 적용될 수 없다. 하지만, 두 번째와 세 번째 발전단계는 존 더닝의 절충이론

과 문휘창의 임밸런스 이론으로 각각 설명하며, 마지막 발전 단계에서는 두 이론을 모두 적용한다. 네 가지 발전단계가 모두 현대자동차의 성공을 이끌어왔지만, 본 논문은 두 번째 발전 단계가 가장 큰 역할을 했다고 주장한다.

주제어: *해외직접투자, 절충이론, OLI 모델, 임밸런스 이론, 본원적 경쟁 전략 역학, 현대자동차*

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