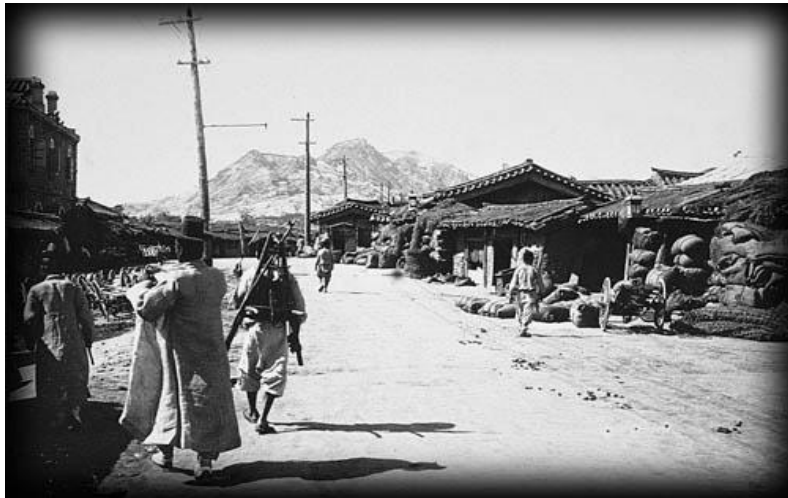

The Korean Management and Human Resource Management

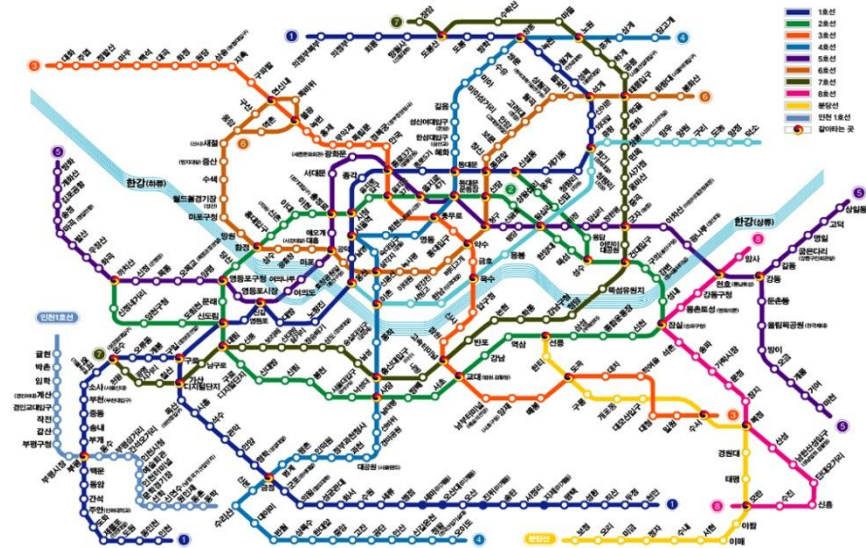


Korea University
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Seoul (Circa 1900)



Seoul (2010)



Topics

- Key influences on Korean economic and social environment
- Salient characteristics of the Korean management
- Institutional influence on Korean management
- Institutional changes in the recent past
- Korean management in transition
- Foreign perceptions of Korean management in transition
- Conclusion & the future of Korean management
- International comparison of management style

Key Influences on Korean Economic and Social Environment

- Traditional cultural values (Confucianism)
- Nationalism (economic development)
- Korean War (1950-53) (strong government)

- Democratic movements in 1960, 1980 and 1987
(Egalitarianism, labor movement, and left-wing politics)
- Recent economic success (individualism)
- Globalization (open competition)

Changes in Korean Economic and Social Structure

Period	Phase	Characteristics	Management Type
1945-1960	Turmoil	<ul style="list-style-type: none"> . Ideological conflicts . Reliance on US aid . Least developed economy . Baby boom 	<ul style="list-style-type: none"> . Entrepreneurs (small size operation)
1961-1978	Take-off	<ul style="list-style-type: none"> . Anti-communism / Dictatorship . Modernization with 5-year economic planning (EPB) . Export promotion & import restriction . Light industry and appliance goods (target industry) . Perspiration . Chaebuls strongly favored . Low cost advantage 	<ul style="list-style-type: none"> . Emergence of Chaebuls . Growth and diversification . Traditional Korean type . Adopt Japanese Keiretsu model under government support
1979-1997	Quantitative expansion	<ul style="list-style-type: none"> . Development / Democracy . Heavy industries targeted (Steel, auto, semiconductor, and shipbuilding) 	<ul style="list-style-type: none"> . Continued Growth of Chaebuls . Continued diversification of Chaebuls . Globalization of Chaebuls . Learn Japanese management system (JIT, QC,...)

Period	Phase	Characteristics	Key Events
1998-2000	Paradigm shift	<ul style="list-style-type: none"> . Sharp 'Won' depreciation . Business restructuring / Layoff . Mandatory guideline of debt to equity ratio . Export promotion and import restriction . Government infrastructure projects (broadband network, highway, & new residential towns) . Focus strategy of Chaebuls 	<ul style="list-style-type: none"> . Disillusion of Korean (and Japanese) type management . Partial adoption of American management
2001-2011	2 nd Qualitative expansion	<ul style="list-style-type: none"> . Globalization of Chaebuls . IT industry, internet, cell phone . Traditional values slowly changing with economic development (growing individualism) . Politics: growing left-wing power . Social issues: income gap, housing, education, & demographic changes 	<ul style="list-style-type: none"> . New K-type management . A global management of Korean Chaebuls

Introduction

- Institutional economic view
 - Markets are imperfect
 - Firms and markets are socially or institutionally constituted
- Management is the process of planning, organizing, leading and controlling the work of organizational members to achieve goals
- Different institutions → different management systems

Q) What are the main institutions?

II . Salient characteristics of the Korean management system

Korean management system

- The strategic goals of Chaebuls are growth and diversification
 - Maximizing returns
 - Developing many subsidiaries and affiliates
- ‘Top-down’ decision-making process
- Highly centralized positions
 - ‘Think tank’ is staffed by elite recruits
- ‘Tall’ structure of organization
 - Vertical and hierarchical control
 - Formalized with strong functional control
 - Individual jobs are not formally structured (but lack of job descriptions)
 - Development of a uniform group culture

II . Salient characteristics of the Korean management system

Korean management system

- The leading phase of management (directing and motivating)
- Motivation for Korean employees, emphasized on extrinsic factors
 - Job security, working conditions and wages
 - Originated from Korean organizational culture (Harmony and stability)
- Managerial leadership in Korean firms
 - Strongly paternalistic, authoritarian, and group harmony oriented
 - Emphasis on moral superiority
- Chaebuls were established by self-made businessmen
 - Still led by their founder-owners or their descendants

II . Salient characteristics of the Korean management system

Korean management system

- Korean managers tend to have tight central control over their subordinates
 - Control need is weak when growth is an goal
- Excessive expansion and diversification of Chaebuls is an indication of the poor control.
 - The average debt-equity ratio of the top 30 Chaebuls was 519% before the 1997 financial crisis
 - Heavy reliance on foreign technologies

III. Institutional influence on Korean management

Institutional influence

- Culture
 - A strong Confucian influence
 - Hierarchical collectivism, patriarchal familism, authoritarianism and status-consciousness
 - ‘Top-down’ decision making process
 - Bureaucracy, Exclusionism (in-group cohesiveness)

- Formal institutions
 - No proper institutional framework historically
 - Loyalty has developed in Korea toward individual superiors
 - Business people sought to align themselves with dominant factions and families

III. Institutional influence on Korean management

Institutional influence

- Governance system
 - Korean motivational tools are based on extrinsic factors
 - Koreans are risk averse and conscious of their status within society
 - Leadership contains two characteristics
 - Despotic authority
 - A strong desire for harmony

Korean Chaebols (K-type Management)

- A unique blend of Western and Eastern management
- Confucian work value system
 - Loyalty, hierarchy, relationship, order,...
- A strong leader with familism (and nepotism)
- Top-down decision making but bottom up for routines
- Paternalistic authoritarian leadership style
- Centralized planning and coordination
- *Inwha* (인화, benevolence and harmony)

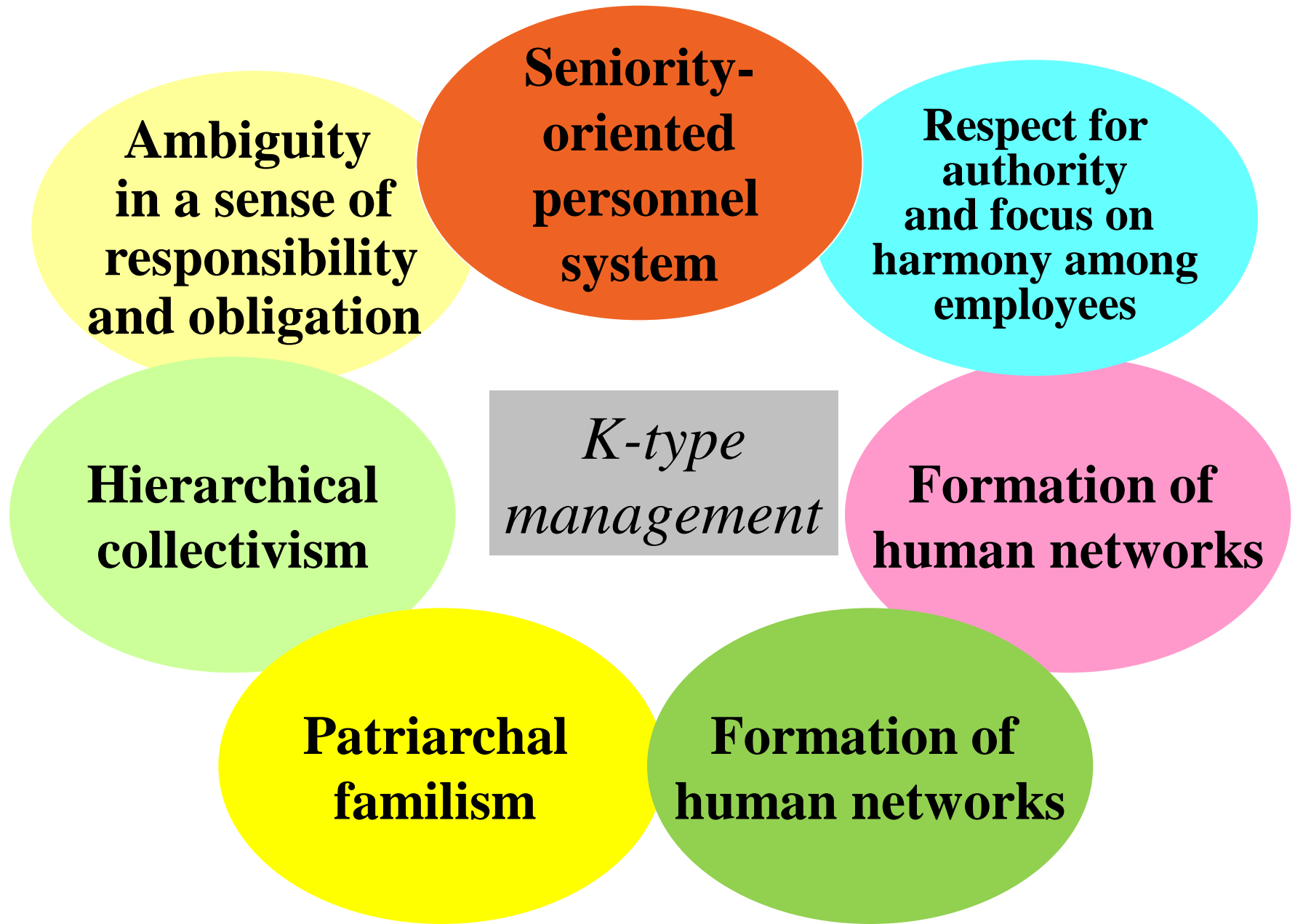
K-type Management (continued)

- Modest job mobility
 - flexible LTE (long-term employment)
 - more flexible labor market than in Japan
- Loyalty toward relationship (not necessarily company)
- Organization-specific training rather than job-specific training (all round person)
- Compensation based on seniority (loyalty and attitude) and merit (performance)
- Mid-term appraisal (*inwha* and performance)

K-type Management (continued)

- Will or Ambition (*ui-yok*)
- Long-term growth as a goal, but emphasize medium-term achievement
- Aggressive globalization (follower's mentality)
 - quick market entry (in emerging markets)
 - creative localization strategy
 - foreign talents (LG)

Fundamentals of K-Type Management



IV. Institutional changes in the recent past

Institutional changes

- The traditional Korean society transformed into an industrial society after the 1960s
 - Rapid urbanization and rural depopulation
 - ‘Nuclear family’
 - Family moral values have declined remarkably
 - Legal system has been revised, enhancing the status of women
 - **Morality and humaneness to materialism and quality of life**
- The 1997 financial crisis leads to the opportunity for reviewing the value system
 - **Group society → Individualistic society**
 - Corporate reform (particularly Chaebuls)
 - Improving corporate governance
 - Korean market is open to international competition

V . Korean management in transition

Changes in management practices

- The removal of Chaebol's privileges
 - Korean companies compete against foreign counterparts
 - Need to operate as efficiently as their foreign competitors
- Need to strengthen competitiveness
 - Focus on core competent businesses and international collaborations
 - Strategic goals: maximizing profit or shareholder returns
 - Highly trained and experienced specialists
 - Greater transparency and accountability
 - Introduction of lay-offs, part-time employment, and flexible working hours
 - Performance-oriented control practices

V . Korean management in transition

Changes in management practices

- Gradual change from K-type management to Western type management
- Strategic goals
- Top down decision making by owners
- Hierarchical relationship and organizational structure
- Preference over generalists
- Importance of personal relationship
- Motivating scheme
- Employee evaluation criteria
- Control mechanism

VI. Foreign perceptions of Korean management in transition

Respondents' view of changes in the Korean management system

Types of change	N	Average	S.D.
Becoming more profit-oriented management	63	3.349	1.003
Decreasing layers in the hierarchical org. structure	66	2.591	1.007
Fading of the top-down, authoritarian decision making	65	2.262	1.065
Fading paternalistic leadership	64	2.594	1.05
Disappearing lifetime employment practices	64	3.156	1.13
Increases in the lay-off of workers	63	3.032	0.999
Merit-based promotion and compensation	65	2.615	0.963
Willingness to hire foreign workers	64	2.719	1.046
Recruitment by merit, rather than by personal connections or university background	65	2.462	1.047
Disappearing seniority system	66	2.394	1.08
Rising overall management efficiency	64	2.734	0.84
Korean management becoming more like yours	61	2.328	0.944
Average	64	2.686	1.015

The K-Type Management Today

Korean

- Hurry hurry
- Risk taking
- Globalization
- Egalitarianism

E. Asia Common

- Collectivism
- Hierarchy
- Human network

K-Type Management

Japanese

- Seniority-based
- Production
(JIT, QC, kaisen)

US-Japan

- Long-term
employment
- Mid-term
evaluation

US

- Top down decision
- Short-term performance
evaluation for higher
Management levels

VII. Conclusion & the future of Korean management

Conclusion

Culture

Formal
institutions

Governance
systems



- Unique Korean management system
- Such system has undertaken a significant change since the 1997 financial crisis
- Transition of the system is a long-term process because of cultural inertia
- Corporate level organizational culture with written-down goals and slogans

The Future of Korean Management

The Future of K-Type Mgt.

- **Practice Level** : convergence
ex) performance-based pay
- **Policy (Strategy) Level** :
con. + div.
- **Principle Level** : divergence
ex) management value

**Convergence
Theory**

More
similarities

Differences
maintained

**Divergence
Theory**

Issues of Management Level

VIII. International Comparison of Management Style

	West	East(Korea/China/Japan)
Company	<input type="checkbox"/> sports game	<input type="checkbox"/> a family in a village
Business goal	<input type="checkbox"/> victory & profit	<input type="checkbox"/> maintenance & growth
Employees	<input type="checkbox"/> athletes in a sports team	<input type="checkbox"/> children in a family
Human relations	<input type="checkbox"/> focusing on function/roles	<input type="checkbox"/> emotional relations
Competition	<input type="checkbox"/> compete to the end	<input type="checkbox"/> cooperation & competition
Self-identity	<input type="checkbox"/> job/task-oriented	<input type="checkbox"/> company/group oriented
Motivation	<input type="checkbox"/> income & skills	<input type="checkbox"/> task, relation, income, & skills
Performance	<input type="checkbox"/> efficiency measures	<input type="checkbox"/> efforts, sweats & attitudes
Promotion	<input type="checkbox"/> based on performance	<input type="checkbox"/> seniority & performance
Reward	<input type="checkbox"/> immediate & tangible	<input type="checkbox"/> long-term & intangible

Management Characteristics

Category	Korea (Chaebuls)	Japan (Keiretsu)	China (POEs)
Management culture	Loyalty to person/organization, one CEO centered, nepotism, hierarchical, human network, harmony	Collectivism(company loyalty), very hierarchical relations, group harmony	Entrepreneur type, less hierarchical relations, emphasis on relations (guanxi)
Management goal	Mid-term and long-term growth, catching-up, and coping	Long-term stability and growth	Long-term growth
Employment	Long-term employment with voluntary/forced retirements from 40	Lifetime employment (one company career)	Lifetime employment under socialism
Evaluation and promotion	Rapid and frequent evaluations but slow-promotion (seniority)	Less frequent evaluation and very slow promotion	Less frequent evaluation and slow promotion
Decision-making and responsibility	Top-down, quickly implemented under CEO's initiatives	Bottom-up & top-down, collective decision-making	Top-down, intuitional decision-making, communist party
Formalization	Medium	High	Medium

Hyundai Motor Company

Hyundai corporate philosophy

Corporate Philosophy Framework



- Management Philosophy
 - Realize the dream of mankind by creating a new future through ingenious thinking and continuously challenging new frontiers
- Core values
 - Customer, Challenge, Collaboration, People and Globality
- Vision 2020
 - To become a life partner in automobiles and beyond



Human centric, eco-friendly technologies and services

Innovative mobility solutions

Bring a new perspective to automobiles

Hyundai Motor Company

Hyundai Motors management

Management

- Reborn as a truly global company gaining a competitive edge in the global market
- Accelerating global management by expanding the worldwide production base
- Superior product quality and aggressive marketing strategies
- Ethics committee to enhance transparency



Manufacturing

- Global Quality management system
 - Rapid market sensing
- Value Advanced Automotive trade zone
 - Transparent relationship between Hyundai Motors and suppliers
- Just-In-Sequence
 - Short length of assembly line
 - Increasing productivity

Hyundai Motor Company

Hyundai Motors management

Global R&D networks

- Develop designs and localized models that best satisfy region markets
- 10 R&D centers



Sales & Service

- Global sales network
 - 6,000 of dealers and 24 overseas production and sales bases, in over 180 countries worldwide
- Customer service
 - The Elite Dealer Certification System that guarantees the same level of premium service
 - Hyundai Loyalty Program
- Global cooperation

Hyundai Motor Company

HMC management overseas (subsidiary management)

Key Success Factors

- Aggressive FDI (initial and follow-up)
 - FDI in India 1998, Second in 2008
 - FDI in China 2000, Second in 2002 (Kia), Third in 2007 (Kia), Fourth FDI in 2008
 - FDI in US 2005, Second (Kia) in 2009
 - FDI in Czeck in 2009
- Top management commitment
- Country-specific differentiated marketing program

Promotion of HMC in US

- 10 year, 100,000 mile warranty in 1999
- Hyundai Assurance Program in Jan. 2009
 - Vehicle return finance program
 - The company covers up to \$7,500 in case of :
 - . Unemployment
 - . Physical disability
 - . Loss of driver's license due to medical reasons
 - . International employment transfer
 - . Self-employment bankruptcy
 - . Accidental death

LG Electronics

LG Electronics philosophy

Vision

Global Top 3 by 2010

Global Top 3 Electronics / Telecommunications Company

Growth Strategy

Fast Innovation | Fast Growth

Core Competency

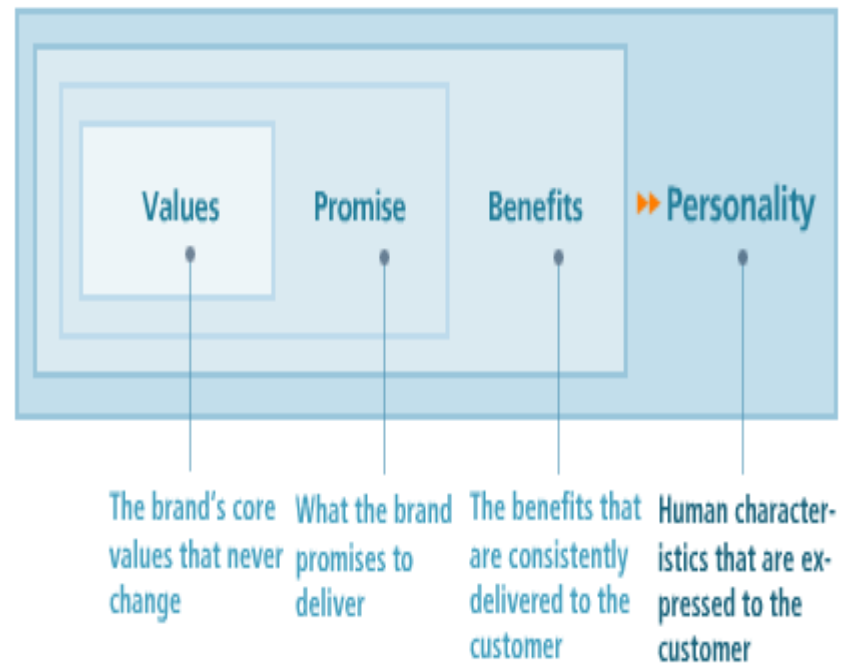
Product Leadership | Market Leadership | People Leadership

Corporate Culture

No Excuses | 'We' not 'I' | Fun Workplace

Management Philosophy

- Creating value for customers
- Management based on esteem for human dignity



LG Electronics

LG Electronics management

Management



Innovation

- Global labs
 - A company-level R&D organization that covers all of business areas
 - Separate R&D centers that carry out projects focusing on specific business areas, to develop product related applications
- Institute of Technology
 - Comprised of several laboratories that research and develop core and cutting-edge technologies.

LG Electronics

LG Electronics management

Design

- Design philosophy
 - Concept, Style, Interface and Finish
- Design management
 - Design-oriented development of products and services
 - Enhance our corporate brand in a variety of fields
- Design center
 - Established design research centers in Italy, China, the U.S., Japan, India, and Korea

Marketing

- Global marketing
 - 'Life is good'
- Sport sponsorship
 - Formula one
 - Cricket
 - Snowboard
 - Golf
 - NCAA
- Participating in Exhibitions



Catch every ball of every game
LIVE on SABC 3



LG Electronics

LG Electronics management overseas (subsidiary management)

Key Success Factors

- Product leadership
- Cost leadership
- Local personnel
- Country-specific differentiated marketing program
- High quality expatriate managers



Product Development in Local Market (LG in India case)

- A Mix of standardization and localization
- Focus on locally appropriate products
 - Color TV : Cricket game TV with 10 languages
 - Refrigerator: Door Lock
 - Air conditioner: Powerful Air filter
 - Electric Range: Indian Recipe

 - Local R&D Staff
 - R&D staff (200) for new design
 - Separate software center (400 staff)

KOREA



Thank you for listening!