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# The Endless Challenges of KIA Motors for Globalization : A Case Study on Kia in Saudi Arabia

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## Abstract

**Purpose** – This case study is dedicated to the study of the presence of KIA Motors in the Kingdom of Saudi Arabia (KSA) and its market and entry strategies for strategic globalization that allowed the company to establish itself within a conservative and clustered marketplace dominated by American and Japanese international brands.
**Research Design, data, and methodology** – The main information for the case was gathered through an interview and questionnaire from the executives of the KIA Al Jabr, which got the exclusive dealership in Saudi Arabia. Moreover, secondary data were obtained from reliable and authoritative sources such as the Saudi government agency publications, newspapers, international business journals. Other related periodicals based on the results from previous and current studies on similar topics were critically reviewed as well.
**Results** – The findings of this paper show the different business environments of the Saudi market and the importance of various points regarding the company's global entry strategy even if the host market culture is quite different in many ways from other international markets.
**Conclusions** – This case can provide Korean companies interested in the Middle East with insight into market penetration and global strategy, and present various perspectives and implications for global market access as well.

**Keywords:** KIA Motors, Al Jabr, globalization, business environment, market entry strategy.

**JEL Classifications:** D39, D81, F23, N45, N75.

## 1. Introduction

International business is much more complicated and challenging than domestic business because countries differ in many ways. It means the hurdles to success are higher and more complex in global markets than in domestic markets. Countries have different political, economic, legal, social and cultural systems (Charles, 2014; William, James, & Susan, 2016). Especially, when it comes to the market of Saudi Arabia, we can see more different points due to fast economic development and cultural practices which can vary dramatically. However, in spite of the variety and attractiveness to this market, most business information in Saudi Arabia is still veiled under the name of conservatism so that it is not easy to access those data to consider a business in Saudi Arabia. Accordingly, Saudi businessmen are still reluctant to leak their business information due to conservative cultures and business trends. Furthermore, there is a limitation to approach the source of academic studies (Kavoossi, 2000; Abdel-Rahman, 2002; Jeddah Chamber, 2015; Park, Alawiya, & Raneem, 2017). With those research limitations, this study aims to investigate the presence of KIA Motors which is the oldest automaker of South Korea, and its market entry strategies in Kingdom of Saudi Arabia and to further the understanding of the features of contexts for managing MNEs in the Kingdom.

The debate about the automotive industry growth and in some cases instability during some years of crisis and unrest in different parts of the world has been at the heart of various meetings and conferences held by economists, industry professionals and many others. In this austere atmosphere KIA motors has been able to reverse the indicators and grow considerably especially with the changes in its design line and customer focus. In fact, KIA's spectacular growth can be seen as a direct result of

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consumer's strengthening attachment to the world-class KIA product line-up, and engagement with worldwide communications, activities centered on developing the brand's image (Mike, 2015). KIA has raised five spots to become the 69th most valuable brand in the world. The Korean manufacturer's estimated brand value grew from US$5.7 billion in 2015 to US$6.3 billion in 2016. This represents a seven-fold (603%) increase since 2006, the year in which the brand declared design-driven management as a key strategy behind the company's future growth. Despite economic uncertainty and stagnation in the automotive market across a number of regions, this welcome rise in KIA's brand value is a clear reflection of extensive company-wide efforts to ensure consistent and continuous growth in KIA's brand power (Michael, 2016).

However, things were not always as bright and lovely as they are since the company had its down days during the late 80's and almost all of the 90's leading up to its acquisition by its big sister Hyundai. On another level, even if the company was present in Saudi Arabia since the early 80's of the last century, its presence was rather shy and not felt on the market facing the giant American and German car manufacturers who had the edge and the major part of the market in addition to the Japanese industry leaders like Toyota, Mitsubishi, and Mazda. In spite of those conditions, KIA has overcome most of the obstacles to entry and even beat their long standing competitors successfully. Thus, this case study will provide companies which have an interest in doing business in the Middle East, especially, Saudi Arabia, with significant insights into market penetration and global strategy academically and practically.

## 2. Literature Review

### 2.1. Business Environments and Liability of Foreignness (LOF)

Business environment is the sum total of all factors that affect a business operating internally and externally. It is comprised of the critical elements that help or hinder the development of business such as political and legal, economic, technological, competitive, social and global business environment. Every business, whether large or small, is affected not only from internal organizational factors but, from several external factors. And all these factors can influence each other and work together to affect a business, especially in the context of global business (Ronald & Ricky, 2016; William et al., 2016; Umar, 2018). For example, companies are willing to start new businesses in the host country if they believe the business risk in terms of losing their money isn't too much. The economic system and the way host government works with or against businesses can have a strong impact on that level of risk (Ronald & Ricky, 2016; William et al., 2016; Alasdair, 2018). A government in host country can minimize spending and keep taxes and regulations to a minimum, and develop policies that tend to favor business. Likewise, import and export tariffs may make it difficult or uneconomical to do business with certain countries. Or different types of taxation and other duties can also hit the bottom line hard. Accordingly, many existing studies support that how environmental factors affect business and its strategy (Ronald & Ricky, 2016; William et al., 2016; Park et al., 2017; Alasdair, 2018; Umar, 2018)

Considering that countries differ with regard to their political systems, economic systems, legal systems, social and cultural systems under their different environments, many studies in the field of international Business have shown it is very difficult to operate a business for multinational enterprises in the host marketplace without some distinct competitive edges or ownership advantages due to liability of foreignness (LOF) in the host country (Dunning, 1981; 1998; Kogut & Singh, 1990; Barney & Hesterly, 2013; Charles, 2014; Park, 2017; Park et al., 2017). Liability of Foreignness can be defined as social and economic costs firms face when they start to do business in foreign markets. It's kind of the additional costs that firms operating outside their home countries experience above those incurred by local firms. Especially, the business environments for operation in Saudi Arabia are quite different from other countries due to mainly conservatism. Thus, the key to solve those problems is to develop companies' competitive advantages or ownership advantages itself to offset the shortcomings. In this study, even though KIA Motors has shown that it faced those negative market conditions, it has settled down in the kingdom successfully by joint venture mode through Al Jabr local company and then offset those obstacles step by step.

### 2.2. Automotive industry in Saudi Arabia

The Automotive industry is considered one of the most significant financial sectors by revenue, and the primary mode of transportation for many developed economies. Since Honda opened its first U.S assembly showrooms in 1982, almost every major European, Japanese, and Korean carmaker has produced vehicles at U.S. assembly plants. General Motors, Ford, Mercedes-Benz, BMW, Fiat Chrysler, Honda, Toyota, Nissan, Hyundai, KIA, Mazda, Mitsubishi, Subaru, Volkswagen, and Tesla all have U.S. manufacturing facilities.

Throughout the world there were almost 806 million cars in 2007 and according to the Car Green Report by Voelcker (2014), it has reached above 1.2 billion vehicles on the roads but the automotive industry still faces a lot of challenges including technological innovation trends, fuel economy, import and export activities, research and developments and transfer pricing. Despite those challenges within the industry in recent years, this industry is showing overall good signs in the world markets and even in certain cases.

Saudi Arabia is the largest economy and the most enterprising country in the Middle East with 38% of the total Arab GDP (IMF, 2017). It is the powerhouse of the Middle East. According to statistics of the source from the International Monetary Fund (IMF)'s World Economic Outlook Database, Saudi Arabia's total Gross Domestic Product amounted to $1.720 trillion as of April 2016. Even though there is political turmoil and conflicts in the Middle East, Saudi Arabia as whole to many of the world's largest multinational enterprises, most of which enjoy a sustained profitability from their operations in this region (Kavoossi, 2000; Kamel, 2010; Park et al., 2017). Accordingly, this Saudi market has emerged as a major consumer society especially after the second Gulf War because of the relative stability that the region enjoyed during the years after the war and 2008 because of the booming oil prices, the huge and fast moving trend of infrastructure and construction as well as an unprecedented growth in per capita income and GDP that led to an increased demand on motor vehicles and various other construction equipment.

The automotive market in Saudi Arabia has been one of the fastest growing industries in the area given the availability of resources, infrastructure, the booming economy and many other factors as Williams and Peterson stated in the Industry Analysis Report in 2016. In the recent past, Saudi Arabia's auto and auto aftermarket have developed at a robust pace thanks to the strength of the Saudi Arabian economy, favorable auto financing, low gas prices, high private consumption levels and a growing population (Park, 2017). There are some reasons behind the unprecedented expansion of private ownership of vehicles and the fact that Saudi Arabia is considered to be the largest market for passenger and commercial vehicles in the area because of its imposing size and constantly growing population.

**<Table 1>** Automotive market share in Saudi Arabia

| | Ranking | Cumulative in 2017 | M/S | Cumulative in 2016 | Ratio (y/y) |
|---|---|---|---|---|---|
| 1 | Toyota | 96,138 | 32.5% | 130,256 | 0.5% |
| 2 | Hyundai | 57,440 | 19.4% | 96,726 | -4.4% |
| 3 | Nissan | 21,703 | 7.3% | 33,017 | -0.8% |
| 4 | GM | 22,966 | 7.8% | 31,202 | 0.1% |
| 5 | KIA | 20,380 | 6.9% | 26,322 | 0.4% |
| 6 | ISUZU | 15,383 | 5.2% | 21,861 | -0.2% |
| 7 | FORD | 10,729 | 3.6% | 21,521 | -1.7% |
| 8 | Mazda | 10,544 | 3.6% | 14,845 | -0.1% |
| 9 | Honda | 8,090 | 2.7% | 6,384 | 1.2% |
| 10 | Renault | 13,505 | 4.6% | 6,040 | 3.1% |

Source: KIA Motors (Internal report)

Although there is a lack of official government statistics for new vehicle sales (passenger cars, commercial vehicles and trucks) in Saudi Arabia, annual sales are estimated to be 900,000 for 2015, which is double the size from 2006. Sales are forecasted to increase to 1 million units in the next couple of years. Some of the popular passenger vehicles in Saudi Arabia include Toyota's Hilux, Corolla, Yaris, Land Cruiser and Camry; Hyundai's Elantra and Accent; General Motors (GM)'s Yukon, Tahoe, Suburban and Impala; and Ford's Expedition, Ranger, Taurus and Explorer; KIA's Carnival, Sorento and Sportage. Toyota is estimated to have over a third of total market share, and Hyundai has approximately a fifth of total market share (Park, 2017; KIA internal report, 2018).

There are certainly many other factors that facilitate the market entry and attract multinationals and international companies to establish themselves in the Saudi Market. These factors include a tax-free system that doesn't impose high or complicated regulations or high taxation rates on the import and sale of vehicles.

## 3. Methodology

Through a case study of KIA Motors in Saudi Arabia, this paper aims to promote our understanding generally of how foreign companies can build their entry strategies to start a business in Saudi Arabia which has no much information under the conservative culture and business trends reluctant to leak their business information. Mainly, this is dedicated to the study of the different business environments KIA Motors has faced in Kingdom of Saudi Arabia and the presence of KIA, its market penetration and its global strategies as well that allowed the company to establish itself within a rather conservative and clustered marketplace dominated by American and Japanese international brands under the very different business environments in this region.

This case is basically explorative and descriptive in nature. The primary data were gathered by the author of this paper through an interview (see Appendix) conducted in the city of Riyadh in 2017 from the executives of the KIA Al Jabr Saudi Arabia, which got the exclusive dealership in Saudi Arabia. Moreover, secondary data were obtained from reliable and authoritative sources such as Saudi Arabian General Investment Authority (SAGIA), other government agency publications, newspapers, international business journals and other related periodicals based on the results from previous and current studies on similar topics were critically reviewed.

## 4. The Case of KIA Motors in Saudi Arabia

### 4.1. KIA's Entry into Saudi Arabia

KIA Motors Corporation (KMC) was founded in 1944 and boasts to be South Korea's oldest motor vehicles manufacturer. The name of 'KIA' derives from the Sino-Korean characters ki (means 'to come out', 起) and a (which stands for (East) Asia, 亞), it is approximately translated as "arise or come up out of (East) Asia" or "rising out of (East) Asia". It is now a part of the Hyundai-KIA Automotive Group which produces over 1.5 million vehicles a year in 13 or more manufacturing and assembly factories in eight countries. These manufactured cars are then marketed and serviced in 172 countries around the globe through a solid network of distributors and dealers. The present day KIA Corporation employs over 40,000 full-time employees worldwide generating annual revenue of over US$14.6 billion.

When KIA was first founded in December 1944, it started as a simple manufacturer of steel tubing and bicycle parts which was known as the Kyungsung Precision Industry, Eventually the company became KIA Industries in 1952, and following 'built Honda-licensed small motorcycles' (starting in 1957), Mazda-licensed trucks (1962) and cars (1974) (Park, 2017). The company opened its first automotive assembly plant integrated in 1973, the Sohari Plant. KIA built the small Brisa range of cars until 1981, when production reached an end after the new military dictator Chun, Doo-hwan as a president enforced industry consolidation. This obliged KIA to give up passenger cars and focus entirely on light trucks till the forced 1981 shutdown. Although in 1992 KIA Motors went to the United States and incorporated its brand in the United States, KIA motors declared their bankruptcy in 1997 due to the Asian Financial Crisis but it was finally able to reach an agreement with Hyundai Motor Company in 1998 in order to exchange ownership between both companies leading to the acquisition of 51% of the KIA company by Hyundai and even though at the present day Hyundai has reduced its share through divestment it is still a major stakeholder and KIA is also a shareholder in most of Hyundai's subsidiaries.

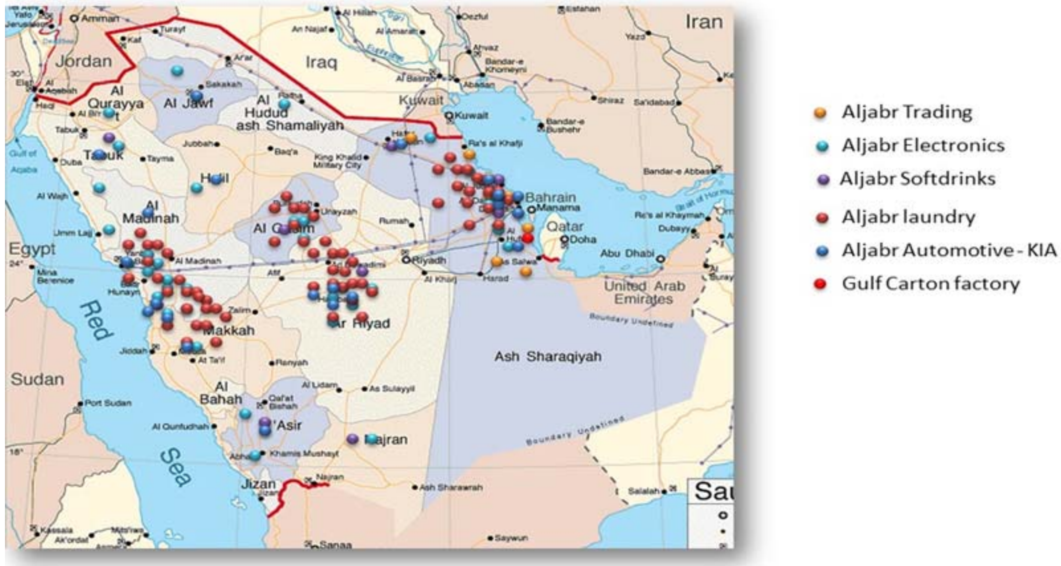
The winds of change started to blow into the company's soul since 2005 when KIA started to focus on the European market and paid more attention to design as its 'core future growth engine'. They hired Peter Schreyer in 2006 as their Chief Design Officer who helped revolutionize the brand's designs and introduced a variety of models that cater to most of the target categories of consumers. In 2016, the model reliability of KIA Motors was ranked first in the United States by J.D. Power and Associates, becoming the first non-luxury automaker since 1989 to top that list. The Chief Executive Officer (CEO) of KIA Motors, Mr. Park, Han-Woo has become the leader of this company since November 3, 2014 and serves as its President currently. In the past, he served as the Managing Director of Hyundai Motor India Limited and also Chief Executive Officer from November 5, 2009 to March 5, 2012 and served as its Senior Executive Director of Administration and Chief Financial Officer until March 5, 2012. Then, he became Executive Vice President at Hyundai Motor Company and served as the Executive Vice President and Chief Financial Officer as well at KIA Motors Corporation until November 3, 2014.

## 4.2. Entry strategies for the Saudi market

KIA has been present in Saudi Arabia since the early 80's of the 20thcentury. However, at the time of the entry there were many challenges facing KIA Motors especially in terms of customer perception and the brand image in Saudi Arabia and in the gulf in general because of its 'Korean' origin that has long been regarded as a substandard when compared with the dominant Japanese and American brands and car companies like Toyota, Nissan, Ford and GM.

Thus, KIA came back to the Saudi market with a totally new strategy and a completely innovative vision of design and financial management that made it one of the leading car brands in the Arabian Peninsula. The company decided to enter under the joint venture agreement with Al Jabr Group and establish an exclusive agent in the country that will be responsible for all the administrative and financial as well as legal aspects of the business without really involving the mother brand company in Korea in much of the legal and custom issues dealt with locally although brand management and marketing are jointly done by the local and the main international administration. In the Middle East report, Bosaili et al. explain that the Foreign Investment Act and the Executive Rules (collectively, the Foreign Investment Law) provide the ground rules for foreigners wishing to establish a legal entity, or acquire an interest in a KSA Entity. The Saudi Arabian General Investment Authority (SAGIA) is the body responsible for granting licenses to foreign investors. The Foreign Investment Law permits up to 100% foreign ownership of a KSA Entity unless the proposed activities appear on a 'negative list' which restricts any foreign ownership. Certain activities which do not appear on the negative list may still fall into a sector where foreign ownership is restricted in amounts ranging from 25% to 75%. Based on that, the choice of the agent is not an easy task definitely and has certainly taken a long time and scrutiny but at the end in fact Al Jabr group was chosen to represent the brand and be the exclusive agent of the brand in Saudi Arabia and the group was chosen based on its active business profile and excellent record for decades since 1952.

The history of Al Jabr Group dates back to 1952 when the sons of Sheikh Hamad Mohammed Al Jabr began their journey into the world of commerce with the establishment of a small company trading in foodstuffs. In 1956, a branch was opened in Al-Khobar, which was their first international activity. The Group is currently active and owns various business activities like Al Jabr Automobiles Sales and Services; Al Jabr Laundry and Dry Cleaning; Al Jabr Beverages; Al Jabr Electronics; Al Jabr Air Conditioning; Al Jabr Batteries; Al Jabr Garments; Al Jabr Insurance; and the Gulf Carton Factory. Yet, what is even more impressive is that the holding group is an active practitioner of Corporate Social Responsibility and has committed millions of Saudi riyals to supporting various charity projects that benefit local society. The following map shows the distribution of Al Jabr branches and activities in the kingdom of Saudi Arabia.




**<Figure 1>** Businesses of Al Jabr Group

KIA opted for the joint venture and exclusive agency in order to avoid other entry modes like 100% direct investment (Greenfield) and sole proprietorship because of the high risks associated with the stability of the market and the brand image in the kingdom. The strategy that KIA chose to enter KSA was successfully meant to reduce the risks associated with massive investments in a very hostile and aggressive market especially with the presence of American and Japanese manufacturers with a long standing good reputation on the Saudi market.

In addition to the rather negative perception of Korean cars by the local consumers, the legal and Human Resources issues related to direct investment would have been unmanageable if KIA wanted to operate on its own in the kingdom especially during the 2008 financial crisis period in Saudi. In fact Mr. Al Jabr considered the brand image as one of the main pitfalls and obstacles that they had to deal with in the early phase of their reinvestment in Saudi Arabia through Al Jabr group. The alliance with a local giant financial and business entity like Al Jabr was by far the most reliable and practical strategy to guarantee a very low level of market entry risks and establish a quick entry option through the already existing network of the group and its success in the country for long decades already.

Thus, KIA was able to negotiate the entry mode in a very clever way by choosing a local entity 'Al Jabr Group' as an exclusive agent through a joint venture agreement and this strategic partnership avoided a lot of complicated issues that would have been inevitable in other entry modes. The proof is that KIA has become a very successful company in the last few years reaching up to 29 branches currently plus more than 30 sub-dealers selling about 50,000 Vehicles per year. Yet, things were not always easy for the company to conquer the existing and long established market especially that the laws and regulations are always changing, as for example SASO (the Saudi Standards organization) introduced a new level of safety equipment in 2016 that should be introduced on all cars which results in increasing the costs and prices of the vehicles. Other specific legal and financial terms that the company had to take into consideration before entering the Saudi market were related to the financial regulations in the kingdom that obliged all dealers to do their transactions through the financial companies in KSA in order to sell their products. This also goes hand in hand with other challenges that relate directly with the fact that the company has to apply the standard required by the Saudi standards organization and the Saudi Investment Agency SAGIA. Thanks to the strategic partnership with the local company Al Jabr, KIA has solved all these problems well. Once again Al Jabr group proved to be very resourceful in this area and found a great way for dealing with the endless financial challenges through opening their own financial company besides dealing with other financial companies in KSA. This helped the KIA joint venture with Al Jabr group to have a stable financial basis in the country.

### 4.3. Making competitive advantages of KIA - Al Jabr in Saudi Arabia

KIA took the opportunity of the recession in 2008 with the financial crisis unfolding since 2006 in Saudi Arabia and introduced a brand that was rather cheaper and more affordable to the Saudi customers without compromising the quality of its products. The new innovative designs that the company brought especially after 2005 when peter Scherer became the chief design officer bringing a more dynamic and youthful aspect to KIA's image made it much easier to penetrate the market.

The major focus of KIA since its re-entry on the Saudi Market has been on showing its strength focusing more on the youth and boasting its new designs, high-tech features and safety. In that way the company was able to keep a very good and different unique design that responded very well to a large section of the local market; a section that was looking for a serious yet affordable option on the car market.

When it comes to the main selling and strategic advantages that KIA had upon its entry to the Saudi market were the vibrant designs, safety, value of money, and high-tech features, targeting mainly the youth section of the population. This proved to be a sound strategy since the Saudi society presents a very high percentage of youth compared to other populations in the area or even in the world. The answer to all the challenges was in catering for various customer categories with a major focus on the low income newly graduated or newly employed youth that were looking for affordable options with a reliable level of safety, fuel efficiency and attractive designs. This definitely gave the company a great competitive advantage and allowed it to gain its presence on the market in virtually no time. This competitive advantage can be maintained through continuous development of new designs and high-tech features.

### 4.4. Cultural and other aspects of the Saudi Market

Based on the overall business trends and environments in the Kingdom of Saudi Arabia KIA ads in general try to touch the youth feelings, and it truly seems that most ads show bright colors and focus on the distinguished human aspects such as fun and enjoyment in their ads targeting the generally adventurous Saudi youth and appealing to their love of mechanical sports that constitute a favorite pastime for most youth in the country.

Of course there are some aspects that KIA KSA has to avoid in its ads such as music, and the use of female characters focusing on the usability because women were forbidden to drive auto vehicles up to recently and the practicality of its models. Moreover, although KIA has actually introduced a full range of vehicles on the Saudi market with its Family van KIA Carnival, its SUV Sorento and the even more compact version Sportage its major selling products are still limited to the sedans and small vehicles that are highly praised by the youth which constitute the major and main target customer section for the company in Saudi Arabia. Otherwise, KIA enjoys a great reputation nowadays with its continuous improvement in quality, design, and high tech features in spite of the weaknesses that can be summarized in the presence of companies that have been stable and well established on the Saudi market with a proven reliability record especially in the SUV section that is mainly overwhelmed by the American GMC and Chevrolet Suburban and Tahoe models along with the Japanese Toyota land Cruiser, or even yet the family and commercial vans monopolized by the Japanese Toyota with its Innova, Hilux and other models.

## 5. Conclusion

Till September 2017, Saudi Arabia was the only, unique country in the world where women were forbidden to drive automobiles. However, finally, the lifting of the driving ban was announced September in 2017 and is part of Crown Prince of Saudi Arabia, Mohammed bin Salman's program to modernize some aspects of Saudi society. Accordingly, more intense and fierce competition between the main automakers is expected to attract and capture female customers in Saudi Arabia.

It is clear that KIA's entry on the Saudi market wasn't really easy but was very successful and spectacular as it was able to overcome most of the obstacles to entry and even beat some of the long standing competitors that have been present on the market for years now like Mitsubishi and Suzuki as well as Chrysler. The conditions in which KIA chose to enter the Saudi Market again were not really favorable especially during the recession and financial crisis years. However, despite economic uncertainty and stagnation in the automotive sector across a number of regions, this welcome rise in KIA's brand value is a clear reflection of extensive company-wide efforts to ensure consistent and continuous growth in KIA's brand power. And currently another chance is waiting for KIA for the bright future with new customer sector of women.

This study shows the different business environments of Saudi market and global strategy that KIA Motors chose to enter the Saudi Market proved to be very effective and allowed it to establish itself and grow very fast within less than a decade. Entering through a joint venture and establishing an exclusive agent in the country was a very clever strategy to overcome all obstacles on the financial, legal and regulatory levels in addition to the very low risk level assumption that the company had to cope with in other entry mode scenarios. The clever product design and market targeting strategies also allowed the entry to be very smooth and exceptionally successful. Currently, most of the experts confirmed the attractiveness of business in the Kingdom in general due to several factors headed by political and economic stability, efficiency of monetary and financial policies adopted, Kingdom's comparative advantage being the largest producer of oil worldwide, high population density coupled with high per capita income, distinctive geographical location of the Kingdom, availability of utilities and infrastructure required for businesses growth, especially in main cities (water, electricity, sewage, roads, airports and harbors communications, gas, etc.), high government spending on infrastructure projects, availability of perfect banking systems, tax exemptions offered to investors such as KIA especially in industrial areas even though the Saudi market still has a very different business environments and systems from other countries.

Although the findings of this study were very significant and noteworthy overall, it has some limitations. First, as I mentioned before, Saudi businessmen are still reluctant to leak their business information due to conservative cultures and business trends. Moreover, there is a limitation to approach sources of academic studies and especially reliable sources in this region. If enough data is complemented qualitatively and quantitatively, a quality paper would be written. Second, the current case study is focused mainly on the strategy based on environmental issues rather than the company's internal issues. Moreover, it is confined to the one company to see its entry strategy in the context of Saudi Arabia. Therefore, the main findings of this study show a limitation to be made generally applicable to methods of other multinational enterprises which have an interest in operating a business in Saudi Arabia or Middle East. Thus, it is necessary to develop a general, global decision-making model considering company's internal issues or other determinants as a whole. Lastly, it can be tested empirically to develop a theoretical model or framework whether it is applied or not. Such limitations of this study should be considered in future studies as well.

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