

BENCHMARKING ALABAMA GOVERNMENTS' COMMITMENT TO FOREIGN COMPANIES IN THE AUTO INDUSTRY

Hyunjoo Yang
College of Northeast Asian Studies
University of Incheon
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Alabama's Phenomenal Success of Attracting Major Foreign Automakers

Alabama has been a magnet for automotive investments. Some might say the automotive industry is ailing and call it a "sun set" industry in the U.S., but this comment doesn't apply to Alabama, where the car-related sector is booming. Prior to 1997 there was not even a single vehicle produced in this state, but now it boasts a vehicle production capacity of 760,000 per year, the third-largest car-producing southern state in the U.S. Alabama hosts major foreign carmakers' manufacturing factories including Mercedes-Benz, Toyota, Honda, and Hyundai Motors. Surprisingly, the state has attracted foreign automakers in less than 15 years.

According to David Hutchison of Alabama Development Office (ADO), there were about 50 companies that had anything to do with auto business in the 1990s. "Now there are 350 companies that directly support auto companies. Alabama has 30,000 people employed by the auto industry including Original Equipment Manufacturers and part-suppliers," he commented.

So how has Alabama had such a huge success in attracting foreign auto companies? There was, of course, huge competition between states in the U.S. for attracting foreign carmakers because the auto industry always has a big impact on local economy. Alabama excelled and stood out from the competition because, among other things like infrastructure, lucrative incentives and a quality workforce, Alabama's state and local governments showed astonishing team work and commitment.

This report shows the readers the importance of government agencies' commitment to attract foreign investments and gives Incheon city in South Korea the advice that I've learned from Alabama. A Korean carmaker, Hyundai Motor and a part-supplier, Mando Corporation, will be explained through this report.

Hyundai Motor Case

Hyundai Motor chose its first manufacturing plant in the U.S. to be built in Montgomery, Alabama. According to the *Business Facilities* magazine, Hyundai originally considered almost 50 sites across the U.S.¹. There was fierce competition among states, of course, because every state knew that a Hyundai auto plant would bring big economic benefits to their economies. So how did Hyundai ultimately choose Alabama?

Alabama has sound infrastructures and good workforce to support the company along with generous incentives around \$240 million including free land, site preparation to build the factory, training equipments and road upgrades (see Table 1).

But incentives were not the major factor of Hyundai's decision to build a factory in Alabama. "Incentives are good but they are just the tip of an iceberg," a high-level manager of Hyundai remarked, "and more important factors are infrastructures to support the factory, road accessibility, quality workforce and cooperation with local governments and communities." He asserted that these factors matter much more than multi-million dollars worth of incentives because good quality is the most important thing for a carmaker.

Table 1
Hyundai Alabama Plant Incentive Package
Public Incentives
* Site improvements: \$55 million.
* Transportation improvements: \$29 million.
* Training incentives: \$61.8 million.

¹ Clapp, Donna. "Success Stories: Teamwork Drives Hyundai to Alabama!" *Business Facilities* Aug. 2002

Commitment from Alabama

Commitment from Alabama government was one of the major factors that enticed Hyundai leaders to come to Alabama. One good example of how officials can have such business-friendly attitudes toward the company is the Coordinators Meetings. Hyundai holds these monthly meetings, where they discuss issues and difficulties related to governments, with coordinators who are various government officials responsible for Hyundai Motor Project. Instead of visiting governments every time there were problems or issues, most of the time, Hyundai was able to solve them through the meeting. This saved lots of time and energy for the foreign carmaker doing business in a country with different governmental regulations and processes.

High officials in Alabama, including the Governor and Montgomery Mayor, had flown to South Korea numerous times to attract Hyundai. The Montgomery city, county commission and chamber of commerce even made resolutions which promised their continuous support for Hyundai three years after Hyundai decided to build the factory in Montgomery. Then they flew to Hyundai Motor Headquarters in South Korea and handed in an official proclamation to Hyundai Motor management that the City of Montgomery shall extend its continued full support and assistance to Hyundai Motor Manufacturing Alabama to ensuring the future success and growth of Hyundai Motor Manufacturing Alabama. This shows Alabama's strong commitment to foreign companies that invested in the state.

Montgomery government also paid attention to the daily life issues of Hyundai's employees. The city government has held five or six seminars at Auburn University of Montgomery to introduce Korean culture to people of Montgomery. Also, communities partnered locals and Korean people of about the same age (especially children) together so that they could develop close relationships and know different cultures better. By pairing them up, Korean people can get help from Montgomery people on daily life issues and can become friends with each other.

Mando Corporation Case

Mando Corporation is a good example of a city government's willingness to help foreign companies in various aspects. Mando Corporation supplies core auto parts like brakes and steering systems to Hyundai and has a car parts production plant in Opelika, Alabama; about a one-hour drive from Hyundai.

Simon Oh of the Mando Corporation, who supervises the Accounting & Purchasing Department as a manager, has lots of good experience with the local government to share. Oh said that he was really impressed by city officials' attitudes toward the company; when he requested a demand – sometimes something that was not directly related to business like education of Mando employees' children – to Opelika, they were always willing to help as much as they could. "They hardly say the word 'impossible' to our requests. Instead, they try very hard to find some 'possible' way to help us. They treat our demands like their family's matter."

Opelika knew that Korean parents care about their kids' education a lot. Opelika voluntarily recruited an ESL teacher who had teaching experience in South Korea to teach Mando employees' children many times a week. The employees' children also have the benefit of much-cheaper resident tuition instead of expensive international student tuition for a nearby university, which was arranged by Opelika.

With a smile, Oh still recalls one incident which happened last December. He forgot to request some important paperwork needed to be done by Opelika officials for Mando. The deadline was December 30th and it was already December 28th, in the middle of the holiday season. He hurriedly called the city officials. In response to Oh's request, they used all kinds of methods to contact responsible people for the paperwork; fax, fast delivery service, phone calls and personal visits. He could successfully complete the paperwork with the aide of city officials before the deadline was due.

The city has put forth effort to make people in Opelika adapt themselves to the new foreign culture that Mando has brought to the city. The Nanta, a famous Korean stage performance that played in Opelika last year, is one example. The mayor of the city wanted to introduce the country where Mando came from to their citizens. She thought the Nanta, which she had seen while she stayed in Seoul, was a good way to achieve this goal. "We didn't ask for anything like that. The city mayor came up with the idea herself," Oh said.

* Misc. incentives: \$12.1 million

* Tax incentives: \$76.7 million

Public subtotal: \$234.6 million

Private Incentives

* Electrical improvements: \$6 million.

* Natural gas improvements: \$4 million.

* Telecom improvements: \$200,000

* Rail improvements: \$8 million

Private subtotal: \$18.2 million

* Total Incentive Package: \$252.8 million

* Incentive Dollars Per Job: \$126,400.

Source: Alabama Development Office

Conclusion and Lessons to Incheon City

During my stay in Alabama, I was able to learn how Alabama showed commitment to companies. They supported not only big companies like Hyundai, but also cared about smaller parts-suppliers like the Mando Corporation. Simon Oh of the Mando Corporation told me that because Opelika city treats the company like VIPs, Mando people also do their best not to let down the city. "Our employees even calculate the tip carefully to make sure that tip doesn't go below 15-20 percent when they go to a local restaurant in Opelika."

As a result, close friendship bonds governments and companies. About 80 percent of newly created jobs do not come from new companies building their factories in Alabama; they come from existing companies when they expand their production output or size of factories. Mando already has reserved land near their factory in Opelika. This explains how Alabama's newly created jobs snowballed to 20,000².

Alabama's case gives a big lesson to Incheon city, which co-develops the Incheon Free Economic Zone. Government bodies and private sectors spent huge sums of money – almost over US\$ 500 million went to the zone for constructing infrastructures. They need to reap the rewards by attracting foreign investments.

Benchmarking Alabama can help Incheon attract investments from international firms. Of course there are many differences between Incheon and Alabama. These two governments might not be able to put the same thing on the table. But I strongly believe that Incheon city or any governments interested in attracting investments can learn from Alabama's unprecedented support, commitment and dedication to companies.

1. Salespeople Attitude

Government leaders interested in attracting foreign investments should become sales people. Building a state-of-the-art Free Economic Zone is a good thing. But they should go out and sell it instead of sitting on a chair in their office waiting for phone calls from foreign companies. Good examples include numerous visits to Korea paid by Alabama's dedicated governor and Montgomery officials' resolution given to the Hyundai Motor Headquarters in South Korea.

2. Team Work

It was not only the Alabama state government, but also Montgomery city and county government and local communities that have participated in the Hyundai Project. These governments worked as a team and set up Saturday schools, conducting seminars or pairing local and foreign people in Montgomery.

The grand scenario made by Incheon city can be more complete if more local governments or neighboring cities like Bucheon participate on the project. When Honda came to Lincoln, Alabama in 1999, five counties neighboring Lincoln had participated in the Honda project even for financial incentives for Honda³. That happened because the neighboring counties knew that they would benefit from Honda's investment. Honda also might consider using more workforces from neighboring counties or expanding to them because they received incentives from them. Incheon and neighboring cities can also form such win-win relationships.

3. Business-Friendliness

The Coordinators Meeting of Hyundai Motor is a typical example of how governments can be business-friendly. There is a saying that a company needs hundreds of permits from the government to do business in South Korea. That might be an exaggeration but it tells a critical fact that government red tape deters foreign investments. Incheon city must know that attracting investments is not just giving companies a tax-break. It should reduce red tape, make the investing procedure simpler, and be more business-friendly like Alabama did.

4. Willingness to Help and Giving Continuous Support

There are so many examples showing Alabama's support for the companies located in Alabama. Ellen McNair, Vice President of the Montgomery Chamber of Commerce, told me that she had just returned from Minneapolis, where a major U.S. airline company's headquarters is located, to discuss direct flights from Montgomery to Detroit, where the majority of auto production in the U.S. happens. She believed that these direct flights will be of great assistance to Hyundai and their suppliers. I was amazed how local communities can give such continuous support to a company.

The expansion of a company creates more jobs than attracting a new company. Showing continuous support might only guarantee the expansion of companies in the same place. Incheon should take notice of this; welcoming new investments is

² Hutchison, David. Personal Interview, Jan 2006

³ Hutchison, David. Personal Interview, Jan 2006

important but equally, it should pay attention to existing companies and give them continuous support to ensure that they become willing to invest more in Incheon.

Cultural Difference: What I've learned from applying for interviews in Alabama

Through this research project I've also learned very valuable lessons on the importance of knowing cultural differences in promoting international business. There is no better way than applying for an interview to find out cultural differences between the Korean and American businesses. I want to share my experiences with readers.

For Americans, I first called an operator of the organization, then I was transferred to a department related to my research, and finally I got in touch with the secretary of the director that I was going to interview. I emailed the secretary the outline of my research and some important questions that I was going to ask, and gave them my available time. Then I got the email from the secretary with exact time of our interview, and sometimes driving directions. I followed this process about one or two weeks before my visit to Alabama for all of my interviews with Americans. I call this process, the "from a low place to a higher place" approach.

For Koreans first I tried a similar approach. I called operators and public relations officers, emailed them, and left messages on their voice machines. But, this process didn't work. I could not reach a higher place person by contacting people of lower positions. So I used a different approach. For example, to interview an executive of a company I called a Korean church in Montgomery and found out that the company's senior engineer attended the church regularly. I attended the church and talked to the engineer, who introduced me to a senior executive who could answer my questions. I called the executive the next morning. He said he was too busy and he would ask a senior manager to see me. That was how I was able to meet an executive of the company. It was "from a high place to a lower place" approach. Similarly, to interview an executive of another company, I first contacted the company's headquarters in South Korea to get in touch with that person in Alabama.

Unlike Americans, Korean executives didn't like to schedule a specific time for an interview in advance. Of the two cases I described above, I met one executive without a prior appointment. Regarding appointment with another executive, when I called him from Denver, he asked me to call him again when I reached Alabama. I called him four times during my stay in Alabama. He finally called me just after 5 pm, one day before I was scheduled to leave Alabama, and told me that he was available that afternoon!

Considerable differences exist between countries even for the process of applying for interviews. Without the help of the American and Korean executives I interviewed, this research would not be complete. I've learned through my research that knowing the cultural differences is a crucial way for success – or not to fail.

For promoting and attracting foreign business, the "from a low place to a higher place" is more business friendly and appropriate sales attitude. "From a high place to a lower place" requires connections, which is often described as Guanxi in China. This approach is often found in countries, which have high collectivism characteristics in their culture and heavy influence of Confucius philosophy, like Korea, China and Japan. "From a high place to a lower place" might be an efficient way to deal with businesses within those countries, but to attract foreign investment from individualism-dominant nations like the U.S., taking the "from a low place to a higher place" approach is more advisable. Not having such a connection should not be an obstacle for foreign investors to invest in South Korea.