


Management in Korea

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-  **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



Basic Data (2020)

Area size: 100,363 km².

Population: 51.8 million.

GDP: US\$1.64 trillion.

GDP per capita: US\$31,597.

GDP growth: -0.9%.

Life expectancy: 83 years.

Unemployment rate: 3.5%.

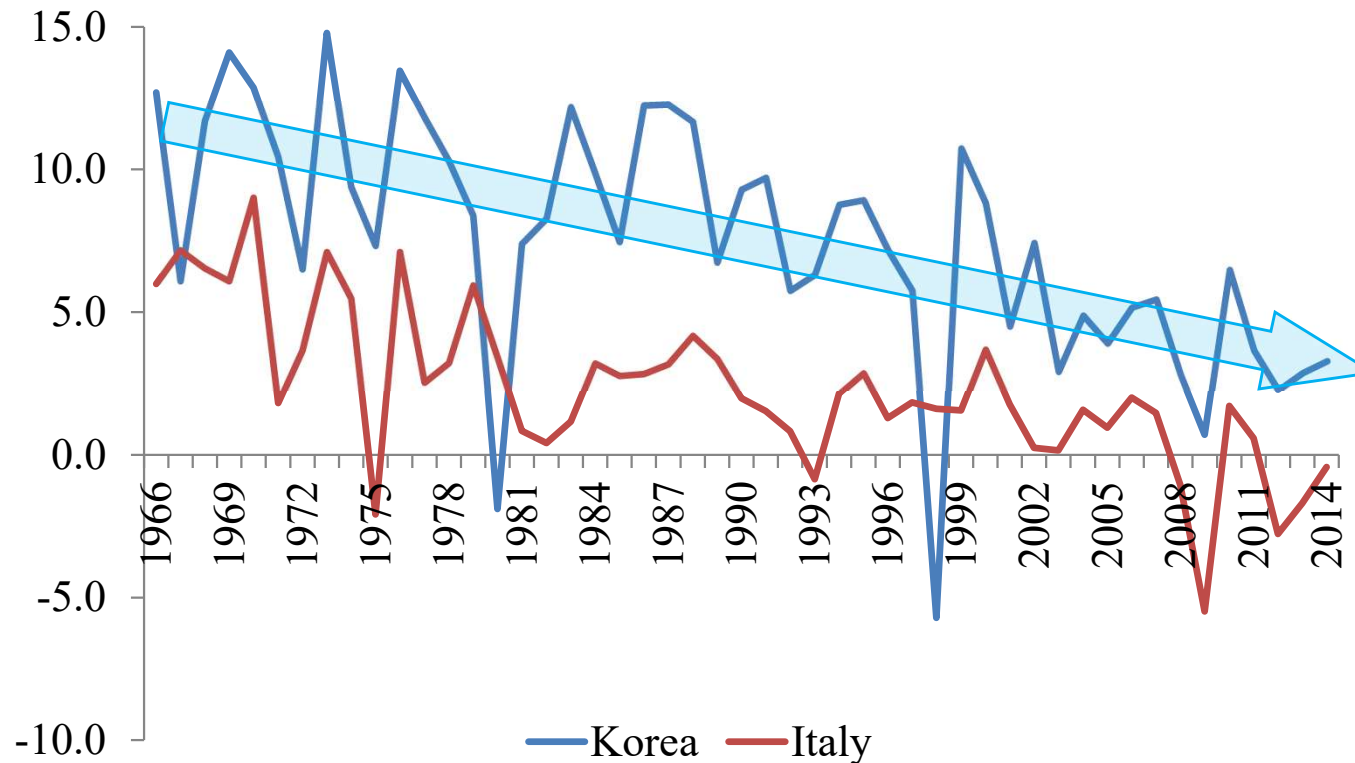
Inflation rate: 2.5%.

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

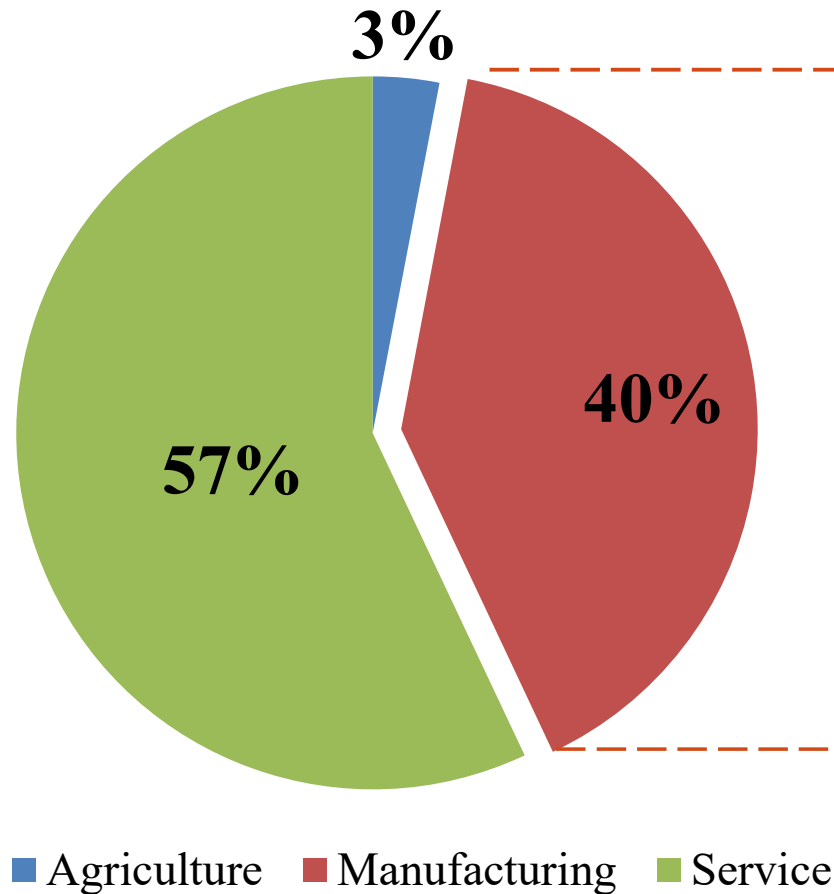


Introduction



■ Overview of the Korean Economy

Clear Sectoral Specialization



■ Automobiles



■ Electronics/Microelectronics



■ Shipbuilding



■ Steel

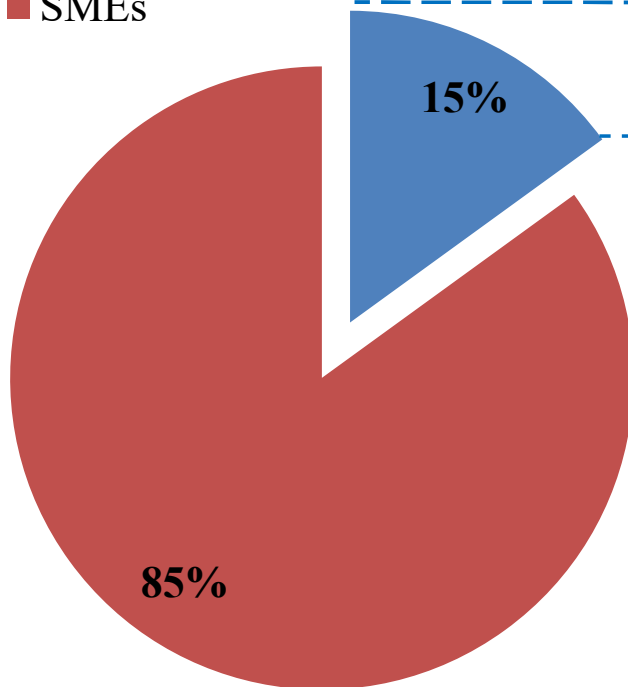


Introduction



Overview of the Korean Economy

- Large firms
- SMEs



Business Groups (*Chaebols*)



> *Chaebols* traditionally dominate the export oriented industries & possess international competitiveness whilst SMEs are more focused on domestic business activities.

Introduction



■ Chaebol Top 5

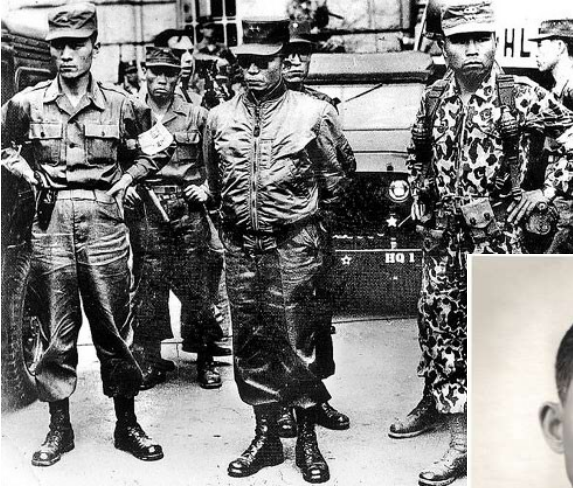




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■ Rapid Economic Development & High Growth



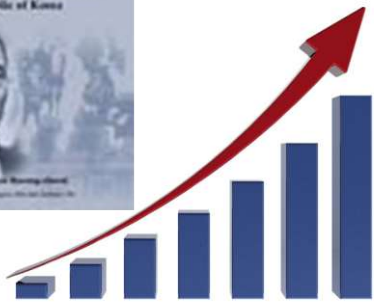
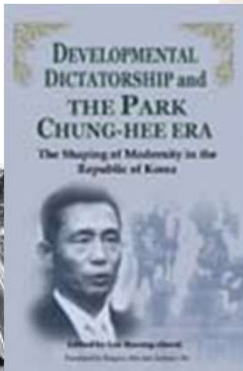
WHO is Chung-Hee Park?

- > 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).

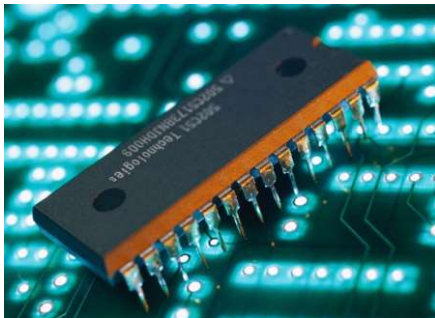


GDP per capita: \$91 (1961)→\$1,746 (1979)



■ 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

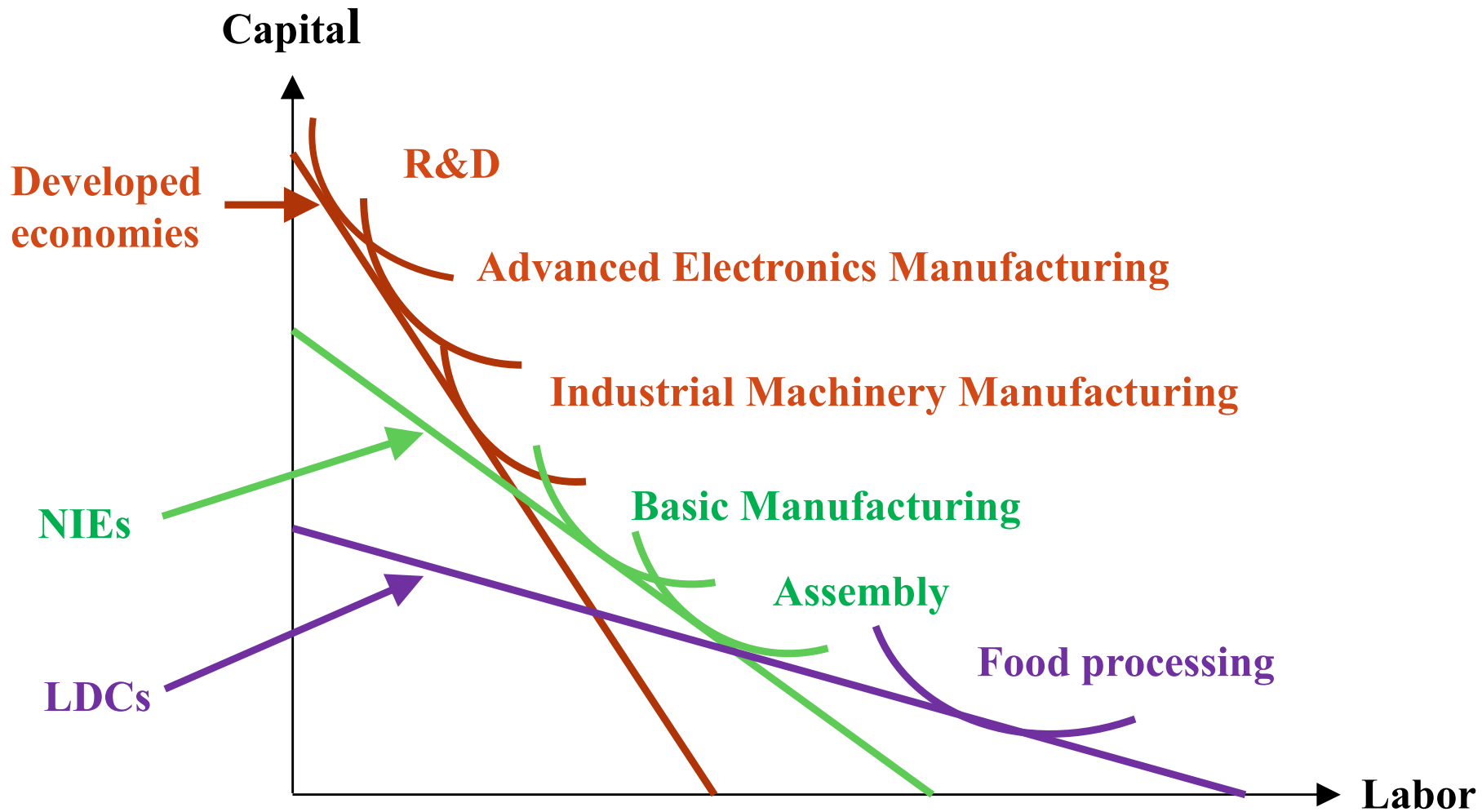


2. Cellular phones



3. Digital TV

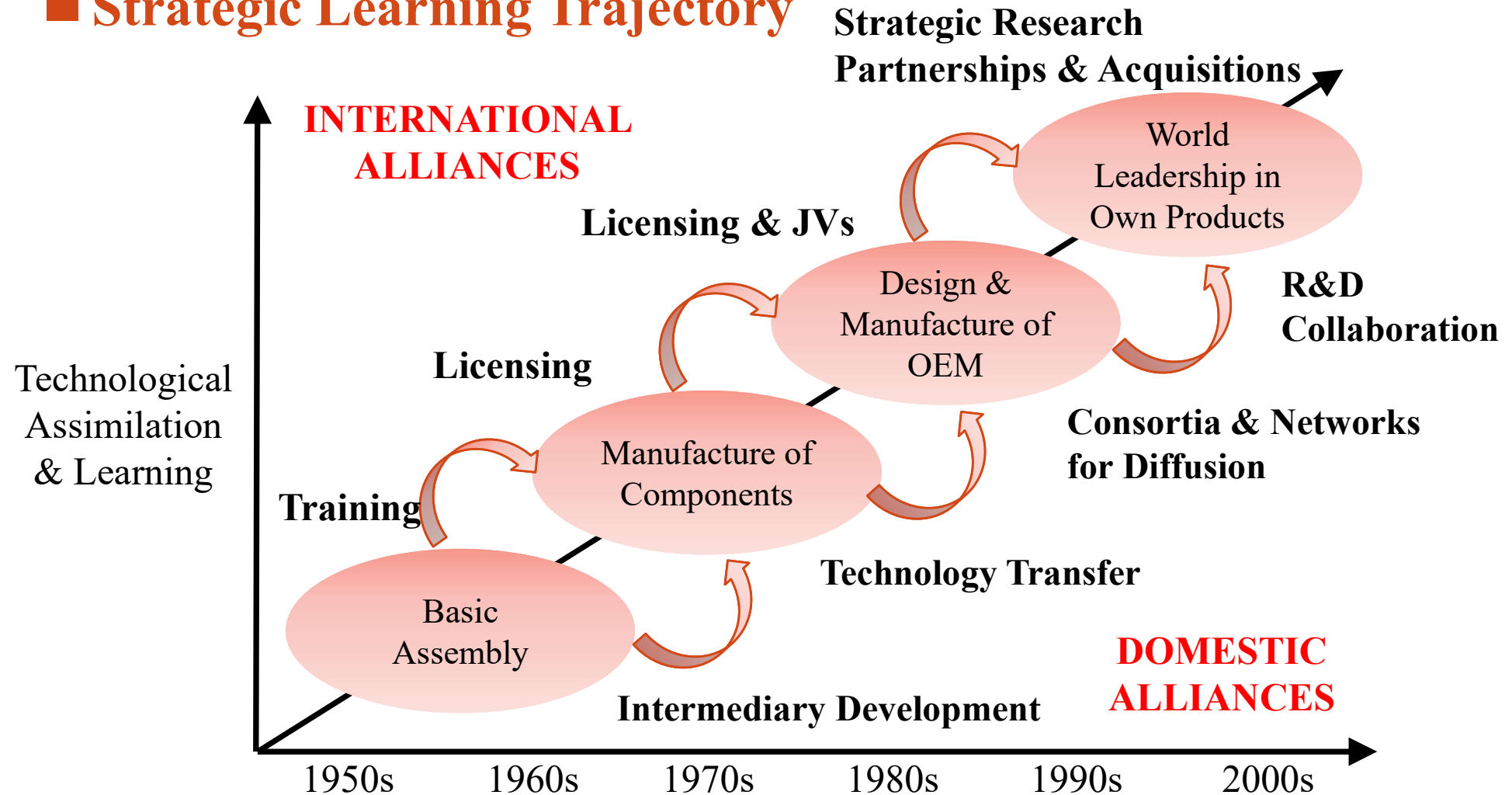
Economic Development



Economic Development



Strategic Learning Trajectory



Source: Dodgson (2009: 598).

Economic Development



Developed Economies



Less Developed Economies








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

Economic Development



■ Family Business

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



■ Family Business

❖ What is the image of ‘family business’?

- Conservative management? Risk averse behavior?
- Closed? Passive?
- Caring about ‘tradition’ & ‘succession over many generation’.
- Less engagement in business diversification & M&As.

❖ **HOWEVER**, entrepreneurship researchers argue as follows:

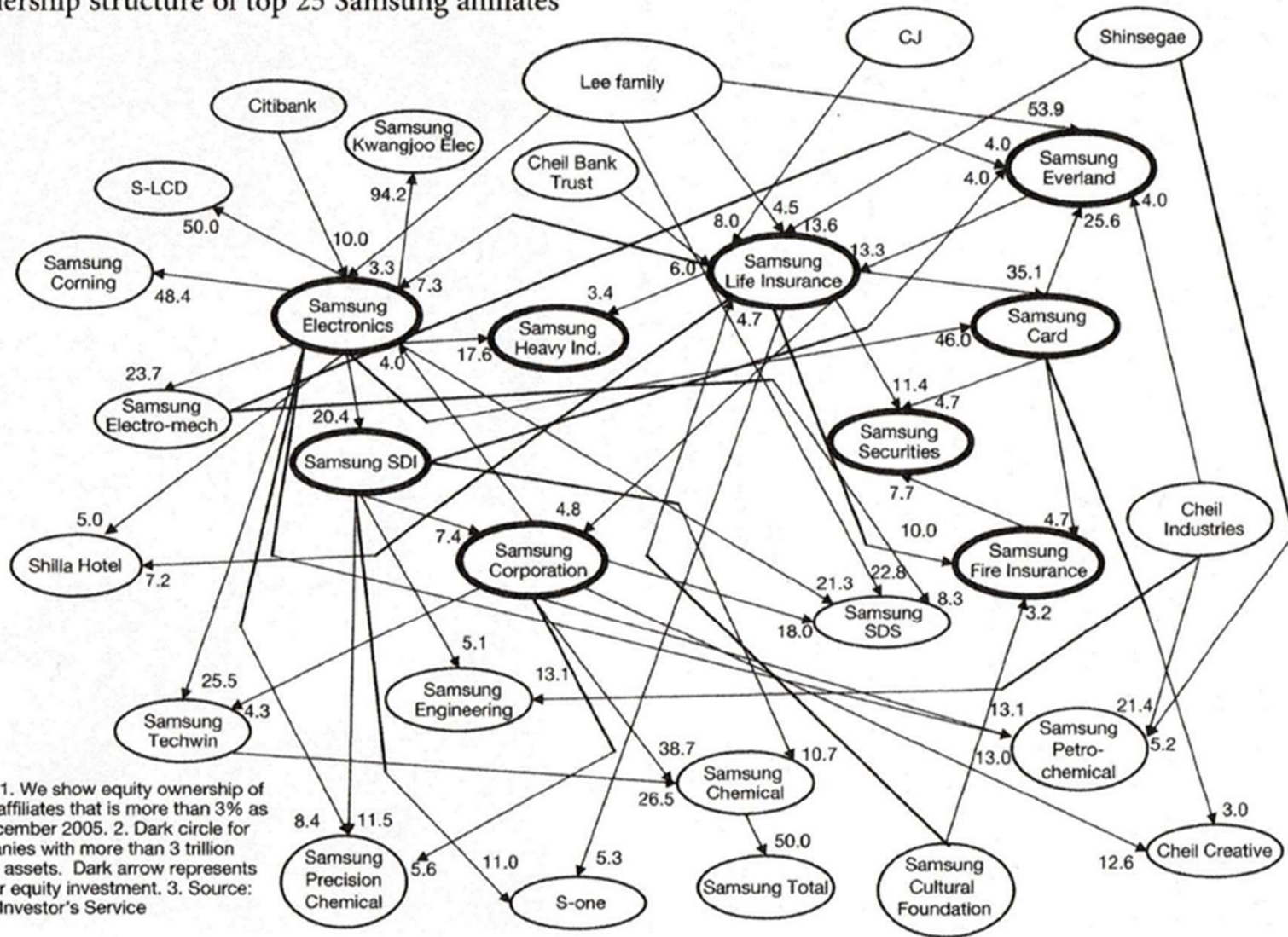
- ‘Family business’ has a full of potential to develop innovative products & solutions & mobilize entrepreneurial capabilities.
- Family-owned firms have to be committed to constantly introducing new products & services in response to technological changes & competitive pressures rather than staying in a comfort zone.

❖ **Innovation ! Innovation ! Innovation !**

Economic Development



Figure 7.1 Ownership structure of top 25 Samsung affiliates





■ Family Business: Business Succession

❖ How to increase the permanence of family businesses?

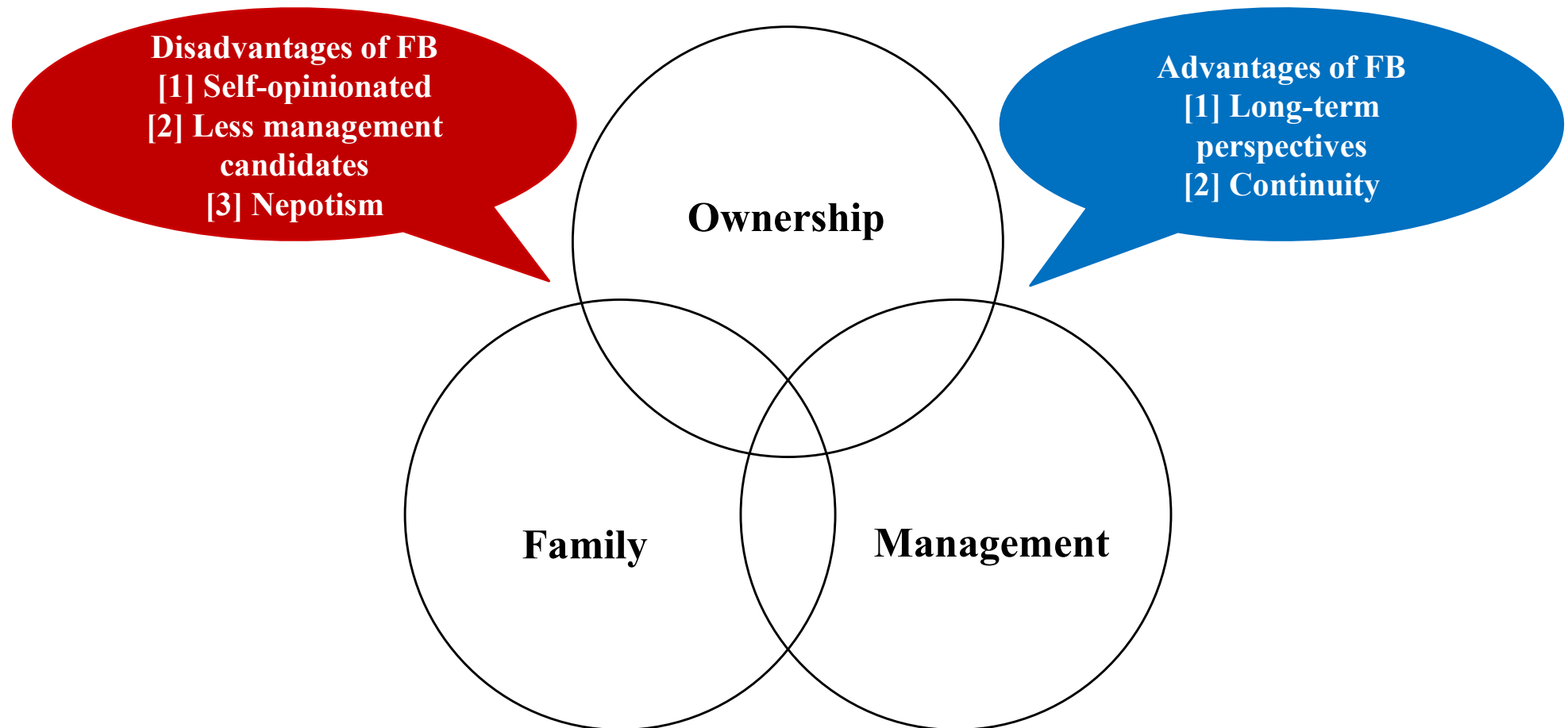
- Inheriting **tradition** while **innovating** as the times change.

❖ 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.

(e.g., Philips: **LG**'s LCD business, Volvo: **Samsung**'s heavy industry equipment business, Renault: **Samsung** Motors, GM: **Daewoo** Motors).

- ... put surviving *chaebols* under pressure to improve **transparency & accountability** & to realize **the separation between ownership & management** (See the next slide).

Economic Development



■ Agency Problems in Korea

Western company



Delegation



Fragmented shareholders

Agent

Principal

Chaebol



←



Minority shareholders

Agent = Principal





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■ 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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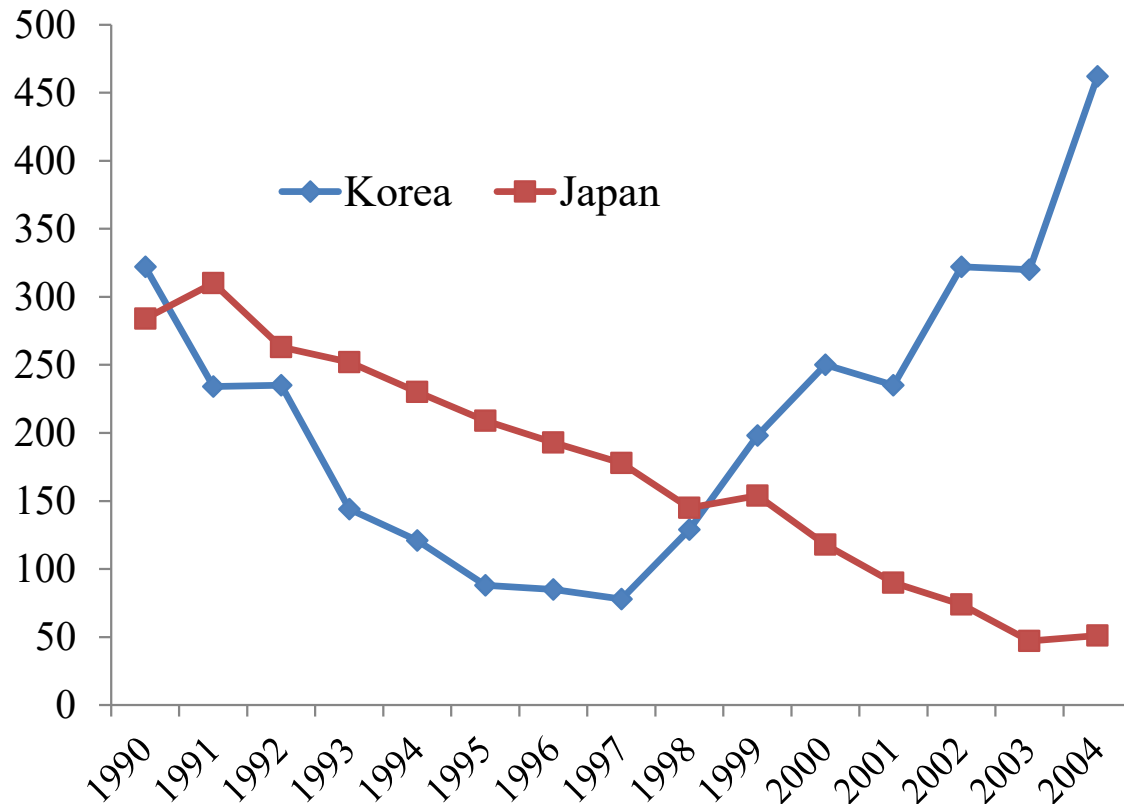
■ Industrial Relations

- > 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**.



■ Recruiting

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

■ Training & Skill Formation

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

■ Compensation, Promotion & Retirement

- > Performance orientation.
- > Frequent professional mobility 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 Kungangsan 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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■ 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, **paternalistic**.
- ❖ **Less separation** between ownership & management.
- ❖ **Large corporate donations** to society.