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## Making of Two South Korean Chaebols: Samsung and Hyundai

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### ABSTRACT

*The management system of South Korean companies has been influenced by their traditional beliefs and values of Confucianism bought up by Chinese in the 15th century. Yet, this Confucius management style was shifted to western style after the Asian financial crisis of 1997.*

*Few prominent conglomerate led to the growth of South Korea from developing the country to one the wealthiest country in the world. This paper aims to evaluate this management transition in two major South Korean companies i.e. Samsung and Hyundai. This paper shows how management system changed in South Korea in five main major vectors: (A) Decision making style, (B) shift to corporate governance, (c) change in performance management, (D) corporate social responsibility, (E) government intervention and support.*

**Keywords:** South Korea, Management Transition, Western Style.

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### INTRODUCTION

South Korea is Asia's fourth largest economy. With extremely limited natural resources available in the country, the major reason for the growth of the economy is the production of the automobile, consumer electronics, ships, machinery, petro chemicals, and robotics. It is country with very less debt and high fiscal reserves which can be used to tackle any financial emergencies. It is one of the few developed countries which were able to avoid recession during global recession dated back to 2008. Major contributors of the South Korean economy are large conglomerates which they call *chaebols* like Samsung contributes to 20% of South Korean GDP. Other major conglomerates are Hyundai and LG.

Samsung is so big that South Koreans can be born in a Samsung-owned medical centre, grow up learning to read and write with the help of Samsung tablets and go on to attend the Samsung-affiliated Sungkyunkwan University. It doesn't end there. They may then live in a Samsung-built apartment complex, fitted out with the company's appliances and electronics. South Koreans can even end up at a Samsung funeral parlor when they die.

This research paper aims to study changes in management styles of two major conglomerates of South Korea i.e. Samsung and Hyundai.

South Korean management culture remained highly traditional until the Asian financial crisis of 1997 during which many countries raised funds from IMF. For raising funds from IMF, South Korean companies have to comply with the requirement of it which includes a reduction in tariff and trade barriers and following good corporate governance practices.

### BODY

#### Decision Making Style

In South Korea, there is a shift from consultative to individualistic decision making style. Earlier decision making the process of Korean companies used to be centralized, top-down and directive. Each senior manager was expected to agree with particular decision to be made. This style of decision making led to delay in decision making and doesn't give managers of different department discretion to take a decision on their own.

At present, large Korean companies have changed their decision making style to more westernized style. Both senior level managers and mid-level managers take decisions of their respective area.

Channel of communication is free and it is not top to bottom like the previous case. Senior management expects employees to speak up and share their views and opinions. Managers are given the discretion to make a decision which serves the best interest of department they belong to.

### **Corporate Governance**

Korean companies in earlier times tend to ignore the fact of corporate governance. As it included accountability, lack of transparency, unreliable financial reporting etc. Because of this flaw, neither companies were unable to make decisions properly nor delegate the responsibility to the employees. Employees were also not able to speak up about whether the decision is wrong or not because of they were afraid of losing their jobs. So, after the 1980s most of the companies made their focus on corporate governance as it was necessary for them to coordinate with each and every step of management.

### **Performance Management**

In South Korea, there is a shift from seniority performance management system to meritocracy performance management system. In seniority performance management system, employees receive promotions and increase in compensation as their tenure grew, irrespective of their work performance. This system was working properly till these companies were growing rapidly and under good economic conditions.

Performance management system changed from seniority to meritocracy after Asian financial crisis of 1997. Many western companies came to South Korea after a decrease in FDI barriers as demanded by IMF for giving South Korea funds. Merit based measurement comes with a single criterion of evaluating employees' performance based on work.

### **Corporate Social Responsibility**

Corporate Social responsibility plays a major role in Korea, especially when it is South Korea. With the giants like Samsung, Hyundai etc., competitiveness becomes a major part of survival. Companies' first motive behind the social responsibility is to have a goodwill among the people and shareholders. This is important because Koreans buy products and services from those manufacturing companies which are active in social welfare.

### **Government support and Intervention**

From the time when Korea received their government, it supported each and every people whether it is for their development or for their society. Somewhere around the 1950s, South Korea was the poorest of all countries in the world. But the state which was led by the dictators from 1950 - 1980 is now one of the wealthiest in the world. As one of the well-known giants which evolved from South Korea is Hyundai.

### **MAKING OF SAMSUNG**

Twenty years ago, few people would have predicted that Samsung could transform itself from a low-cost original equipment manufacturer to world leader in R&D, marketing, and design with the brand more valuable than Pepsi, Nike, or American Express. This two decades Samsung has been bringing western business practices onto its traditional Japanese systems. Samsung changed in various ways from an organization focused on continuous process improvement to focus on innovation. Into a homogeneous workforce, Samsung introduces outsiders who could not speak the language and were unfamiliar with company's culture. Change from seniority to meritocracy performance management system.

By 1987, when Lee Kun-Hee succeeded his father as only the second chairman in the company's history, Samsung was the leader in most of its markets. But its overseas position as low cost producer was unsustainable due to competition from Japanese companies who were setting up production plants in Southeast Asia and rising domestic wages in South Korea's liberalizing economy. In the early 1990s, lee spotted a wonderful opportunity of adapting to digital technology as consumers were going crazy for cameras, audio equipment, and other electronic products. In 1993, lee launched new management initiative to import western best practices related to strategy formulation, talent management, and compensation into Samsung's existing business model.

To compete in global markets, lee knew Samsung has to change and adapt itself to western business culture. Slowly Samsung injected some of the most incompatible business practices into its business model. Like in 1997, it introduced merit based compensation system after best practices of GE, HP, and Texas instruments. Lee wanted to increase the receptivity of ideas, he did by bringing new thinkers in from outside and by sending insiders abroad.

At last, a good leadership is necessary for the growth of the company. Under the leadership of Lee, Kun-Hee sales grew from 9.9 trillion won in 1987 to 387 trillion won 2012 and market capitalization grew from 1 trillion won in 1987 to 303.2 trillion won in 2012.

### **MAKING OF HYUNDAI**

The History of one of the major giant, Hyundai group began in 1940 with small repair car shop by one man -chung-ju young. He faced many difficulties in his life but moved on by conquering them. One of them is the Second World War where his repair shop was crushed out. After liberalisation, he took over the repair business and named his new firm as 'Hyundai Auto Service'. Day by day his business grew and in 1947 he found construction business more profitable which led him to form a new construction company named Hyundai engineering and construction company. With the continuous growth in both the businesses, Hyundai began expanding its businesses to steel, shipbuilding, investment Chung-dunts and many more. In the 1980s, the group made diversification to pharmaceuticals, petrochemicals, and finance, service and telecommunication sectors.

Hyundai always followed pyramidal structure as it reflected its origin and diversification history. The Hyundai chairman always puts an eye towards the Hyundai motor Company (HMC) because he created it with a lot of hope. Then Hyundai minimizes the influence foreign assistance as then only it will be convenient. Its effort to export to world market was a unique case at the time as KIA and GM did not think of going out of the geographical boundaries.

One of the major think he used to do was to travel to different parts of the world and see what and how the technology is changing and progress. If he with the management found something attractive and innovative which is currently not here in the country, from the very next day the idea was incorporated and filtered with all pros and consequences to test in the market. With the construction of the management policies, they also constructed environmental policies to do social welfare so as to improve the goodwill of the organization.

## **LITERATURE REVIEW**

A Hyundai group official (2017) said in a press conference that they will strengthen the transparency of our ownership structure starting with the Hyundai Oilbank's initial public offering.

Montgomery Area Chamber of Commerce Chairman Larry Puckett (2017) said that HMMA has been a great partner and has had a significant impact on the River Region's economy. Hyundai has played an important role in making Montgomery a better place to live, work and play.

Chung said (2017) that "We expect a boost in the U.S. economy and increased demand for various models as President-elect Trump follows through on his promise to create 1 million jobs in five years, "We will actively consider introducing new models that have increasing demand and profits."

Kim Jin-woo, an analyst at Korea Investment & Securities Co. in Seoul (2017) said that "When automakers such as Toyota announced their new strategies in response to the so-called Trump risk, the industry was nervous and asked 'Who's next?'" "This is positive news that came at the right time as the automakers were facing capacity constraints in the U.S," he said referring to Hyundai and Kia's investment plans.

As CNET's Shara Tibken said back in 2013 about Samsung, "Ubiquity might be too a subtle word for the company's influence on South Korea referring to how big is Samsung.

ABI Research, says Samsung's share of smartphone shipments topped 33%, compared with Apple's 30%. (To be sure, Apple sells one device, the iPhone, while Samsung offers 25 unique smartphones in the U.S.) "Samsung is on fire," says John Legere, CEO of mobile operator T-Mobile USA in 2013.

"Samsung has proved me wrong," says Dan Heyler, an analyst at Merrill Lynch in Hong Kong (2004). "They have done a great job of reducing earnings volatility from their cyclical business through diversification."

Chu Woosik, head of investor relations for Samsung Electronics (2004), says day-to-day running of the company is left to professional managers, while Mr. Lee sets long-term strategy. The role of outside directors has been strengthened to increase accountability and the company has become more focused on shareholder value.

Jae Lee, an analyst at Daiwa Securities, says the Lee family's power is checked by the growing influence of foreign investors. "When [Samsung Electronics] invested in the motor business there was still a foreign ownership limit of 20 per cent. Now the company is 58 percent foreign-owned. Management knows they can no longer make investments that go against shareholders' interests."

## **CONCLUSION**

With the development of two big giants, South Korea progressed a lot in every sector which enabled it to transform its economy. Samsung and Hyundai faced a lot of difficulties in their path to success but they became successful just because of their integrated management system which identified opportunities and needs and wants of consumers earlier than others and became adaptive to the environment. Between the 1950s to 1980s, it was a time when every year a new business sector was growing and those who were identifying first were getting the first mover advantage of establishing their brand value. Both of them invested in R&D according to their financial conditions which increased their scope of improvement in products and services. With all of their efforts, Government supported them with all the policies they needed to communicate with foreign countries and remove all the restrictions and barriers that they were facing in their growth. These barriers were removed for all other major companies and conglomerates.

However, Korean people have a habit of supporting the company which is engaged in social welfare. Also, Korean government with regard to the effective functioning of the companies listed some rules that companies should follow as to appoint half of the board members from outside, consolidated financial statements in accordance to GAAP. They also encouraged the companies to follow decision making not only through owners of the company but from all the members making it a majority of the vote. These reforms had subsequently changed the style of management and decision making leading them to grow in present and future. After seeing the need, both Samsung and Hyundai with the government promoted the environmental sustainability in orientation with government policies since the 1990s encouraging other companies to focus on the environment in relation to business.

With all the capabilities, Samsung and Hyundai were able to transform themselves into big giants that not only helped them but people from all around the world that were, are and will be using their products and services in future.

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