Internationalization of Chemical MNE Corporation: A case from Saudi Arabian Corporation "SABIC"

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This paper presents a new case study of a Saudi Arabian Multi-National Enterprise (MNE) called "Saudi Basic Industries Corporation", or "SABIC". SABIC has successfully achieved rapid global growth and solid presence in the international market specializing in Chemicals and intermediates, industrial polymers, fertilizers and metals. According to Fortune Global 500, SABIC ranked 1st chemical company in Asia and 4th in the world in 2008. It's one of the largest 500 corporations with a rank of 205 in 2014. Originating from an emerging economy and having a solid global presence, "SABIC" case would add valuable insights and lessons on International Business theories particularly internationalization.

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SABIC was established in 1976 in small fishing village of Jubail by royal decree to utilize oil by-products and transfer it to useful economical products such as chemicals, polymers and fertilizers. The pioneer and first CEO of SABIC was Ghazi Alghsoaibi. Since its inception, the production of SABIC has grown tremendously and its operation has been expanded globally. The production rose from about 6.5 million tons in 1985 to more than 60 millions tons by 2012 and its operation expanded from small village of Jubail that employs couple hundred of people to 60 manufacturing plants in over 40 countries that employs forty thousand (40,000) people.

To institute itself into Europe market, SABIC establish "SABIC EUPROE" headquarter in Sittard, Netherlands. Since then, SABIC EUROPE built wide network of sales offices and logistic hub and three petrochemical production sites in Geleen of Netherlands, Teesside of UK, and Gelsenkirchen of Germany. Furthermore, SABIC EUROPE acquired Huntsman Corporation plants in December 2006, which allows

SABIC to reach 7.3 million metric tons of petrochemicals of production in the European market.

To expand and diversify its products, SABIC acquired General Electric (GM) Plastic division in 2007 in a controversial deal that reaches US$ 11.6 billion in to launch SABIC Innovative Plastics. Since then, SABIC Innovative Plastics operate in more than 25 countries and over 9500 employees worldwide with a multi-billion dollar operation.

In order to gain a toehold on fastest-growing chemical market, SABIC sought and received Chinese government approval to built a US$ 3 billion petrochemical complex in China in 2009.

SABIC took advantage of it core competitive advantage to go abroad and gain international market. SABIC main approach to go global is through acquiring existing companies, joint venturing, and establishing subsidiary. This paper examines SABIC case through internationalization process theory, psychic distance theory, and country of origin theory. By doing so, we can examine SABIC's internationalization process against theses theories and how did SABIC successfully evolve to the international market. Also, we can draw important lessons from the case to benefit multinational enterprises especially the one coming from emerging market.

Internationalization process theory is one of the prominent International Business theories that deal with how corporation can rely on their core competitive advantages to expand into foreign market. Uppsala model suggests that companies internationalize in small, gradual steps, and as risk reduced, managers can look for and seize expansion opportunities in the foreign environments (Johanson and Vahlne, 1977).

Psychic distance theory treats important issues when going global such as

similarities and executives and what officials perceive when selecting foreign market for possible market entry and operations. Psychic distance is the perceived similarities and differences in education, culture, political system, and industrial progress between the home country of corporation executives and the proposed market of entry (Hallen and Wiedersheim-Paul 1984).

Country of origin effect is a construct that deals with perceptions of country image that categorized as favorable, neutral, and unfavorable (Pappu et al. 2007). The key factors in product-country image are buyers' beliefs and attitude toward a product's country of origin (Orbaiz and Papadopoulos, 2003). The country of origin effect is related to this case since "SABIC" is located in Riyadh, Saudi Arabia; that is rarely in the international news as productive country. There are positive and negative associations for "SABIC" being from Saudi Arabia. The positive association between "oil" and "Saudi Arabia" can be assumed to offer favorable country of origin effect. In the other hand, negative association with country of origin effects could be the stereotype of "terrorism", "Muslims", and "national security" especially post 9/11.

The contribution of this paper is to extend the internationalization theory to include emerging economy such as Saudi Arabia, which consider third world country with high revenue from natural resources. Practical implications for the paper would include insights on entry market strategy for corporation from emerging economy based on country of origin effects and psychic distance theory.

SABIC Internationalization process:

Internationalization process theory has been long existed in the international business literature (Aharoni, 1966; Root, 1987; Barkema, & Drogendijk, 2007). One of

well-known models of internationalization process is Uppsala Model model (Johanson and Vahlne, 1977). The Uppsala model suggests companies go international through small, gradual steps in order for managers to invert risk and seize opportunities in host country environment (Cyert & March, 1963; Barkema et al, 2007). The Uppsala model was developed in the 1970s through the recognition of increasing MNEs that start their international operations with sales agents; and as time goes by and MNEs get used to the host country environment, MNEs make direct investments (Johanson and Wiedersheim-Paul, 1975; Johanson and Mattson, 1985). Swedish MNEs use ad hoc exporting as a first step of internationalization (Johanson1 & Vahlne, 2009). They use intermediaries to formalize their entries; and usually agents who represented the headquarter company in the foreign market.

In order to take advantage of the advanced world technology, SABIC started their petrochemical adventure back in 1976 through partnership with well-established petrochemicals in the world. SABIC mainly partnered with Dow Chemical, Shell, Exxon, Mitsubishi Gas Chemical Company, Taiwan Fertilizer Company, Neste Oy of Finland, Fnichem of Italy, and Korf-Stahl. Those diverse agreements and partnerships gave SABIC fast track to gain knowledge and technology in the petrochemical industry. Although these partnerships benefit SABIC tremendously, SABIC's long term plan was to gain the technology and knowledge in order to stand on its feet in the international market.

A shipment of 33,000 metric tons of chemical-grade methanol to Japan was SABIC's first internalization step almost 8 years after it was established. After institute the company core advantage and managerial and technological capabilities, SABIC

started to open marketing offices in the main international market of petrochemical in London, New York, Tokyo, and Hong Kong.

It took SABIC about 25 years to develop its internal capabilities and start looking at the international market for opportunities to expand its production and operation capabilities. SABIC's acquisition of the petrochemicals unit of the Netherlands' DSM for EUR 2.25 billion (then named as "SABIC Europe") was a shifting point into building SABIC global conglomerate. For the fist time since its inception, "SABIC Europe" was a subsidiary that can operate, produce, and market in its own and report later to the headquarter.

Following that step, SABIC acquired Huntsman of UK in 2006 and GE plastic division in 2007. Those deals enable SABIC to further develop downstream products and expand and explore new markets in Europe. Furthermore, SABIC seeks opportunities in China and India in 2009, 2011, and 2014 in order to increase its production and technological capabilities.

SABIC utilizes its competitive advantage of having an easy access with low cost to raw material (oil and gas), and secures a step into very competitive market through gradual steps and learning experiences. In about 40 years, SABIC now operate in 40 countries with 60 manufacturing plants.

Psychic distance theory:

Psychic distance theory is an extension of internationalization process particularly the Uppsala model. Psychic distance can be defined as perceived similarities and dissimilarities in culture, education, political systems, and economy between home and host countries (Hallen and Wiedersheim-Paul, 1984). General expectation can be formed

about how managers select the potential markets or which one to target first (Khan, 2012). The less psychic distance between home and host market, the higher the probability to be first targeting market.

Although SABIC was born and headquarter in Saudi Arabia; a conservative Islamic country, SABIC adopted pragmatic approach to the market. First, SABIC partner with the most advanced petrochemical companies right from the beginning. It partners with shell, Exxon, Mitsubishi Gas Company to name few. Although those companies consider having high psychic distance than SABIC or Saudi Arabia, SABIC managed to create an environment where people from different culture, belief, or nationality can work together for a common goal. This approach enables SABIC to seize valuable opportunities in Netherland, UK, China, and India.

Implication

There are number of implications of SABIC case. First, SABIC successful operation on the international stage proves that MNE from emerging economies can compete successfully in the international market if they adopt professional and pragmatic approach to the market. Second, SABIC nudged Saudi Arabia to establish industrialized economy by establishing petrochemical industry. Third, SABIC helped to purify the perception and stereotyping of Saudi Arabia as being religious restricted country. It gave to local communities where it operate and to the world a sense of modernity.

Recommendations and Conclusion

There are number of recommendations we can advise SABIC and Saudi Arabia's government based on this case. First, relying on the rich experience they got on the last 35 years, Saudi Arabia government can duplicate SABIC example in different industries

especially after the accumulated wealth they generated from oil and petrochemical. In banking for example, Saudi Arabia can establish or buyout operating bank and take to the international market especially Islamic countries. Another example is insurance industry. Insurance industry is booming and has the potential to go internationally. Second, SABIC needs to direct its focus to advance its existence in the Asia market. Although SABIC gained footstep in China and India, there are a good room to increase its operation in Indonesia, Malaysia, and Singapore. Those markets are trying catch up with the first world, which creates big market for SABIC petrochemicals products.

In less than four decades, SABIC was able to operate in more than 40 countries and produce at about 60 manufacturing plants to generate more than $ 50 billion. SABIC started with small operations in east shore of Saudi Arabia partnering with key petrochemical companies; and gradually SABIC grew internationally to become one of the top five players in the petrochemical industry. Relying on its core competitive advantage, SABIC, adopting pragmatic approach was able to overcome the challenges of psychic distance and country of origin effects. This case provides inspiring lessons for corporations especially the ones from emerging economy.

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