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The Cultural Influence on Global Market Selection

- Evaluation of the Internationalization Process of a Saudi Enterprise

vorgelegt bei

von

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Table of Contents

Acronyms and Initials

AA	Authorized Agent
ARAMCO	Arabian-American Oil Company
COGIA	La Compagnie Générale des Industries Alimentaires
ERCO	Emirats Refining Company Ltd.
FDI	Foreign Direct Investment
GCC	Gulf Cooperating Council (countries), incl. Saudi Arabia, Kuwait, Bahrain, Qatar, U.A.E., Oman
GDP	Gross Domestic Product
HCN	Host Country National
JV	Joint Venture
KSA	Kingdom of Saudi Arabia
M & A	Mergers and Acquisitions
MNE	Multinational Enterprise
MT	Metric Ton
OLI	Ownership / Location / Internalization
SEO	Savola Edible Oil
SFO	Sunflower Oil
SR	Saudi Rial, 1$ US = 3.75 SR
U.A.E.	United Arab Emirates
UK	United Kingdom
WAIL	Wazir Ali Industries Ltd.
WTO	World Trade Organization

1. Introduction

Central issue of the present paper shall be the internationalization process, a topic which has received continued attention during recent decades. The 'Shrinking Globe', accelerated by declining trade and investment barriers and major advances in technology, caused many researchers to devote themselves to explaining the pattern of international activity. This paper intends to apply some of these empirical findings to the special case of an individual firm. But unlike other researches, this analysis leaves behind the 'Triad of Economic Power'[1] and instead intends to focus on the phenomenon of internationalization in the Arab World, particularly Saudi Arabia.

Saudi Arabia is of special interest, as it has maintained a rather ambivalent approach to international involvement. On the one side it remained fairly isolated, protecting the newly developed home industries and wishing to limit Western influence where it could interfere with tradition and culture, while on the other side simultaneously being committed to liberal trade and the benefits of Western life-style and technology.

Main concern of this research will be the examination of the market selection process in the course of internationalization of domestic firms and to which extent culture influences the choice of target markets.

1.1. Unit of Analysis

Unit of analysis of the present case study will be *The Savola Group*. Savola is a Saudi joint-stock company, which was founded in 1979 and mainly engages in edible oil manufacturing, sugar refinery, retailing, snack foods and packaging activities. Starting with an initial capital of SR 90 million, the Group managed to achieve exceptional economic growth. In between 1992 and 2001 sales have been growing constantly from SR 757 million to SR 3,355 million at a compounded annual growth rate of 18 %, while assets have been growing by 12.5 % in the last ten years to reach SR 3,598 million in 2001. The Savola Group now ranks among the Top 20 companies in the Middle East.

In recent years, the company decided to strategically reorganize its activities in order to realize its ambitious profitability aims.[2] Consequently, Savola divested some of its small or unprofitable business units. Today the company's focus clearly lies in the three main fields of edible oils, sugar refinery and retailing.

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[1] North America, Europe and South East Asia.

[2] Part of the 'Triple Five Strategy', trying to achieve sales turnover of 5 billion and 500 million profits by the year 2005.

This study is devoted to examining *Savola Edible Oil* (henceforth SEO or Savola), the company's oldest business unit and core department of the Group. SEO has been chosen as the unit of analysis for various reasons. These are, on the one side, the critical role of the edible oils for the success of the whole group and, on the other side, SEO's increasing relevance after the corporate strategy change from diversification in the 1990s towards a focus strategy to strengthen the core capabilities. But above all Savola Edible Oil came into focus for analysis, as it creates the starting point for international activities and expansion.

1.2. Guideline Questions

As emphasized before, this study aims at looking at the issue of internationalization from a cultural perspective, hereby challenging the convergence presumption, which tends to neglect the still significant cultural differences. Based on the assumption that the chosen geographic focus is influenced by the prevailing culture, this study seeks to approach the following questions in the course of the analysis. These questions must be kept in mind while reading this research as they contribute a central part of this dissertation.

1. How is Savola positioned in the (domestic) edible oil market?
2. Why is SEO engaging in international trade?
3. What factors determine SEO's choice of geographic location?
4. Is culture influencing the geographic scope of SEO's international activity?
5. Is FDI Savola´s preferred mode for international expansion?
6. To what extent do cultural similarities facilitate FDI?
7. What forms of FDI are prevalent to enter foreign markets?

1.3. Method of Analysis

Any study of the phenomenon of internationalization needs first of all to consider the local environment. Only then will we be able to properly identify the motives for moving abroad, and ultimately why certain markets were selected. For the present analysis of the Saudi Arabian company Savola, starting with a brief explanation of the macroeconomic environment therefore seems appropriate. Highlights of the following will include the influence of the political system, a traditional monarchy, with manifold links between state and religion and the, on surface, contradicting economic attitude of the Saudi government, acting as supplier of modern infrastructure, subsidized inputs and promoter of a liberal, pro-capitalist economic system.

Afterwards – in order to shed some light into the first guideline question – a more detailed analysis of the edible oil industry will follow. By employment of Michael Porter's Five-Forces-Framework main aspects of the relevant processes and players will be thoroughly examined. Furthermore the model will allow us to capture SEO's competitive stance vis-à-vis its competitors, suppliers, distributors, and substitute products.

Drawing from these insights John Dunning's Ownership/ Location/ Internalization (hereafter OLI) Paradigm shall serve as the key method of analysis to answer the raised questions. As a starting point the Ownership Sub-Paradigm classifies the type of competitive advantages SEO possesses and their sustainability.

Special attention will naturally be paid to the Location Sub-Paradigm, as it shall be the tool not only for evaluating the geographic market selection process, but also for defining the role of culture. Unlike many other studies, where the role of cultural significance is ruled out or treated as a minor issue, it plays a decisive role in this dissertation and much effort will be spent on an in-depth analysis of this subject. Particularly in the Arab World, where Islamic values and legislation are regarded as obligatory and where understanding traditions, which have remained unchanged for generations, is a sensitive issue, culture is bound to be pivotal for business success. It is needless to explain that severe cultural differences can easily produce failure abroad.

Finally, the Internalization Sub-Paradigm intends to answer mainly the last three questions, as it will help to determine if and why FDI is the best practice for Savola and which type of FDI (M & A, Greenfield investment, JV) seems to be preferred in this regard. In general, international expansion by the means of M & A activity is likely in industries where relatively abundant financial resources are available and where a speedy access to the market as well as control of proprietary assets are key criteria. If, and to what extent, SEO's expansion follows these propositions will be elaborated.

To supplement the analytical research multiple sources of information were used. As data in the Middle East and its industries are often unavailable or sometimes even unreliable, several archival sources supported the data collection process. Furthermore, numerous personal interviews were conducted with Savola senior management employees.[3] The results of these

[3] See Appendix 6.1.

talks were used in the study for descriptive purposes only, but they helped to flesh out the study and to give meaning to some of the results as viewed from a different perspective.

2. Saudi Arabia

This chapter is dedicated to providing a general overview of the country and some necessary background information. The clear focus will hereby only lie on those issues which will be relevant for the study. By and large the following facts on geographic, historic and economic themes are therefore limited to the extent that they can enrich the analysis. However, no analysis of a Saudi firm or industry would be complete without a survey of the unique development and role of the country. Besides, the following information will also provide some further explanations for the question why the chosen unit of analysis is a Saudi enterprise.

2.1. Geography

Saudi Arabia, officially named the Kingdom of Saudi Arabia, has a surface area of about 2,250,000 km², approximately the cumulated size of France, Germany, Great Britain, Italy, Poland and Spain. It occupies the biggest part of the Arabian peninsula and is bounded by Jordan, Iraq and Kuwait in the north, the Arabian (Persian) Gulf and Qatar in the east, the United Arab Emirates and Oman in the southeast, Yemen in the south and the Red Sea in the west. The small island of Bahrain is connected with the KSA via the Saudi-Bahrain causeway in the east. Some of the named boundaries remain, even today, disputed and not precisely defined. Riyadh is the capital of the country, while Jeddah, the home base of the Savola Group, is the principal port. In addition, two of Islam’s holiest sites are located in the country. Mecca, the birthplace of the prophet Muhammad and location of the holy Kaaba, focal point of Islamic prayer worldwide and Medina, the site of the prophet’s mosque and grave.
Considerably more than half the area of the kingdom is desert. The great Rub al-Khali is a sand desert, stretching over the entire south and southeast, while the An Nafud sand desert extends over the northern parts of the country. The country’s general location in the southwestern part of Asia was and still is seen as an advantage. Living on important historic trade route, the Arabian peninsula gained major commercial clout and was of strategic importance, linking the trade centers of southeast Asia, East Africa and Europe. Even nowadays the advantage remains to a certain degree, as the two commercial capitals of East Asia (Singapore) and Western Europe can be reached during trading hours.
The population of Saudi Arabia is predominantly urban and consists mainly (82 %) of Arabs whose ancestors have lived in the area for many centuries.[4] According to the latest estimates

[4] Microsoft Encarta Online Encyclopedia 2002.

the rapidly growing population has reached 23,513,330 including 5,360,526 non-nationals (July 2002 est.).[5] A study by the United Nations and the World Bank showed that population growth in the KSA stands at four percent. The study expected the Saudi population to reach 30 million by the year 2010 and more than 47 million by 2020.[6] The majority of Saudis are below 25 years of age. Statistics show that 42.4 % of the population is less than 15 years old.[7] Expatriate workers make up 48 % of the total workforce. The greatest number comes from other Arabic-speaking countries such as Egypt or Yemen, followed by expatriates from Pakistan, India or the Philippines (technocrats and service personnel) and academics from the world's most advanced nations.

2.2. History

The Arabian peninsula has been settled by man since the remotest period from our present era and was probably the original home of the Semites, as well as its highly developed cultures (Arabia Felix, Nabataeans) going back long into the pre-Islamic days of nomadic tribes and Bedouins.

Nonetheless, the most remarking event in history occurred in the early seventh century. Even today its omnipresent effects remain dominant, thus being of crucial importance for the present study. The message of prophethood and the first verses of the *Quran* (the holy book of Islam, also Koran) were revealed from God, through the Angel Gabriel to Muhammad – the prophet of Islam. Muhammad was born in Mecca in the year 570 and received the revelations for 23 years, starting at the age of 40. Muhammad, a descendant from the respected tribe of Quraysh, started to preach the words which God had revealed to him. Suffering from persecution he and his followers were forced to migrate, leaving Mecca behind and settling down in Medina. After several years the prophet and his followers were able to return to Mecca and unite the divided and hostile Arab tribes. Islam was now definitely established and expanded rapidly across the Middle East.

By the end of the seventh century the present-day Saudi Arabia somehow diminished in importance as the caliphs, Muhammad's successors, moved their seat of government away from Medina to Damascus and later to Baghdad. The Arab tribes once again were disunited and belligerent and, with the beginning of the 16th century, under foreign rule of the Egyptian Mamluks and afterwards the Ottoman Turks.

[5] CIA – The World Factbook 2002.
[6] Lahmeyer, J., http://www.library.uu.nl/wesp/populstat/Asia/saudiarc.htm .
[7] CIA – The World Factbook 2002.

It was in the mid-18th century that Arabia came back into focus, when Muhammad bin Saud, first ruler of the House of Saud (ruling family of the modern KSA), joined forces with Muhammad bin Abdul Wahhab. The result of this alliance was Wahhabism, the back-to-basics religious movement, which wanted to bring the Arabs of the peninsula back to the true face of the Islamic religion, adhering to an extremely strict moral code. By 1803 the Wahhabis captured Makkah and although they were able to conquer most of modern Saudi Arabia by 1806, they were eventually expelled from Mecca by the Ottomans. The Saudi Wahhabi alliance retreated to Riyadh and continued their drive to consolidate the area. After 1865 the Saudi fortunes declined once more, as the dynasty fell into civil war and as other tribes, backed by the Ottoman Empire, successfully challenged the Saudi dominance. Defeated, the Saudi family fled into exile in Kuwait.

In 1902 Abdul Aziz of the House of Saud started to consolidate the country. Due to the weakness of the Ottoman Empire after the First World War he managed to recapture Riyadh and until 1926 most of the Arabian peninsula. In September 1932 the Kingdom of Saudi Arabia was founded, named after its founder and first king Abdul Aziz Al Saud.

From the early days of the kingdom a rapid development took place, which was substantially aided by the discovery of oil in 1936. At the time of king Abdul Aziz's death in 1953 Saudi Arabia enjoyed enormous wealth and security, due to his extensive modernization program, introducing western technologies, central authority and advances in areas such as water supply, public health and agriculture. Indeed "by breaking the historical pattern of strive and conflict, 'Abd al-'Aziz was able to set his people on a new path of peace and prosperity, and his statesmanship set new standards for political behavior".[8]

Up to our times his heirs carry on the legacy, as the king was succeeded by his eldest sons. So far they were able to continue the chosen path of slow change and continuing progress, with avoidance of disabling disputes and without jeopardizing the unity of the country. The constancy of government and its balancing act between maintaining its traditional Islamic values and modernization have so far been successful and the country has witnessed rapid growth in economy, industry and urban development over the last decades. All in all, the dynasty of the House of Saud was capable of guiding the nation, while cementing its authority as head of the undivided legislative and executive branch, and simultaneously maintaining its strong ties with the Islamic Judiciary. Minor internal disruptions which have occurred, were the occupation of the sacred mosque in Mecca in 1979, an externally led effort to topple the

[8] James Parry, „A Man for Our Century", in: *ARAMCO World*, Vol. 50, No. 1, Jan./Feb. 1999, p. 11.

supposedly corrupted and westernized ruling family, and the agitation of Iranian Shiite pilgrims in Mecca in 1987 with more than 400 people killed. These incidents show, that Islam remains a double-edged sword for the Al-Saud, granting them legitimacy to rule, since the famous alliance with the al-Wahhab family on the one hand, but constraining their activity to what is compatible with religious *Shariah* (Islamic) law on the other. It is for these reasons that modernization and change are bound to become a sensitive issue and struggles between progressive and traditional forces cannot be ruled out. The fundamental importance of religion continues to be in vigor even today. Not only did the 1992 Basic Law of Government define the Kingdom of Saudi Arabia as an Islamic Arabic state whose constitution is the holy *Quran*, but also did King Fahd, the present ruler, assume the religious title ‘Custodian of the Two Holy Mosques’, thus strengthening religious belief and particularly the conservative Wahhabism denomination, which still is Saudi Arabia’s official form of Islam.

2.3. Economy

Before the discovery of oil in 1936, low-scale agricultural activity and livestock raising had been the basic economic activities in Saudi Arabia. The primary source of state income in the mid-1920s were “pilgrim receipts, fees charged as pilgrims traveled from the port Jiddah to the holy cities of Makkah and Madinah”.[9]

Modern economic history, however began on May 29th, 1933, when King Abdul Aziz granted an oil concession to Standard Oil of California. Exploration succeeded three years later and by the end of the Second World War, Saudi Arabia was a major oil exporter. Following the increase in the price of and demand for oil in 1973, Saudi Arabia began to accumulate enormous wealth, especially as the government had acquired the formerly private-owned Arabian-American Oil Company (ARAMCO) from a conglomerate of four American oil companies. Here lies the key to understanding the Saudi economy, which rests in the appreciation of the links between government, development process, religion and the importance of the oil sector. A multi-channel relation that has been forged in the early 1970s.

In the beginning, the newly acquired wealth was either spent on imports of all types of Western consumer goods, which flooded the market, or it was invested abroad for short-term profits. In the late 1970s, however, the government used its financial resources to establish a modern infrastructure with up-to-date seaports, an efficient network of roads, three major international airports and numerous hospitals and schools. A construction boom began, that

[9] Jane W. Grutz, “Prelude to Discovery”, in *ARAMCO World*, Vol. 50, No. 1, Jan./Feb. 1999, p. 32.

lasted until the early 1980s, the power industry was established and, in order to achieve partial self-sufficiency, heavy investments in agriculture followed.

With infrastructure largely in place, the government pursued two principal economic goals:

1. Development of a strong non-oil industry base to decrease the dependence on the volatile oil industry, and
2. Encouraging private sector growth to assume responsibility for further economic development and to curtail the very high level of public sector activity.

In pursuit of the first goal the government permitted the, originally short- to medium-term oriented, inflow of expatriate labor. It acted this way to overcome the initial labor shortage and to benefit from foreign expertise and know-how. Thus, especially capital-intensive, labor-saving equipment came into focus and was consequently imported.

The second goal was thought to be achieved by the creation of a highly skilled and productive domestic workforce. This workforce should ideally take over the ownership and management from the expatriates or act as entrepreneurs on their own behalf, thus also enacting import-substitution of basic industry goods (cement, household and consumer goods) and privatization of state-owned entities.

Incentives were largely available as the government granted zero-interest loans to potential investors, as well as cheap, subsidized inputs such as energy and water. Infant industries could further benefit from direct subsidies and protectionist tariffs.

Declining oil revenues in the mid-1980s however led to a considerable downward adjustment of governmental expenditures. Still, rocketing defense expenditures in the aftermath of the Gulf War and direct subsidies culminated in an enormous public debt, currently equivalent to almost 100 % of the GDP. Fortunately, the amassed debt is almost entirely domestic, held mainly by commercial banks and some governmental institutions. Pressure and dependence from (foreign) investors is therefore unlikely and further credits can be obtained easily.

In spite of the efforts taken, the public sector remains dominant even today, accounting for an estimated 35 % of GDP (equals SR 215 billion) in 2001[10], with the government being the main direct beneficiary of increased oil revenues, which usually make up 70 % of total government revenues.

However, the overall trend since 1970 has been an increasing contribution by the non-oil sector, suchlike in the year 2000 there had been a complete reversal of the two, with the oil

[10] The Hongkong and Shanghai Banking Corporation Limited, *Saudi Arabian Business Profile*, 2002.

sector contributing 37 % of GDP and the non-oil sector 63 %, compared to 64 % and 36 % respectively in 1984.[11]

Lately, further far-reaching economic reform programs have gained serious momentum. A necessity which cannot be delayed, as the slow economic growth of 1.2 % in 2001 and 0.7 % in 2002 lags far behind the population growth. Reforms targeted privatization of state-owned companies, economic liberalization to gain WTO membership and the opening for Foreign Direct Investment, which was limited to 49 % ownership before and which faced higher taxation. In addition to a reduction of bureaucracy, the so-called Saudization policy ranks high among the pursued strategies. Companies are obliged to increase their proportion of the Saudi workforce by 5 % per annum.

So far the problem has proved to be the slow implementation of reforms. While always being committed to liberal trade and capitalism in principal, Saudi Arabia was up to now able to avoid harsh changes. Nowadays, with growing economic problems and a plummeting per capita income (from about $ 23,000 in the early 1980s to about $ 7,000 in 2001)[12] adaptation is inevitable. Still, vested interests at corporate level have tried to delay reforms. Many of the big Saudi trading companies have accumulated large fortunes under the old, highly protected system and fear the prospects of increasing competition.

After this concise introduction to the relevant macro-environmental aspects, attention will now be directed towards the industry as the main direct environment of the firm. Considering the first guideline question, this means that the domestic edible oil industry and Savola's position in it will be examined next.

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[11] Two important distinctions are made for the Saudi economy: Public vs. private sector and oil vs. non-oil sector (incl. downstream industries like Petrochemicals). Hereby the public and the oil sectors are usually correlating, as the government is virtually the sole recipient of the oil revenues. Alas, the economy continues to be dominated by oil.

[12] Jerusalem Center for Public Affairs, http://www.jcpa.org/brief/brief2-11.htm .

3. Savola's competitive position

Competitive strategy is generally described as the search for a favorable position in a certain industry. An analysis of competitive advantages must therefore assess at least two aspects: An external one, dealing with the attractiveness of an industry for long-term profitability and factors that influence it, and an internal one, which determines the relative position of a firm vis-à-vis its competitors.

3.1. The Edible Oil Industry

The model to examine the industry shall be Porter's Five Forces Framework. This framework investigates the industry as the key aspect of a firm's environment, as outside forces – be it political, economic or social – are seen as affecting all firms in the industry.[13]

Michael Porter elaborated on his framework in 1980. Since then it has become a standard tool for classical industry and competitor analysis. Anyhow, before we proceed naturally a definition of the industry in focus needs to be established and its borders must be drawn.

Industries are most commonly defined by the *criteria of substitution*. Thereby firms are supposed to be in the same industry, when they produce products that are close substitutes to each other, but distant substitutes to other products.

It follows that in our case basically all edible oils must be included into this industry definition, as they are easily interchangeable commodities with few and so far negligible variances.[14] At worldwide level, this would mean that more than 20 different oil types ranging from soybean oil, over lard up to fish oil with a total annual production of more than 100 million tons must be included into this inapplicable definition.

From a geographic standpoint, a narrower perspective must be chosen as high transportation costs, due to a low value-to-weight ratio, and persistent tariffs limit the industry and curtail substitution. Consequently this research analysis will solely encompass countries of the Arabian Gulf.[15]

These borders are drawn, as the GCC market is a free trade zone, prohibiting tariffs and promoting political and economic cooperation. Similar to the European Union efforts are made to further deepen the relations, culminating in a joint currency approach, which is recently been considered. For edible oils, this means that custom duties, which normally stand

[13] These outside forces tend to play a major role when it comes to internationalization of a firm and will be treated in subsequent chapters.

[14] The facts that some oils are more suitable for specific tasks and consumers responsiveness to them will be tackled in latter chapters.

[15] Saudi Arabia, Kuwait, U.A.E., Qatar, Bahrain, Oman (also called GCC – Gulf Cooperating Council).

at 40 to 45 % outside the GCC area, as edible oils are seen as highly vital products, can be circumvented.

Within the GCC, additional homogeneity arises, as these petroleum exporters share similar conservative values and attitudes, and as their comparably high income per capita distinguishes these countries from neighboring states.[16] In addition, these countries share several distinct features which provide a location advantage for the establishment of an edible oil industry, compared to other bordering countries. While capital resources, gained from the oil revenues, facilitated the industrial evolution through investments in machinery, cheap, subsidized energy fueled its growth. Furthermore the availability of packaging material, mainly plastics, could easily be secured as they are byproducts of the petrochemical industry.

The chosen market definition also proves to be valid as exports, even from competitive edible oil-producing countries such as Malaysia or Indonesia, or from well-established global players hold a negligible role in the chosen market.[17]

A smaller market could be drawn according to Saudi national borders, but the mentioned free trade zone and the existence of major competitors in the U.A.E. and Oman renders such an approach impractical, especially as these competitors have a decisive impact on industry structure.

Geologically, the Arabian Peninsula also provides a clear-cut border which separates these countries from neighboring states. Concerning the non-GCC member Yemen, it is excluded from this industry analysis, although it is located on the Peninsula, for the above mentioned tariff and income arguments. Besides, Yemen constitutes a separate market as it must be regarded as a closed society. FDI and trade face insurmountable difficulties on the one side, as the socio-cultural structure exempts foreign competition and, on the other side, as the Rub-Al-Khali desert provides a natural boundary, separating Yemen from the rest of the peninsula.

Finally the cultural component, which will be a central issue throughout this paper, can also support the selected industry definition, as Arabs from the Gulf region tend to consider themselves clearly distinct from other Arab folks. This perception originates from their geographical setting as the heartland of Islam and due to historical events where, unlike the Maghreb[18] or other Arab countries, the Gulf states have emerged as separate countries, by and large independently from Western colonial influence, as a result of internal social and cultural

[16] Income per capita in 1995: GCC – 8,618 US-$, Yemen – 260 US-$.
[17] Care for Figure 2: Gulf Market share analysis, p. 24.
[18] Maghreb is the Arab west, chiefly consisting of Morocco, Tunisia and Algeria.

processes.[19] This distinct development path has even accelerated the establishing of unique habits and preferences, as neither throwing off economic and social heritages from colonial times, nor struggles for liberation from Western development philosophies were setting back progress.

Considering GCC edible oil consumers, this means that, along with internal peace and prosperity, these nationals were early on able to travel freely to Europe and North America, creating awareness of quality, nutritious value, pricing and package design. Moreover, the relatively high per capita income has further increased the willingness to pay extra for premium quality products.

3.2. Porter's Five Forces

In the previous section we have developed an industry definition that will serve as the basis for the following analysis. Put another way, the purpose of the previous chapter has been to set the scene for the now following industry analysis. Thus, the remainder of the chapter will now reveal more about the structure of the outlined industry, permitting us to evaluate the external aspects of Savola's competitive position.

Generally "competition in an industry continually works to drive down the rate of return on invested capital towards the competitive floor rate of return, or the return that would be earned by the economist's 'perfectly competitive' industry".[20]

Profitability rates higher than those mentioned by Porter, fuel the inflow of capital into the industry either by new entry or by established firms, thus increasing competition. The Five Forces represent a convenient and widely accepted framework for analyzing economic factors that affect the profitability of an industry. They jointly determine the intensity of industry competition and will now be addressed in detail.

3.2.1. Threat of Entry

Entrants pose a multiple threat for established firms as they increase the capacity available, try to gain market share or access to necessary inputs. Incumbents may face bid down prices or higher costs as a result.

Two elements determine the threat of entry: The existence or absence of entry barriers and the likeliness of retaliation from established players.

[19] Care for the section on history in chapter 2 of the current paper.
[20] Porter, 1980, p. 5.

Several sources of barriers to entry can be identified in our case:

- Economies of Scale in the refining process, which force new entrants to either build a large scale plant and risk low capacity utilization and fierce retaliation, or to be a fringe, low-scale operator with a cost disadvantage. The edible oil refinery is a standardized plant which usually comes in three different sizes: Big plants with an annual refining capacity of 200,000 tonnes, medium plants with a refining capacity of about 100,000 tonnes and small ones with 60,000 tonnes annual capacity or less, whereas big plants reap substantial economies of scale. While labor costs are at a minimum level in this capital-intensive industry and thus roughly the same for all three plant sizes, marketing costs, which play a crucial role for success and create the second-largest cost factor next to raw material, can be spread widely in larger plants. Furthermore, bargaining power vis-à-vis suppliers of raw material can lead to additional discounts (long-term contracts with a single supplier). Similar economies to those of scale can occur when business units share operations or functions. In the highly sophisticated edible oil industry joint costs are persistent, where multi-business firms can use the pivotal commodity trading skills or know-how of running a plant in various ways. The brand name is an additional intangible asset, which can be used manifold in large corporations. Concerning the examined industry, potential entrants must face these disadvantages, as all of the main players are part of integrated conglomerates.[21] Again, entrants must either enter integrated as part of a large corporation or risk a cost disadvantage.
- Product Differentiation refers to the case where established players have managed to create a certain customer loyalty. In this case heavy up-front investments of newcomers would be necessary to overcome existing customer loyalty or to establish own brand loyalty. The industry faces only a low, but nonetheless decisive customer loyalty. Low, as edible oil is basically a commodity, largely undifferentiated and interchangeable due to a lack of special features or tastes. Decisive, as some long-established players, notably Savola, have managed to create close ties with customers. Savola has reached such a deep penetration level right from the start, that it is able to benefit from these first-mover advantages, even today.

  Heavy, innovative and consumer-oriented advertising is another key factor for the

[21] Savola Group – operating mainly in edible oils, sugar refinery and retailing; ERCO – part of the IFFCO Group, active in cooking media, bakery shortenings, margarine and specialty fats, and Nabati – belonging to the Ajwa Group, active in food products including rice, grains, vegetable oils and dates. Only Areej is pursuing a focus strategy, concentrating on edible oils in Oman.

success of some companies, which greatly focus on market research. These players can alter the competitive structure, by introducing new product features, tailored according to customer preferences. Hence, new entrants are required to invest continuously, playing a catch up game to succeed in the market. Finally, it must be stated that the observed market is responsive to classic product differentiation. This might seem illogical at first glance, as commodities are by and large unbranded and undifferentiated, however well established brands, such as 'Afia'[22], are a major factor for success, above all, if they are perceived as healthy, high quality products.

- Capital requirements create another constraint for new entry. Companies that lack financial clout can hardly survive in the competitive and capital-intensive industry. Building or buying a refinery requires investments of at least $ 6-10 million for the smallest plants. In addition, heavy up-front advertising expenses are necessary to gain a foothold in the market.
- Access to Distribution Channels limits new firms, as they must persuade the channels – wholesalers and supermarkets – to accept its products. To do so, they are obliged to offer price breaks or cooperative advertising, which reduces their profit margin even further. With regards to the rapidly growing retail sector, this actually means buying space on the competitive supermarket shelves.
- Other Cost Disadvantages include location disadvantages, as Savola in Jeddah and ERCO and others in Dubai occupy the most preferential locations, near the biggest ports and near high-frequented shipment routes. In addition, subsidies, which were available to establish the industry in former times, helped the early players to set up their business and boost profitability. Furthermore, general learning and experience curve advantages are of great importance in such areas as commodity trading and hedging. These are critical for overall profitability, as raw material costs account for roughly 70 % of the total costs.[23] Here Savola, a long-established company, has gained an advantage as peaks in the highly volatile buying prices can be avoided through their commodity research capabilities.

[22] Flagship brand of Savola, dominating the relevant Saudi market segment for Corn and Sunflower Oils with above 50 % market share.
[23] SEO's average monthly material costs were 71.13 % for January 2001 – October 2002.

3.2.2. Intensity of Rivalry among Existing Competitors

Rivalry in general describes the fighting for position and market share. It can take the shape of price competition, advertising battles or product innovation. As firms are usually mutually interdependent, steps taken by any one firm to improve its situation will be detected and most likely provoke reaction. The Intensity of Rivalry depends on several factors, which will be highlighted in the following section:

- Industry Concentration: Although we are facing an oligopolistic industry structure, with Savola Edible Oil as a dominant force, SEO is not able to impose discipline or coordinate the industry. Even if the Four-Firm-Concentration Ratio is very high (above 70 %)[24] and collusion appears to be possible, firms remain reluctant to follow even most basic rules for the game. Even profitability concerns do not prevent some players from cutting prices to gain market share, as financial backers or parent companies continue to provide fresh capital. Other participants entered the industry at a time of extra-ordinary low raw material costs for specific oil types like sunflower oil, giving them a temporary advantage and short-term profitability, but leaving them at the low end of the market as raw material prices increased. Overall industry profitability was reduced by excess capacity, creating an exorbitant annual production capacity of 600,000 MT, while demand in the Gulf levels at approximately 150,000 MT. Fierce price competition in an attempt to sell capacity has left only those companies in the blacks, that offer strong established and distinguishable brand names. In sum it can be said that although the concentration ratio is high, extensive price wars have driven down profitability. This implies that only those players which were able to avoid price cuts could sustain their profitability.
- Slow Industry Growth in accordance to population growth has recently altered competition. It has now changed to market share competition, a volatile zero-sum-game, where it is no longer sufficient to just keep up with the industry growth to improve profitability.
- High Fixed Costs, particularly marketing costs and costs of running the plant, including labor expenses, create the pressure to fill capacity, which can only be sold off at further price cuts. This has jeopardized overall industry profitability as competitors responded, offsetting the price advantages and setting a process of cut-throat price competition into motion.

[24] Savola, ERCO, Areej and Nabati contribute to 74.15 %.

- Lack of Differentiation or Switching Costs, as the product is perceived as a commodity or near commodity, buyers' choices are based largely on price. As mentioned before, differentiation is limited and brand names can thus only offset price differences to a certain degree. Still it must be stressed that it is this narrow range which decides whether a company is profitable or not. So it can be stated that even as buyers have the ability to shop around, they do not necessarily do so, as some brands are perceived as preferential compared to others and as edible oil generally represents a small part of their budget. Switching costs are non-existent (no consumer lock-in) and can consequently be ignored.
- Diverse Competitors, with various goals and strategies make it hard to read each other's intentions and to agree on a set of 'rules of the game'. The existence of companies from different nations in the market and their ties to parent companies have intensified competition, as local support, prestige and strategic stakes have shifted the focus away from profitability and reasonable economic motives. Thus necessary consolidation has been rejected and tit-for-tat strategies in the home base of competitors might erode any chance for profits.
- High Exit Barriers are economic, strategic and emotional factors that keep companies competing in businesses, even though they are earning low or even negative returns.[25] This is a real threat in the edible oil field, as the refinery plant including infrastructure is highly purpose-built and thus becomes sunk cost in the case of exiting the industry. This explains why e.g. Nabati continues to operate, although annual losses have reached SR 10-15 million. The situation is aggravated as strategic and emotional barriers exist, too, which make the management of some bleeding players reject taking the economically justified exit decision, fearing a loss of prestige and reputation.

3.2.3. Pressure from Substitute Products

Substitutes can be described as products that perform the same function as the product of the industry. Their existence places a ceiling on the prices firms in the industry can charge for their products. In the edible oil field substitutes are, broadly defined, all other vegetable and animal fats and oils. Animal fats are only of minor concern, as their high cholesterol level and a high content of saturated fatty acids links them with heart disease and cancer, a serious limitation as health awareness is on the rise. Lard can generally be exempted from the list of

[25] Porter, 1980, p. 20.

substitutes as religious belief prohibits the use of pork or any of its byproducts. Additionally, diseconomies of scale due to shrinking production recently increased the costs of animal fats. Vegetable oils can pose a threat and may well change the scene. Dominant oil types can be replaced, if the consumer acceptance is high and if costs of production are competitive. Although the industry in this region has a long-lasting tradition for palm and corn oil, the recent rise of sunflower oil and the likely introduction of soybean oil in 2003 are examples for pressure from substitutes. However, not all oil types are likely to succeed in the market, as some of them, such as olive oil, are unsuitable for frying and cooking and thus negligible in the Arabic cuisine while others, like fish oil, are disdained for their smell. Nonetheless, constant vigilance is necessary to cope with new emerging trends and to react, either by promoting the established products or by quickly launching new competitive brands in the upcoming segment.

3.2.4. Bargaining Power of Buyers

Buyers may challenge the industry by forcing down prices, bargaining for more favorable conditions or by playing competitors against each other. This is likely when buyers are powerful and can exert influence while negotiating. Particularly with regard to Saudi Arabia, the biggest market of the GCC countries, distribution channels are historically grown and well established. The refined and packaged products are first of all trucked to the so-called Authorized Agents (AAs), which again sell them to wholesalers and small retailers. The AAs are big and powerful organizations that usually hold a stake in the producing companies and have set up long-term agreements with them. Therefore, bypassing them is no real option and direct negotiations only occur while opposing big supermarkets. Wholesalers in the GCC countries are still fragmented and although consolidation is progressing, their power is limited due to low, transferred quantities and the absence of joint buying efforts. Supermarkets, yet account for only 20 % of the retail sector but changing shopping habits, away from specialized 'bazaar-like' fruit or vegetable markets to the convenient and air-conditioned supermarkets, strongly promote the growth of this sector. Especially the big supermarket chains are on the rise and thus can exert some power in negotiations, bargain for favorable conditions and usually reduce their costs, as they leave the shelf construction and design in the hands of the producers. But as edible oils represent a low fraction of total costs, wholesalers and retailers continue to lack absolute price sensitivity. Still this might change soon, as profit margins remain low and consequently create incentives for lowering one's purchasing costs. A further factor that will likely alter the scene is the mentioned rise of big, modern supermarket chains, going hand in hand with increasing concentration. Anyhow, considering the fact that products are undifferentiated does not leave the buying side in a commanding position so far, for reasons mentioned above and as some brands are ‘must-carries’ and therefore cannot be neglected.

3.2.5. Bargaining Power of Suppliers

Direct suppliers to the edible oil refinery market are the extractors of edible oil. These extractors use a variety of sources such as fruits, flowers or seeds for processing crude edible oil.[26] The preparation of raw material involves mechanical (boiling, pressing) or chemical (solvent) processes. The following refining process includes degumming, neutralization, bleaching, deodorization, and further refining.

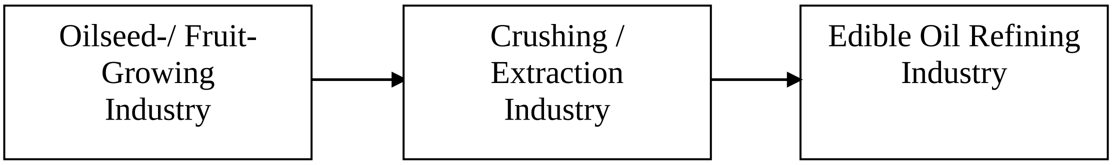

Figure 1: Steps of the edible oil industry.

“Suppliers can exert bargaining power over participants in an industry by threatening to raise prices or reduce the quality of purchased goods and services.”[27]

This ability depends on several factors:

- High Concentration of the Suppliers’ Industry in comparison to Buyers’ Industry: As explained before, edible oil is a commodity and as such it is traded at a commodity exchange market. Crude oil is bought at world market prices, where suppliers are large in number and thus unable to influence price levels on their own.
- Importance of Supplier’s Product: This holds true for the edible oil market, as roughly 70 % of the costs refer to the crude oil buying. Still no single supplier is able to benefit from this situation, as the market characteristics prohibit price increases above market levels. Edible oil must be seen as a transparent commodity with posted prices, available for all (potential) traders.
- Threat of Forward Integration: It is only a theoretical option to enhance value-addition. General aridity, high growing costs and lack of fertile land are factors which make it unprofitable to establish an extraction facility in this geographical sphere in

[26] Animal and marine products can be processed for oil extraction, too. But, as they are only marginal in the present case of GCC countries, they are not included into this analysis.

[27] Porter, 1980, p. 27.

the first place. Establishing a refinery, while supplying it from home-grown sources is also unlikely, as fierce competition and a lack of knowledge about the refinery segment hinder success.

3.2.6. Government

The Government's role must be recognized as potentially influencing industry structure. "Thus no structural analysis is complete without a diagnosis of how present and future government policy, at all levels, will affect structural conditions."[28] Government will not be seen as a sixth force, but rather its effects on competition through the five forces will be analyzed.

The Government had a huge effect on the establishment of the industry in Saudi Arabia and the Gulf. It encouraged investment by supplying infrastructure, granting cheap or zero-interest loans, giving technical assistance and most of all, paying subsidies. Especially in the take-off period these measures helped to reduce competitive pressure and to gain experience and expertise in the market. Established tariffs hindered exports from nearby markets with established edible oil industries from participation in the infant industry. Furthermore, limitations on FDI, where no majority holding was allowed, paved the way to success of domestic companies. Again SEO was able to benefit the most as it captured the whole array of incentives and could accumulate huge financial reserves. Today the pursued Saudization[29] policy, aiming at an increased employment of local workforce, might again give local firms a competitive advantage vis-à-vis foreign competitors, who are unfamiliar with the market and recruiting possibilities.

3.3. Savola's Competitive Advantages

As asserted before, competitive positioning depends upon two aspects, namely an external one, which assesses the industry attractiveness by utilizing the Five Forces framework, and an internal one to define the competitive advantages of the individual firm in the industry. We will not review the Five Forces once again, as they have already been considered in the previous chapter. Instead, this section will highlight the internal aspects, dealing not only with Savola's competitive advantages but also shedding some light into the questions of how these advantages were created, their evolution and their sustainability.

[28] Porter, 1980, p. 29.
[29] Just like Quatarization, Omanization, Bahrainization, Kuwaitization, Emiratization in the other GCC countries.

Today Savola Edible Oil (SEO) is the unchallenged market leader in Saudi Arabia and the Gulf. This market cannot be treated as markets in other countries, as it is highly competitive and fairly complicated. Operating in the edible oil sector requires a combination of great analytical capabilities and understanding. While the industry analysis has already revealed the dynamism of the market, additional complexity is added due to the changing mix of nationalities in the population, combined with different cultural attitudes, tastes and shopping requirements, as well as rapidly changing consumption patterns.

It is necessary to know that many of SEO’s main advantages have their origin in Savola’s early history. Starting with this historic development path, it will now be delineated how sensible strategic decisions paved the way for the ultimate success story.

SEO managed to establish itself in Saudi Arabia in a time, when local private enterprise was still in its infancy. Edible oils were only available as imports in bulk but generally played a limited role, as semi-liquid or solid animal ghee used to be the most popular cooking medium. The decision to enter into edible oils meant that the company was first of all faced with exports from abroad, particularly from Mazola, a well-established brand of a growing MNE. It was in these early years that SEO created some of its long-lasting capabilities. Several factors contributed to SEO’s success vis-à-vis its competitor.

A first point to make was that Savola focused on developing high-quality processing expertise right from the start. In order to do so, it acquired the cutting-edge production facility from De-Smet, the Belgium-based market leader for refineries to set up its plant in Jeddah, Saudi Arabia. Through various expansion moves over the years, the annual production capacity reached 200,000 MT, while the plant utilization remained high. Local operating staff was trained abroad and Western expatriates were recruited to manage the operation and transfer their know-how. This is even today an advantage compared to some less sophisticated competitors who relied on cheaper, low-quality refineries from Far East or spare parts from these areas, which led to serious malfunctions and reduced production capacity.

Second, Savola’s struggling take-off period (1979-1981) obviously blurred Mazola’s attention. Savola was facing serious difficulties, as they had ventured into the ‘wrong’ oil type. The company suffered from huge financial losses as soybean oil was not satisfying consumer needs and tastes and was mainly rejected for its supposedly fishy smell. While the company was recuperating, Mazola remained unchallenged but also reluctant to deal with Savola and to design special products tailored to local needs and habits. They also continued to export their products, thus being unable to match prices as transportation costs remained high. Only in the mid-1990s did Mazola start to produce locally. Too late to challenge Savola's now dominant position or even that of its local competitors.

SEO had already learned their lesson after the two devastating starting years and was heavily supporting market research, again relying on knowledge from high-class expatriates. The enterprise quickly managed to link 'Western' analyzing techniques with local knowledge about the market. Consequently Savola shifted towards manufacturing and marketing of palm and corn oil. Palm oil was chosen, as it had no negative smell or taste and as it proved to be the cheapest source of oil available. Together with governmental subsidies this gave Savola a price advantage of about SR 6 per bottle over its direct competitor Mazola. Corn oil, actually a byproduct of the oilmeals used for animal feeding, was chosen to directly compete with the leading Mazola brand and as corn oil was thus already introduced into the market. Besides, as a byproduct, corn oil is unlikely to face pressure from suppliers, which benefit chiefly from the sale of oilmeals.

Market research also included a female unit, in a time where working women practically were non-existent in the Kingdom. This fact must be regarded as a key for success, as women were traditionally responsible for shopping and meal preparation. In fact this pattern is persistent even today. Thus, focusing on women's attitudes and wishes was a big advantage compared to the (exported) rival products. This continues to be true, as SEO is now paying special attention to the researched customer segments. Categorizing them into 'Caring Mothers', 'Expert Mothers', 'Cost-Conscious Mothers' and 'Modern Mothers' and providing the ideal oil for each of them, gives the company additional advantages facing competition and increases costumer satisfaction.

Market research also reaped advantages facing the slowly spreading local competition. Unlike local competition, Savola managed to establish a clear and advanced corporate identity, granting high recognition in the consumers' mindset, setting standards of quality and protecting the precious trademarks. But also direct imitation of Mazola's design and packaging prior to the establishment of Afia as a premium brand led to market share gains. Anyhow, ultimately Afia, a well-researched brand name, which even nowadays remains the flagship brand of SEO and its cash cow, accelerated market share gains culminating in well above 60 % market share. Today market research is chiefly responsible for developing and introducing new, innovative products. Staying at the cutting-edge is regarded as a duty to maintain the dominant leading position.

Savola's development was supported by what is known as another area of competitive advantage: Marketing. While consumer and market research gave SEO a competitive edge regarding product design and responsiveness to local tastes, marketing, through innovative concepts, managed to push sales and deepen the penetration of the market. This was first of all achieved by changing the perception of consumers that foreign products were of superior quality. Instead of just relying on its price advantages, the company promoted the freshness of its locally produced brands and distributed them throughout the whole kingdom. In a time where Saudi Arabia's development lacked far behind the United States' and Europe's, Savola succeeded by utilizing existing channels to promote its products. Local TV broadcasting was not yet capable of attracting huge crowds and Satellite TV was still unknown. In order to reach the audience, Savola therefore pioneered in video rental advertising. Video rentals in the 1980s were on the rise and they presented virtually the only source of filmed entertainment, as cinemas are prohibited in the Kingdom. Many families made extensive use of these rental facilities, borrowing several films at a time. Savola took note of these habits and managed to advertise for its products on the rented videos, shortly interrupting the film and applying the same principle ordinary TV commercials use nowadays. Advertising fitted with the local liking and increased the sales, particularly of the Afia brand. Over the years, the company was able to sustain these innovative marketing capabilities, being ahead of competitors with new advertising and product promotion. Among the greatest success stories in this context is the creation of a Savola jingle, with locally known actors on the popular and then more advanced Egyptian TV or the recent re-launch of Afia corn oil in a new see-through PET bottle that "allows the clear golden color of the oil to come out".[30] This massive re-launch campaign provides a point of differentiation compared to rivaling products and it aspires to extend the product life cycle. These aims are continuously supported by obtaining ISO quality standards or the seal of approval from Swiss Vitamin Institute that enforces Afia's nutritional benefits.

Furthermore SEO's marketing strategy successfully altered the structure of the industry in several ways. The company was the first to focus not only on the crucial high-margin retailing sector, but also on industrial customers and catering services, which offer less profits but nonetheless contribute to the sales volume. However, the retailing sector, selling to final consumers, is the decisive area for success or failure. Early on SEO started segmenting the market by function. Although at a first glance all oil types appear to be the same, some oils offer certain features which make them more suitable for special purposes. Palm oil is valued as the best medium for frying, therefore SEO offered the supposedly best oil for frying – Al-

[30] Quotation taken from: Afia Brand Team, *Adwa'a Monthly Magazine*, Special Edition about relaunching Afia in its new shape, September 2002.

Arabi palm oil – which, beside the attractive name, has the benefit of leaving less oil in the food, is neutral in taste and heat-resistant (high smoking point). Corn oil was promoted as the best cooking oil. Here Afia corn oil stressed its healthiness as a pure corn oil, its low cholesterol level and its high share of unsaturated fatty acids. These factors differentiated SEO's oils from its rivals, be it only in the consumer perception, as general product differences are only gradual (see industry analysis).

In summary it must be stated that Savola's main factor for success was that it altered the industry structure, moving away from a pure commodity business to a branded commodity business, thus capturing huge profits as well as the dominant market share. It must be underlined that the described patterns are extraordinary for a commodity business, as Savola manages to charge higher prices than their competitors and meanwhile captures the biggest part of the market. This is supposedly a logical impossibility, according to business textbooks.

The so far mentioned advantages in production, market research and marketing still contribute to the company's success. Today they are supplemented by experience in running a refinery and by, even measured by Western standards, outstanding commodity research expertise. As revealed in the industry analysis, the crude or semi-refined oil is bought at a global, highly fluctuating commodity exchange market. These crucial inputs account for approximately 70 % of the total costs for edible oil refineries.

Predictions about future price development and a timely buying can substantially reduce the purchasing costs and usually give SEO a cost advantage over most of its competitors.[31]

Naturally the described achievements and advantages have several times been the subject of imitation by competitors, but path-dependency and constant upgrading by SEO makes these benefits durable.

Path-dependency stems from several first-mover advantages mentioned and from unique opportunities in the course of time. An example is Savola's financial clout, which was amongst others also pushed in a period of governmental support, with promotion of self-sufficiency for the country in the food sector. The vital edible oil sector, with edible oil being the most important provider of energy (38,9 KJ / g) and essential for obtaining unsaturated fatty acids and fat-soluble vitamins, benefited from high, though not long-lasting subsidies. These subsidies considerably lowered the price for end consumers. Still, until 1988 they had gradually diminished and consumers were forced to pay up to 100 % more for Savola's

[31] See Appendix 6.2.

products. Fortunately, the tremendously increasing income level, as well as created brand loyalty, helped Savola to maintain its commanding position.

Upgrading in Savola's case means heavily investing in its brands and new product developments. In fact "Savola's strong brand image is attributable to its premium quality products, effective advertising, superb design and packaging".[32]

However, sustaining all the named advantages has become the biggest challenge in recent years. Extraordinarily innovative strategies helped to maintain the dominant position even as new competitors entered the market, creating excess capacity[33] and fierce price competition to gain some market share. Most rivals remain unprofitable or barely break-even and SEO is still dominating the market and generating profits. This is largely due to the fact that Savola further segmented the market. Hereby SEO offers heavily advertised, high quality premium products, products of middle quality to defend the premium sector and for additional profits and most important fighting brands. These fighting brands enter the price game and match the low and unprofitable prices of competitors, foiling their plans to gain market share and eliminating their financial resources and thus the ability to promote their products. The segmentation according to quality and function renders no niche to enter and leaves rivals at the unprofitable end of the market, not being able to focus on pivotal branding and promotion activities.

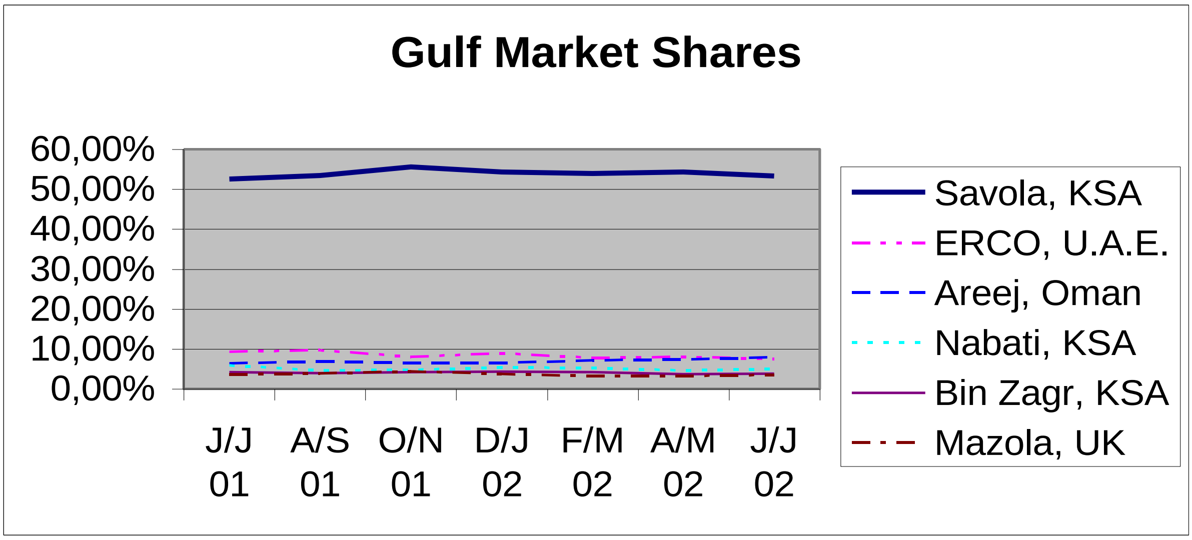

Figure 2: Own calculation of the Gulf market shares, based on local edible oil retail audit fact sheets.

[32] Quotation taken from: Swicorp Finance S.A., *SEO: Private Placement Memorandum*, 1993.
[33] Estimated 600,000 MT production capacity in the Gulf Market, compared with a demand of 150,000 MT.

4. The OLI-Paradigm

John Dunning's model will now guide the further research, trying to answer the question of how Savola is 'going global'. This will bring us closer to our initial question and the theme of this work, how culture influences the location choice of international activity.

The thesis, which is explored by Dunning, is based on the proposition that, to engage in international production, firms must possess certain economic advantages over their (potential) competitors. As the existence and sustainability of Savola's competitive advantages has been thoroughly outlined in the previous chapter, details about these so-called 'Ownership-advantages' will not be reviewed and emphasis will only be put on their transferability.

The focus shall then lie on the other pillars of Dunning's model, trying to explain how and where international production takes place. In Dunning's words this means that firms must find it in their best interest to engage in value-adding activities based upon the 'O-advantages' themselves, rather than sell the right to do so to other firms; and that they find it economic to locate at least part of these value-adding activities outside their home countries.[34]

Of major concern for this research paper is the Location Sub-Paradigm, as this will be the ground on where to discuss the cultural aspects and its possible influence for Savola's internationalization.

4.1. Motives for Foreign Activity

Before moving on to the three sub-paradigms, we now need to consider why SEO generally engages in FDI. As Dunning explains, this means that we first of all need to review the "raison d'être"[35] for the international activity. In doing so, we have to encompass the behavioral perspective, including the firm's characteristics and strategies involved.

Like any other private enterprise Savola, too, is primarily interested in the generation of profits, in other words in an increase of the income for their owners. In the second chapter, we have already identified that the Saudi market is, although growing, still rather limited in size. Even together with the other GCC countries, the population barely reaches 30 million, consisting of predominantly young citizens, with no disposable income.[36]

Taking into consideration that demand has also been growing slowly, approximately alongside population growth,[37] it becomes obvious that exceptional growth can hardly be

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[34] Dunning, 1993, p. 185.
[35] Dunning, 1999, p. 3.
[36] Care for information on Saudi Arabia chapter 2.1.
[37] Demand of edible oil in Saudi Arabia has been growing at a rate of 6.4 % over the years 1991-2000.

achieved domestically. Especially, as a further market share increase is hardly possible for Savola, being by far the market leader, with a market share of above 50 % and sustained profitability, in a fiercely competitive market. This lack of opportunities for internal expansion consequently directs SEO to external growth possibilities.

Motives for expanding abroad are therefore clear and straight-forward, being best described as market-seeking activities. This means that the company is targeting foreign countries to promote growth and to exploit these markets by supplying them with goods. These expansion motives are further spurred, when being familiar with the strategy aims of the Savola Group. In the medium-term these aims are manifested in the so-called ‘Triple Five Strategy’, which states that the Group is targeting a “sales turnover of 5 Billion, with 500 Million profit by the year 2005”,[38] while the long-term goal is to become the most successful food company in the world.

As previously explained, these ambitious aims can only be realized through external growth, due to the outlined limiting factors of the home market.

4.2. Ownership Sub-Paradigm

As stated before, the main areas of competitive advantages for SEO are know-how and managerial experience of running a refinery, market research, marketing (especially branding) and commodity research.

Generally the unique O-advantages of a firm can stem from a variety of sources. These advantages can be bound to a specific location, either natural resources or favorable environmental factors (legal, political, institutional), both being available for all firms of an industry.

However, the analyzed advantages of SEO are not endogenous to the country but created by the company, thus being unique in the sense of not being available for competitors. In addition, we have further set out that the mentioned group of advantages is so far sustainable facing direct competitors in the home market. Moreover, as the mentioned advantages stem from superior knowledge and know-how, thus being intangible assets, transferability at a low cost is guaranteed.

So far we have identified the core capabilities of the company and argued that these have been maintained, even though constant innovation and upgrading are necessary prerequisites. The

[38] The Savola Group, *Annual Report 1999*.

question which comes up next is whether the search for demand abroad can be successful, with the mentioned advantages at hand.

4.3. Location Sub-Paradigm

Within the Location Sub-Paradigm the spatial attractions of alternative countries and regions come into the center of attention. With regard to this matter, Dunning states that "the more the immobile, natural or created endowments, which firms need to use jointly with their own competitive advantages, favor a foreign, rather than a domestic location, the more firms will choose to augment or exploit their existing O specific advantages by engaging in FDI".[39]

It follows that the potential for creating value is the greatest, where the skills and products of the firm are most unique, where the value placed on them by consumers is great, and where few capable competitors with similar skills and/ or products exist. This additionally means that the locational preferences do **not** depend on the types of activities a company is engaged in, but rather on the motives for investment of a firm. This must be kept in mind as the choice of global market selection is made in the sphere of these motives and consequently may vary correspondingly. For instance, a market-seeker, just like Savola, might decide to enter the huge North American market with its high consumption pattern, while on the contrary an efficiency seeker might not even consider this market, due to its high labor costs. This might also be the case if the two companies were acting in the same business field.

However, as pointed out before, Savola's primary motivation for FDI is of a market developing type, set out for catering the host market. As a result host-specific considerations such as the size of the local market, its long-term growth perspective, tariffs, and so forth are becoming vital issues to evaluate. Literature generally and widely accepts these economic considerations as an integral part for any spatial decision-making process. Dunning himself summarized the determinants of FDI, as mentioned in survey studies, as early as 1973. These were categorized into market factors (size, growth, ability to maintain market share), barriers to trade, cost factors, encompassing various factors influencing the cost of production (e.g. labor costs, availability of raw material) and the investment climate.[40] Additionally, Dunning several times mentions "new locational variables e.g. exchange rate and political risks, inter-country cultural differences",[41] "psychic proximity and traditional ties"[42] and "cross-country

[39] Dunning, 1999, p. 2.
[40] Quoted in: Green & McNaughton, 1995, p. 3.
[41] Dunning, 1999, p. 18.
[42] Dunning, 1995, p. 84.

ideological, language, cultural, business, political differences"[43] as further location-specific variables.

Dunning, too, does not give further emphasis to these variables. Consequently explanations concerning location decision by and large continue to focus on the four mentioned factor categories: Market factors, barriers to entry, cost factors and investment climate.

Nevertheless, the consideration of solely economic factors seems inappropriate, as countries continue to differ in their cultures, political systems, economic systems and legal systems.[44] These differences are enduring even in the age of globalization. Particularly the role of cultural differences often seems to be neglected. Allegedly, the rise of advanced transport-tation and communication systems has led to reduced cultural differences and convergence of consumer tastes and preferences. However this is rarely the case, as even the most standardized products, such as McDonalds' burgers, are subject to local adaptation.

The fact that cultural values were not yet fully integrated into the calculus of international operations can also be observed, as even global players made mistakes while penetrating new foreign markets. Whole books were written about these big business blunders in intercultural operations.[45]

4.3.1. Culture

As put forward in the introductory chapter, a central issue of this study is the cultural influence on global market selection. In accordance with the introductory remarks, Dunning's previously mentioned statements and the general idea of his OLI-Paradigm, it appears to be appropriate to tackle the issues of culture as an integral part of the Location Sub-Paradigm. Consequently, culture is analyzed under the portent of the paradigm and not separately in a chapter of its own. Hereby the further proceeding will be as follows:

First, the terminology will be illustrated and cultural definitions will be analyzed. Second, the most relevant shapers of culture for the present case of a Saudi enterprise will be named and treated. Finally, the impact of these shapers for Savola and its locational choices will be thoroughly evaluated.

[43] Dunning, 1993, p. 81.
[44] Hill, 1994, p. 19.
[45] See for example D.A. Ricks, *Big Business Blunders: Mistakes in Multinational Marketing*, 1983.

4.3.1.1. Defining Culture

Literature, although able to provide numerous concepts and definitions, has so far been unable to agree on a standard definition of the term culture. The vagueness of the term culture is rooted in the fact that it has been used to describe a great variety of things, by many different scientists. “It goes without saying that culture means something rather different to market researchers in London, a Japanese mogul, New Guinean villagers, and a radical clergyman in Teheran, not to mention Samuel Huntington.”[46] Nonetheless, some of the attempts to define culture will now be provided and elaborated on.

Kluckhohn and Kroeber derived their definition in the early 1950s from 164 different definitions as follows: “Culture consists of patterns, explicit and implicit of and for behavior acquired and transmitted by symbols, constituting the distinctive achievement of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action, on the other, as conditioning elements of future action.”[47]

In opposition to this rather complex definition, Hofstede claims that culture is the “collective programming of the mind which distinguishes the members of one category of people from another”,[48] while Terpstra and David see culture as “a learned, shared, compelling, inter-related set of symbols whose meanings provide a set of orientations for members of a society. These orientations taken together, provide solutions to problems that all societies must solve if they are to remain viable”.[49]

Sheffe has defined culture as “a group of people who live together with common bonds of customs, language, and life style, people who recognize amongst themselves a kind of unity which is a result of shared similar experiences and backgrounds”.[50]

Regardless of their multiplicity these definitions have some features in common. A general link can be identified between them, as they all claim that culture (by utilizing symbols, values and norms) shapes individual behavior. Another distinct feature is that culture is learned by individuals in the course of everyday living and by interacting with other members of the group. A process which is termed socialization.

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[46] Kuper, 1999, p. 3.
[47] Kroeber, Kluckhohn, 1952, p. 181.
[48] Hofstede, 1980, p. 13.
[49] Terpstra, David, 1991, p. 6.
[50] Sheffe (ed.), 1975, p. vii.

With regards to culture and its influence on international business this means that "problems of cultural miscommunication stem from the fact that persons in any business firm are triply socialized: into their national culture, into their business culture and into their corporate culture".[51]

National culture hereby represents the biggest frame. It is the initial source of socialization and "aims to provide sufficient shared understanding among persons in a society to allow adequately predictable, coordinated social activity".[52]

Business culture is derived from the national culture. It defines the codes of conduct and as such it provides norms and guidelines for lawful and prohibited business behavior.

Corporate culture acts within the framework of business culture and national culture and sets the rules of the game within an enterprise.

4.3.1.2. Relevant Shapers of Culture

For the moment we have identified that culture influences human behavior. Culture is learned by means of symbols, values and norms, aiming to achieve socialization. However, we have not yet identified the origin of these norms and values and thus need to consider the relevant shapers of culture.

Researchers in the field of culture have devoted much effort to this process. As a result, two widely accepted shapers have been extracted: religion and language.

Although education and values themselves are sometimes referred to as further shapers, a consensus is definitely reached for the above mentioned factors. As Huntington concludes: "The central elements of any culture or civilization are language and religion."[53] Besides, for the present analysis education could more adequately be seen as an additional tool for transferring the two defined shapers language and, to an even greater extent, religion.[54] Each of these two named shapers plays a decisive role for defining culture in general and for defining the relevant cultural environment of Savola in particular.

Whereas language is a main characteristic of culture, as it represents the medium through which culture is learned and communicated, religion is seen as the most powerful determinant of values, norms and attitudes.

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[51] Terpstra, David, 1991, p. 11.
[52] Terpstra, David, 1991, p. 11.
[53] Huntington, 1996, p. 59.
[54] At least 5 obligatory religious subjects are taught in school in Saudi Arabia from elementary school until highschool.

- LANGUAGE:

As explained above, language is more than just a means to transfer information. “For persons in a culture, language defines social life as they know it.”[55] This is especially true when studying the Arabic language, as necessary for the analysis of a Saudi enterprise.

Arabic is the common language of the Arab world and the most important Semitic language. It is the native language of almost 300 million people living in more than 20 different Middle Eastern and African countries.[56] The Arabic language originated in Saudi Arabia in pre-Islamic times, where it was used by Bedouin tribes. However, it was the advent of Islam in the early 7th century which has led to the rapid spread of the language beyond the Arabian peninsula. While prophet Muhammad had founded a community that adopted the religious doctrine of Islam as it was laid down in the *Quran*, his successors as political leaders of the community, the so-called caliphs, were able to extend the influence throughout the Ancient World. By expeditions and conquests a new Islamic Empire was forged, which controlled all lands from Spain in the west, throughout northern Africa, over all of Persia and the entire Middle East, spreading as far to the east as to the edge of China and into the Indian sub-continent.[57] Hereby “the Arab armies brought to the inhabitants of the conquered territories not only their religion, but to an even larger degree the Arabic language”.[58]

The status of Arabic as the language of Islam cannot be emphasized strongly enough. The *Quran* represents God’s revealed word and as such it is regarded as the most eloquent and clear text there is in the whole Arabic language. Hence, “the language and style of the Qur’ān, even though regarded as of, by definition, inimitable excellence, provided for many centuries a literary model in the same way as the meaning of its words provided the model for lawful and righteous behaviour”.[59]

Therefore, especially written Arabic remained by and large unchanged and standardized. Although several areas of the Islamic Empire gained independence at an early stage cultural ties remained intact. All inhabitants of the various Islamic empires regarded themselves as belonging to a community, that of Islam, of which Arabic, the language of the *Quran*, was the most powerful symbol.[60] The interplay between language and religion works in both directions. While Islam has strengthened the Arabic language, Arabic in

[55] Terpstra, David, 1991, p. 23.
[56] See Appendix 6.3.
[57] See Appendix 6.4.
[58] Versteegh, 1997, p. 1.
[59] Asher, 1994, p. 192.
[60] Versteegh, 1997, p. 158.

turn reinforces Islamic ideas and principles as it has incorporated numerous religious terms into daily life. This issue can be illustrated by the perhaps most common expression used in Arab countries: '*Inshallah'*, which can be translated as god willing. *Inshallah* reflects the belief that god guides each and every activity, and that proceeding is impossible against *Allah's* divine will.

Even today, when ninety percent of the world's Muslims do not speak Arabic as their native language, passive understanding is common due to recitation of the *Quran* in daily prayers and familiarity with other religious literature. Since understanding Arabic is so important, most Muslims try to learn at least the basics. This fact increases the language's importance as it makes Arabic the liturgical language of Muslims worldwide.[61]

- RELIGION:

In spite of its profound effects on society, religion remained a largely unknown quantity. Only recently was religion analyzed when scholars such as Hans Küng, Samuel Huntington or Vern Terpstra and Kenneth David started to devote their attention to religious aspects and their relevance. As a result, religion came into focus as a prime determinant of human activity and motivation and a crucial source of cultural identity and thus also of differentiation between people. Terpstra and David defined religion as "a socially shared set of beliefs, ideas and actions, that relate to a reality that cannot be verified empirically yet is believed to affect the course of natural human events".[62]

Terpstra and David explain that, in order to overcome human skepticism towards anything invented or legislated by other human, a more-than-human frame of reference is needed as a justification. This justification is provided by religion, which induces human activity by answering the question of meaning and by conditioning people's motivation and priorities.[63]

With more than one billion adherents Islam is the second-largest and the fastest-growing religion of the world. Originating in present-day Saudi Arabia, the Islamic faith spread to constitute a majority in more than 35 countries stretching from north-western Africa, through the Middle East to the southern Philippines.[64] Saudi Arabia as the cradle of Islam remains its focal point, as all prayers are directed to Mecca. Besides, the kings of Saudi

[61] Asher, 1994, p. 191.
[62] Terpstra, David, 1991, p.73.
[63] Terpstra, David, 1991, pp. 73-76.
[64] See Appendix 6.5.

Arabia are regarded as the guardians of Islam and are supposed to maintain and defend Islamic values. Islam, with its huge impact on culture therefore needs to be evaluated next.

The Arabic term Islam literally means submission, and derives from a word meaning peace. Like Judaism and Christianity, Islam is a monotheistic religion and traces its origins back to the prophet Abraham, whereas all the three prophets of these religions are direct descendants from his sons: Muhammad from the eldest son Ishmael, and Moses and Jesus from Isaac.

Unlike Judaism and Christianity however, Islam must be regarded not only as a religion but moreover as a complete way of life. As such it covers **all** aspects of life – spiritual and secular.

Muslims generally believe in *Allah* as the one and only God and creator of the universe, in angels created by him, in a chain of prophets starting with Adam and including amongst others Noah, Abraham, Moses, Jesus and Muhammad as the final messenger, in the Day of Judgment and in individual accountability for actions.

The Five Pillars of Islam create the basis of practical religion and are duties which must be fulfilled by each and every Muslim, thus they also define his identity.

1. *Shahadah*, the testimony that “there is no god, but God, and Muhammad is the messenger of God”.
2. *Salah*, obligatory prayer five times a day. The prayers are set at dawn, noon, mid-afternoon, sunset and nightfall, and thus determine the rhythm of the entire day. The prayers include verses from the holy *Quran* and are said in Arabic.
3. *Zakat*, alms giving, at a specific rate of the income for the poor to save them from want and raise them to a state of sufficiency.[65] *Zakat* mirrors one of the most important principles of Islam, which states that all things belong to God, and that wealth is therefore held by human beings in trust. “Wealth belongs to Allah. The human being is vicegerent on it.”[66]
4. *Sawm*, daylight fasting during the month of Ramadan (the ninth month of the Muslim calendar). It involves complete abstinence from food, drink, smoking and sexual intercourse from dawn to sunset and is regarded as a sign of sympathy with the poor and to strengthen self-control.
5. *Hajj*, the once in a lifetime pilgrimage to the holy city of Mecca during the twelfth month of the Muslim calendar. *Hajj* is required for every Muslim, physically and financially capable to afford the visit. A major impact of the pilgrimage is the

[65] Masri, 1997, pp. 60-64.
[66] Al-Qaradawi, 1997, p. 1.

strengthened belief and international solidarity demonstrated between Muslim brothers from all around the globe. In addition, the ties to the center of Islam are tightened and personal prestige is gained for the pilgrim returning home.

The prime source for every Muslim's faith, law and practice is the *Quran*. The *Quran* is a record of the exact words revealed to the prophet Muhammad. These words were memorized by him and then dictated to his companions, and written down by scribes who cross-checked it during his lifetime. The original and complete text of the *Quran* is available to everybody in Arabic, the language in which it was revealed. Although translations are available, too, they are often rejected as inferior, as they cannot capture the whole meaning and beauty of the *Quran*.

Alongside the *Quran*, the *Hadith* (teachings, sayings and actions of the prophet Muhammad) take their place as a sacred source of Islamic authority. Of major importance in this regard is the role of the *Ulama*, as scholars versed in the *Quran* and *Hadith*. Although Islam does not have a priestly class, these *Ulama* play an important role as law interpreters, preachers and teachers. In contrast to Western countries, state and religion are inseparable in Muslim nations. In fact, an Islamic state is governed by the holy *Quran* and its principles. This law of Islam is also known as the *Sharia*, whose implementation and interpretation is incumbent upon the *Ulama*. The law of Islam is paramount in all areas of life. As such it organizes personal action, social relations and community life, as well as political, legal and economic affairs. Whole branches of science have been established as to provide help for proper conduct in accordance with Islam. Consequently, *Ādāb al-Islām* elaborates on the good manners, etiquette and habits adopted by Islam,[67] Islamic Economics promotes the establishment of an alternative economic system balancing satisfaction of both material and spiritual needs in all human beings, and Islamic Banking sets the rules of financial transactions.

To illustrate the far-reaching effects Islam has on society some examples shall now serve as proof. Islamic rules define major general principles such as honoring and respecting the parents, respecting the rights of others (including their religion) or demonstrating humility, modesty (extremism and exaggeration are rejected) and simplicity, as well as more detailed explanations on themes like the women's right to express their views freely

[67] Al-Kaysi, 1991, p. 13.

and to reject marriage proposals or the “prohibition against imitating the manners of non-Muslim people”.[68]

With these concluding remarks we will now leave the vast array of Islamic law[69] and instead focus on the more particular. The following section will deal with the role of the outlined cultural shapers – language and religion – on the global market selection.

4.3.2. The Cultural Influence on Global Market Selection

So far this research paper has outlined the situation Savola is facing as a Saudi national firm. By starting to examine the country, important macro-economic variables and background information were revealed before Porter’s Five Forces helped to determine Savola’s competitive position in the local edible oil market. Afterwards, the OLI-Paradigm elaborated on the sustainability and transferability of SEO’s competitive advantages before the analysis finally started to incorporate the next and pivotal variable – culture – into the context of the Location Sub-Paradigm. As stated before, culture was largely neglected as a factor influencing the choice of target markets. However, this cultural dimension can certainly be of major importance for success. Perhaps increasingly so in the culturally sensitive and aware Arab-Islamic world.

Here again the case of SEO is bound to be useful, as its international expansion path shall reveal whether or not culture influences the market selection process.

4.3.2.1. Savola’s Expansion Path

Before we now proceed, it is necessary to make some introductory remarks to set things straight. It must be acknowledged in advance that naturally the bottom line – profitability – is the prime determinant to decide on whether or not to invest abroad. Hence, cultural proximity is not the key criteria deciding the issue of venturing into a foreign market. However, this does not mean that culture is of minor importance. It rather means that culture works in a more subtle way, still affecting investment choices.

Tracing Savola’s expansion path shall initially give an overview over its geographic distribution, reaping additional information about SEO’s experiences in the early stage of internationalization.[70]

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[68] Al-Kaysi, 1991, p. 47.
[69] For a detailed analysis of Islamic principles see Al-Kaysi, *Morals and Manners in Islam*, 1991.
[70] The following information was extracted from various archival records from Savola and where possible was additionally confirmed during the interviews with Savola’s senior management employees.

A first step towards expansion abroad was the venture into **Bahrain** in 1990. From 1988 on Savola started to look abroad for further expansion, and began to export products to other GCC countries to test the market. Penetrating these markets was a natural move, due to the dominance in the Saudi market (Savola’s market share was exceeding 80 % in 1988), geographic proximity and cultural similarities. Ultimately, Savola’s Bahrain plant was constructed as to serve the adjacent GCC market. This strategic decision was taken to deter entry of a competitor in the Eastern Province of Saudi Arabia after joint venture talks with the investors failed, to avoid transportation costs which would have been higher from the Jeddah plant and as widening the Jeddah plant faced governmental constraints. Opportunistic reasons (benefit from free trade zone advantages) led to the choice of Bahrain rather than another Gulf country. Savola Bahrain closed down in the year 2000, as operating became unprofitable due to increased competition and as expectations have not been matched as, unlike Dubai, Bahrain did not sustain itself as a leading export center. The GCC market is now served from the Jeddah plant, which was then allowed to enlarge its production capacity from 150,000 MT to 200,000 MT, making the loss-generating 60,000 MT plant in Bahrain redundant.

The next, and by far more successful venture occurred in 1991, when Savola decided to enter the **Egyptian** market. To gain access to knowledge about the market and critical mass, Savola started to export edible oil from Saudi Arabia and to contract manufacturing of ghee under Savola’s brand names. As a next stage the company started the construction of a 60,000 tonnes plant for the refining and distribution of edible oil and ghee products at a site near Cairo. Falling back on the accumulated knowledge of the market and combining it with market research and branding expertise, Savola quickly gained a foothold. The company’s success was possible as it designed a product that fitted with consumer habits and preferences. Unlike other markets, Egypt distinguished itself as competition was rather modest, with public companies still active in a newly deregulated market, and as animal ghee was a prime source for cooking. Consumers appreciate the special taste of animal ghee, but disliked its relative expensive price. So Savola made use of this pattern and introduced a high-quality pastoral butter flavored vegetable ghee. Thus the company had a competitive product, low in cost (almost half the price of animal ghee) and of a healthier origin.

Then, in 1996, Savola Egypt formed an equal ownership joint venture with the local edible oil subsidiary from Sime Darby Berhad of Malaysia. Among the obvious synergies resulting from this strategic decision was that Savola gained access to additional production capacity from the under-utilized plant of Sime Darby, while struggling Sime Darby benefited from

Savola's marketing and branding expertise. The combined entity managed to achieve market leadership in the vegetable ghee market segment and subsequently positioned itself with a multiple-brand strategy to target different market segments, above all the edible oils, as consumers are gradually migrating towards these healthier and often cheaper cooking alternatives.
Accelerated growth was met by further increasing capacities as to reach approximately 200,000 MT / year. Even though fierce competition and a negative macro-economic development (foreign exchange losses) have recently challenged the Egyptian venture it must be seen as one of Savola's main successes abroad.

In 1992 Savola started operating in **Tunisia**. The company acquired a majority stake in COGIA, an edible oil refinery, mainly engaged in olive oil production. Driving force behind this expansion move was the offered opportunity to break into the small but lucrative olive oil market. Quantities produced were large enough to supply regional markets and to introduce COGIA's products into the USA. For some time the high-margin olive oil was exported at profit. However, the introduction of new laws in Tunisia prohibited exports of edible oil, hindering Savola's profitable operations. This shifting regulatory environment made Savola abandon Tunisia in 1996, when COGIA was sold off.

After long negotiations from 1995 onwards, Savola acquired 11 % of family-owned Wazir Ali Industries Ltd. (WAIL) in 1999 as a gate to the huge **Pakistan** market. This initial investment in WAIL, with its relatively small production capacity of 45,000 MT / year, but the benefit of established brands and a good reputation was expanded to 40 % in the year 2000. Further increases in the shareholding are negotiated as well as a merger with another Pakistani company to enhance the operation and to increase management efficiency.

In the same year, Savola also established Savola **Jordan** Company after acquiring the necessary production facilities. Within three months Savola captured market leadership with the introduction of its premium brand Afia and is currently establishing Jordan as a local hub to supply Syria, Lebanon and the West Bank.

In 2002 Savola reached an agreement with investors to set up factories in **Morocco** and **Sudan**. Savola will be able to produce and market 45,000 tonnes of vegetable oil annually in Morocco by 2004. For Sudan a similar factory will set up by mid-2004. Entering **Turkey** has long been considered, but was delayed due to the macro-economic instability of the country. Nonetheless, the market is likely to be penetrated soon, as risks are perceived as tolerable.

Until now it has become clear that Savola, starting in 1990, expanded into various countries. Regardless of this information, a closer look at the global market selection process is deemed appropriate in order to qualify which factors mattered for the choice of markets and to see among which pool of countries the named markets were selected.

It has been persuasively argued before that economic factors are the key determinants to evaluate opportunities and possible threats of expansion projects. Constant upgrading and incorporation of experiences abroad led to a sophisticated due diligence process, where the corporate environment is screened. In lieu of just proceeding by chance, Savola examines its projects extensively.

The latest 2002 expansion plan started to evaluate almost 100 countries in Asia and Africa and ranked these countries according to the criteria population size, GDP and consumption. In line with the company's ambitious growth aims, only those markets were taken into consideration, where a sizeable contribution to the 'Triple Five Strategy' aims are likely. This means that markets with a consumption of less than 50,000 MT were just as well excluded as those where the population size was below a minimum, set at 30 million inhabitants. This initial screening reduced the number of countries from 100 to 21 mainly Arab countries. As a next step a quantitative and qualitative analysis followed, where demographics, market structure and characteristics, the growth potential and the political and economic stability were assessed. Above all, the risk analysis was thoroughly conducted, as many markets, especially in the Arab world, are characterized by political instability,[71] a high level of governmental involvement in the economy, and severe trade restrictions and regulations in particular in the vital edible oil industry.

Interestingly, the involvement of multinational companies was included into the analysis as a criteria to increase the 'comfort level'. Hence, active multinationals in any observed country are seen as positive signs for a tolerable risk. This was done although Savola's political risk analysis is bound to vary greatly from that of an American MNE e.g. concerning the assessment of Iran and its political risk rating.

[71] Arab-Israeli conflict, Iraq conflict, conflicts over water resources, tensions between Shia and Sunni Muslims, antagonistic interests of governments and Islam, etc. For an excellent survey of the Arab issues see Allan M. Findlay's "*The Arab World*".

The outcome of this evaluation was a list of 15 leading countries, that were identified as potential business opportunities, next to the concluded ones outlined above.[72] This list included Arab-Islamic countries, but also China and India for their sheer market size and the distant Philippines.

4.3.2.2. Savola's Cultural Framework

The reasonable question now is how culture fits into these considerations. To come up with a satisfactory answer, we need to return and recapitulate the three-phased socialization process. As argued before, primary socialization is into one's national culture, where relevant norms and behaviors are learned. With reference to the cultural shapers, this means that children are brought up in the Arabic-Islamic culture. The family, as the nucleus of Islamic society, hereby provides the prime environment within which Islamic values develop and grow in the new generation.[73] *Quran* and *Hadith* recognize the importance of the family and provide a great number of rules for conduct, governing family relations and child education. Additionally, the school teaches not only language skills, but also Islamic religion in several subjects. In Saudi Arabia, up to 10 subjects condition the pupils' beliefs, expressions and manners mutually reinforcing language and religion.

Moreover, omnipresent symbols of culture can easily be observed. Among others these are the presence of mosques in every small district or the national flag, which carries the Islamic '*Shahada*', the *Quranic* statement of faith and the sword of the House of Saud, and reminds of the religious-political alliance and interdependence of Wahhabi Islam and the policy of the ruling Saud family.[74]

Deriving from this national culture is the secondary socialization, which allows the learning of additional cultural knowledge of relevance to a person's participation in a wider socio-economic world.[75] For Savola, as for any other firm, the relevant secondary socialization is mainly into business culture. It has been continuously put forward that Islam is an all-embracing way of life. Effects on business culture are profound and compliance with *Sharia* laws and regulations is mandatory.

In fact "Muslims themselves do not see it [Islam] as a religion. According to their light, God created men and women to live in accordance with his law",[76] be it in family matters or in

[72] See appendix 6.6. for the complete list of the country risk ratings for new markets.
[73] Al-Kaysi, 1991, p. 36.
[74] Nomani, Rahnema, 1994, p. 137.
[75] Terpstra, David, 1991, p. 12.
[76] Gambling, Karim, 1991, p. 1.

economics. Concerning the latter, Mannan suggests that the Islamic man is an economic maximizer, subject to ethical and moral constraints of *Sharia* and further presumed to be individualistic, co-operative and socially responsible.[77] However, Islamic socialization must again be seen as a necessary prerequisite to behave in the prescribed manner.

Even as one must admit that many of the Islamic teachings are in fairly general terms and subject to interpretation, several Islamic principles are hallmarks and as such undisputable. Some of these overriding principles, which are named by Chapra, Gambling and Karim, and Nomani and Rahnema are:

1. *Tawhid*, the concept of God's unity and supreme sovereignty.
2. *Khilafah*, governing the possession of private property, generally allowing private ownership as long as the acquisition is lawful by *Sharia* standards. Note however, that the right of possession is not ultimate, since God is the owner of all wealth while man is only his vicegerent, obliged to use his resources effectively and justly.
3. *Adalah*, meaning justice and prohibits all forms of inequity, injustice, exploitation, oppression and wrongdoing.
4. *Fardh*, responsibility to the Muslim community.
5. *Akhirah*, as the hereafter, where everybody is personally accountable for his actions.

Based on these and other principles, Islamic Economics provides a comprehensive set of rules governing the multitude of issues such as commerce, banking, public finance and even insurance. These rules are of major importance for business entities and business conduct and add up to a complete framework. Some explicit rules are the much debated prohibition of interest payment or receipt which is seen as unjust as it comes from mere waiting, not involving any effort, or the principle of honesty in trade with condemnation of any attempt to deceive or cheat in transactions. Additionally, the prohibition of gambling, as well as all type of speculative activity including forward and future dealings,[78] the need for fair payment, charging reasonable prices and being content with 'normal' profits or the labor code, which permits the employment of women only if men and women employees are separated, are constraining business life. While trade is limited by these and other norms, trade involvement in certain items like alcohol and pork is completely banned. Pork is hereby of particular importance as trade with lard, or in countries where consumers demand lard products instead of vegetable oils cannot be satisfied by Savola. This list of limitations and the resulting need

[77] Mannan, 1990, p. 27.
[78] Life insurances are also seen as illegitimate as life is in the hands of *Allah* and as the *Ummah* (Islamic) community has to take care of family members in need.

for awareness of special practices could be greatly extended, for instance into the field of profit-sharing, the Islamic alternative form of financing. However, further elaborations are beyond the scope of this research paper and therefore left out.

Central for the present analysis is the fact that the cultural shapers, as seen in the previous paragraph, are directly interfering into business culture as well as into national culture in manifold ways.

Just as business culture derives from the wider national culture, corporate cultures are constrained by business culture. Tertiary socialization then is into the corporate culture and determines the codes of conduct within an enterprise. For the Savola Group this culture is naturally receptive to the Arab-Islamic values and norms outlined before. Savola proudly defines itself as an Islamic company or an 'ethical' company, whereas ethics themselves are of Islamic nature. This can again be explained by the holistic approach Islam is taking towards life. Hereby business morals must not be seen as distinct from private morals and thus have to be treated only as one element of the whole Islamic teachings.

Back to Savola this implies that basically all Islamic principles are obeyed. Financing is in line with *Sharia* laws, with loans on profit-sharing basis and not subject to interest payments. Other aspects related to Islam are the adaptation of the Islamic calendar, including religious holidays, weekends from Thursday to Friday (Friday being the day of obligatory public prayer) or adapted, shorter working hours during the month of Ramadan. Again, concurrent with Islamic teachings, prayer breaks are an integral part of the working schedule, just like respecting regulations of women employment is a necessity in business life. Moreover, although the work-force is perfectly capable of speaking English, most of the business communication continues to be in Arabic, conveying the cultural relatedness to Islam while meantime being a special jargon and expression of corporate culture.

The far-reaching impact of the cultural shapers can even be observed in the company's 'Direction Document'. Above all, this internal document defines Savola's mission and the way these aims are pursued. However the Savola culture, which is seen as a guiding force for the continuous development, is also addressed, whereas its principles are reaffirmed. Within the document, the firm belief is expressed that "Allah's help and blessing will always be there supporting those who maintain good and sincere intentions".[79] This general reference to Allah is further accompanied by verifying that the corporate culture of the Savola Group is "based on such Islamic ideals as honesty, responsibility, justice and self-discipline".[80]

[79] Quotation taken from: Savola's Direction Document „The Balanced Way", 2001.
[80] Quotation taken from: Savola's Direction Document „The Balanced Way", 2001.

The implicit reference to Islamic teachings while further elaborating on values, working styles and attitudes corresponds to the larger national and cultural framework.

Even though critics may argue that values such as the responsibility to shareholders and being entrusted by them are of general logic and common sense, it must be stated that morality among business firms cannot be taken for granted. Obvious breaches of moral codes in recent cases of Enron or WorldCom are blatant, as is the amoral foundation many firms have long lived by, enforced by statements such as the words of M. Friedman that "the social responsibility of business is to increase its profits"[81] or as Küng has more recently expressed with disguise that the "business of business is business".[82]

The congruency of Savola's culture with Islamic principles may not mean that these provide a shield against moral failure, however, to refer to Islam again helps to overcome the earthly tendencies towards skepticism, justifying authority and joined efforts to achieve the overall aims.

Socialization

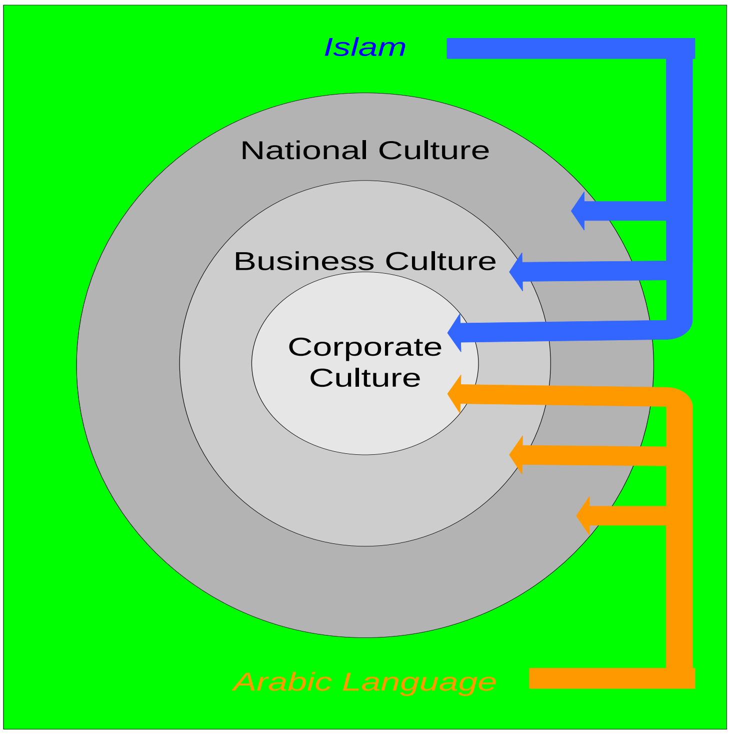

Figure 3: The influence of the cultural shapers on socialization. Adapted from Terpstra & David,1991, p. 52.

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[81] M. Friedman, *New York Times Magazine*, 13th September 1970.
[82] Küng, 1998, p. 257.

4.3.2.3. Where Did Culture Influence The Market Selection Process?

All these important implications of culture that we have explained at length, of course do not dissipate when it comes to multinational business activity. On the contrary cross-cultural business activity enhances the role of culture as a key issue. Cultural difference or cultural clashes, most often revolving around communication differences and differing behaviors and perceptions, have caused serious malfunctions on the international business level. Mergers, which are rated highly in terms of financial, technical and marketing synergies fail or face serious difficulties in the post-merger phase or successful brand names perform terribly in unfamiliar surroundings, due to negative connotations attributed to the brand name.

To circumvent these cultural risks, Savola has adopted a strategy of risk aversion. This avoidance of uncertainty in the company was thus prompted by seeking investments in culturally similar environments.

Explaining the sometimes very subtle effects of culture on the international operations will now be the prime target. Based on the findings we have so far illustrated, the interface of culture and market choices will be emphasized.

International production by business enterprises is the result of individual decisions to invest in particular locations outside the firm's home country. As such it is both an investment decision and a location decision. As these decisions are made by individuals, or by groups of individuals, they are subject to their own personal perception. Undoubtedly this means that socialization as a determinant of perception and behavior is bound to play a crucial role in the decision-making process.

Although we have seen that supposedly purely economic factors are of relevance for the evaluation of business opportunities, the initial selection of some 100 countries in Asia and Africa narrowed the geographic scope in advance. Admittedly, arguments could arise, pointing out that geographic distance and limited resources led to a narrower scope, these arguments do not seem valid. Firstly, de facto distance to southern Europe is far smaller than to Asian countries such as the Philippines. Secondly, availability of resources is definitely hindering large-scale simultaneous expansion, but the limited involvement in the USA, stirred from the Tunisia subsidiary, can be taken as a proof that Savola's resources could also overcome larger distances. Thirdly, and most important, distance in Savola's case seems to be rather a subject of cultural distance, with the consequent choice of 100 African and Asian countries in the Arabic-Islamic sphere. Even though some countries like China, a large non-Arabic and non-Islamic community, are also included into the list of possible target countries, it seems that this was rather done to acknowledge the market potential than to really consider it as a near-future business opportunity. Moreover, from the expansion projects carried out up to the year 2002 it can be seen that although countries like Sudan were ranked far behind China on the country risk analysis, these projects were preferred. Note that Sudan and Morocco, the latest foreign ventures are both Arabic as well as Islamic countries, just like previous target markets.[83] In addition to the stated arguments, the self-image of an Islamic company brings along internally and externally underlying obligations to serve the Islamic community. In this context it is often expressed that an expansion of an Islamic company should benefit foremost the Islamic countries and afterwards countries with large Muslim minorities. Hence, trade with Israel, although viable from an economic perspective, is under no circumstances possible and thus never considered.

So it goes without saying that culture has tremendous effects on global market selection. However, the mentioned cultural implications range even farther. Especially for novices in international business, like Savola, even more striking economic benefits for the company result from reduced cultural risks. A lack of experience on how to operate in an unfamiliar market is partly offset by a common culture. Expansion into the Arab world was greatly facilitated by the existence of a common language. Miscommunication can be avoided and cultural fit is likely to be high. Alongside, an implementation of Savola's culture faces no or only insignificant obstacles in light of the congruent cultural background. Another advantage is the secured communication throughout the whole organization. Communication in English would certainly be possible on the management level, but insights from lower-level manual workers can only be obtained in Arabic. Total Quality Management, employee satisfaction and highest degrees of strategy implementation are all most efficiently achieved in Arabic. The importance of effective communication and its implementation is of major importance for Savola. This can be seen as, even within the Arabic-Islamic framework, the company recruits host country nationals (HCNs), which have a deeper knowledge of the market and awareness of its special features. However, before these HCNs start the management of a subsidiary, they are usually assigned to the headquarters in Jeddah. The assignment is carried out to strengthen the ties to Savola's working styles and to transfer corporate culture. The recruiting of HCNs is obviously facilitated, where the selection among a pool of qualified workers is possible. As initially outlined, this is granted for Arab-Islamic foreign workers as they are dominating the Saudi workforce, a factor which further supports the selection of the Arab-Islamic market. This procedure of recruiting HCNs and transferring corporate culture has proved to be so successful and popular that it even carries its own expression: 'Savolization'.

[83] Care for Appendixes 6.3. and 6.5.

Concerning expansion into Islamic countries, more advantages attached to the harmonious cultural values come from standardized religious holidays and from similar financing and business regulations. Thus, in the Islamic sphere, production schedules do not need to be adapted as e.g. Ramadan will result in reduced working hours in the whole corporation, limiting interferences into internal processes. In addition, inefficiencies due to different holiday schedules of different religious groups are avoided. A corporation with business activities around the globe could also face productivity problems between separate, but dependent entities, as the weekends in Muslim countries are from Thursday afternoon until Friday, while the Western schedule provides weekends from Saturday until Sunday. Meetings and negotiations therefore could be scheduled only on Monday, Tuesday or Wednesday.

Finally, it can be noted that it has also been helpful for Savola that its products are often already known and valued in the Arab world, due to Arabic television commercials on popular channels, and even in other Islamic countries, as expatriate workers and pilgrims are exposed to Savola, when working or worshipping in Saudi Arabia.

In sum, the presented arguments make it probable that future expansion projects will continue to be situated in the Arab-Islamic world, rather than in other countries, although these may be closer to the home market or offering greater opportunities for business development.

4.4. Internalization Sub-Paradigm

The third tenet of Dunning’s OLI-Paradigm offers a framework of alternative ways in which the firms may organize the exploitation of their core advantages. Assuming that ownership advantages are persistent and that these are best used in a foreign market, the internalization theory helps to determine whether these activities are undertaken by the firm possessing the advantages, by selling these advantages to a local producer or by setting up contractual agreements. The theory is straight-forward, arguing that as long as transaction and coordination costs of using cross-border intermediate markets are higher than those costs of internal hierarchies, it will pay for the firm to engage in FDI. Thus it can be said that MNEs generally only arise when they are more efficient than markets and contracts in organizing the mentioned exploitation of the core advantages.

Returning to SEO’s case this means that the last three of the guideline questions will now be tackled. From the analysis of Savola’s expansion path it already became clear that FDI is used to enter foreign markets. Even though exports were initially used to penetrate foreign markets, the objectives clearly were to test the market. Large-scale exports would not only face enormous transportation costs, due to the low value-to-weight ratio of edible oils, but they would also suffer from high tariffs for finished goods, which amount to up to 40 %. Tariffs are that high in nearly all developing countries, as governments try to achieve independence in basic food industries, by promoting local production.

While exports were rejected for high transportation costs and tariffs, contractual agreements faced other hurdles. On the one hand, foreign agents and distributors certainly offer deep knowledge and inside information of the local market, but on the other hand, these agents would not be ‘savolized’ and of comparably high standards. Concerning the latter, the lack of adequate infrastructure, skilled labor, machinery, legislation and governmental regulations are problems Savola was facing in the majority of its expansion projects. Additionally, fears arose that SEO would not be able to achieve its ambitious growth aims, if its products were not marketed and distributed vigorously, a tangible threat, as distributors may carry several competing products. In comparison, licensing was not considered, because of other peculiarities for SEO’s foreign activities. The biggest problem attributed to licensing is that no licensee has the necessary capabilities to manufacture and distribute the products to Savola’s satisfaction.

Besides, the need to adapt the product to local tastes requires advanced market research and marketing. These key success factors for SEO either have to be transferred to a licensee, jeopardizing the whole competitive advantage, or they could be kept proprietary, leading to an erosion of the company’s high quality image, as untailored products would penetrate the market via the licensee using Savola’s brands. Another problem in the targeted countries is the lack of enforceable patent legislation which thwarts all plans in this direction.

In summary it can be said that, as all of the expansion projects involved a transfer of a bundle of assets, not only capital, but rather technology and managerial expertise, and given the fact that SEO’s key advantages are mainly intangible, knowledge-based assets, the company logically aimed to keep these advantages proprietary. With respect to the expansion projects, this meant that control over the transferred resources remained with SEO.

So far we have seen that exports and contractual agreements fall short of satisfying Savola’s needs and wants, leaving FDI as the only option. Additionally, FDI itself offers more explanations why it is the best practice for the company. FDI enables the company to appropriate the highest economic rent on their branding, marketing and managerial capabilities, firstly as rents do not have to be shared, secondly as property rights and product quality can be sustained and thirdly as entering into infant industries is easy, due to the absence of endogenous competitors and given the fact that international competitors, like Unilever, made a strategic decision to abandon the low-margin edible oil sector and to instead focus on its core geographic areas and high-margin products, such as margarine or spray butter. This improves Savola's position, as the company can fill the gap these big players have left in the Arabic-Islamic world.

Again it must be pointed out that negotiations concerning FDI also benefited greatly from the common ground of culture, where the Arabic language granted effective communication and Islam contributed the similar mindset. Hence, although edible oils are seen as a crucial sector for self-sufficiency, with governments likely to protect domestic producers, negotiations were bearing fruit as Savola was regarded as a trust-worthy (*Amana* value) Islamic brother. Moreover, Savola's previous ventures abroad were taken as proof for the benefits for the host countries and the credibility of Savola's objective to reach win-win situations e.g. by recruiting HCNs and transferring know-how, while simultaneously generating reasonable profits.

With respect to the outlined arguments, it is appropriate to conclude that FDI is favored over exports and contractual agreement.

In a final step it will now be debated what kind of entry mode (M & A, Greenfield, Joint Venture) is prevalent. From a historical perspective M & A activity seems to be the dominant form of FDI for Savola. Although initial investments in Bahrain and Egypt were greenfield investments (constructed from the scratch) latter investments in Tunisia, Pakistan, Jordan and in some respect even Egypt favor this thesis. It has been set out before that M & As seem to be the preferred manner of entry into a market, when abundant financial resources are available, and when a speedy access to the markets is of importance. This holds true for numerous expansion projects of SEO. As discussed before, capital is available from Savola's successes in the home market and due to the availability of cheap loans provided by the Saudi government and its agencies. Speed is of importance for the company in light of its 'Triple Five Strategy' which can hardly be achieved through organic growth and as first-mover advantages are critical to establish brand loyalty. Greenfield investments may be beneficial from a financial stance, but acquiring existing entities most often offsets this advantage, as entry into a market occurs immediately, and as existing brands can be utilized. Nonetheless, greenfield investments might be favored, when no adequate acquisition target is available, a scenario which is not very unlikely in the least developed countries.

Anyhow, acquisitions also seem more reasonable, as they are often guided by opportunistic motives, on the one side as multinationals like Unilever are keen to exit the edible oil market and on the other side as struggling small-scale local producers are in need of a strong partner to compete successfully. Turkey can hereby serve as an example, as negotiations between Unilever and Savola over the disposal of production facilities as well as trademarks are about to be finalized, while WAIL in Pakistan exemplifies a small producer, unable to sustain the operations on its own.

Mergers, as in Egypt, are only likely where synergy effects occur. These may be the availability of complementary brands or, as in Savola's merger with Sime Darby, scale advantages. Nonetheless, it is important to point out that SEO's general aim is to reach managerial control of all of its edible oils activities, as they constitute the core business of the Savola Group. This explains why even the Egyptian merger has traits of a de facto takeover, leaving mainly Savola's management in control. However, reasons for the non-existence of joint ventures in SEO's case must not only be seen in the motivation to gain managerial control and the highest economic rents, but often also in the plain absence of adequate joint venture partners as SEO mainly operates in less developed countries.

So, even though aggressive takeover activity is despised in the Islamic world, M & As are so far the most likely scenario, even if this might not always be easy to achieve, as ownership transfer in Islamic countries is only possible through mutual agreement and fair negotiations. Consequently, a step by step approach of acquiring a minority stake in the beginning might pave the way towards Savola's ultimate goals. Still, this approach is likely to be subject to change, when adequate JV partners arise as industries mature or when no option for acquisitions is given as in underdeveloped markets with no established edible oil industry. This would then leave greenfield investment as the most viable option.

5. Conclusion

The objective of this paper has been to analyze the internationalization process of Savola Edible Oils. The choice of SEO as a case study was primarily motivated by the idea to focus on the phenomenon of internationalization in the Middle East, particularly Saudi Arabia. Moreover, this selected area appeared to be fruitful for carrying out the research, under the central presumption that culture, in all its varieties, is likely to play an important role when it comes to global market selection.

In order to move on to the internationalization process a first preliminary step had to be taken, where the firm's environment and its position in it were outlined. The application of Michael Porter's Five Forces hereby led to the conclusion that Savola, although active in a highly competitive industry, achieved the position of a market leader, far ahead of its rivals. We have suggested that the company was able to defend this position, due to its competitive strengths based mainly on market research, marketing, commodity research and experience advantages. Based on these findings, Dunning's OLI-Paradigm was utilized to examine the sustainability and transferability of these advantages, in a first step. This was corroborated, given the intangible nature of these core assets and the long-term leadership in the home market. Accelerated by the limited domestic growth potential, these results set the stage for entry into foreign markets. Sales prospects were consequently made out, as the driving force for Savola and its key motivation for moving abroad.

In a next step, the issue of locational choices was addressed. More specifically this meant that even though this paper has acknowledged profitability to be the prime determinant while going global, culture was described as pivotal element in the spatial selection process. Underlying arguments were presented to support this thesis. Firstly, the cultural shapers – language and religion – were identified as having a huge impact on culture. The Arabic language, as the medium through which culture is communicated and learned, Islam, as a complete way of life, which determines values, attitudes and motivation.

Secondly, the three-phased socialization process into a national, a business and a corporate culture was introduced, before the link between the socialization process and the named shapers was established. In particular, it was put forward that the cultural shapers influence all three levels of culture.

Thirdly, Savola's cultural framework was developed and the interface with the market selection process was explored. This led to the central result that investment decisions are made by socialized and as such biased individuals, with tendencies to circumvent all forms of uncertainty. The strategy to be adopted is hence risk-aversion to avoid cultural setbacks.

Additionally harmonious culture itself reaps benefits, as it reduces operational inefficiencies, facilitates strategy implementation and promotes effective communication throughout the whole organization. Consequently the conclusion was drawn that expansion by SEO is bound to be limited by culture, being chiefly located in the familiar Arab-Islamic sphere.

This conclusion was further supported by the so far carried out expansion projects, which were all following this pattern and by descriptions of Savola’s business development plan.

Finally, with competitive advantages and location advantages at hand, the mode to service the foreign market was analyzed. FDI was illustrated as the best practice. Unlike exports, FDI is neither facing excessive tariffs nor prohibitive transportation costs. Unlike contractual agreements, it does not need to rely on poorly qualified partners, face dissipating advantages while transferring know-how and it can appropriate highest economic rents.

As a mode of entry, it has been stated that M & As are apparently preferred as they offer a speedy access, granting early customer loyalty and ownership of established brands. Nonetheless, the absence of suitable M & A targets in least developed countries or further maturing edible oil industries can redirect efforts towards greenfield investments or JVs, when adequate partners arise.

In sum, as the purpose of this paper was to explain the market selection process and to which extent culture influences the choice of markets, it can be concluded that, at least for the analyzed case of a Saudi enterprise, culture is playing a distinguishable role. Although, profitability concerns rank high in private businesses, the subtle effects of culture need to be incorporated as key variables for a firm’s success. Hence, awareness of the relevant cultural features in the light of international operation has to be created. For any analysis of MNEs from the Gulf region, it is also recommendable to include culture within the scope of market selection processes.

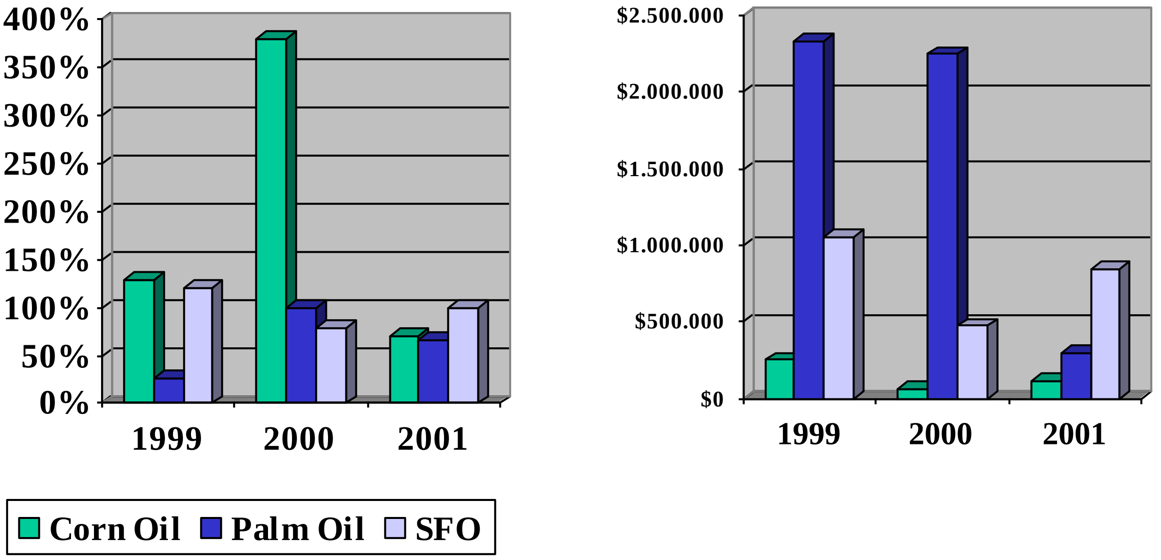
6. Appendix

6.1. Interview Partners from the Savola Group

A. Fakeih	Chairman and Managing Director of the Group
Dr. A. Mannaa	Senior Executive Vice President – Oils & Fats Division
Dr. I. Al-Madhoun	Executive Vice President
Dr. M. Kashgari	Executive Vice President
Dr. M. Ikhwan	Vice President - Business Development SEO
Dr. G. Al-Sulaimani	Market Research Director
Z. Eloudhiri	Chief Operating Officer - SEO
R. Jones	Vice President (Independent Consultant)
A. Cabalan	General Manager - Business Development SEO

6.2. Commodity Research Advantage

Purchasing Efficiency (P.E.) Generated Savings



Source: Savola, Edible Oil Purchasing System (internal presentation), 16th November 2002.

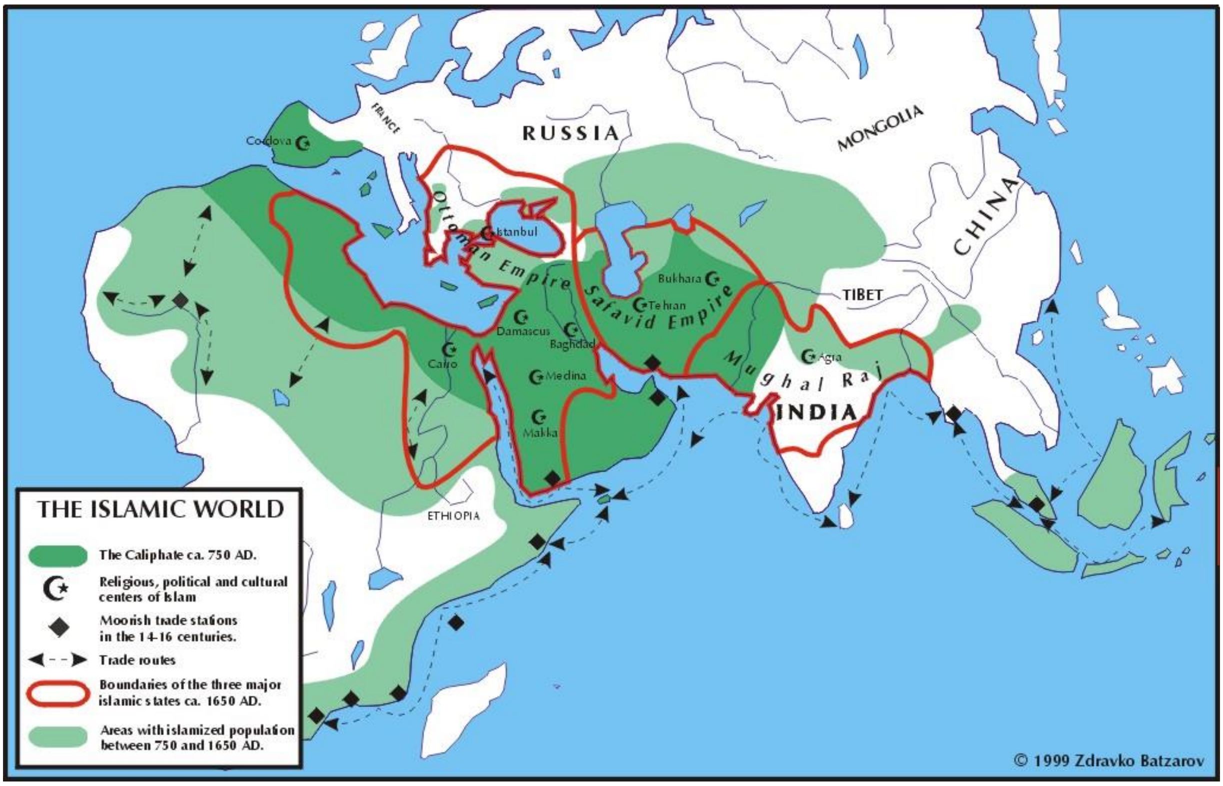
P.E. =
(Average Price – Purchased Price) * 100
(Average Price – Min. Price)

P.E. =
(Savings) / (Maximum Potential Savings)*100

Savings from corn oil were low, compared to a very high P.E., whereas savings from palm oil were very high. This results, as the volatility of palm oil prices is higher than for corn oil. Although corn oil was purchased close to the minimum (high P.E) the average prices, too, are close to the minimum (low savings).

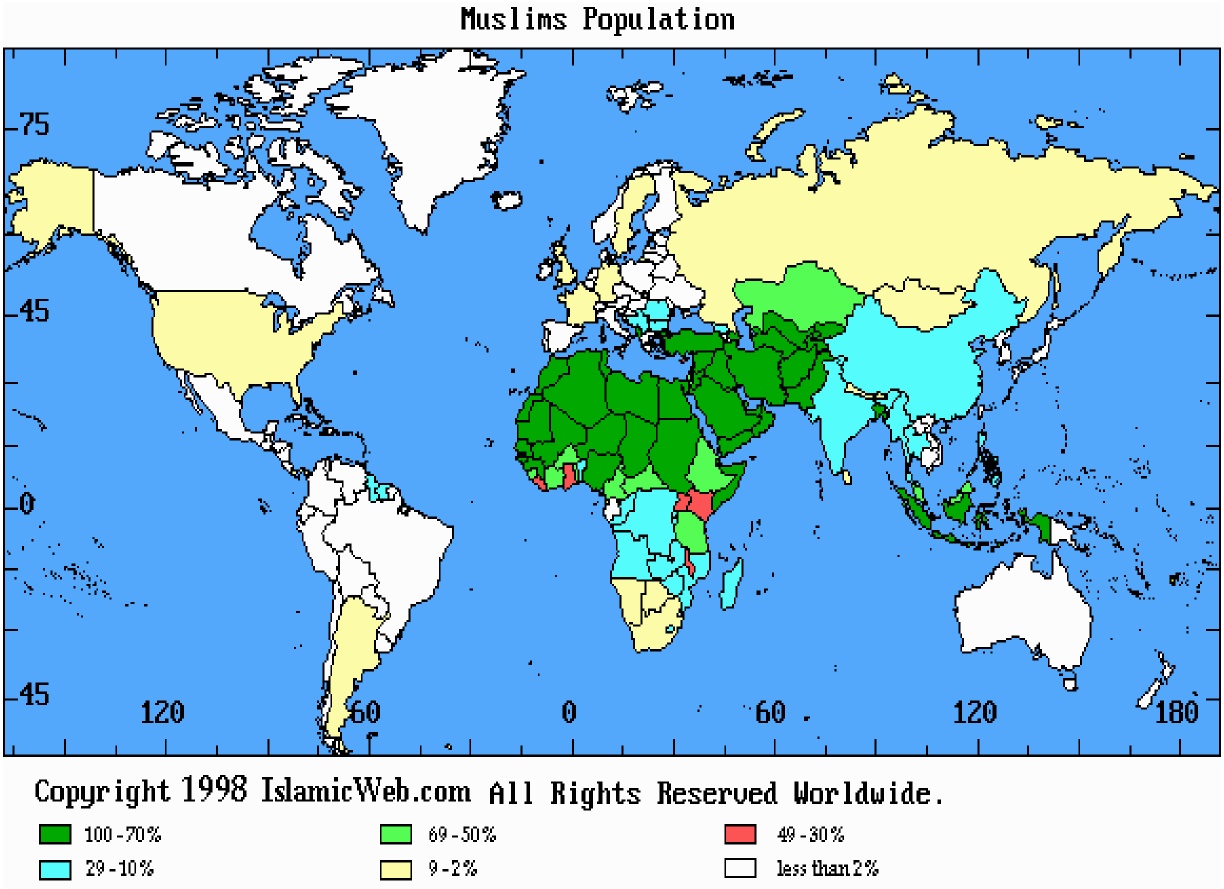
6.3. The Arab World

6.4. The Spread of Islam



Source: http://www.iris-bg.org/publications/geopolitical.htm

6.5. The Islamic World



6.6. Country Risk Rating – New Markets

	Overall Rating	Overall Score	Political Risk	Economic Policy Risk	Economic Structure Risk	Liquidity Risk
Tunisia	C	41	C	B	C	C
India	C	41	C	C	B	B
Malaysia	C	41	C	B	B	C
China	C	42	D	C	B	A
Morocco	C	43	C	B	C	B
Philippines	C	46	C	C	C	B
Yemen	C	47	E	B	C	B
South Africa	C	49	C	B	C	D
Algeria	C	50	E	C	C	A
Iran	C	53	D	D	C	B
Libya	C	54	D	D	C	A
Pakistan	D	62	D	C	C	C
Turkey	D	64	D	D	D	D
Indonesia	D	65	D	C	D	D
Sudan	D	76	E	D	D	D

Source: Savola, Business Development Plans 2002.

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8. Ehrenwörtliche Erklärung

Ich erkläre, dass ich die vorliegende Arbeit selbständig und ohne unerlaubte fremde Hilfe Dritter angefertigt, andere als die angegebenen Quellen und Hilfsmittel nicht benutzt und die den benutzten Quellen wörtlich oder inhaltlich entnommenen Stellen als solche kenntlich gemacht habe.

Die Arbeit lag in dieser oder ähnlicher Form noch keiner Prüfungsbehörde vor und wurde bisher noch nicht veröffentlicht.

Ort, Datum Unterschrift

Nader Kashgari