MANAGEMENT TRANSITION IN SOUTH KOREA: A Case Study

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ABSTRACT

South Korea management system has been influenced significantly by their traditional social and religious beliefs for hundreds of years. Yet, the 1997 Asian financial crisis has gradually confirmed this shifted, from the Confucius mentality to a close Westernized system. This paper aims to evaluate this management transition in South Korea. The theoretical model of the convergent-divergent, as proposed by Chatterjee and Nankervis [2006], is applied to identify a number of critical factors. The aforementioned factors altogether have influenced the management system in four main vectors: (A) From seniority to meritocracy performance management; (B) From consultative to individualistic decision-making style; (C) From ignoring to embracing corporate governance; (D) From avoiding to improving environmental sustainability.

Keywords: South Korea, Transition Management, Convergent-Divergent model.

RESUMO

A Coréia do Sul, juntamente com HongKong, Singapura e Taiwan, é conhecido como os quatro tigres asiáticos e seu sistema de gestão tem sido influenciado significativamente pelas suas tradicionais crenças sociais e religiosas. A crise asiática de 1997 confirmou esta mudança da mentalidade de Confúcio a um sistema ocidentalizado. Com a mudança de política do governo, abrindo o mercado e baixando as barreiras comerciais para atrair o investimento estrangeiro direto (IED), o actual sistema de gestão tem evoluído por uma série de factores variados, incluindo a consciência étnica, social e ambiental, bem como a cultura gerencial estrangeira. Este trabalho visa avaliar essa transição de gestão na Coréia do Sul. O modelo teórico convergente-divergente, como proposto por Chatterjee e Nankervis [2006], é aplicado para identificar uma série de factores críticos, permitindo examinar essa mudança de estilo de gestão das empresas sul-coreanas. Essas incluem a política do governo, o sistema de Confúcio religioso tradicional, o rápido aumento das multinacionais através do IED, liberalização do mercado e uma maior sensibilização do público coreano sobre os desafios sociais e ambientais. Estes factores tem influenciado o sistema de gestão em quatro vectores principais: (A) Da antiguidade para a gestão do desempenho por mérito; (B) Da gestão consultiva à tomada de decisão individualista; (C) Da capacidade de ignorar a abraçar a governança corporativa; (D) Da ignorância à melhoria da sustentabilidade ambiental. Assim, esta análise permitirá aos gestores estrangeiros obter uma melhor compreensão do sistema de gestão actual, sendo esta capaz de lidar com as diferenças de gestão, um dos factores-chave no sucesso da actual Coréia do Sul.

Palavras-chave: Coreia do Sul, Gestão de transição, Modelo convergente-divergente.
1. INTRODUCTION

The Republic of South Korea is Asia's fourth largest economy. It is also the world's twelfth largest economy in terms of purchasing power parity [South Korea, 2011]. With extremely limited natural resources available in the country, the major driver of South Korea's economy is the production of consumer electronics, automobiles, ships, machinery, petrochemicals and robotics [South Korea, 2011]. South Korea is known as one of the four Asian Tigers and it is the sixth largest exporter in the world as of 2010 [Economy of South Korea, 2011]. With its low state debt and high fiscal reserves that can be mobilized to address financial emergencies, South Korea was one of the few developed countries that was able to avoid recession during the global financial crisis dated back in 2008 [Economy of South Korea, 2011].

![Map of South Korea](image)

**Figure 1.** Map of South Korea [World Atlas, 2011]

While South Korea is highly developed and globalized in terms of its economy, the management culture of this country remains largely traditional and unique to Korean culture, despite the fact that it shares certain similarities to Japanese and Chinese management practices [Yap, 2010]. For instance, Koreans employ a process of group decision-making system that is similar to the system of nemawashi (building consensus is a slow process, but it’s necessary to get everybody on board before taking a decision. Otherwise, the implementation will be delayed) [South Korea Management Style, 2011]. In addition, unlike Western cultures who work in a separated quite clearly from one's private life, Koreans take a more active and greater interest in the involvement of one’s personal life [South Korea Management Style, 2011].

The Korean culture advocates the idea of strict obedience and emphasizes the harmony necessary among people in the same ranking. Such ideas, known as the forces of heritage, have penetrated into Korea's management practices and processes for a long time. Koreans expect obedience and loyalty, particularly between management-subordinate relationships. In return, management is expected to demonstrate help and full support at all times.

South Korea is one of the largest economies in the world, with emerging potential for further growth [Library of Congress, 2005]. Korean enterprises are expanding their footprints across the globe. It is, therefore, important to understand how their management system operates which is very unique and different from the Western philosophy. In addition, due to historical and geographical reasons, South Korea's management culture shares and interacts dynamically with Japanese and Chinese business and culture system.

Yet, the degree of exposure to Western management style is becoming a major input to the convergence-divergence puzzle within Asian countries. For Chatterjee and Nankervis [2006], as different countries have diverse experiences and levels of adoption to the Western
management, several levels of cultures and processes management can be found. Meanwhile, the Asian Value movement (introduced by the Asian countries since the last decade) was an attempt by these countries to resist somehow to Western influences and to replace them with traditional values. Nevertheless, the movement was put on hold after the last Asian economic crisis. These countries developed an increasing dependence on global institutions, such as the World Bank (WB) and the World Trade Organization (WTO). These dependences have been forcing these countries to adapt into the Western style financial system in order to restore investor confidence [Chatterjee and Nankervis, 2006].

Despite the abovementioned factors that move countries towards globalization, traditional social and managerial values such as guanxi, mianxi, national and regional networking, remain firmly attached to many organizations. It is increasingly obvious that foreign organizations, wishing to conduct business and penetrate into local markets, must understand and be willing to apply these traditional values. Therefore, the management approach ought to adapt them in order to reflect local traditions, the ‘think global, act local’ motto. As well, social responsibility and ethical sustainability exhibits interaction among global, regional, national and local factors. While Asian countries have strong traditions of family values and respect for the elders, the Western values has being an essential role in improving these countries global competitiveness, particularly in the gradual reduction aberrations such as corruption [Chatterjee and Nankervis, 2006].

![Figure 2. The overall Convergent-Divergent model for Asia management.](image-url)
One eminent way to model this interactive and complex paradigm relies on the convergent-divergent framework. It attempts to address how management styles and processes is influenced by prevailing and countervailing forces, which contribute to the connection and discrepancy impacts on regional, societal and organizational level dynamism. This architecture suggests that while Asian countries share similar backgrounds in terms of history, society, culture, geopolitics and economy, it holds internal differences ranging from linguist, ideological and ethnic to socio-cultural values. This model further argues that it is the complexity and combination of these homogeneity/heterogeneity aspects that has led the present region to evolve both convergent and divergent managerial styles, processes and practices [Chatterjee and Nankervis, 2006]. According to both authors, it can be found the next three perspectives:

- **Macro-level**: Global imperatives (push factor) advocates universal, standardized managerial approach in order to achieve the highest possible efficiency and flexibility (the convergent management element). On the other hand, the heritage force (pull factor) constrains the global imperatives in an opposite way. Figure 1 illustrates that global imperatives are constituted by a number of interrelated elements, including global capability and vision, economic dependence and interdependence, sources of competitive strengths and weaknesses, social constraints and sustainability and national competitive strength. Meanwhile, the forces of heritage include regional characteristics which affect, in both positive and negative way, Asian countries to adopt global management practices and processes (key socio-cultural factors, ideological orientation, unique values, benefits and assumptions, institutional legacy and economic micro-environment).

- **Meso-level**: The present model suggests that the interaction between global and regional imperatives (heritage forces) dynamically influence any country. These interactions are influenced by the contemporary social context. At this societal-level, global imperatives continuously influence traditional forces by applying a globalized management approach. At the same time, traditional forces resist, modify and transform global imperatives. The result of this interacting process is a combination of global and traditional influences, instead of replacing one by another. As a result, Asian countries exhibit certain evidence of globalization while still retaining a number of traditional characteristics as societies develop.

- **Micro-level**: It concerns how an organization is designed and structured (business strategies, relationships with inside personnel, business partners and communities) and how macro and societal-level forces interact and influence each other. This discrepancy-junction dichotomy behavior holds major consequences at geographical, historical, political, social, cultural and industrial backgrounds. This leads to an adjustment situation of global and traditional imperatives by a number of factors, including quality control, marketing strategies, management styles, employment conditions, dependence on ownership, location and nature of products and services.

2. **REGIONAL IMPERATIVES**

Concerning language factors, the influence of China on Korea’s culture is major in the sense that the Chinese characters were used exclusively by Korea until the middle of the 15th century. By nature, Koreans are very family-oriented, stressing piety to parents more than piety to anything else [Hirschmeier & Yui, 1981]. Once again, this social behavior was influenced by Confucianism, originated in China. Korean families maintain strong ties among family members who share the same understanding and objective of preserving family traditions and enhancing their family prestige through working successfully in business. With the strong belief of blood-based succession, most Koreans manage their businesses by the family members, irrespective of the business size [Tan, 2008]. The business is inherited by the oldest son of a family, who in turn manages and maintains control of it.

When the Japanese colonized Korea during World War II, the Japanese values and influences were brought to Korea, as well. There are certain evidences of Japanese influences on Korean social and cultural beliefs. One of these would be the stress of harmony. Instead of individualism and competition, which are widely utilized in the
Western world, Koreans inherit the Japanese beliefs that it is critical to the business success, to create and maintain a harmonic environment between people of the same rank, as well as between superior and subordinates [Chang & Chang, 1994]. The Japanese nemawashi framework, where decisions are to be made in consensus, has also affected Korean's beliefs. A decision is not to be made by an individual. Instead, a proposal is being prepared and circulated where every individual reviews and expresses his views. The proposal will be revised until a common ground among reviewers is made available [Martinsons, 2001]. Another close concept of the consensus decision-making is if not everyone is satisfied with the final decision, as compromises have to be made to find common denominators. However, once a decision is made, everyone has an obligation to follow the decision and implement it to his or her best capability for the best benefit of the organization [Martinsons, 2001].

Education is strongly stressed in Korean culture as a direct result of Confucianism’s influences. Korea is an education-oriented society where Koreans believe that their career success is directly related to their level of educational mentality. In addition, the Confucianism beliefs lead the Korean society to show great respect to scholars [Li, 2005]. The significance of education can also be evidenced by how it improves a person’s social class. The society classifies a citizen with one of the four social classes: sa, nong, kong and sang. One can improve his social class by passing a civil service examination to become a civil servant. Once a person passes the exam and becomes a civil servant, he or she will be on sa, the top social class, and enjoy all the privileges and status associated with this social rank [Chang & Chang, 1994].

3. BUILDING THE FOUNDATION

During the 1960s (when the illiteracy ratio was at 27.9%), the objective of human resource development was to decrease illiteracy and establish a national infrastructure [Yang et al., 2006]. In the 1970s, the major driving force of the government development was shifted to heavy industries such as chemicals and shipbuilding while the country was in the need of personnel with quality technical knowledge. Therefore, the knowledge development of that period focused on increasing vocational training and increasing engineering on major college graduates [Suh et al., 2007].

Starting in the 1980s, the development goal of the Korean government had extended to expanding technology-intensive industries such as consumer electronics and automobiles. Naturally, the focus of human skill development, at that period, was on expanding and improving the quality of higher education systems. There was an increasing number of research and development (R&D) centers, both public and private, established in the country to support the technology development and help build a global information infrastructure [Suh et al., 2007].

From the 1990s onwards, the high-technology innovation driven by the government had promoted more R&D programs on highly advanced technologies in the areas of information technology (IT) and biotechnology. Policies for the development of highly-skilled human resources in these fields were put into place to facilitate and cope with the need of personnel with specialized skills [Powell & Lindsay, 2010].

From the history of human resource development, it can be observed that Korea has always been a knowledge-based economy and that education and human resources have been key factors to Korea’s rapid economic growth over the past decades. It is not difficult to understand that this country is focused on developing science and technology personnel due to its economic structure. Subjects, including mathematics and science, are stressed in the Korean educational system while Korean students are ranked amongst the best in the world on these subjects. Korea ranked third for mathematics and fourth for science, out of 40 countries, included in the OECD’s Program for International Student Assessment (PISA) 2003 survey [OECD, 2004].
4. KOREAN MANAGERIAL CULTURE: The Hofstede Perspective

Geert Hofstede developed a national culture model which differentiates cultures by an assortment of dimensions, including Power Distance (PDI), Individualism VS Collectivism (IDV), Masculinity VS Femininity (MAS), Uncertainty Avoidance (UAI) and Long-Term Orientation (LTO). This Korean’s culture dimensions understanding will provide insights of the country’s managerial culture [ITIM International, 2009]. For comparison purposes, the Hofstede’s five cultural dimension scores for the United States, as well as the world average, will be presented next.

![Hofstede Cultural Dimensions](image)

The low Korean scores on the IDV index indicate that its culture is highly collaborated. Koreans are more comfortable in groups and, in general, the larger the group, the more comfortable they feel. Actions are taken in groups and so does responsibility. Team members are expected to be loyal to the group and to sacrifice personal interests, provided that such sacrifice is beneficial to the interest of the group. Individualism is not encouraged and achievements are to the group, not to any individual [Hofstede, 2009].
The same pattern can be found with the MAS index, which indicates that Korean culture is more nurturing instead of assertive. In other words, Koreans value personal relationships and quality of life more than competition, results, and performance. Self-promotion is not allowed in Korean culture [Scholes, 2003].

Yet, Korea is ranked quite high on Hofstede’s UAT index. This indicates that risk tolerance is low facing uncertainty. Koreans are comfortable with a predictable and familiar environment. In order to minimize uncertainty, rules, policies, and regulations are strictly adopted so that outcomes can be controlled [ITIM International, 2009].

Korea scores 60 on the PDI index, which is a high value when compared to that of Western countries. It reveals that this culture accepts the differences between classes while inequalities are being taken for granted. In a corporation, employees will rely on instructions from the management and will not feel comfortable working autonomously and making decisions on projects [Self et al., 2010].

At last, Korea is ranked high on the LTO index, underlining that this culture cherishes a long-term relationship instead of a short-term (‘make a quick buck and exit’) philosophy. Negotiations are expected to take longer for a higher LTO index cultures than lower LTO cultures. On top, Koreans may spend longer time by establishing a relationship before actually conducting business, as compared to lower LTO cultures [Scholes, 2003].

In short, Korea is categorized by large power distance, authoritarianism, collectivism, communitarians and strong uncertainty avoidance. Authority is concentrated at senior levels of the company. Hierarchical structure is tall and complex and decisions are mostly made by those who are on top of the organization chart [O’Kane, 2004]. As a consequence of this centralized, top-down and formal communication (along vertical hierarchies), managers give directives while subordinates carry them out. As a result, Koreans attach higher importance to upward communication on hierarchical lines rather than to communication on those horizontally [Self et al., 2010].

5. THE 1997 FINANCIAL CRISIS

The South Korea economy is mainly driven by international trade, particularly in the areas of automobile and high technology products, such as semiconductors and electronics [Kim & Kim, 2009]. In 2010, South Korea was the sixth largest exporter and tenth largest importer in the world [World Factbook, 2011]. The stability of the country’s economy is largely contributed to by its low state debt and high fiscal reserves. This financial condition is a result of a series of economy reforms such as Financial Sector Reform, Banking Sector Reform, Electricity Sector Reform and Structural Reform that the Korean government underwent after the 1997 Asian economy crisis [AsianInfo, 2010].

The automobile industry has grown significantly and become the country’s major export industry since the 1980’s. The largest importer of Korean passenger cars is the United States, while a considerable amount of sales also occurs domestically. On the other hand, the production and export of semiconductors, computer displays and electronics, are also critical pillars of the economy since the 1990s [Kim & Kim, 2009].

Despite a strong and liberalized import market, the agricultural market has remained largely protected due to serious price gaps between domestic and imported products, such as rice. It was generally feared that liberalizing the agricultural market could have disastrous effects upon the country’s agricultural sector. However, an agreement was reached with WTO in which South Korea must fully open its rice market by 2014 [Lee & Lee, 2009].

The 1997 Asian financial crisis had pushed the South Korea economy to the edge of collapse. The won depreciated heavily and the country’s foreign reserves went nearly

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depleted [Koo & Kiser, 2001]. The crisis exposed longstanding weaknesses and vulnerabilities of South Korea’s development process. These weaknesses included high debt/equity ratio, overly short-term oriented external debt structure and insufficient foreign exchange reserves [AsianInfo, 2010]. In addition, Korean Chaebol (global multinationals owning numerous international enterprises), for the past three decades, maintained a close relationship with the government and often engaged in government projects. Their main objective was to expand in size by financing with debt. However, the 1997 crisis had severely damaged these firm’s profits, causing them to be unable to pay back their bank loans, eventually dragging down the banks. The highly leveraged corporate financial structure caused banks to bankrupt during the financial crisis, reflected on the financial sector weakening [Hyun, 1999]. According to Hiraga [2009], these corporate governance issues can be summarized as below:

- Concentration of corporate ownership - The high level of internal ownership caused management to make reckless, immoral or even illegal decisions.
- Lack of transparency - Since Chaebol owners made internal management decisions, it became difficult for an outsider to understand the rationale behind such business activities and decisions made [Hyun, 1999].
- Lack of supervision from financial institutions - Financial institutions failed to actively monitor debtors in commensurate with their exposures [Hyun, 1999].
- Limited existence of foreign investment - The deficiency in foreign direct investment is a direct result of the way Chaebol is organized. Without foreign investment, there would be no external governance agent that participated in the management decision process [Yanagimachi, 2004].
- Unreliable financial reporting - The complexity of Chaebol and its affiliates had made assessing the true financial position extremely complicated. In addition, the Korean “General Accepted Accounting Practices” (GAAP) was not in line with the international accounting standard [Yanagimachi, 2004].

As a response to this economic situation, the Korean government underwent a series of economic structural reforms in finance, corporate governance, labor, liberalization and public sector [AsianInfo, 2010]. A series of corporate governance reforms was undertaken by the Korean government after the financial crisis in order to meet IMF and World Bank requirements, as well as an attempt to regain investors’ confidence of the country economy system [Michel, 2009]. As a result, former Korean president, Kim Dae-Jung, initiated the ‘5+3 principles’, in 1998, which addressed the Korean corporate governance weaknesses. These reforms included the following:

- Enhancement in management transparency: Corporations must produce combined financial statements by indicating all financial transactions to their affiliates. In addition, the GAAP standard has been revised to be more in line with international accounting standards [Hiraga, 2009].
- Improvement in accountability of board of directors: All listed companies are required to appoint outside directors that are, at least, 50% of the total board members. In addition, an audit committee, comprising at least two-thirds of outside directors, must be formed for listed companies [Jung & Ching, 2005].
- Power limitation of liabilities to eliminate the chairman’s office, which is essentially the management hub of Chaebol. Besides, shadow directors are now considered to have the same liabilities as properly appointed directors [Hiraga, 2009].
- Disclosure enhancement: A quarterly reporting of financial information became a requirement for all listed corporations. In addition, the sanction for disclosure violation has been strengthened [Hiraga, 2009].
- Shareholding requirement: To protect minority shareholder rights, the threshold for submitting shareholder proposals and board members dismissal has been lowered to 0.5% and 0.25% of the total board members, respectively [Jung & Ching, 2005].

This regulation of the Korean society can be viewed at both micro and macro levels. On domestic level, the government’s intervention can take various forms, such as price control, industrial and financial policy. The Korean government had a long tradition of being involved in the decision-making process of private enterprises and had taken part in
starting any kind of investments by private firms. The government has all the power to allocate funds and control over interest rates as a measure of intervening the development of certain industries or enterprises [White, 1988].

On the macro level, the government’s intervention can be checked in various ways, from intervention in trade, foreign exchange, foreign banks and technology transfer. For instance, the Korean government has adopted a protectionist policy towards foreign goods import by imposing restrictions such as tariffs, licensing and inspection requirements. In addition, the government does not have a friendly attitude towards foreign firms and wants to get involved in every type of foreign firms investment. The intervention of Korean government in the foreign firms ranges from local participation to product specification technology transfer. The result of this active government intervention is that Korea has the lowest share of wholly owned subsidiaries among East Asian countries [White, 1988].

The heavy intervention policy has its up and down sides. As the country has limited availability of resources, the government has decided to focus its support and resource allocation to a few and selected large producers in order to maximize economic benefits. However, concentration of economic power in the hands of a few private enterprises is highly undesirable for distributive equity [Park, 1990]. An example of this corporate governance reform can be exemplified by the LG Group. Being the fifth largest Chaebols as of 2009, it was founded in 1947. Its profile includes the manufacturing of electronic, chemical and telecommunication products. As with other Chaebols, this group's organization used to be complex because it had a complex company ownership structure and many subsidiaries and affiliates. In 1997, the Group pursued a Board reform, in accordance with the Korean government’s guidelines. The Group transformed itself into one holding company with a much simplified ownership structure. It hired professional managers from outside of the family to act as a senior management. This move was considered extremely rare for Chaebols because senior management used to be made up entirely of family members. Unsurprisingly, these outside managers are all experts in their corresponding areas and are proven to run the company better and more professionally than family members.

6. THE REFORMS

6.1. The Risen of the Entrepreneurship

Prior to the financial crisis in 1997, the setup cost to form a corporation was high [International Entrepreneurship, 2010], not to mention that such formation was highly regulated due to bureaucratic government. Corporate tax rate was also quite high. As expected, Koreans were not motivated to start-up businesses as many of them worked in the large companies. They believed that it was impossible for these companies to fail and that it was their lifetime employment. Last but not least, the Confucius mentality, which considered commerce to be inferior with low social esteem, has a great impact on how Koreans perceive being entrepreneurs. Certainly, all of the abovementioned factors have led to a slow and unfavorable development of entrepreneurship before the financial crisis hit hard at the country [Jung, 2002].

When the financial crisis arrived and the Korean government requested emergency financing from the International Monetary Fund, the IMF demanded several structural reforms to be carried out by the Korean government as the condition of providing funding. These reforms included investment market liberalization to provide a more open and free access to foreign investment. The entrepreneurship development has since improved significantly as a result of these reforms, shifting Korea’s values and change in condition of its society’s economic and social presences [Jung, 2002].

The first big change was the demise of the Chaebol, as many of them have gone bankrupt or seriously weakened. As the level of unemployment skyrocketed due to massive lay-offs from
the failing firms, the number of new start-up firms increased sufficiently. This happened because these laid-off workers have provided the needed human, financial and knowledge base for new ventures. In addition, business opportunities, due to the boom of dot-com concepts, had encouraged new corporations back in the early 2000s. Although this boom died down in the late 2001, the technological advantages of the country created initiative for Korean people to adopt these technologies and for related business opportunities [Jung, 2002].

In addition to the business opportunities and resource factors, government reform has also played an important role in the development of entrepreneurship of Korea by encouraging innovative start-ups and promoted small to medium-sized enterprises (SMEs) with incentives, including reduced corporate tax rate, eliminating the initial capital requirement for entrepreneurs for corporation registration and procedures reduction. Credit guarantee was also provided to assist SMEs in getting bank loans with government guarantees. These incentives have boosted the number of new start-ups and SMEs significantly, particularly in the high technology field [Globalist, 2010].

The continuous deregulation increased the number of foreign entrepreneurs. Other steps taken by the government that favored the development of entrepreneurship included elimination of aggregated limits on foreign investments in stocks and additional financial services, allowing foreign firms to undertake industry sectors [International Entrepreneurship, 2010].

Last but not least, the shift of the Korean people’s values had some role to play in the entrepreneurship development. Although commerce has a long history of being neglected and looked down upon due to the Confucius theory, as industrialization proceeded, the status of businessmen has risen considerably. The increased social status of entrepreneurs in Korean society has influenced and promoted entrepreneurship [Jung, 2002].

### 6.2. Corporate Social Responsibility and Ethical Sustainability

Company social responsibility (CSR) is playing an increasing role in Korea. The primary motivation for companies implementing social responsibility is the improvement of the company’s image and improvement of sales figures and/or share value. This happens because Koreans prefer to purchase goods or services from companies that champion social causes [Bertelsmann, 2009]. A fundamental expectation from Korean people is that a company should provide welfare to their employees to be socially responsible. Not only are companies expected to make investments that secure long-term employment but also they promote a social welfare scheme, such as providing grants to the employees children, provision of dormitories and medical access.

Companies also take part in the social sector to be considered socially responsible. Koreans expect that companies will play an exemplary role and make a contribution to increasing companies’ awareness of social responsibility. These activities include supporting and encouraging Korean citizens of lower income, environmental protection and promotion of Korean culture.

In the field of maintaining sustainable development, corporations are taking steps in environmental sustainability, which is defined as “the development that meets the needs of the present without compromising the ability of future generations to meet needs” [Moon et al., 2006]. This covers response to growing concerns for climate changes and carbon emissions. In addition, corporations are more actively addressing the growing scarcity of energy, water and land resources [Moon et al., 2010]. Environmental protection and sustainability were never the country’s first priority in the past three decades as the South Korea government moved forward with outstanding economic development.
The inclination towards economic development has led the Korean government to relax urban planning and other environmental protection policies in order to facilitate the expansion of heavy industries. While such development has produced significant economic returns, the living condition of the South Koreans suffered as the environment was damaged and polluted by rapidly expanding factories [Moon, 2006]. The worsening condition of South Korea’s environment was reflected in the country’s rating on the Environmental Sustainability Index (ESI). South Korea, one of the most densely populated countries in the world, ranked 135th out of 142 countries in terms of ESI, in 2002 [Volkery, 2004]. It was the lowest ranked among all developed economies. Knowing that this situation could only get worse if no action was taken, the Korean government responded to this challenge by imposing a set of laws and regulations. The outcome, while still not satisfactory, was obvious. The country’s latest ranking on environmental sustainability was raised to 122nd out of 143 countries, in 2005, and further improved to 94th out of 163 countries, in 2006 [Rice, 2008].

6.2.1. Hyundai Motor Company

Hyundai Motor Company (HMC), one of Korea’s largest automobile manufacturers, was established in 2008 to effectively promote the firm’s CSR activities. HMC identified three core areas at which its CSR Committee is responsible for addressing: social contribution, environment and trust-based management [HMC, 2010]. Environmentally, the company has identified four issues that should be addressed in order to become an environmentally responsible company and capable of coping with changing regulations and stakeholder demands: recycling-based resources use, hazardous materials, emission issues and strengthening of environmental management structure. As a response, HMC has developed Environmental Management Policies that ensure the above issues in a properly way. HMC also pursues a trust-based management that ensures satisfaction between HMC and its customers, employees, suppliers, investors and local communities. Additionally, the company is developing social contributions that aim at leading HMC to be a respected leader in CSR by 2012 [HMC, 2010].

6.2.2. Korean Air

Many large-scale Korean companies have taken steps to improve environmental sustainability. Measures improvement of operational efficiency, including adjustment and optimization of business processes, and exploration of new technology are utilized by these companies in order to reduce energy consumption and improve resource utilization. Korean Air, the largest Korean domestic airline with headquarters in Seoul, is committed in fighting climate change. As one of the most significant sources of carbon emission, this flight operator has taken the initiative to improve its operational efficiency. This is achieved by management’s participation in more careful and strategic planning of flight routes in order to maximize fuel economy and aircraft utilization. The management of Korean Air has also approved the purchase of a new computer system, which allows more precise flight planning. With these initiatives, in 2050, the operator targets to reduce its carbon footprint by as much as 50% [Korean Air, 2010].

6.2.3. Korean Telecommunications

A third example on environmental protection is Korea Telecom, the largest telecommunication service provider in South Korea. The company has taken the ‘Green IT Activities’ initiative in 2007. The main areas of this initiative concern the research and development of more environmentally-friendly IT products, which reduce the use of non-recyclable materials and devices with less power consumption. Internal policies are also taking in place to govern employee travel within South Korea. With the advance of IT, the company now requires its employees to reduce the number of domestic travel, as much as possible, and replace traveling by the use of teleconferencing [KT, 2010].
7. SHIFT ANALYSIS

7.1. From Seniority to Meritocracy Performance Management

The performance management of South Korean enterprises has traditionally been based on the Confucius ethic of seniority-based lifetime employment. In these organizations, employees were expected to receive promotions while compensation increases as their tenure grew, irrespective of their work performance. This traditional Korean performance management system continued to be viable whilst these companies were growing rapidly and under good economic conditions.

The 1997 Asian financial crisis nearly collapsed the economy of South Korea. As a condition of receiving funding from IMF, the Korean government underwent a series of economic reforms including opening the country’s market by lower the Foreign Direct Investment (FDI) barriers. As a result, the number of foreign firms, particularly those with headquarters in the United States and Europe, increased. As a consequence, there has been greater interaction between local and foreign companies in Korea. This increased interaction resulted in a major shift of the performance management orientation from seniority-based to a more meritocratic procedure. The merit-based performance measurement methodology has been widely adopted by Western countries. Merit-based measurement comes with a single criteria in evaluating employees’ performance. The employee’s superior defines a set of goals and objectives and Korean employees are rated against these goals and objectives regularly.

An example of this such blended system can be found at many Korean Chaebols nowadays, including Samsung, Hyundai and LG Chemical. Samsung, one of the largest Korean Chaebols with business focus on electronics, machinery, chemical and heavy industries, utilizes this blended structure where remuneration is composed of a combination of base pay and merit pay. The base pay of employees increases when their tenure increases, regardless of their performance or skill level. In addition, the employees’ remuneration also increases based on a merit pay component. The merit pay component is determined by the employees’ competence while performance is determined by their superiors through performance appraisal.

7.2. From Consultative to Individualistic Decision-Making Style

The decision-making process of Korean companies used to be centralized, top-down and directive. Authority tended to be concentrated at the senior management level at the companies’ headquarters, where decisions were being made collectively by the senior management of the companies. Each senior management member was expected to agree on the decisions that had been made collectively. Any voice of deviation to those decisions was deemed unacceptable by Korean management members. In addition, the organizational structure of Korean companies was vertical and complex, where company decisions were expected to be propagated from top to bottom of the organization chart.

At present, large Korean companies shift their decision-making style to a more Westernized style. Western management tends to be decentralized and individualistic. Decisions tend to be made by both senior level managers and mid-level managers of their respective areas. In addition, all people in the organization play an important role. Their inputs and opinions are expected to be listened to and valued. Employees speak directly to their superiors while senior management expects their employees to speak up and express their opinions. As the decision-making process, Westerns tends to be more individualistic whilst managers are not required to be blindly supportive of the senior directive board. Instead, managers make decisions that serve the best interests of the department that they belong to.

This shift has resulted in an increasing number of Korean companies implementing organizational reforms to flatten their organizational chart. These organizational reforms have also resulted in empowering managers to make decisions for their subsidiaries or
departments. An example of this organizational structure transformation has taken place in Samsung. This Group used to be centralized, top-down, bureaucratic and control-oriented in its decision-making process. After 1997, the company found out that the existing way of ineffective management because decisions were to be made from the senior management from its headquarters. After a series of internal transformations, including company reorganization to flatten its chart, the Samsung Group shifted to a decentralized firm where business decisions were made by several branches instead of centralized it at Samsung headquarters.

Besides to this decentralized decision-making, Korean managers are now speaking up and making decisions that they believe will serve the best interests of their respective departments. As expected, such decisions can deviate from the centralized decisions. An example that illustrates this type effect of individual decision-making is the Hyundai Group. Unsurprisingly, Hyundai's subsidiaries used to follow strictly decisions from headquarters, even though such decisions might put the subsidiaries into a disadvantaged position. However, this management style has changed as department managers confront headquarters to make decisions to protect the interests of the department or subsidiary.

In a particular demonstrative case of this nature, Hyundai Asan, a Hyundai subsidiary in charge of its travel business, experienced financial difficulties. Its president, which happened to be the CEO of the Hyundai Group, requested Hyundai Merchant Marine, a financially healthy affiliate of the Hyundai Group to provide financial assistance. After evaluating the financial condition, the CEO of the Hyundai Merchant Marine refused to provide such assistance. As a result, the Hyundai Asan was forced to let go of business areas, contributing to the company's financial difficulties. This situation was unimaginable prior to the 1997 crisis as the affiliates were expected to provide unconditional support to other affiliates.

7.3. A Shift to Corporate Governance

Korean companies have traditionally downplayed the topic of corporate governance. This includes the concentration of corporate ownership, lack of transparency and accountability on management level and unreliable financial reporting. Within large Korean companies, decisions were being made internally by these family members and it was generally difficult, if at all possible, for anyone outside of the family to be involved in the decision-making process of Korean Chaebols. Such high levels of internal ownership and lack of transparency had caused management to make reckless decisions. Furthermore, decisions may be illegal or sacrifice long-run sustainability in return of short-term benefits for the companies. They would be tolerated due to the Korean tradition of emphasizing harmony within a family or organization. As such, no one would speak up and oppose such decisions, no matter how illegal or immoral such decisions were. In addition, the complex connection of Chaebols and their subsidiaries had caused the assessment of the Chaebols’ true financial position extremely complicated. This issue was further compounded by the fact that the requirement for financial reporting of companies, imposed by the Korean government, was not up to international standards, such as the Generally Accepted Accounting Principles (GAAP). This caused the financial reports produced by the Korean companies to be unreliable and always questionable.

Once again, after the 1997 recession, the Korean government was in need of urgent funding in order to stabilize its depreciating won as well as its troubling financial market. After assessing the country’s condition, the Korean government realized that it was not possible to meet the requirements imposed by the International Monetary Fund (IMF) and World Bank in exchanging of accessing the emergency funds without substantial corporate governance reforms. The collapse of many major Chaebols, such as Kia, had seriously damaged investors’ confidence in the Korean market.

In response to the corporate governance reforms, management transparency and accountability, as well as financial reporting reliability was stressed
out. To deal with the Chaebols ownership issue, bills included the ‘Law for Limit Investment’ and the ‘Law of Limit Assurance’ which were passed in 1999 to protect the interest of the shareholders of the Chaebols and restrict actions of the Chaebol owners. Such bills restricted company owners from exercising decision-making rights without first obtaining approval from the shareholders. To improve transparency and accountability, government required that all listed Korean companies appoint outside directors that constituted, at least, 50% of the total board members. In addition, Korean companies would be penalized for not disclosing consolidated financial statements in a timely manner, for accounting fraud or poor auditing. With respect to financial reporting, under the revised Commercial Code and Securities and Exchange Law, Korean corporations must produce combined financial statements. These statements need to indicate financial positions of all of their affiliates and subsidiaries, in accordance to the GAAP. The reduction of control over business decision-making by the company owners has changed the tradition of Korean cultural heritage that decision-making power is strictly the business of some family members. Since then, members outside of the Chaebol family have the legal right to exert influence in the Board of Directors for Korean companies. As a result, this reform has changed the dynamics of the decision-making process at the company management level and caused a shift of management style.

7.4. A Change to Improve Environmental Sustainability

The strategies of South Korea for economic development, since the 1960s, had produced remarkable results in terms of economic growth. The country’s policy of inclination towards economic development, while ensuring the maximization of economic returns, in the meantime has resulted in environmental deterioration of the country. The rapid expansion of Chaebols, since the 1970s, has put tremendous pressure on the country’s ecological system and increasing environmental pollution. In addition, as globalization of South Korea emerged since the 1990s, national competitiveness and economic efficiency have become the country’s utmost priority. Because of this reason, the relaxation and deregulation of policies of urban planning, land use and development, as a response to the ‘growth first’ orientation of government policies became the national policy since the 1990s. The environmental condition was further worsened by the fact that South Korea was one of the most densely populated countries in the world, and that nearly 50% of its population and vehicles were concentrated in the metropolitan area which comprises just 12% of the total country’s land space.

In response to these challenges, the South Korean government introduced the Fourth Comprehensive National Territorial Plan, in 2001, that regulated the overall framework of environmental protection and planning that ensured sustainable development could be achieved. Under this plan, the country enacted several acts that targeted addressing different perspectives of environmental issues, in 2003. These acts included the Act on Planning and Use of National Territory, the Environmental Policy in Agriculture, Forestry and Fisheries for the 21st Century, the National Plans for Energy Conservation and the Act to Promote Shifting to an Environmentally Friendly Industrial Structure. These acts covered and promoted the proper use and development of the country’s precious land resources, sea, water and natural resources, as well as the conservation of energy and plan for promoting alternative energy sources.

8. FINAL COMMENT AND OPEN QUESTIONS

The convergent-divergent process model of section 2 was found to be useful for the study of the management style changes in South Korea. Three components of the present model were applied, including the construction of regional imperatives, societal context and managerial culture. Having this clear understanding on how these macro (regional), meso (societal) and micro (organizational) levels contribute to the Korean management shift, it certainly provides valuable information to foreign managers to conduct business with South Korean firms.
As well, this case may lead to an extrapolation to other economic situations. For instance, the Euro zone has been living difficult times for the last couple of years due to government debts and the huge state weight on the overall economy, particularly in Greece. Is it possible to extrapolate some of the known Korean lessons to European countries? Is there any relationship between the 1997 Asian crisis and the nowadays European one? Should Portugal follow the Korean corporate governance footprints? If yes, how? Is there any common pattern regarding the decision making style involving Asia and European countries? Does Italy hold the same industry network of South Korea? If not, what are the dissimilarities? Concerning the political monetary policy, which country is in a better rank position to face future challenges? Why? What statistics tell us about entrepreneurship ratio, GDP, unemployment, inflation, imports, exports, alternative and clean energies, costs of living and taxes within both countries? In education, how unlike PISA results are? Who is more willing to face risk and uncertainty businesses among entrepreneurs? How close and how different are social and cultural values between these countries? With regard to Hofstede culture five dimensions, what kind of values would you expect for Ireland? Is there any parallel in Spain to the “Law of Limit Assurance” law? Does the French accounting follow the GAAP standards?

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