Management in Korea

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Overview





- 1. Introduction
- 2. Economic Development
- 3. Leadership & Decision Making
- 4. Human Resource Management
- 5. Corporate Social Responsibility
- 6. Conclusion





■ Learning Objectives

By taking this lecture, you will be able to:

- > Have an overview of the **Korean economy** & its **dynamic economic development**;
- > Understand the specific characteristics of **Korean** management & the cultural background;
- > Identify the major potential strengths & weaknesses of Korean management; &
- > Understand how Korean firms exert **CSR**.





■ Overview of the Korean Economy

Map of Korea Mongolia East Sea (Sea of Korea Japan) Japan SOUTH China East China **Faiwan**

Basic Data (2023)

Area size: 100,363 km².

Population: 51.7 million.

GDP: US\$1.76 trillion.

GDP per capita: US\$34,121.

GDP growth: 1.4%.

Life expectancy: 83 years.

Unemployment rate: 2.7%.

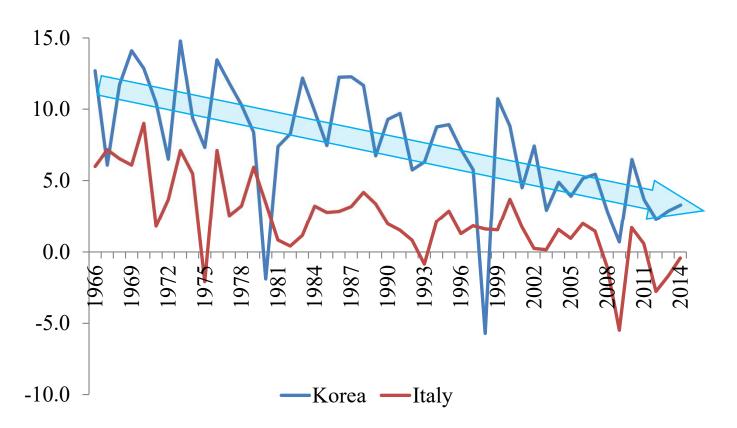
Inflation rate: 2.3%.

Source: World Bank.





- **■** Overview of the Korean Economy
 - **❖GDP** Growth from 1966 to 2014 (Korea vs. Italy)



Source: Own illustration based on the World Bank.





■ Overview of the Korean Economy







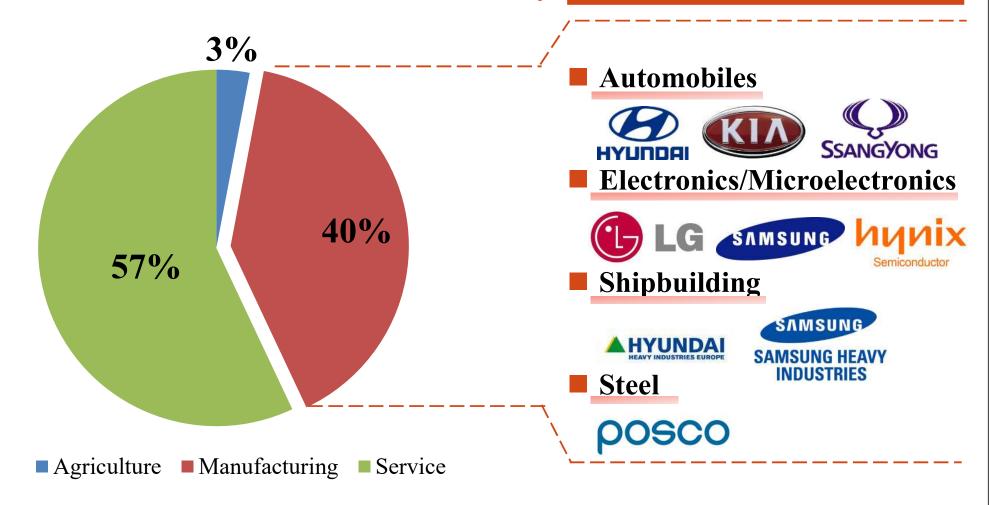






■ Overview of the Korean Economy

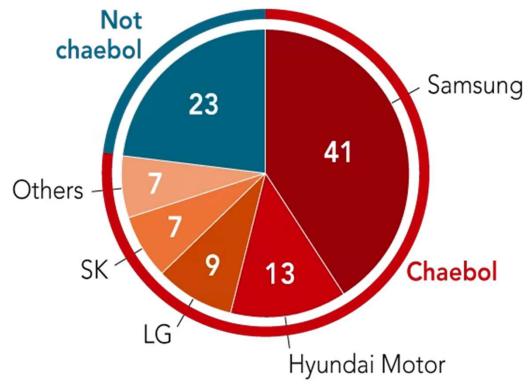
Clear Sectoral Specialization







Chaebol Breakdown of market capitalization of Asia300 companies in South Korea (in percent)



As of end of October

Source: https://asia.nikkei.com/



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■ Rapid Economic Development & High Growth



- > September 30, **1917** October 26, **1979**.
- > ... was a Republic of Korea Army general & the leader.
- > ... seized power through a military coup in 1961.



WHAT did he do?

- > ... concentrated resources in certain industries.
- > ... achieved rapid economic growth through export-oriented industrialization.
- > Technological acquisition via Japanese grants.
- > ... developed heavy industries (steel & shipbuilding) in the 60s.
- > ... then promoted advanced assembly industries (automobiles & consumer electronics) in the 70s.
- > Preferential treatment of certain companies (e.g., import licences, unconditional bank loans).







■ The Emergence of Korean Business Groups

- > The economic & technological development in the 60s & 70s were driven by the leadership of the government.
- > In the early stages, *chaebols* relied strongly on **foreign technology**.
- > From the 1980s, *chaebols* increasingly acquired indigenous technological capabilities through R&D activities.
- > Competitive advantages:



1. Semiconductors



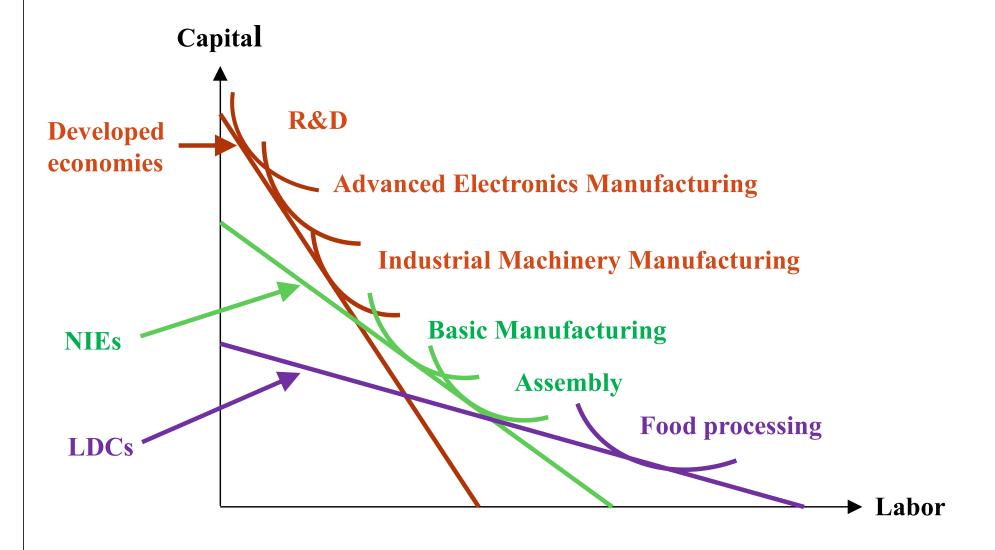
2. Cellular phones



3. Digital TV

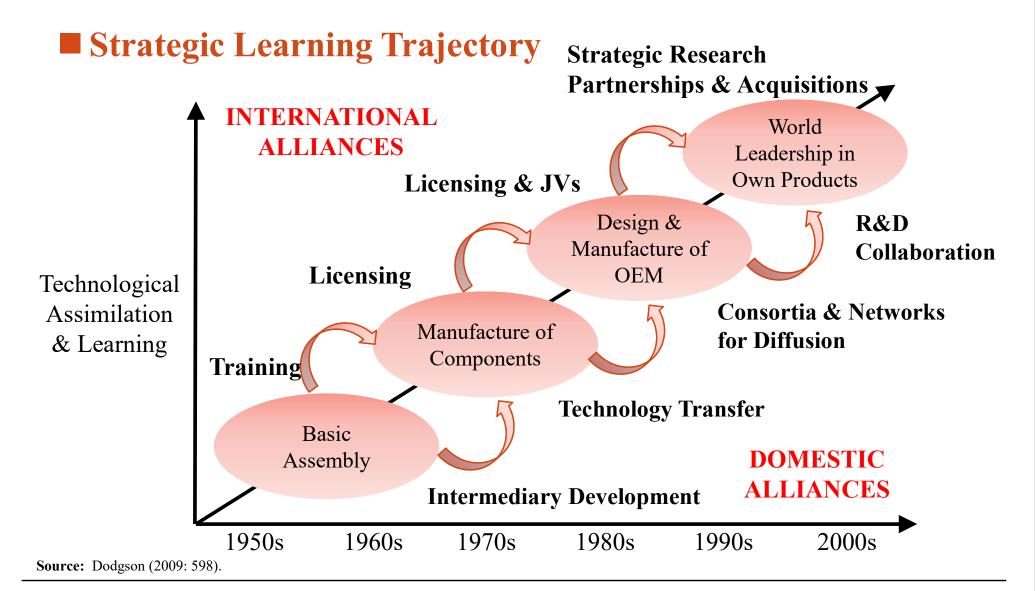
















Developed Economies

Research Development Engineering

Less Developed Economies

Research Development Engineering

Source: Kim (1980) "Stages of Development of Industrial Technology in a Developing Country: A Model", Research Policy, 254-277.





■ Family Business

Chaebol		[A] Founders (Years)	[B] Current Chair (Years)	Relationship of B to A
Samsung	SAMSUNG	Lee Byung-Chull (1938-1987)	Lee Kun-Hee (1987 - present)	Son
Hyundai	НУППОВІ	Chung Ju-Yung (1947-1987)	Chung Mong Koo (2000 - present)	Son
LG	LG	Koo In-Hoe (1931-1969)	Koo Bon-Moo (1995 - present)	Grandson
Daewoo	DAEWOO	Kim Woo-Choong (1967-1999)		
SK	SK	Choi Jong-Keun (1953-1973)	Chey Tae-Won (1998 - present)	Son





■ Family Business

- *What is the image of 'family business'?
 - Conservative management? Risk aversive behavior?
 - Closed? Passive?
 - Caring about 'tradition' & 'succession over many generation'.
 - Less engagement in business diversification & M&As.
- *HOWEVER, entrepreneurship researchers argue as follows:
 - 'Family business' has a full of potential to develop innovative products & solutions & mobilize entrepreneurial capabilities.
 - Family-owned firms have to be <u>committed</u> to constantly <u>introducing new products & services</u> in response to <u>technological</u> <u>changes & competitive pressures rather than staying in a comfort zone.</u>
- **❖Innovation! Innovation! Innovation!**





■ Family Business: Samsung Group

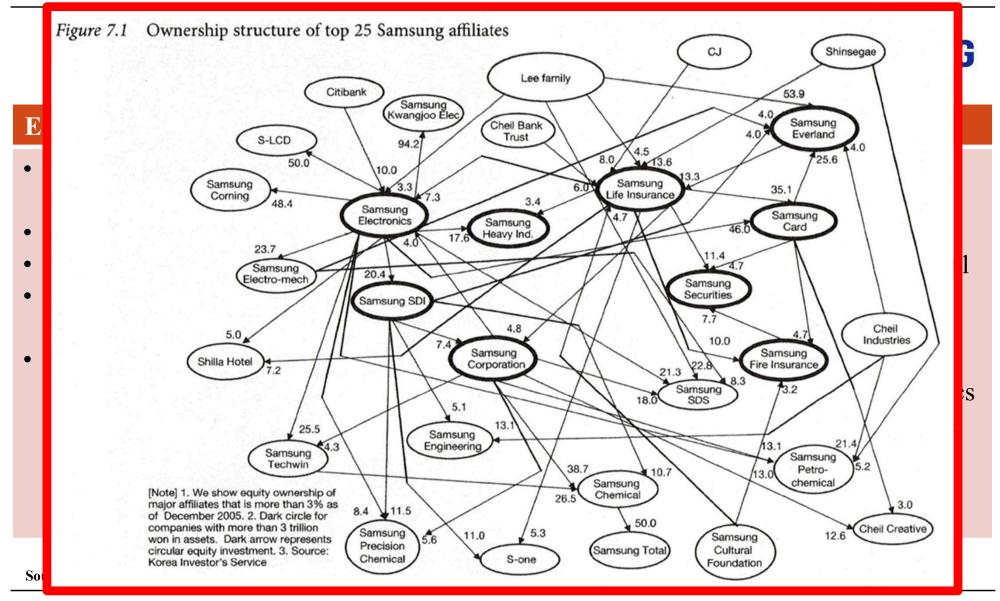
SAMSUNG

Electric/Electronics	Heavy Industry	Finance	Service
 Samsung Electronics Samsung Display Samsung SDI Samsung Electro- Mechanics Samsung SDS 	 Samsung Heavy Industries Samsung Engineering Samsung Construction 	 Samsung Life Insurance Samsung Fire & Marine Insurance Samsung Card Samsung Securities Samsung Asset Management Samsung Venture Investment Corporation 	 Samsung C&T Corporation Siila Hotel Samsung Medical Center Samsung Biologics Samsung Bioepics Sungkyunkawan University

Source: Yun (2017: 68).











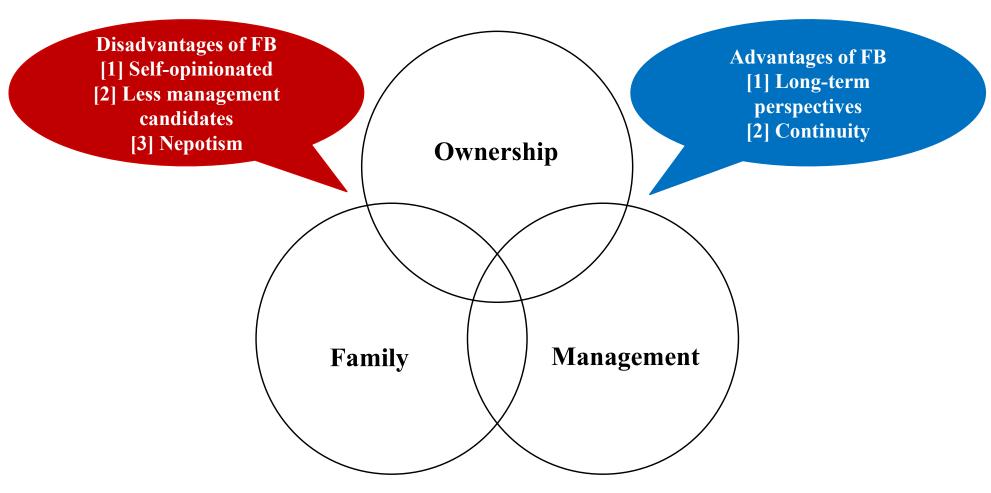
■ Family Business: Business Succession

- **❖**How to increase the permanence of family businesses?
 - Inheriting tradition while innovating as the times change.
- *****How does family-owned innovation happen?
 - In many cases, it is created as a result of business succession.
 - The successor of the family company will reconstruct the company's vision & strategy, aiming for further growth by combining different businesses & by entering new business fields.
 - Innovation does not occur naturally in the family succession process.
 - When companies becomes stable after several generations,
 entrepreneurial mindsets to explore new opportunities may diminish.





■ Family Business: The '3' Circle Model



Source: Tagiuri & Davis (1982).





■ The Financial Crisis of 1997 & Structural Reforms

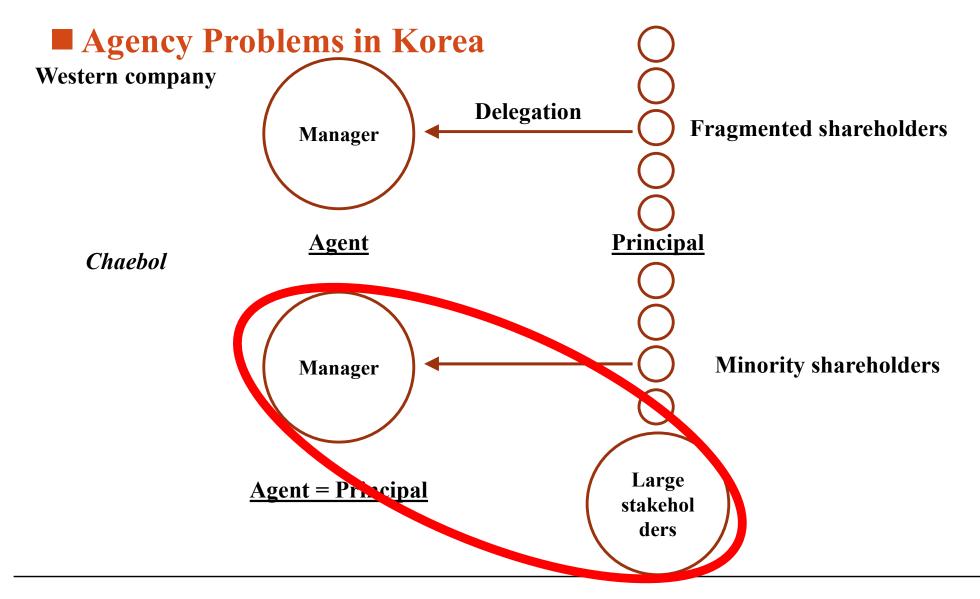
- * The Asian financial crisis of 1997
 - ... **changed** the **business climate** drastically.
 - ... forced the government to seek the **IMF's financial assistance** so as to stay solvent internationally.
 - Foreigners acquired many financially troubled companies.

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(e.g., Philips: <u>LG</u>'s LCD business, Volvo: <u>Samsung</u>'s heavy industry equipment business, Renault: <u>Samsung</u> Motors, GM: <u>Daewoo</u> Motors).
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... put surviving chaebols under pressure to improve transparency
 & accountability & to realize the separation between ownership
 & management (See the next slide).









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Leadership & Decision Making



■ Centralized Planning & Control

- > Chairman's office or planning & coordination office.
- > Reporting information to the chairman.
- > Chairmen make crucial decisions on strategy, HR & budgeting.

■ Entrepreneurial Orientation

- > Aggressive business expansion.
- > Quick & bold decision making.
- > Risk-taking attitudes (*e.g.*, Market entry in emerging markets, debt finance).

■ Ties with the Government

- > Top management position for retired government officials.
- > Mutually beneficial relationship.



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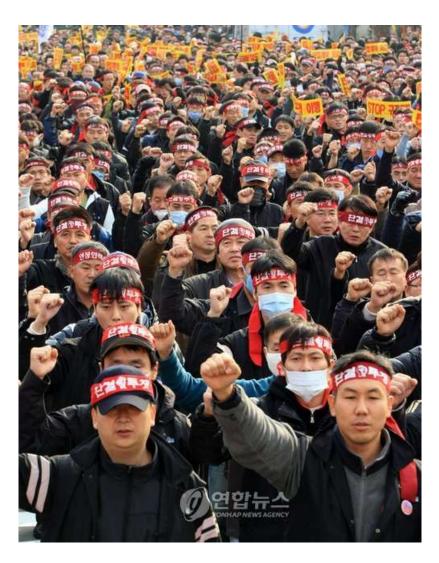


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Human Resource Management





■ Industrial Relations

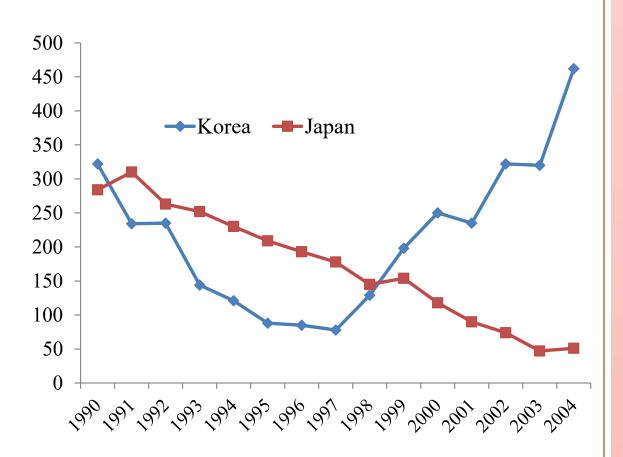
- > Under the **authoritarian regime**, the labor movement was **suppressed**.
- > Non-regular employees: 40%.
- > **Hostile & militant** labor unions.
- > A deep-mistrust between the firms' management & labor representatives.
- Performance-based criteria (↑) →
 Personal networks & social ties (↓)
- > Building peaceful & productive relationships with labor unions as a key challenge!



Human Resource Management



■ Strikes & Lockouts (Unit: number)



Source: Own illustration based on LABORSTA.

COMMENTS

- ★ Labour unions enforced high rates of wage increases, significant reductions of working hours & various other improvements in working conditions.
- ❖ This development has certainly contributed to an improvement in living standards for many Koreans.
- ❖ HOWEVER, it also drove the labour cost for Korean companies & induced them to relocate significant parts of their operations to countries with lower wages like China.



Human Resource Management



■ Recruiting

- > University degrees as a qualification for becoming regular workers.
- > Criteria: University reputation, linguistic ability, & personality.
- > Performance-based criteria (\uparrow), personal networks & social ties (\checkmark).

■ Training & Skill Formation

- > Internal training programmes.
- > Skill enhancement programmes.
- > Work values & attitudes are **individualistic**, though group oriented.

■ Compensation, Promotion & Retirement

- > <u>Performance orientation</u>.
- > <u>Frequent professional mobility</u> as the external job market develops.



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Corporate Social Responsibility



■ Spotlight on CSR

- > Former Chairman, **Ju-yung Chung**.
- > **Hyundai group** to set up a tourist resort in North Korea's Kumgangsan region in the early 1990s.
- > Setting up the **Kaesong** industrial park, a **SEZ** in **North Korea** in **2004**.
- > Not primarily profit seeking.
- > BUT rather intended to improve the political situation on Korean peninsula.









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Summary



■ Key Points

- *Korea is a geographically small country, but a major economic power.
- *The Korean economy is strongly specialized in **specific sectors** (*e.g.*, automobiles, electronics, microelectronics, telecommunications, steel & shipbuilding).
- Highly diversified business groups (chaebol) are key players.
- ❖ The Korean management style is based on Confucianism.
- Centralization of power, top-down management, patenalistic.
- *Less separation between ownership & management.
- **Large corporate donations** to society.



Suh & Howard (2009).

"Restructuring Retailing in Korea: The Case of Samsung-Tesco", *Asia Pacific Business Review*, 15(1), 29-40.

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The Case of Samsung-Tesco



Discussions

- 1. What is the **major argument** of his article?
- 2. Clarify why this article is important.
- 3. What studies have been done by other scholars in accordance with the literature survey section (pp. 30-31)?
- 4. What characterizes **Korea's retail market**?
- 5. Interpret the key elements in **Tables 1, 2 & 3** using your own words with clarity.
- 6. Explain exactly what **strategies** Samsung-Tesco have designed & executed. What was the **performance outcome** of this joint venture?
- 7. Suggest what **prospective foreign investors** who aim to enter the **Korean retail market** should do & should not do.



The End of Today's Lecture



ご清聴有難う御座いました。
Thank you so much!
Vielen Dank für Ihre Aufmerksamkeit!
Grazie mille!

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