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Saudi Aramco's Global Expansion Strategy: Evidence from Korea

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Abstract

Purpose: This case study illustrates the successful entry of Saudi Aramco in the Korean market and how it grows to become one of the world's largest integrated energy enterprises. **Research design, data and methodology:** This case investigates diverse secondary sources to examine the entry strategy of Aramco in Korea, such as several interviews including public and anonymous dialogues, periodicals, dispatches (i.e. news articles and magazines), annual reports, industrial reports, and others. **Results:** The main concern for the international strategic approaching of Saudi Aramco is to enter into Korean market by joint venture with SsangYong Oil (today's S-Oil Corporation) in 1991 and finally, ending by Acquisition of S-Oil in 2015. This acquisition of local No.3 company, S-Oil, in Korea is the successful case in Asian Markets overcoming liability of foreignness. Moreover, Saudi Aramco's global distribution strategy through localization in the Korean market is appropriate given the market conditions, timing, effectiveness, and efficiency by sharing their resources and collaborating. **Conclusions:** It would be valuable, unique, and real story to analyze global leading company's entry and globalization strategy in overseas market. In addition, this study provides decision-makers with a significant and more strategic implication for the overseas expansion of businesses.

Keywords: Saudi Aramco, S-Oil, Global Distribution, Entry Mode, Globalization Strategy

JEL Classification Code: D39, F23, G34, M10, N25

1. Introduction

South Korea is the sixth-largest refiner with refineries in the world with the companies of SK Energy, GS Caltex, S-Oil (now with the Aramco), and Hyundai Oil Bank. The country as the major importer of Saudi crude oil and liquefied petroleum gas (LPG) imports around 2.5 million bpd of crude oil, including 855,000 bpd from Saudi Aramco, which is making Saudi Aramco the largest crude oil exporter to South Korea (Aramco Asia Korea, 2012; Kang & Bae, 2012; Kavoossi, 2000). Especially, South Korea has become Saudi Arabia's fourth-largest trading partner and its direct investments in the Kingdom grew by 400 percent between the years 2006 -2010. That suggests the strategic importance of the Korean market to Saudi Aramco and its country as well in order to envision a bright future for the relations between the two counties. Accordingly, Saudi Aramco officially opened the Aramco Asia Headquarter located in Beijing. It was a wholly owned subsidiary of Saudi Aramco on 12 November 2012. Then, Aramco Asia Korea Ltd (AAK, today Aramco Korea), a Saudi Aramco affiliate in South Korea, opened the office subsequently in Seoul in December 2012 to serve as a foundation for the continuing collaborative ties between Saudi Aramco and Korean businesses. With the newly organized office as a part of Aramco Asia companies, Saudi Aramco has a plan to offer a full range of business services and resources as well for the handling and management of sound business in Korea and the wider Asia area. It can support the full spectrum of Saudi Aramco's endeavors and interest in South Korea not only for marketing but also procurement and association with engineering and project management contractors entirely including partnership with various research development communities in Korea.

In 2016, S-Oil, Saudi Aramco's partner of joint venture in Korea, recently celebrated its 20th anniversary. Saudi

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Aramco has been the largest supplier of oil to drive Korea's thriving economy with a strong partnership in the refining business in Korea. Moreover, vice versa, several engineering and construction companies in Korea are heavily involved in Saudi Aramco's major projects in the Kingdom of Saudi Arabia. Korea's skilled and meticulous manpower and its superb, breakthrough advanced technologies have added tremendous opportunities and value to many of Saudi Aramco's largest and most critical infrastructure projects (Aramco Asia Korea, 2012; Kang & Bae, 2012).

Based on this historical background, this case study is designed to illustrate the entry strategy and its globalization of Saudi Aramco in the Korean market by capturing the situation when Aramco first stepped into the Korean market in 1991 through the joint venture, then ending with the acquisition in 2015. Traditionally, most of scholars in international business assumed that a company would stick to one entry mode when entering overseas, so this study allows us to revisit these existing theoretical assumptions. Accordingly, this case provides us with invaluable theoretical and practical implications. However, it doesn't cover the most recent situation of Aramco Korea in order to focus on the initial stage of the entry in the Korean market. This study has tremendously important implications for the decision-making of many global companies that want to enter the Korean market and a wide range of Asia regions as well by demonstrating Aramco's historic departure successfully from the Korean market.

2. Literature Review

2.1. Globalization and Entry Strategy in the global marketplaces

Globalization is the ongoing process that broadens and deepens the relationships and also interdependence among countries. Globalization expands the variety of available resources, products, services, technology, and markets worldwide. International business is a mechanism that helps to bring about globalization (Hill & Hult, 2017; Park, 2017; Park & Allui, 2019). Given the situation, a firm considering foreign expansion must make three decisions basically: which markets to enter, how to enter (entry modes), and when to enter (timing of entry). Typically, once a firm decides to enter a specific overseas market, the next questions arise as to the mode of entry, then timing (Barkema & Vermeulen, 1998; Kogut & Singh, 1990; Pan & Tse, 2000; Park, 2017; Park & Allui, 2019).

Entry mode in a foreign country is defined as institutional arrangement that allows a firm to enter a foreign country with its products, human skills, management, technology, and other resources (Johanson & Vahlne, 1977, 1990; Buckley & Casson, 1998; Hill & Hult, 2017; Kang & Kim, 2014; Park, 2017; Park & Allui, 2019). In general, entry modes in a foreign market are distinguished into two types: externalization or internalization. Externalization is a contract-based entry mode such as trade through export, outsourcing, or licensing. Internalization goes along with higher risks and full authority of control associated with the investing firm's resource engagements (for example, cash or equity, etc.) and it is also conducted in the several forms of strategic alliances, joint ventures, or Merger and Acquisition and wholly-owned subsidiaries through Greenfield. Among them, a firm can establish a wholly owned affiliate in a host country by building a subsidiary with 100% ownership from the ground up. This is the so-called 'Greenfield'. Otherwise, a firm can acquire an existing enterprise in the target market. However, the entry choice between Greenfield and acquisition is not an easy one. Both entry modes have their advantages and disadvantages differently and each one makes sense in certain situations (Barkema & Vermeulen, 1998; Hill & Hult, 2017; Hubbard, 2001). In general, the entry choice depends on the circumstances or market conditions confronting the firm. If the firm is looking for entering a market where there are as of now well-established prevailing enterprises like Korean market's big 3 companies, SK Energy, GS Caltex, and Hyundai Oil Bank, and where global competitors such as Shell, BP and Exxon are also obsessed with establishing a presence, it may keep track to enter via an acquisition. In such cases, a way of Greenfield may be too sluggish to start a business operation by establishing a sizable presence. Thus, Saudi Aramco preferred to enter Korean market by taking over the Korean domestic No. 3 company, S-Oil. Accordingly, the volume of cross-border acquisitions has been growing at a rapid rate for two decades (Hill & Hult, 2017; Park & Allui, 2019).

However, if a firm is going to decide an acquisition, its management should be aware of an accompanying risk with acquisition and consider all factors when determining which firms to purchase. It may be more advantageous to enter by the slower course of a Greenfield rather than to make a dreadful acquisition. If a firm is taking into consideration that it enters a host country where there are no incumbent rivals to be acquired, in that case, a Greenfield venture may be the only mode to be considered. Even when incumbents exist, if competitive edge of the firm is established on the shift of organizationally embedded competencies such as skills, human resources, routines, and culture, it may though be preferable to penetrate through a Greenfield (Barney & Hesterly, 2013; Dess, Lumpkin, Eisner, & McNamara, 2014; Porter, 1985). Things such as skills, human's expertise, and organizational culture, which are developed on considerable knowledge or experience that are difficult to codify or illuminate, are much easier to set in a new venture rather than an acquired body, where the firm may have to beat the established routines, obstacles such as culture of the acquired firm. Otherwise, joint venture can be considered as an alternative way, which is the intermediate form between Greenfield and acquisition (Hill & Hult, 2017). A joint venture is to establish a company that is jointly owned together by two or more independent companies. For example, initially, Aramco Asia Korea was established as a joint investment between Saudi Aramco and SangYong Oil (now, S-Oil Corporation). By this mode, a firm can benefit from a local partner's experience, expertise or local knowledge of the host country's market conditions, culture, political and legal system, language, and business environments. When the risk of operation in a foreign country and the development cost are extremely high, a firm might share those costs and risks with a partner (Johanson & Vahlne, 1977; Hill & Hult, 2017; Kogut & Singh, 1990). Over time, this mode also can be considered to move on to the next step between the two companies, for example, Saudi Aramco entered the Korean market by the joint venture, then, ended with the acquisition of 63.41% stake in 2015.

Meanwhile, multinational enterprises often confront pressures for cost reductions due to the competitive global markets with a burden for local adaptation, which comes from differences in consumer tastes, preferences, local infrastructure, distribution channels through local intermediaries, or government demands in a host country (Barney & Hesterly, 2013; Dess, Lumpkin, Eisner, & McNamara, 2014). Considering those factors, the global strategy can be categorized into four basic strategies to compete in the international environment: International Strategy, Global Strategy (Standardization), Multinational Strategy (Localization), and Transnational Strategy. The International strategy typically involves in producing products first for the domestic market in a home country and then selling them internationally with only minimal modification or customization in other global markets. The Global strategy (That is, standardization) focuses on increasing profitability and profit growth by making standardized products and reaping the cost reductions that come from economies of scale, learning effects, and location economies (Hill & Hult, 2017). The Multinational strategy (That is, localization) concentrates on tailoring the firm's goods or services in different national markets so that multinational corporations can provide a good match to local tastes and preferences. The Transnational strategy tries to pursue global and multinational strategies simultaneously to keep costs low through economies of scale using learning effects in the optimal places and concurrently customize the product offering in overseas markets to clarify local differences and promote a multidirectional flow and allocation of resources such as skills in different countries (Barney & Hesterly, 2013; Dess, Lumpkin, Eisner, & McNamara, 2014; Hill & Hult, 2017; Kim & Youn, 2020; Levy, 2007; Pankaj, 1991). For example, Saudi Aramco has grown extensively over the years to become the largest integrated energy company in the world. Currently, Saudi Aramco is a number one supplier of crude oil to six major Asian countries: China, Japan, South Korea, Taiwan, Philippines and India. Saudi Aramco has established the Aramco Asia Headquarter located in Beijing. This was a wholly owned subsidiary of Saudi Aramco on 12 November 2012 to handle these countries efficiently and effectively, also, to apply global strategy to get some benefits coming from economies of scale in the optimal places. However, simultaneously, Saudi Aramco pursues multinational strategy to follow each country's different market conditions and demand. For this, Saudi Aramco officially opened the office in each country. With offices in Beijing, Shanghai and Xiamen and New Delhi, Aramco Asia is a key player in the region's vibrant energy market and is supported by integrated country offices in Japan, South Korea and Singapore. Under an aligned regional strategy, each country office provides marketing and portfolio management services and other business support to Aramco and its partners to match with localized demand and conditions as well (Aramco Asia Korea, 2012).

2.2. Petroleum Industry

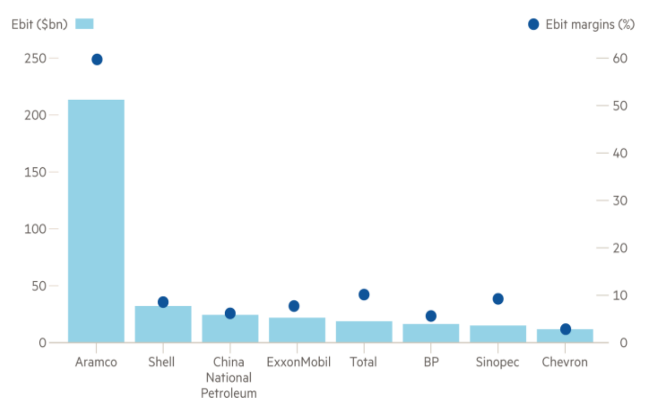
The petroleum industry covers the whole global mechanism of exploration, a series of actions to extract oil (extraction), refining process, transporting activities (generally by oil tankers and pipelines), and even marketing petroleum products. The largest volume products of this petroleum industry are fuel oil and petrol (in other words, gasoline). Petroleum (oil) is originally the raw material and main resource for lots of chemical products, along with pharmaceuticals, fertilizers, plastics, solvents, and pesticides, etc. as well. The activities in this industry are divided into three parts mainly: upstream, midstream and downstream categories. Typically, midstream operations are incorporated into the downstream area. Petroleum is very crucial to a variety of industries, and extremely invaluable to the maintenance of industrial development in its contemporary configurations, and thus it is a critical concern for many countries. Especially, oil makes up a large portion of the world's energy utilization and consumption, with developed countries being the largest consumers. The production, distribution, refining, and retailing of petroleum have taken as a whole represents the world's largest industry in terms of dollar value (Kang & Bae, 2012).

For 2020, the International Energy Agency (IEA) Oil Market Report forecasts global oil demand is expected to fall by a record 9.3mb/d year-on-year due to the impact of COVID-19 pandemic in 2020 which brings mobility almost to a halt. However, before 2020, worldwide average requirement of more or less 96 million barrels of liquid fuels and oil per each day. It turns out that more than 35 billion barrels a year are consumed. Production breached 97 million barrels per day (mb/d) in late 2015, and Medium-Term Oil Market Report 2016 foresees demand crossing the 100 mb/d threshold towards the end of its five-year outlook period. Supply predicts to grow far more slowly than previously projected, but global capacity is still forecast to expand by 5.2 million barrels per day by 2020 (International Energy Agency, 2016).

The Kingdom of Saudi Arabia is the largest producer and also exporter of petroleum liquids in the world. Currently, the second largest crude oil producer following Russia in the world is Saudi Arabia as well. Crude oil production in Saudi increased to 10720 BBL/D/1K in November from 10625 BBL/D/1K in October of 2016. Crude Oil Production in Saudi Arabia averaged 8015.11 BBL/D/1K from 1973 until 2016, reaching a high of 10720 BBL/D/1K in November of 2016 and a record low of 2340 BBL/D/1K in August of 1985 (Yergin, 2008). For decades, the strong success of Saudi Arabia's oil industry has contributed to the economic development of its country. However, Saudi Arabia Saudis still rely heavily on oil-based economies with nearly 90% and also 80% of fiscal and export revenue, respectively. It accounts for the sales of oil with constant government endeavor to transform its economy to subdue the risk associated with the fluctuating crude oil prices governed by worldwide various forces. According to the International Monetary Fund, oil export revenues account for around 90 percent of total Saudi export earnings and beyond 40 percent of the its gross domestic product (GDP). The downslide of oil prices continuously over the past 18 months has revisited that oil-based economy and its strategy into question. Thus, Saudi Arabia is now seeking foreign direct investment in a wide range of sectors (Park, Allui, & Alselaimi, 2019). To drive non-oil sectors' growth, Saudi government implemented economic reforms with the aim of facilitating foreign direct investment (FDI) across the sectors, also vice versa. Through its 'Tenth Development Plan (2015–2019)', 'National Transformation plan 2020', and 'Saudi vision 2030' which expresses a country's long-term goals and future prospects with strengths and capabilities, Saudi government has intended to achieve overall growth and sustainable development comprehensively, furthermore, reshape the economy at large. Consequently, extra emphasis would be placed on Saudi's multinational enterprises to go abroad for overseas business to gain competitive advantages (Kang & Bae, 2012; Kavoossi, 2000; Park & Alenezi, 2018; Park & Allui, 2019; Park, Allui, & Alselaimi, 2019).

2.3. Saudi Aramco

Saudi Aramco is the largest oil company and possesses the largest oil reserves in the world. It supplies 10% of global need and it has a controlling power to produce excess as a swing producer. Accordingly, it regulates and dominates global markets overall. Annually Saudi Aramco produces 3.4 billion barrels of petroleum and it manages 264 billion barrels of oil reserves and 253 quadrillion scf of natural gas (Aramco Services Company, 2011). Currently, Saudi Aramco is headquartered in Dhahran, Kingdom of Saudi Arabia, and takes into employment exceeding 55,000 employees. Operation activities extend the Kingdom, and through several entry modes such as subsidiaries, acquisition, and joint ventures, Saudi Aramco's activities reach the global marketplaces and include whole process of exploration, production, refining, chemicals, distribution and even marketing in petroleum industry. All those movements of the company are monitored by the Ministry of Energy (Ministry of Petroleum and Mineral Resources) along with the SPMC (Supreme Council for Petroleum and Minerals). However, the ministry has more responsibility in this matter than the SPMC (Aramco Services Company, 2011; Saudi Aramco, 2020).



Source: Cheikh (2019)

Figure 1: Profits Comparison.

The Story of Saudi Aramco began when there was a shortage of oil in World War 1 and the embargo of American companies by the San Remo Petroleum Agreement between Britain and France in 1920. The US administration had a general support and aid for an 'Open

Door' policy, which the secretary of commerce, Herbert Hoover proposed first in 1921. SoCal (Standard Oil of California) was amid those US companies earnestly searching for new sources of oil from a foreign country. SoCal through its affiliate, BAPCO (the Bahrain Petroleum Co.), shut down oil on Bahrain in May 1932. This event elevated concern about the oil potential of the Arabian continent in May 1933, the Saudi government permitted a concession to SoCal in priority to a competitor bid from the Iraq Petroleum Co. The concession allowed SoCal to dig into oil in the Kingdom of Saudi Arabia. SoCal assigned this deal to a wholly owned affiliate called CASOC (California-Arabian Standard Oil Co.). In 1936, without success at discovering oil, Texaco (the Texas Oil Co.) purchased a 50% ownership of the concession. After four years of unproductive exploration, the initial success showed up with the seventh drill site located in Dhahran in 1938, referred to as Dammam. This immediately produced over 1,500 barrels each day (240 m 3/d), providing the company with confidence to proceed. On 31 January 1944, the name of company was altered from CASOC (California-Arabian Standard Oil Co.) into Aramco (Arabian American Oil Co.). In 1948, as investors, SoCal and Texaco were joined by Standard Oil of New Jersey which purchased 30% ownership of the company. Moreover, Socony Vacuum (later Mobil) purchased 10% of the company. It leaves SoCal and Texaco with 30% for each. The new shareholders also joined the Iraq Petroleum Co. It led to get the restrictions of the Red Line Agreement lifted so as to be free to access to this arrangement. In 1950, King Abdulaziz intimidated regarding nationalizing his country's oil facilities, hence, exerted a force to Aramco to consent to share profits equally, 50% and 50%. A few years earlier, similar acts were already being taken against American oil companies in Venezuela. The American government authorized US Aramco companies a tax break as a golden trick to be equivalent to the profits bestowed to King Abdulaziz. In the beginning of the new arrangement, the company's headquarter was moved from New York to Dhahran. In 1973, the Saudi government acquired a 25% stake in the corporation. This ownership was increased to 60% in 1974. By 1988, the company was fully acquired and renamed from Aramco (Arabian American Oil Company) to the current name, Saudi Aramco and subsequently, Saudi Arabia experienced a period of growing Arab nationalism. These efforts and developments were caused by the rising frustration amongst Saudis for not having a stake in the emerging demand for oil in the world economy (Aramco Services Company, 2011; Saudi Aramco, 2020).

In 1988, the government had established, as part of Petromin, Samarec (the Saudi Arabian Marketing and Refining Company) assigned with refining, marketing activities, and distributing all refined products. In July, 1993, King Fahd circulated a Royal Decree sanctioning a decision by the Council of Ministers in order to merge the operation and several facilities of Samarec into Saudi Aramco. The merger conveyed a string of responsibilities and also assets to Saudi Aramco. Among those were three domestic refineries in the Kingdom: a 140,000-bpd refinery in Riyadh, a 190,000-bpd refinery in Yanbu, and Petromin's almost 75 percent stake in Jeddah's 90,000-bpd refinery. Then, the remaining 25 portion of which was held by private investors locally. Saudi Aramco also granted Petromin's 50 % ownership in its three joint venture refineries with other foreign companies: a 325,000-bpd refinery with Greece's Petrola in Rabigh, a 320,000-bpd refinery with Mobil in Yanbu, and a 300,000-bpd refinery with Shell Oil in Jubail. Consequently, Saudi Aramco took an initiative and extensive responsibility for operating eight terminals on the Red Sea on the way to ship and receive crude oil, NGL and also other refined products. The company, moreover, took over project of the Kingdom's petroleum product for distribution network, which comprised 14 air-fueling units and 18 bulk storage plants at airports. Thanks to that, for now, Saudi Aramco is responsible for all domestic activities and operations of oil refineries, even distribution facilities with the joint venture export refineries.

Currently, Saudi Aramco has created numerous global partnerships through joint ventures or acquisition, and even subsidiaries in several host countries such as South Korea, China, Japan, Singapore, Egypt, Netherlands, United Arab Emirates, United Kingdom, and United States. Investing capital in the refineries and distribution networks as well of those companies allows the parent company, Saudi Aramco to continue stable and trusty delivery of energy to customers worldwide. With annual revenue of 465.49 billion dollars in 2017, the Saudi Aramco became the world's highest-earing oil company. However, the Saudi Aramco must compete with global giants such as Shell, BP and Exxon, etc. where Aramco holds large oil reserves in the home country offering a sustainable competitive advantage. The President and CEO of Saudi Aramco is Amin H. Nasser. He is also a Board member in the company. During his career that expands more than three decades, Nasser has exerted his leadership as senior vice president for Upstream. With his role, he led Saudi Aramco's largest capital investment programs in its integrated oil and gas portfolio project. Nasser is actively engaged in the advancement of people through education and training, and refining the company's innovation and technology strategy. Currently, he is leading Saudi Aramco's endeavors to produce cleaner energy and products through investments in innovation and knowledge based businesses such as entrepreneurial start-ups, renewables, oil-to-chemicals processes, and carbon capture utilization and storage (CCUS) technologies. (Aramco Services Company, 2011; Saudi Aramco, 2020).

3. Methodology

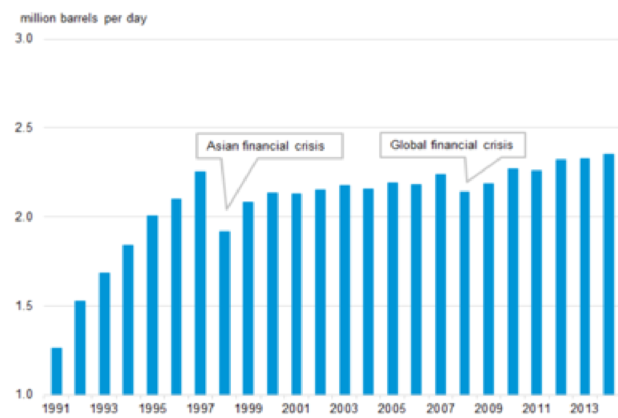
The main objective of this study is to investigate how Saudi Aramco initially entered the Korean market through the two-step modes of Joint Venture and Acquisition. Therefore, this study is not based on the most recent data, but on the basis of Aramco's first step into the Korean market with S-oil (at that time, SsangYong Oil), and ending with acquisition when it expanded its business. This study filtered and refined a vast array of secondary sources, including the company's homepage, various other websites, annual reports, industry reports, periodicals, and formal and informal interviews such as anonymous dialogues. In conclusion, this study leads to show remarkable entry and global strategy into the host country to make a practical management decision through pedagogical and qualitative research method.

4. The Case of Saudi Aramco in the Korean Market

4.1. First launch in the Korean Market

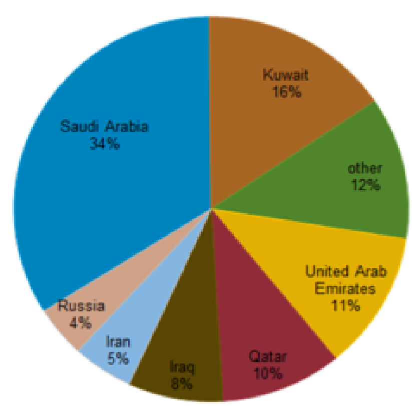
South Korea consumed almost 2.4 million barrels each day (b/d) of petroleum and also other liquids in 2014. It makes it the 10th largest consumer in the world. According to KNOC (the Korea National Oil Company), South Korea has a tiny amount of domestic oil reserves, however, the country relies heavily on crude oil imports to meet its national demand. Total oil production of 79,000 b/d in South Korea is based upon refinery processing yield and a small amount of bio fuels manufacturing.

South Korea imported almost 2.5 million b/d of crude oil and condensate in 2014, which is making it the world's fifth-largest importer. South Korea is extremely dependent on the Middle East region for its oil supply, and the area composed above 84% of South Korea's crude oil imports in 2014, as reported by Korea customs statistics. Saudi Arabia was the leading and main supplier as the source of exceeding 30% of South Korea's imports, followed by Kuwait with 16% of total crude oil imports. South Korea tried to reduce its crude oil purchases from Iran from 10% to 5% between 2011 and 2013. It was applied to South Korea to comply with economic sanctions imposed by the US government so that US can impede Iran's ability to trade crude oil. Accordingly, South Korea held up shipments from Iran for two months in 2012. After presenting a good faith endeavor to reduce their volumes, South Korea was given a waiver in the middle of 2012 and resumed imports from Iran again, but much less amount was achieved than before economic sanctions were made. South Korea has articulated interest in growing imports of crude oil and condenses as well from Iran once the Western sanctions have been raised and the nuclear deal in July 2015 was implemented. Then, other suppliers in Middle East and Russia have made up for South Korea's missing imports from Iran.



Source: Short-term Energy Outlook, U.S. Energy Information Administration (2015).

Figure 2: South Korea's oil consumption, 1991-2014.



Source: Global Trade Atlas, Korea Customs and Trade Development Institution.

Figure 3: South Korea crude oil imports by source, 2014.

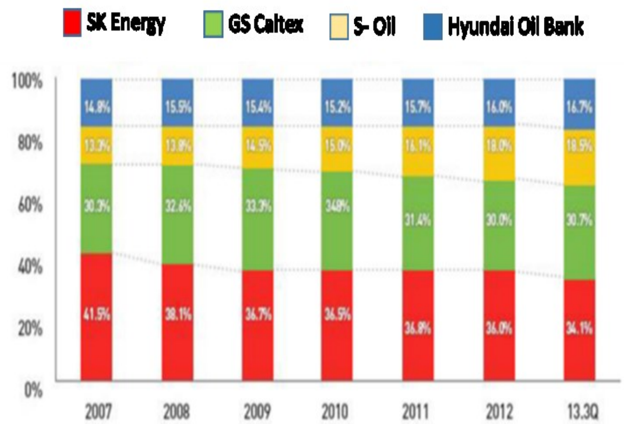
In Asia, Saudi Arabia, through Saudi Aramco, is the number one crude oil supplier to six major Asian countries; South Korea, China, Japan, Taiwan, Philippines and India but its relationship with the region goes far beyond the reliable supply of petroleum energy to include research alliances, materials supply, education, engineering and technical services, training and other mutually beneficial endeavors. With offices in Beijing, Shanghai and Xiamen and New Delhi, Aramco Asia is taking a key player in the region's vibrant energy market and is supported by integrated country offices in Japan, South Korea and Singapore. Under an aligned regional strategy, each country office provides marketing and portfolio management services and other business support to Aramco and its partners.

Among those Asian countries, South Korea is a particularly important market. It is the world's sixth-largest refiner with refineries for Korean local firms such as ranking no.1, SK-Energy, GS Caltex of ranking no.2, then, S-Oil as ranking no.3, and Hyundai Oil Bank. With this capacity, the country became a major importer of Saudi crude oil and liquefied petroleum gas (LPG). South Korea imports around 2.5 million bpd of crude oil, including 855,000 bpd from Saudi Aramco, which is making Saudi Aramco the largest crude oil exporter to South Korea. In addition, South Korea imports naphtha from Saudi Aramco Products Trading Company. Also, vice versa, South Korea is Saudi Arabia's fourth-largest trade partner. Its direct investments in Saudi Arabia grew by 400 percent during the period of 2006-2010.

Saudi Aramco entered and settled down the South Korean market by two steps. In 1990, Saudi Aramco agreed to a joint venture with the South Korea refiner, previously, 'SsangYong Oil' Refining Company, for now, S-Oil Corporation led by Aramco. S-Oil Corporation is a petroleum and refinery company, located in Seoul, Korea. S-Oil was founded in 1976 by old name SsangYong Refinery. It produces petroleum, petrochemical, and lubricant products, as well as polysilicon products through its investment in Han-kook Silicon. In August 1991, Saudi Aramco released that one of its affiliates had obtained a 35 percent stake in SsangYong Oil Refining itself. Then, S-Oil became Saudi Aramco's partner of joint venture in South Korea. By signed joint-venture agreement and long-term crude oil purchase agreement with Arabian Oil Company which is Saudi Aramco before changing the name. After the financial crisis in 1997, Ssangyong Group was disbanded and Saudi Aramco additionally acquired 28.4%. While the history of Ssangyong Group is divided into before the financial crisis in 1997 and after crisis, the company's flow has continued to Aramco without completely falling. In 2007, the senior vice president of Refining, Marketing & International, Khalid G. Al-Buainain noted that SsangYong finished up being one of the best investments for refining Saudi Aramco has ever made. He called the refinery "the most profitable refinery we have in our system today." Moreover, following its venture in Korea, Saudi Aramco acquired 40 percent equity in Petron Corporation in early 1994, the largest crude oil refiner and marketer in the Philippines. With this background, Saudi Aramco was officially launched in November 2012 in Asia. First, Saudi Aramco has established Aramco Asia-Korea (AAK) in Beijing, China in 2012. With offices in China, South Korea and Japan, Aramco Asia consists of three bodies, Aramco Far East in Beijing, ABS (Business Services Co.), AAJ (Aramco Asia-Japan) and AAK (Aramco Asia-Korea, it's now Aramco Korean). They are all possessed by the Saudi Aramco Asia Co., and also wholly owned by Saudi Aramco.

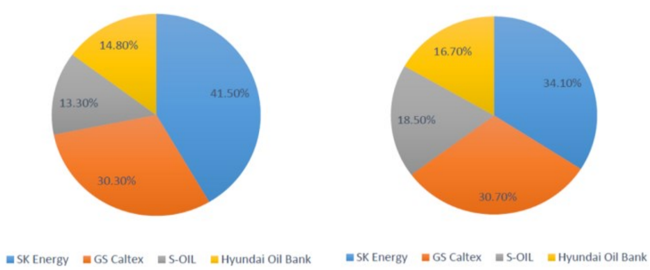
4.2. Exploring a new opportunity of AAK (Aramco Asia Korea)

Saudi Aramco led the growth of S-Oil as the largest shareholder from the early 1990s, became the single largest shareholder of S-Oil in 2015 with its acquisition of an S-Oil ownership from Hanjin Group. Through this way, S-Oil granted a huge loyalty to all stakeholders, such as its investors, shareholders clients, suppliers, strategic partners, financial institutions, even government agencies. In addition to that, soaring accessibility was obtained, as the global resource of Saudi Aramco would be an incredible opportunity for the growth and expansion of S-Oil. For the first time, when Saudi Aramco decided to enter into the Korean market, the company found that there are strong, local competitors in the Korean market such as SK Energy, GS Caltex, and Hyundai Oil Bank. Thus, the top management teams of Saudi Aramco considered current market conditions and local, major rivals which cover whole market shares in Korea. Finally, the companies decided to make joint venture with Korean promising, local company, S-Oil (at that time, Ssang Yong Oil). S-Oil's market shares have increased in Korean market from 13.3% in 2007 to 18.5% in the third quarter of 2013. Since S-Oil has made joint venture with Saudi Aramco. However, Hyundai Oil Bank also increases its market shares from 14.8% on 2007 to reach 16.7% on third quarter of 2013. GS Caltex also increased from 30.3% on 2007 to reach 30.7% on the third quarter of 2013. These increases in market shares of S-Oil, Hyundai Oil Bank, and GS Caltex result on decreases on the market share of other strong competitor, SK Energy which decreased from 41.5% on 2007 to 34.1% on the third quarter of 2013. In particular, S-Oil made significant increase in its market share by 39% which is more than 25% increase from the closer competitor. This seemed that S-Oil acquired a part of SK Energy's market share. Otherwise, Saudi Aramco faced language barrier to handle all issues because Korean is a tough language besides different cultures and tradition. However, with hiring local workforces instead of bringing human assets from headquarter in Saudi, the company has made up the missing part step by step.



Source: Oil & Gas Journal

Figure 4: South Korea Refinery Market Share 2007-2013 (3Q)



Source: Oil & Gas Journal

Figure 5: South Korea Market Share 2007 vs. 2013 (3Q)

Table 1: South Korea's Oil Refineries in Dec, 2014

Owner	Location	Capacity (barrels per day)
SK Energy	Ulsan	840,000
GS Caltex Corp.	Yeosu	785,000
S-Oil Corp.	Onsan	669,000
Hyundai Oil Refinery Co.	Daesan	390,000
SK Energy	Inchon	275,000
Hyundai Lube Oil	Daesan	9,500
Total		2,958,500

Source: U.S. Energy Information Administration, Oil & Gas Journal

The capacity of South Korea's Oil Refineries in December 2014, S-Oil produced 669,000 barrels per day by its refinery in Onsan. SK Energy produced 840,000 barrels per day by its refinery in Ulsan and 275,000 barrels per day by its refinery in Inchon. GS Caltex produced 785,000 barrels per day by its refinery in Yeosu. Hyundai Oil Bank produced 390,000 barrels per day by its refinery in Daesan (Table .1).

S-Oil expanded domestic refining industry as an exportation industry and it definitely led change of the industry causing high value-added businesses by installing facility. Additionally, the company became an ambitious market leader as supplier in petrochemical area via the successful operation activities of its No.2 Aromatics complex. Also, the company established the largest project which was in progress. The project consisted of the construction of Residue Upgrading Complex (RUC), which the latest refinery technology be employed and Olefin Downstream Complex (ODC), the facility that produces olefin downstream products, propylene oxide and polypropylene from residue. It utilizes the competitive raw material produced in RUC. Through this project, S-Oil was expected to notably improve revenue and profit. Moreover, it secures the leading competitiveness in this industry by converting low-value residue to high-value products such as olefin downstream product and gasoline.
Through its largest investment, the RUC/ODC Project, S-Oil obtained a new power for sustainable growth while also possessing appropriate business structure for the position as a comprehensive energy company. The successful completion of RUC/ODC, aimed for 2018, would be a foundation for the grand vision of S-Oil as the 'Most Profitable Comprehensive Energy Company' along with expansion in the petro-chemistry area.

4.3. Localized Activities and Corporate Social Responsibility

Aramco Asia Korea (AAK)'s office overlooks the 'Cheong GyeCheon' flowing through the heart of Seoul. AAK office has grown to 25 employees, three from Saudi Aramco and the rest locally hired. Head of Human Resource Division, JM Cho said, "We are responsible for approximately 500 employees and their family members, in addition to 16 students sponsored at Korean universities. Every employee carries out his other duties with confidence and perfection." AAK provided a full range of support services, including providing Saudi Aramco with market information and logistical advice related to crude oil, LPG and refined product sales to South Korea. The office facilitated cooperation in research and technology, and assisted South Korean companies and financial institutions interested in manufacturing opportunities in the Kingdom and with Saudi Aramco. Also, AAK supported Saudi Aramco's renewable energy initiative in cooperation with South Korean companies, by supporting postgraduate researchers, and facilitating student and cultural exchanges. AAK was particularly interested in collaborating on R&D projects, and also in opening long-term strategic opportunities to Korean businesses within Saudi Arabia. AAK was actively supporting potential partnerships between Korean companies and Saudi Aramco, by developing partnerships that explore opportunities in various oil and gas industry sectors including upstream, downstream, chemical, renewables and new technologies.

Al-Hassnah, Managing director of AAK, emphasized that AAK is developing and implementing corporate social responsibility programs. He stressed the importance of bolstering the customer services program as a major project. AAK provided services that contributed in the establishment of the KAIST CO2 Center in an ongoing relationship with KAIST (the Korea Advanced Institute of Science and Technology). Located at KAIST's campus in Daejeon, South Korea, the research center is aiding development of new technologies that will convert CO2 emissions into useful products. Also, AAK supported for the campaign of Korea Broadcasting Station (KBS) to provide the right medical treatment to children in need who are suffering from chronic diseases. AAK has set up a donation to the Halym Burn Foundation for children suffering burns so patients from low income households could get better medical treatment. On the education side, AAK has currently evaluated means to support disabled university students through collaboration with the Community Chest of Korea. These were just some of the ways AAK has formed powerful new partnerships to benefit Korea's future. AAK wants to build a better future for Korea not only with their services and expertise but also providing their contribution to the community as well.

5. Findings and Implications

Based on this case study, some significant managerial implications can be highlighted as below. First, many multinational companies consider the most appropriate, suitable mode of entry to enter various overseas markets for their markets expansion and distribution. Among them, a firm can establish a subsidiary with 100% ownership and controlling to enter host country, that is, Greenfield method, but Saudi Aramco entered the Korean market first through a joint venture with a Korean local company, and then successfully acquired and merged. This study shows in practice that these two phases of entry have many advantages in entering the high-risk and variable overseas markets. In other words, it shows that not just black and white logic of all methods, but also changing the strategy gradually to suit the market and the situation can be a big merit of entering the overseas market amid high uncertainty. In a similar way, the entry mode of GS Caltex, which was established as a joint venture initially, between Honam Oil Refinery and the American Caltex Oil Company, and then, 50 % and 50% equal ownership of share between GS Group and Chevron also explains this well. It is likely to enhance the credibility of the argument that the two-step strategy is a success factor. Unlike Walmart and Carrefour which completely failed and retreated from the Korean market, Home plus's settlement of the Korean market may explain the usefulness of its two-phase market expansion strategy as well. Of course, the product-based retail market entered by Walmart and Carrefour is very different from the oil market entered by Aramco with the different point of view from customer side. The domestic oil market in Korea is characterized by the inelastic price of oil demand and the special characteristics of the oil market, such as the high oil price policy through the Korean government's high taxation. Given these other factors, traditionally, many scholars in international business assumed that a company would stick to one entry mode when entering overseas, so this study allows us to revisit these existing theoretical assumptions and various other potential factors.

Second, although many global companies have overcome the liability of foreignness, that is to say, the disadvantages of overseas markets and then, have shown successful market entry and settlement in general, there are still many difficulties to overcome the barriers with a lot of effort. For example, the fact that Wal-Mart and Carrefour, the global top two companies in the retail industry failed and withdrew from the Korean market, is still giving us shocking lessons. In other words, the question of how global companies are absorbed into the local market, particularly in the difficult and rumored Korean market has become a very important issue. Thus, this study shows how Aramco, a representative multinational company in Saudi Arabia, made a win-win relationship with the localization strategy by making a great contribution to the Korean market.

Finally, this study focused on showing how Saudi Aramco settled down after the first step in the Korean market. Meanwhile, Saudi Aramco began trading stocks through IPO in December 2019, and Aramco's enterprise value is estimated at USD 1.7 trillion (about 2030 trillion won). This is more than Apple ($ 1.1 trillion), which is currently the world's largest market cap. This made Aramco the world's most expensive company by setting various world records in its public offering. This was part of Saudi Arabia's economic reform, 'Saudi Vision 2030', which is part of the efforts to create a country that does not rely on petroleum by diversifying Saudi's economy beyond the oil-based. Thus, this current corporate situation shows that Aramco should be prepared for the uncertain future by expanding its scope as a global leader in the petrochemical industry through the technology and knowledge-driven businesses, not just as a petroleum producer in the long run. The strategy considering this situation has also applied to the Korean market where Aramco entered. Therefore, this study plays a critical role in Aramco's future entry into other foreign markets and preparation for an uncertain future.

6. Conclusion

This study is a valued case of how Saudi Aramco, the world's most important petrochemical company, entered the Korean market. It is also an inestimable business case that shows how the entry mode into foreign markets discussed in international business does not end with a single choice, but can be done in two stages or more to suit the market and the business situation. The case also highlights the importance of the Korean market in the Asian market, and how a successful win-win strategy with a giant state-owned company owned 100% of the Saudi royal family contributes to increasing the value of both companies.

Meanwhile, in spite of the tremendous implications theoretically and practically of this successful business case, the following limitations should be addressed in future studies. First, as mentioned earlier, this case focused on examining Saudi Aramco's first entry into the Korean market and the past situation of changing its mode of entry into the Korean market. Therefore, the situation after the Saudi Aramco went public through issuing its stocks was not addressed. This is intended to do more in-depth research in the initial strategy of Aramco in Korea, but in the future, another study should be planned that looks at the present and the future based on the current or most recent data. Second, until the public disclosure, the common limitation of studying most companies in Saudi Arabia is that it is difficult to obtain detailed internal data or information about the companies. While this has been fixed by a conservative Saudi culture, there are still limitations in looking at the internal strategies of companies with limited data access from third parties. This is expected to improve gradually in the same way as Saudi Aramco's public offering. Finally, in addition to Aramco, it is necessary to analyze various Saudi multinational corporations that are affecting the global markets from various perspectives. Saudi Arabia is currently working hard to attract foreign direct investment into the Kingdom as part of its economic reform, aligned with Saudi Vision 2030. In the opposite direction, however, the importance and implications of Saudi companies in international business are growing significantly. Therefore, it is necessary to study diverse strategies of Saudi companies in expanding their markets in various global marketplaces.

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