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Volvo's Deep Localization in China: Challenges and Strategic Pathways for Enhancing Competitiveness

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Abstract. China has become an important market for multinational automobile companies, but increasing competition and rapid changes in consumer demand have made localization more important. This study examines the process, challenges, and strategic pathways of Volvo's deep localization in China. Based on a literature review and comparative case analysis, the study applies the concepts of liability of foreignness, local embeddedness, localization, knowledge transfer, and non-market strategy to analyse Volvo's development in the Chinese market. The findings show that deep localization should move beyond production and include management, R&D, supply chains, local knowledge, and stakeholder relationships. However, Volvo still faces challenges from market competition, changing consumer demand, technological transformation, foreignness, and geopolitical uncertainty. The comparison between Hyundai and Volkswagen demonstrates the importance of developing strong local value chains and responding quickly to local market conditions. The study therefore argues that Volvo should strengthen local decision-making, develop Chinese R&D and innovation networks, improve local stakeholder relationships, and combine its Swedish brand identity with a more culturally embedded non-market strategy. These measures can help Volvo reduce the liability of foreignness while turning local capabilities into a source of long-term competitiveness.

Keywords: Localization, Foreignness, Embeddedness, Innovation, Competitiveness

1. Introduction

The Chinese automobile market has become an important market for multinational enterprises (MNEs). At the same time, competition in the market has become more complex because consumer preferences, technologies, and business environments are changing rapidly .In the case of foreign automobile companies, entry into China and localization cannot be limited to mere entry into the Chinese market or localization of production alone. This is because localization needs to take place in areas such as manufacturing, management, research and development, logistics, marketing, and stakeholder relations as well. Lee et al. prove their claim through a comparison between Hyundai and Volkswagen in India [1]. It is found from the study that localization will create benefits for organizations, and lack of localization creates problems [1].

Localization of foreign organizations is related to the liability of foreignness. According to Lu et al., liability of foreignness occurs due to the emergence of unfamiliarity, relational, and institutional

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disadvantages associated with multinational corporations [2]. However, at the same time, the authors note that foreignness does not have to be necessarily negative and under certain conditions, foreignness can be used as an advantage when the organization manages its identity [2]. This issue is especially relevant for Volvo that has a strong Swedish identity and global brand name. Despite the fact that the Swedish identity adds value to the global brand of Volvo, it can be perceived as foreign.

Embeddedness within the locality also provides another perspective from which to understand deep localization. According to Vanninen et al., firms may achieve higher integration into host locales via presence, activities, people, and hiring locally [3]. Embeddedness allows firms to derive resources and knowledge from the local environment and to establish connections between the subsidiary and the local environment [3]. In this sense, deep localization is more than just the transfer of manufacturing processes to China but should include building lasting ties with local workers, suppliers, customers, technology firms, and other stakeholders.

The importance of local knowledge building can also not be underestimated for multinational firms. Subsidiaries can act as sources of knowledge instead of mere recipients of knowledge from their headquarters. Reilly et al. prove that coordination in subsidiaries can help in knowledge transfer, while disruption in relations between subsidiaries can become an obstacle to knowledge-sharing activities [4]. In other words, China should be considered not only as an important sales market for Volvo, but also as a possible place where innovations and local knowledge can arise. It means that local R&D capacity can allow Volvo to react to changing demand in China more quickly and generate new knowledge at the same time.

In addition, the localization processes of Volvo cannot be separated from its larger institutional and social setting. MNEs need to manage their dealings not only with government but also with communities, employees, customers, and other stakeholders in different countries. According to Sun et al., the MNE faces an "institutional and stakeholder environment unique to each country" that calls for the implementation of suitable non-market strategies [5]. Furthermore, according to Shirodkar et al., MNEs need to embrace a culturally sensitive and values-driven approach towards non-market strategy, especially in an ever-changing global landscape [6]. Taken together, all these views suggest that localization requires dealing with social and institutional relations alongside economic relations.

In light of this situation, the current research examines the level of localization of Volvo in China by raising three important questions. Firstly, what has been the development of localization of Volvo in terms of manufacturing, management, research and development, supply chain management, and embeddedness in the local setting? Secondly, what barriers might affect its localization and competitive advantage in China? And thirdly, what actions should be taken by Volvo in order to enhance its local capabilities without losing global advantages? For the purpose of answering the above questions, the current research utilizes both literature review and comparative case study analysis. The example of comparative case study between Hyundai and Volkswagen can provide some insights into both positive and negative impacts of different localization policies.

The rest of this paper is structured in the following way. Section 2 provides a literature review to build the theoretical background for the research. In Section 3, the process of deep localization of Volvo in China will be analyzed. In Section 4, the major problems faced by Volvo will be covered. In Section 5, strategies to implement deep localization will be offered.

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2. Literature review and theoretical foundation

2.1. Localization and liability of foreignness

Localization can help multinational enterprises adapt to the specific conditions of host markets. Lee et al. show that the performance of Hyundai and Volkswagen in India was influenced by their different approaches to localization [1]. Hyundai developed a stronger local value chain and responded more effectively to local market conditions, while Volkswagen faced disadvantages from slower localization [1]. The above comparison implies that localization is not confined to production processes but also includes the creation of a local supplier base, business network, market intelligence, and related competencies. The meaning for Volvo is that localization in China should take into account the whole business system and not only production processes.

Concept of Liability of Foreignness is a helpful concept for explaining the significance of localization in multinational organizations. According to Lu et al., foreign companies can face unfamiliarity, discrimination, and relationship problems due to the foreignness of their identity and differences between the home country and host country [2]. However, foreignness can be advantageous to the company if it manages its identity and resources appropriately [2]. Hence, Volvo does not have to shed its Swedish identity but reduce negative impacts of foreignness through building local competencies and strong local connections.

2.2. Local embeddedness, knowledge and innovation

Another dimension of explanation of how multinational subsidiaries could strengthen their positions in host countries is local embeddedness. Vanninen et al. prove that companies become embedded because of their local activities, personnel, recruitment, and relationship with the environment [3]. Through the process of embeddedness companies receive access to the local resources and knowledge as well as build connections with the local stakeholders [3]. This factor is especially important for Volvo since with the increase in localization companies need to integrate even more with the Chinese business environment.

Knowledge transfer becomes another crucial element in case of deep localization. Local subsidiaries can obtain knowledge related to customers, suppliers, technologies, and market situation which might not be known in the headquarter. Reilly et al. stress that cooperation of subsidiaries helps with knowledge transfer whereas breakdowns in cooperation can prevent it from occurring [4]. Thus, local research and development cannot be viewed as the function of the support of the Chinese market alone but it can be the source of knowledge for Volvo worldwide. The example of Hyundai provided by Lee et al. confirms that the strengthening of local capabilities allows a foreign car company to react better to changes on the market [1].

2.3. Nonmarket strategy, trust and local legitimacy

Deep localization also involves relationships with the wider institutional and social environment. An et al. find that MNE subsidiaries can use non-market strategies to respond to institutional challenges and build legitimacy through relationships with multiple local stakeholders [7]. Although their study focuses on a different institutional context (Cameroon), its core insight—that CSR and CPA can serve as complementary tools for gaining social acceptance—is broadly applicable to Volvo's situation in China [7]. Their study shows that corporate social responsibility (CSR) and corporate political activity (CPA) can be used as complementary strategies to develop social reputation and

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gain social acceptance in the host market [7]. This suggests that localization is not limited to economic and operational activities. For Volvo, developing stronger relationships with governments, employees, customers, communities, and other local stakeholders can therefore become an important part of deeper localization.

The literature also shows that non-market strategies need to be adapted to the local institutional environment. An et al. argue that MNE subsidiaries need to adjust their social and political strategies according to the demands of different stakeholders, while inappropriate or overly close relationships with political actors may also create legitimacy risks [7]. Peprah et al. similarly show that non-market strategies can help firms address legitimacy problems in institutionally challenging environments by developing relationships with relevant stakeholders and strengthening trust and political support [8]. This is particularly relevant to foreign firms because they may face trust deficits and liabilities of foreignness in host countries [9]. Therefore, Volvo should not rely only on its international brand reputation. Instead, it should develop long-term and locally embedded relationships with Chinese stakeholders and combine CSR, stakeholder engagement, and other non-market activities with its broader localization strategy.

2.4. Research gap and chapter summary

Existing studies provide useful explanations of localization, foreignness, embeddedness, knowledge transfer, and non-market strategy, but these perspectives are often examined separately. While Lee et al. study localization and automobile performance, Lu et al. discuss foreignness and management of foreign identity [1, 2]. Moreover, Vanninen et al. focus on local embeddedness while Sun et al. and Shirodkar et al. on non-market strategy and institutions [3-6]. Besides, Reilly et al. additionally consider the importance of subsidiary collaboration and knowledge sharing [4]. Altogether, these works present a strong theoretical background, but they fail to show how these particular aspects can be used together to explain the phenomenon of deep localization of a foreign premium automobile company in China.

This paper tries to fill the gap and integrates the perspectives mentioned above for studying deep localization of Volvo. It defines deep localization as the process including organizational localization, development of the local value chain, R&D and knowledge integration, brand identity, and stakeholder relations. This conceptual framework is the basis for analyzing the history of localization of Volvo, challenges faced by the company and possible ways of its development, which are described below.

3. The process of deep localization of Volvo in China

Volvo's localization in China has gradually expanded from production localization to deeper localization in management, R&D, supply chains, and brand identity.

3.1. Organizational and management localization

3.1.1. Localization of management

Local management can help Volvo better understand Chinese institutions, consumers, and business practices. Vanninen et al. show that local employees, key personnel, and embedded operations can strengthen a multinational subsidiary's connection with its host environment [3]. This insight can be

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applied to Volvo's management localization. Therefore, increasing the role of Chinese managers can improve local responsiveness and help reduce the liability of foreignness.

3.1.2. Organizational localization and legitimacy

Organizational localization can improve both operational adaptation and corporate legitimacy. Zhang et al. show that foreign firms can face a trust deficit and liability of foreignness in host countries [9]. This provides a useful analogy for Volvo as a foreign company in China. Volvo can therefore strengthen its ties with local employees, management, and other stakeholders in order to improve local legitimacy.

3.2. R&D, production and supply-chain localization

3.2.1. From production to value-chain localization

Deep localization should involve not only production but also R&D, suppliers, and local business networks. Lee et al. compare Hyundai and Volkswagen in India and find that Hyundai's earlier development of a local value chain contributed to stronger market performance [1]. In contrast, Volkswagen's slower localization demonstrates the risks of relying too heavily on a purely global strategy.

3.2.2. Local R&D and market adaptation

Local R&D can help Volvo respond more quickly to Chinese consumer demand. The Hyundai–Volkswagen comparison shows that Hyundai's stronger localization enabled better adaptation to local market conditions, while Volkswagen's delayed localization created disadvantages [1]. These cases provide a useful comparison for Volvo's further development of Chinese R&D capabilities.

3.2.3. Local supply chain and competitiveness

A strong local supply chain can reduce costs and improve market responsiveness. Lee et al. show that Volkswagen's weaker local supply-chain development created disadvantages in the Indian market, while Hyundai benefited from a more integrated local value chain [1]. Volvo can therefore strengthen relationships with Chinese suppliers and local partnerships to improve competitiveness.

3.3. The dual identity of "Swedish brand + Chinese resources"

3.3.1. Swedish identity as both advantage and disadvantage

Volvo's Swedish identity provides global brand value but may also create a liability of foreignness. Lu et al. show that national origin can influence how foreign firms are perceived in host countries [2]. Therefore, Volvo needs to maintain its Swedish brand characteristics while reducing the negative effects of such perception.

3.3.2. Combining global and local resources

Volvo can combine its global brand advantages with Chinese resources in R&D, supply chains, and market knowledge. Lu et al. point out that foreignness can sometimes become an advantage rather

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than only a disadvantage [2]. Their argument suggests that Volvo should pursue a "global brand + local capability" strategy rather than completely abandoning its foreign identity.

4. Challenges facing Volvo's deep localization

Although Volvo has achieved substantial localization in China, intensified competition, changing consumer demand, technological transformation, and foreignness-related challenges continue to limit its competitiveness.

4.1. Market competition and consumer demand

4.1.1. Intensifying market competition

Foreign automotive firms need strong local capabilities to compete effectively in emerging markets. Lee et al. show that Volkswagen struggled in India partly because of insufficient localization, while Hyundai performed better through deeper localization [1]. This contrast provides a useful comparison for understanding Volvo's need to continuously strengthen localization in China.

4.1.2. Changing consumer demand

Localization needs to cover the entire customer experience rather than only manufacturing. Volkswagen's Indian experience shows that delayed localization negatively affected products, marketing, service networks, and customer experience [1]. Volvo therefore needs to respond more closely to rapidly changing Chinese consumer preferences.

4.1.3. Challenges to traditional brand advantages

Traditional advantages such as safety and premium positioning are no longer sufficient in the rapidly changing automotive market. Lee et al. emphasize the importance of local innovation and value-chain development for automotive competitiveness [1]. Volvo therefore needs to combine its traditional brand strengths with capabilities in new-energy and intelligent-vehicle technologies.

4.2. National identity and brand trust

4.2.1. Liability of foreignness

Volvo's foreign identity may create additional challenges in building trust with Chinese consumers and stakeholders. Lu et al. argue that nationalism and changes in international relations can strengthen the effects of foreignness [2]. Therefore, deeper local embeddedness can help Volvo reduce the perceived distance from the Chinese market.

4.2.2. Economic nationalism and geopolitical risks

Increasing economic nationalism creates additional uncertainty for multinational enterprises. Lu et al. and Shirodkar et al. both emphasize the growing importance of nationalism, geopolitical uncertainty, and anti-globalization pressures [2, 6]. Sato and Panibratov further show that disruptive events can increase institutional costs and uncertainty for foreign firms, while firms may respond by developing new firm-specific advantages and strengthening cooperation with relevant actors [10]. Volvo therefore needs to consider both national identity and institutional risks as part of its

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localization strategy, particularly when geopolitical tensions and economic nationalism create uncertainty around foreign brands.

4.2.3. Brand trust and local identification

Foreign firms may face a trust deficit even when their products are competitive. Zhang et al. show that trust deficits and liabilities of foreignness can affect multinational enterprises in host countries [9]. This provides a useful cross-national analogy for Volvo. This suggests that Volvo needs to build long-term local relationships rather than relying only on its international brand reputation.

4.3. New-energy and intelligent transformation

4.3.1. Rapid technological change

Rapid technological change requires Volvo to strengthen local innovation capabilities. Lee et al. show that local innovation and value-chain development can improve firms' ability to adapt to market changes [1]. Given China's leading position in new-energy and intelligent vehicle technologies, Volvo should therefore view China not only as a sales market but also as a strategic base for developing local R&D capabilities to keep pace with technological shifts.

4.3.2. Risks of insufficient local R&D

Insufficient local R&D may reduce Volvo's ability to respond quickly to Chinese market changes. The Volkswagen case in India demonstrates how delayed localization can weaken product adaptation, while Hyundai's stronger localization produced better results [1]. This comparison highlights the importance of further strengthening Volvo's Chinese R&D capabilities.

5. Strategic pathways for Volvo's deeper localization

Volvo should move from relatively extensive localization to deeper strategic embeddedness by strengthening local decision-making, innovation capabilities, and non-market strategies.

5.1. Organizational and management restructuring

5.1.1. Increasing local decision-making

Volvo should give its Chinese management team greater autonomy in product, R&D, and market decisions. Lu et al. emphasize the importance of local networks and embeddedness in reducing foreignness [2]. The experience of Hyundai also shows that stronger local responsiveness can contribute to better market performance [1].

5.1.2. Strengthening local stakeholder relationships

Volvo should strengthen long-term relationships with Chinese employees, suppliers, customers, and other stakeholders. Peprah et al. show that non-market strategy can support legitimacy by developing relationships with relevant stakeholders and strengthening trust in institutionally challenging environments [8]. Zhang et al. also highlight the importance of addressing trust deficits and liability of foreignness in host countries [9]. Deeper stakeholder relationships can therefore improve both trust and legitimacy.

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5.2. Local R&D and innovation

5.2.1. Strengthening local R&D

Volvo should further develop its Chinese R&D capabilities to improve product-market fit. Lee et al. show that Hyundai's stronger localization enabled better adaptation than Volkswagen in India [1]. Volvo can learn from this positive-negative comparison by making Chinese R&D a core part of its localization strategy.

5.2.2. Developing open innovation networks

Volvo can cooperate with Chinese suppliers, technology firms, and research institutions to obtain local knowledge. Reilly et al. emphasize the importance of cooperation within multinational subsidiaries for supporting knowledge transfer [4], while Lee et al. demonstrate the value of local business ecosystems [1]. Therefore, Volvo should use China not only as a market but also as a source of external knowledge and innovation.

5.2.3. Integrating Chinese innovation into the global system

Chinese innovation should contribute not only to Volvo's Chinese operations but also to its global innovation network. Reilly et al. show that cooperation can support knowledge transfer within multinational organizations [4]. Volvo can therefore transform its Chinese R&D capabilities from a local resource into a global competitive advantage.

5.3. Brand and non-market strategy

5.3.1. CSR and social legitimacy

CSR can help Volvo strengthen its social legitimacy and reduce the liability of foreignness. Shirodkar et al. argue that values-based and culturally embedded non-market strategies can help multinational enterprises respond to political and institutional challenges [6]. Volvo should therefore connect CSR activities with its long-term localization strategy.

5.3.2. Huawei as a comparative case

The Huawei case discussed by Shirodkar et al. shows that CSR activities could contribute more effectively to legitimacy than purely political engagement [6]. Although Huawei operates in a different industry and country, the case offers a useful cross-national analogy: just as Huawei used CSR to build legitimacy in foreign markets despite geopolitical tensions, Volvo can similarly use CSR to strengthen its local acceptance in China, where it faces foreignness-related trust deficits.

5.3.3. Combining Localization with Non-Market Strategy

A non-market strategy and localization process must be considered together and not separately. This is due to the fact that according to Lu et al., localization processes, CSR, and stakeholder management must be considered as key tools for handling foreignness, and Shirodkar et al. note the significance of such approaches in case of geopolitical uncertainty [2, 6]. Bucheli and DeBerge argue that analysis of non-market strategies in MNEs can be improved if done from the perspective

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of the wider historical and institutional environment in which multinational companies operate [11]. Thus, the general message of all these theories is that the non-market strategy of Volvo needs to reflect the social, political, and institutional environment of China.

In other words, instead of considering all these elements separately, the company needs to combine all of them into one strategy in which localization process is at its core, CSR is the element which gives social legitimacy, and the brand strategy exploits the Swedish roots while reducing the liability of foreignness.

6. Conclusion

6.1. Main findings

This study examines the process, challenges, and strategic pathways of Volvo's deep localization in China. The analysis shows that deep localization should move beyond production and include management, R&D, supply chains, local knowledge, brand management, and stakeholder relationships. The comparative study of Hyundai and Volkswagen shows that strong local value chains and increased ability to respond to the local environment result in better performance. At the same time, being foreign may complicate the process of gaining the trust and legitimacy on the part of outward-oriented firms. As a result, Volvo needs to increase its local capabilities and continue using its benefits as an international firm.

Additionally, the findings show that localization and globalization are not alternative concepts. Local capabilities can be useful resources for the multinational corporation as a whole. Local research & development offers information about Chinese consumers and technology, while local suppliers and partners can improve the responsiveness of the firm to the market. In this case, China becomes not only the market for Volvo but also a rich source of information.

6.2. Practical implications

Based on the results obtained, some implications for Volvo can be derived. First, it makes sense to increase the autonomy of the Chinese management team of Volvo when making decisions on product development, research and development, and market strategy. It is believed that increased autonomy will help the company better respond to changes in the Chinese market. Secondly, Volvo needs to continue developing the capabilities of Chinese R&D and collaborate with local suppliers, IT companies, and research organizations. It seems likely that this approach will allow acquiring local knowledge and transforming it into innovation. Thirdly, it makes sense to consolidate long-term relations with stakeholders. Even with a competitive product, foreign companies may have problems associated with lack of trust, which means that international brand reputation does not guarantee local legitimacy. Therefore, Volvo can combine localization with corporate social responsibility, stakeholder relations, and other nonmarket activities. Against the backdrop of increasing geopolitical uncertainties and nationalism, culture-based and values-based nonmarket strategies may help maintain sustainable competitive advantage. This means that, in case of Volvo, the issue of obtaining social legitimacy should be considered simultaneously with operational localization rather than a separate task. Fourthly, Volvo needs to maintain balance between its Swedish identity and Chinese capabilities. While Swedish culture is an important source of global brand value, further localization will reduce the liability of foreignness. Thus, the goal is not to become fully "local" or fully "global," but to develop an integrated strategy.

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6.3. Research limitations and future research

The present research is accompanied by several limitations. In particular, the analysis is primarily based on previous scholarly works and examples of comparative cases rather than on original data collected from the management, staff, or customers of Volvo. As a result, the paper cannot provide quantitative evaluation of the efficiency of the localization strategy used currently by Volvo. Moreover, some comparative cases come from other countries and different industries; therefore, their results are not directly applicable to Volvo without considering the differences in the market environment.

Further research is needed that includes conducting interviews and surveys in order to provide a more detailed examination of the localization strategy used by Volvo. One could also conduct a comparative study of Volvo with other foreign premium automobile manufacturers operating in China and find out how the differences in management, R&D, supply chain, and brand localization affect the competitive ability.

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