

# The Outlook for Korean Corporate Management

By Tamio Hattori

Research Officer, Area Studies Department, Institute of Developing Economies

*Mr. Tamio Hattori, born in 1947, joined the Institute of Developing Economies in 1971 after graduating from Doshisha University. He conducted research on Asian problems in South Korea and the United States 1977-1978.*

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East Asia is far away from the United States and Western Europe. It is the land full of the "mystery of the Orient." As seen from the United States or Europe, it would be impossible to distinguish between Japan, South Korea and China.

Their peoples, cultures and societies would seem to be almost identical. Once I had the opportunity to hear Dr. Herman Kahn speak on the relationship between Confucianism and economic development. According to Dr. Kahn, Confucian ethics have played a very important role in the takeoff stages for the economies of the Far Eastern nations, just as the spirit of Protestantism has done in the Western economies.

It is true that both Japan and South Korea have been heavily influenced by China. Both countries use ideographic characters borrowed from China in their writing systems, and both have much more in common with each other than they do with other Eastern cultures such as India.

Does this mean Japan and South Korea

are as similar as twins? If there are differences between these two countries, how are such differences explained? The purpose of this article is to point out the differences between Japan and South Korea in corporate management systems.

## Characteristics of Korean Corporate Management

The distinguishing characteristics of Korean corporate management as seen by a Japanese are as follows.

1. The first and foremost feature is that Korean corporate management is a top-down system with all authority in the hands of the corporate owner who is both the company's financier and top manager. Another aspect of this is that, in most cases, the owner's position of power is handed on from father

principal reason why the corporation or group tends to divide at the first opportunity, such as when the question of leadership succession arises.

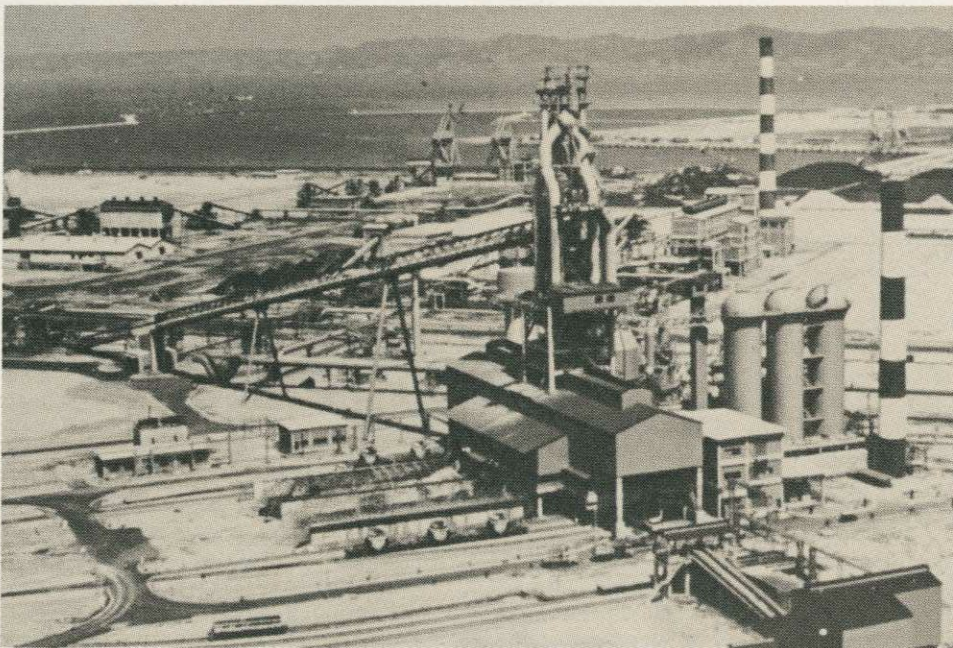
A look at the relationship between the above two characteristics indicates that in Korea the corporation is regarded as more of a private than a social entity.

3. Those people linked together in the corporation by close personal ties place much importance on keeping the unrelated people in the same corporation moving. In Korea it is relatively easy to shift from one corporation to another. Compared to Japan, therefore, the percentage of employees who stay with one corporation for many years is relatively low. Job-hopping and cross-recruiting of the business elite, as well as for white-and blue-collar workers, is common. For this reason any systematic staff education in the corporation is hard to organize.

4. Korea's wage and promotion systems both reflect the low rate of stability among employees. The rate and speed of advancement within a Korean corporation are high, but the system is so structured that an employee soon reaches the limit of his advancement potential. For those who have no chance of moving further up the corporate ladder, both in terms of promotion and wage in-

creases, there is little choice but to seek better opportunities elsewhere.

5. Another characteristic, on a somewhat different level from those discussed above, is the extensive and varied support the Korean corporation can expect from its government in the name



Pohang industrial complex in South Korea

to son in conformity with traditional Korean family succession.

2. The corporate owner is surrounded at the top management level by immediate family members, relatives, friends and schoolmates, and people from the same geographical region. This is the

of national economic development. There is a strong orientation towards increasing sales and promoting corporate growth. For this reason, take-over bids are relatively common, and there is a growing tendency towards the development of monopolies or oligopolies.

It is difficult to say whether the above five characteristics originate in Korea's traditional social structure or whether they are temporary phenomena caused by unprecedented economic growth. While these two factors may appear on the one hand to cancel each other out, they also, on the other hand, seem to be carefully synchronized.

Let us delve into this a little more deeply.

## The Background of the Korean Management System

One of the basic concepts to be grasped in understanding Korean corporate management and the society upon which it is founded is that of the family or *chip*. Social relationships in Korea are based on the pattern of relationships existing within the family. The Korean *chip* has a superficial resemblance to the Japanese *ie*, but its structure is quite different. The basic differences are: (1) the maintenance of blood ties as opposed to the adopted son system practiced in Japan, and (2) the inheritance system. In Korea a person unrelated by blood ties can never become a member of a family. In Japan, families with no sons will often adopt a boy or man to carry on the family name, but no such adoption system is practiced in Korea. The phenomena of collateral families, therefore, does not occur. High value is placed on the purity of blood ties. Whenever matters of inheritance come up, second and third sons and those below are never ignored. For these reasons, the Korean family is confined to those having direct relationship. Second and third sons eventually leave the family of their birth and establish independent families of their own. The Korean system of divided succession ensures economic support for such families.

The concept of the Korean family can be applied to that of the *zaibatsu*, an economic clique, for a better understanding of the make-up of the Korean *zaibatsu*. The Korean *zaibatsu* is commonly divided along family lines of brother and brother, and father and son. The Kumho corporation is a typical example of a brother and brother *zaibatsu*, and the Daehan and Kukjae companies are typical father and son examples. Of course, there are cases in which a financial combine is kept intact at the time of leadership succession, but for such cases special measures had to be

devised. Lucky and Doosan are examples of *zaibatsu* which have been kept intact in this manner.

The differences are clear when the Korean *zaibatsu* is compared to its Japanese counterpart. For the Japanese *zaibatsu*, based on the *ie*, whether Mitsui or Sumitomo, dividing up the group for reasons of succession was inconceivable. The Japanese *zaibatsu* family made every effort to avoid the breaking up and possible decreasing of family fortunes. The Japanese *zaibatsu* family was strictly a financier; actual management was left to



Mr. Chung Ju Yung,  
Chairman of the Hyundai Group

outside people from a very early stage of the *zaibatsu*'s development.

In contrast, the Korean *zaibatsu* family continues to function in the role of top manager as well as principal financier. Even the division of a group between sons to accommodate a succession in ownership represents an effort by the owner to keep the functions of financier and manager in his own hands.

The concept of "my" company is particularly strongly reflected in the area of personnel management. For most Korean corporations, some kind of relationship with the owner or top management, either through family, regional, or school ties, is required for an employee to advance to the executive level. In Korea, education and ability are not enough. A person's capability must include human relations in a very broad sense. With so much value placed on this kind of "capability," and with the strong likelihood the Korean manager will apply this kind of evaluation in making personnel decisions, the resulting method of handling employees appears to the Japanese eye as rather extreme.

Compared to Japan, the top management people in a Korean corporation are

relatively young. This is not only because the supply of college graduates employable for future promotion to executive positions is relatively small in Korea, but because the corporate owner has absolute power over personnel hiring and firing decisions.

The high value placed on certain persons with personal ties to those at the executive level, and the corresponding rapidity of their promotion tends to leave other employees frustrated and dissatisfied. In Japan, however, it usually takes some time for an employee to work his way up to a management position. His advancement is based on an objective order of priority and, though some dissatisfaction may be generated, this is kept to a minimum.

Differences in the speed with which employees are promoted in Korean corporations provide fertile ground for job-hopping and recruiting between companies. Under the circumstances, if the same wage system as in Japan were adopted, it would collapse at the first attempt to put it into practice. For the wage system could never respond adequately to the frequent personnel changes and rapid promotions in the Korean corporation.

One of the advantages of the Korean system of top management centered on a single owner with strong leadership, is the speed with which decisions can be made. All corporate decisions are made at the top and transmitted down to the employee level. Those in the middle act as a conduit between top and bottom, and are responsible for the execution of the decision. It is not always necessary for those at the top to be sensitive to complaints from those at the bottom who have to carry out their orders. It is important, therefore, for the top management people to have strong leadership qualities. An employee critical of or dissatisfied with the implementation of a decision from the top always has the option of quitting and moving on to another company where he will be better able to exercise his own skills.

In this sense, the Korean top-down management system and the freedom of the employee to move from one company to another are closely related. This is clear in comparison with the Japanese system. The Japanese corporate management is obliged to heed employee dissatisfaction and suggestions as much as possible. If the management fails to do this, employee frustration is likely to build up to the point where the corporation's effectiveness is impaired. This is because the Japanese employee does not have the option of quitting and working for another company.

A great deal of time, therefore, is spent by Japanese management on coordinating a company's internal policies, to the point where decision-making is significantly delayed. This tendency can be seen in the

Japanese government as well, and has often been a cause of undue frustration for the governments of countries trying to deal with Japan.

There are disadvantages to the Korean system of top-down management and speedy decision-making, however. For example, while decision-making is quick, it is difficult to avoid trial and error in the execution of the decision. Estrangement between the executive elite who participate in the decision-making process and the regular employee is also likely to occur. As a result it is difficult to ensure that the actual enforcement of the decision will reflect the thinking behind the decision itself. Careful coordination of corporation policies and their actual execution becomes a problem. Because there is a gap between the person who devises a plan and the people who carry it out, it is difficult to foster the development of middle management. This is the reason behind the complaint of Japanese managers of Japanese corporations operating in Korea that the "middle is weak."

The biggest problem resulting from Korean management organization—the top-down system, the disparity between a plan and its actual execution, and the existence of job-hopping—is the adverse effect it has on communication within the corporation and the transmission of technical knowhow from one employee to another. The person in charge of the execution of a plan, for example, will not divulge the details of the plan to anyone, not even his co-workers within the company. He does this because he knows that the person holding the most information is sure to come out a winner in the end.

For the employee with a high degree of technical skill and knowhow, it is to his advantage to keep his knowledge to himself so that he will be more highly rated on the job market. He therefore makes no attempt to teach what he knows to others. With excessive top-down management, only the vertical communication lines in an organization are strengthened, to the detriment of horizontal communication.

This particular character of the Korean corporate management system is probably one reason the Japanese-style *sogoshosha* (general trading company) does not develop in South Korea. For it is a primary requirement for the development of a *sogoshosha* that any necessary information can be freely supplied to a relevant section whenever necessary.

As can be seen, the Korean corporate management system resembles the American management system more closely than it does the Japanese system. A major reason for this resemblance is that many of the Korean business elite have received university and graduate school education in the United States, and many of the teachers of Korea's future business elite were also educated in the United States.

It is important to note, however, that the foundation of Korean corporate management, though it closely resembles that of the United States, is the traditional Korean social structure. Korean traditions are reflected in the corporate owner's powerful leadership; the leadership succession from father to son; the grip on management by family and relatives; the division of the corporation or group along family lines; and the information exchange between those with close personal ties both within and outside the corporation.

## The Future of Korean Corporate Management

In what directions is Korean corporate management likely to develop?

Already, in some of the larger corporate groups, the owner is involved only in top policy-making decisions, and daily management of the corporation is gradually being entrusted to professional managers. There is a difference, however, between the Korean professional manager and his Japanese counterpart. In most cases, the Korean manager is not an employee who has gradually worked his way up within the corporate organization to a position at the top. He is rather a management specialist who does not happen to have capital. In general, however, there does not seem to be any trend developing towards separation of capital and management. This management system is built on Korea's social structure and it is unlikely that there will be a drastic change in Korean management practices in the near future.

There are external factors, however, that may not allow such Korean management practices to remain intact. Since 1980 South Korea has taken much interest in Japan's productivity promotion campaigns. Many Korean observation groups have come to Japan and 1981 was declared the first year of productivity promotion activities in Korea. Korea is striving to become an exporting nation. For this purpose it is shifting its export products from such light industry products as textiles to heavy and chemical industry products, particularly machine industry products. It is naturally imperative then that Korea improve its product quality and price competitiveness. It is easy to understand why Korea is so interested in Japan's productivity promotion activities.

Yet as has already been pointed out, Japanese and Korean management practices are quite different, and it is doubtful whether Japanese productivity promotion policies can be adopted whole in Korea.

As is well known, one of the reasons behind the success of Japan's productivity campaigns is the emphasis placed on input from those in the workplace. The factory or workplace is the frontline of the cor-

poration, and the people who work there everyday are the most likely to discover new problems and to devise methods of solving such problems. It is imperative that those at the top management level in a corporation consider these people's suggestions for improvements very carefully.

This kind of emphasis on participation by those in the workplace is clearly antithetical to a top-down, elitist management system. In this sense, Japan's productivity promotion policies have been well suited to the post-war Japanese corporation. It is no exaggeration to say that Japan's productivity promotion policies developed in parallel with the violent labor-management disputes which took place at the end of World War II and which resulted in a gradual divestment of the wage, promotion and other fringe benefits enjoyed by the corporate elite until right after the war. Japan's productivity promotion policies were introduced and developed in a form suited to the soil in which they were sown. Gradually, these policies have fertilized this "soil".

South Korea and the other newly industrializing countries (NICs) have undergone rapid industrialization since the early 1960s. Just as Korea has been in hot pursuit of the developed countries, so are other countries now attempting to overtake Korea. For this reason also, South Korea has no choice but to up-grade its industrial structure. Right now, South Korea is suffering a slump that has affected the economy since 1979, but even so, it must hurry to develop its heavy machinery and chemical industries if it is to keep ahead.

Korea's target, as the government has made clear, is to develop its machine and precision instruments industries. Whether it achieves this depends a great deal on the efforts it expends on product quality control and research and development.

When we look back on the past, it is clear that America's breaking up of the *zaibatsu*, the agrarian land reforms, and other "democratization" policies introduced in Japan during the Occupation after the war have had a profound effect on the development of postwar Japan. There were some abuses of power by the Americans at that time, but they were able to carry out their decisions with almost reckless decisiveness precisely because they were outsiders. By contrast, South Korea must reform its society and its management system by itself. It is being driven by the necessity to develop, through its own efforts, a system that will draw wisdom from all people regardless of their social standing.

In conclusion, it seems evident after consideration of both the internal and external situations of Korean corporate management, that Korean management will gradually come to resemble Japan's management system. ●