

ECONOMICS

NAMATOVA, Gulmira**Japanese and South Korean Models of Management in Central Asia
(Kyrgyz Republic, Mongolia, Kazakhstan) – Part I.****Part I – Management in the Republic of Korea****I. The modern model of management in the Republic of Korea, as a synthesis of American and Japanese management styles**

Korean management is studied much less than the Japanese due partly to the relatively late emergence of South Korea on the world stage. Despite the absence of detailed studies we can talk about the impact of the Confucian tradition on modern Korean business. Koreans have inherited the Confucian work ethic and an extraordinary one: in Taiwan the working week is 40 hours, in Japan is 42 hours (however, there is a very good practice to work overtime freely), then the Koreans are working 58 hours a week. They prefer lifetime employment, and perhaps as much as the Japanese corporations are committed to their family, with its atmosphere of consensus, although the Korean company's commitment does not prevent violent labor conflicts. Chaebols themselves to some extent reproduce the regional clan groups, which formed the traditional Korean society. Just as in the old days, the royal court commanded regional clans; modern government maintains strict control over the activities of clan-chaebol and regulates their economic policies down to the smallest detail.

In Korea today there is a great emphasis on kinship and corporations themselves usually keep a family character. Hyundai, for example, is half owned by the same family. In the largest chaebol 30% of the employees are related by family ties with the owner's family. Business is also highly personalized, and the management is authoritarian in nature, so that ordinary workers and even middle managers have virtually no ability to influence decision-making. In this regard, Korea is more like a Chinese society. Full trust between partners is the main condition for the joint management of cases, a written contract – the practice is relatively rare. Traditional forms of politeness are still at a premium¹.

The national characteristics: in the organization of Korean business, we meet a lot of features inherent in the business life of the neighboring countries, especially Japan. However, the prevalence of small family businesses, on which rise vertically structured and closely associated with the state industrial and financial groups, known as chaebol, now known all over the world: Samsung, Hyundai, Daewoo, LG, etc. In the late 90s of the 20th century chaebol accounted for 32% of total sales and 29% of the national

¹ T. Youn-Ja Shim, ed. (2010). *Korean Entrepreneurship: The Foundation of the Korean Economy*. New York: Palgrave Macmillan.

capital. Samsung Corporation in 1997 had about a hundred affiliates and provided 28% of all Korean exports. The Korean chaebol business is significantly inferior to the Japanese keiretsu. For countries with poor labor relations system must choose the path of development, which is closer to their culture. It is necessary to combine the benefits, but select only the ones that can fit into the everyday life of their lives. If they are contrary to that, they can not bring any advantage. In the case of defects, it is necessary to make some changes, if possible, and if not, we have to absorb them into the new model. The Korean experience is a productive combination of models, which at the time of formation of management in the Republic of Korea had already established itself in the international practice and to show not only the advantages but also disadvantages. The management of South Korea changed throughout the second half of the 20th century, and as a result of such experiments, turned out a completely new system of management, which interested scientists from many countries, and termed “the Korean economic miracle”. The management of South Korea is a synthesis of American and Japanese management styles.

II. Chaebol – South Korean economic miracle

In many developing countries, economic development plans are usually not successful. The reason is the lack of administrative mechanisms and skills. Korea, during the period of rapid development, has become an exception to this trend. For the execution of the program of economic development, the Government of the Republic has created a special structure to guide, support and monitor the business activities of private and public sectors.

Most of the ruling elite of that time were former military personnel, in the Ministry of Economy and elsewhere; they used the work of professionals: lawyers, scientists and professors of various sciences. These people were given the power to shape and adjust the economic policy of the state. The situation is only exacerbated the fact that in spite of the scientific merits of workers in this sector, their experience in building a new economic model based on market relations remained at a low level.

However, the Prime Minister and the President also did not stand aloof from organizational problems in the economy. They coordinated all the activities of the agencies working with the various sectors of the economy. At that time, the foreign press has repeatedly called the Korean economy only as “Korea, Inc.” meaning that it is a special organization, in which the President played the role of executive director and the representatives of ministries and heads of public and private organizations played the role of deputy chief operating officer.²

In the 1960s many Americans and Europeans got the idea of South Korea as a poor country, still suffering from the consequences of a war, a country where in overcrowded slums and huts live poorly educated, low-paid, but hard-working people.

This image appeared for the most part based on the memories of Korea after World War II. Many Americans remember that the Koreans were forced to eat the bark of trees to survive in the years 1945-1946. And Seoul was a pile of broken bricks. Already in 1961, GDP per capita was about \$ 93. In the

² Sang Chul Suh (1978). *Growth and Structural Changes in the Korean Economy, 1910-1940*. Harvard East Asian Monographs. Cambridge: Harvard University Press

1980s Korea became the third largest exporter after U.S. and Japan in the production of automobiles, steel, televisions, VCRs, computers and semiconductors.

When Koreans first appeared on the world market, they exported wigs (first made of natural hair, then synthetic), textiles, clothing and a small amount of electrical equipment. Trying to get away from traditional labor-intensive products, they decided to make a breakthrough by concentrating power in the production and technology. In 1957 the Korea Productivity Center was set up and started working — following the example of the Japanese. This was done to improve performance, but also to change the perception of Korean goods like low-quality goods.

They copied, borrowed, bought licenses for the technology and created joint ventures. They founded companies — “observation posts” in the Silicon Valley and established joint ventures with the strongest companies in the United States and Japan. Korea has become the “locomotive” of competition. The U.S. government had no small influence on the management of the new Republic. The U.S. actively subsidized the Korean economy thus has helped remedy the situation by developing the beginnings of the industry, which was destroyed by the Korean War.

In connection with the U.S. government and strict regulation of the domestic economy from their Korean counterparts, there were disturbances in the society, still reeling from the Japanese occupation, caused by fear of another despotic control, which has prevented the taking of more drastic measures.

Also, for the efficient management of the economy, the government needed help. At that time small and weak companies existed that could not create a good basis for a thriving industry. The State was required to cooperate with the most successful and committed organizations, assisting them in getting loans with low interest rates, licenses for imports and exports, favorable tax and acquisition of property belonging to the state at fairly low prices.

As a result of these measures, a group of industrial companies gained opportunities to expand their business and to obtain high profits. The State did not seek to restrict the development of such companies as profits earned by them, to a greater extent was the development of economic activity in general, as well as create jobs and increase exports. Such organizational groups were called *chaebol*, and they are generally governed by the owner and his family. The rapid development of the *chaebol* has not left the yet mendicant population indifferent.

The wave of criticism has fallen on the main organizational groups, and already in 1961 the head of the ten most successful of them have been arrested and were required to return the government the “ill-gotten” gains. Shocked by this turn of events, six of them agreed to voluntarily pay back all or part of the state funding. Having gained control over the *chaebols*, the militaristic government soon weakened anti-entrepreneurial measures, and left most of the legal owners of the property, conditioning *chaebol* that they should proactively assist the government in the process of industrialization of society. These events formed a fairly negative attitude towards *chaebols*. The most successful businesses have been required to publicly admit that they deliberately did not pay taxes, and the wealth accumulated by them was earned dishonestly and illegally. These measures have led to the undermining of the image of the *chaebol*, which has been preserved for decades.

Another development that strengthened the power of the state came through the state regulation of private banks. Moreover, the government has created a number of new state-owned banks, thereby extending its authority in the field of credit and foreign exchange activities. In contrast to the Japanese organizations that controlled commercial banks, which were part of their group, the Korean business activity was completely dependent on the state³.

The second wave of chaebol came 10 years later in the early 70s of the 20th century, when the government actively promoted the development of heavy and chemical industries. For a faster growth of these industries the major holding companies again received stimulation. The income of the 46 major chaebols grew between 1973 and 1978 by an average of 22.8%, while the growth of the national economy was estimated at 9.9%.

The next step in the evolution of this type of organizational groups was related to the interest of Korea's political elite in the development of computer technology and electronics in general. A new direction in development was undertaken by President Park Chung Hee, who was generous with subsidies. However, his murder in October 1979 introduced uncertainty in the political situation of the country. Because of this, chaebols were not only given huge amounts of money for the development of new technologies, but also a certain freedom of action, becoming the main pillars of the state in the economic sphere given the political turmoil in the background.

The result of this situation was the increasing liquidity of funds, which allowed the chaebols to develop the most effective technologies, not only in their main areas, but also in areas that were not previously mastered by them. The number of businesses owned by the 30 major chaebols has increased from 304 in 1974 to 608 in 1980. The uncontrolled growth of the chaebols in this period proves once again the inability to quickly change the government to deal with economic problems.

The energy crises of 1973 and 1979 reduced the import of Korean chaebols, which led to the emergence of problems such as high inflation, low (and in some years negative) economic growth and lower wages in the early 1980s. Such a chain-reaction bowed the authorities in dealing with economic issues in favor of the chaebol.

President Chun Doo-Hwan, who took office in 1979, has made a serious attempt to reduce the influence of big business on the economic situation in the country. Among the actions taken by him in 1980, included:

1. Involuntary loss of 20 major chaebol subsidiaries;
2. Compulsory sale of real property not involved in productive activities;
3. The abolition of trade associations that represented an obstacle for competitiveness;
4. The introduction of strict oversight and restrictions on bank lending;
5. The introduction of more rigorous audits of accounting of securities on foreign trade agreements between large organizations.

³ Sang Chul Suh (1978). *Growth and Structural Changes in the Korean Economy, 1910-1940*. Harvard East Asian Monographs. Cambridge: Harvard University Press

The key point in this program was to force chaebols to sell private property, the proceeds of which went to the recapitalization of major business combinations.⁴

All these reforms were vigorously applied during the first two years of Chona, then taking such drastic measures declined slightly. The reason was the ineffectiveness of such measures. During the first two years, the cost of selling real estate chaebols was 50 billion dollars, while the cost of acquisitions over the same period was estimated at more than \$ 400 billion. So far 140 companies belonging to the main chaebol have been eliminated or were attached to other companies; industrial giants managed to acquire 99 new.

However, the administration Chong did not attempt to limit the growth of the chaebol. In 1984, it adopted a new program which established credit limits for 30 major chaebol, and did prohibit issuing of loans for five of the most successful of them. In certain cases, the loans have been recovered from the low-performing companies. This has led for example to the ruin of the chaebol *Kukje* in 1985. However, these measures did not prevent the chaebol to accumulate sufficient economic resources, in order to become less dependent on the state and subsidies allocated to them. Two South Korean companies, "*Hyundai*" and "*Samsung*" in 1985 were among the 100 largest companies in the world. The share of South Korea in the global shipbuilding industry has increased from 4% in 1980 to 14.4% in 1985; "*Pohang Steel*" is the largest and most efficient steel plant in the world. The world's largest shipyard is located in Busan.

The share of manufactures in South Korean exports rose from 61% in 1965 to 92% in 1984. After only 18 months after the Canadian market has been acquainted with the car "*Pony*", "*Hyundai*" bypassed "*Honda*" and "*Toyota*" and has become a leading exporter of passenger cars to Canada. South Korean companies have collaborated with major corporations in Japan and the United States. The Japanese firms "*Rico*" and "*Seiko Epson*" organized assemblies of integrated circuits in Korea; Japanese firms sold in Korea licenses to produce VCRs; "*General Motors*" has invested \$ 400 million in a joint venture with "*Daewoo*".⁵

South Korean "*KIA Motors*" has released a car "*Ford Festiva*"; South Korean firms are not only producing goods under their brand that became known in America — "*Lucky Goldstar*", "*Hyundai*", "*Samsung*" and "*Daewoo*". They produce goods under U.S. trademark; even the famous yellow diggers "*Caterpillar*" could be made in South Korea. And South Korean companies began shifting production to the United States. "*Goldstar*" had two plants in Huntsville, Alabama. It produced color televisions, microwave ovens, and management in the factories was organized by Koreans. "*Samsung Electronics*" had a similar plant in Roxbury, New Jersey. According to the U.S. Bureau of Economic Analysis, in 1984 the average output per worker in the factories managed by Koreans was 94 thousand dollars, while in purely American companies — 87 thousand dollars. True, in Japanese owned factories in U.S. an American worker produced goods worth of 155 thousand dollars.

⁴ Stephan Haggard, Wonhyuk Lim, and Eusung Kim, ed. (2003). *Economic Crisis and Corporate Restructuring in Korea*. Cambridge, UK: Cambridge University Press.

⁵ Linsu Kim. "Crisis Construction and Organisational Learning: Capability Building in Catching-up at Hyundai Motor". *Organisation Science*, Vol. 9, No. 4, July–August 1998. Korea University, Seoul, Korea. p. 10. Retrieved 6 April 2013.

Several factors contributed to this rise. Chaebols were still the main force of the Korean economy. At a time when the activities of chaebol satisfy the economic interests of the government, there is no obstacle to growth, which again led to a hold of more economic resources. The second was related to the good state of the global economy. After a prolonged recession caused by the energy crisis of the 70s, falling dollar, lower oil prices and low interest rates have made it possible to focus on exports. As a result, South Korea's exports rose from 17.2 billion dollars in 1980 to 71.8 billion in 1990. Another factor leading to the stable prosperity of the chaebol was its permanent leadership. Having lived through many political leaders who sought to undermine their rights, family groups running these organizations remained loyal to the general ideology.

At the turning of the century the Korean economy was in decline. The main reasons for this decline were primarily the global financial crisis. However, a sharp decline was to be expected even in the 90s of the 20th century. The Southeast Asian currency crisis, which started in 1997, confused Korean entrepreneurs, and it shook the confidence of foreign investors in the economy of Southeast Asia as a whole.

Another unfavorable factor for companies of South Korea in this period was the fact that some of them have made considerable investments in the countries of Southeast Asia. As a result, 1997 proved to be fatal for the Korean chaebol. Earlier that year, the chaebol "Khanbo" became bankrupt. "Khanbo" was followed by a sudden collapse of "Kia" — the largest automotive corporations in Korea, whose factories were resold to Hyundai.

The Korean economy could not withstand such a blow. The Government of the Republic could support a concern, but such a rampant devastation exacerbated the crisis situation. Following the bankruptcy of the giants of the industry, the chain-reaction spread to small and medium-sized firms. The number of bankruptcies, previously not exceeding 800-1,000, in 1997 reached the figure of 3,500. The result of such indicators has become a powerful devaluation of the Korean won: its rate dropped by half relative to the U.S. dollar. The timely assistance of the IMF (\$ 57 billion) quickly stabilized the crisis, and by 1999 the GDP growth was 10.2%, which was at that time very high in comparison with other countries, and in 2000 it was 8.8%.⁶

However, the rapid recovery of the economy has shown to be effective only in the early stages of the post-crisis. "Daewoo" became bankrupt in 2000 and financial problems at "Hyundai" undermined the political influence of the chaebol as a whole. The reputation of the old economic policies, the basis of which has been and remains the chaebol, was shattered; irreparable damage was caused, not so much financially as psychologically. The chaebol was no longer a guarantor of security and stability of the economy. This, in turn, required a rapid reform of the chaebol. Moreover, Kim Dae-Jung came to power in 1998, who was widely known for his negative attitude toward the chaebol as such.⁷

But the adopted reforms, as before, did not affect the very essence of the chaebol. The aim of the reform was undertaken to westernise the chaebol. Reformers primarily sought to abolish the specific features of the chaebol, such as versatility, the transfer of government inheritance and others. All these

⁶ Byung-Nak Song (2003). *The Rise of the Korean Economy* (3rd ed.). New York: Oxford University Press.

⁷ Kim Dae-jung". *The Economist*. 27 August 2009.

features of South Korean organizations from the point of view of modern economic orthodoxy were associated with corruption, underdevelopment and inefficiency. Under government pressure, the chaebol had to prioritize directions of development.

As a result, "*Hyundai*" and "*Hyundai Motors*" became separate independent companies, despite the fact that the director of the new car company was *Chong On Gu*, the son of *Chong Ju-Young* — Director of the chaebol "*Hyundai*". To increase and create more effective management of chaebols senior managers were appointment based only on professionalism, not on family ties with the owner families. So, in 2001, it was announced that the next head of "*Samsung*" would be *Lee Jae-Yong*, who was the grandson of the founder of the concern, but had an MBA diploma from the Harvard Business School.

However, some of the reforms still had an impact on multinational corporations of Korea. For example, the limit of chaebol investment in new companies has become a quarter of the price of the concern, and the maximum amount of credit limit was twice the cost of the corporation. Under pressure from the government, some organizations passed rule to professional managers, but this measure was actively contested by lobbyists for the industry giants.⁸

Korean chaebols most resemble American and European corporations of the early 20th century. In contrast to the Japanese *keiretsu*, their composition does not include a bank. The central part of *chaebol* — the parent company is owned by the family. The chaebol has a centralized control system, the central office, while some of the *keiretsus* do not have it at all. Therefore, if the Japanese conglomerates often operate only on the basis of informal communications, chaebols act as a single entity and that as a group.⁹

Such a structure gives rise to a conflict of interest between the controlling owners of the *chaebol* companies and individual shareholders of the companies included in the chaebol. For example, an unprofitable investment project that would be rejected at the level of the firm gets green light due to its effects for the group as a whole (the controlling shareholders).

South Korea is also characterized by a high degree of concentration of production and capital, the largest chaebols, whose assets are estimated at approximately \$ 600 billion are "*Samsung*", "*Daewoo*", "*Lucky Goldstar*", "*Hyundai*", "*Honda*", "*Sanyo*", "*Kia*", "*Lotte*", etc.¹⁰

Korean groups are organized according to the principle of holding corporations under family control. Therefore, control of the companies belonging to the chaebol, can take the following forms:¹¹

⁸ Akaba, Yuji; Budde, Florian and Jungkiu Choi (1). "Restructuring South Korea's Chaebol". McKinsey Quarterly (4): 68–79. Retrieved 13 February 2013.

⁹ Moskalev, Sviatoslav;; Park, Seung Chan (2010). "South Korean Chaebols and Value-Based Management". Journal of Business Ethics .

¹⁰ Mass Production Officially Launched at the New Hyundai Plant in the Czech Republic". Automobiles Review. 2008-11-15. Retrieved 2009-12-12.

Kalab, Vladimir (2008-11-04). "First Czech-made Hyundai Cars Leaving Nošovice Plant". Prague Daily Monitor. Retrieved 2009-12-12.

¹¹ Park, Seung-Rok; Yuhn, Ky-hyang (2012). "Has the Korean Model of Chaebol Succeeded?". Journal of Economic Studies 39 (2) Retrieved 13 February 2013.

1. Founder of the group (clan or family) is directly involved in the management of all companies in the conglomerate.
2. Family clan directly controls only the head (parent) company, and they, in turn, control the subsidiaries.
3. Family clan owns the parent company of the group and the trust fund, the management of which is shared with other chaebol participants (combined version).

South Korean *chaebols* have a highly diversified macrostructure of a distinct dominant element; a landmark in their activities to central planning, the authoritarian style of leadership, an aggressive investment policy. Companies in each of the chaebols are all in leading industries, which undoubtedly leads to high levels of inter-group competition.

From the point of view of organizational structure, the *chaebol* has a streamlined operation of information management, which allows for timely monitoring of competitors and partners, changes in equity, and so forth. The diversification of the associated type is carried out, most of the time, by the addition of new product lines in the current firm. Vertical integration and diversification of unrelated type is carried out through the acquisition of companies or the creation of new firm affiliates¹².

The internationalization of business activities of many of them is shaped by the features of globalization. By the mid-90s the share of the 50 largest South Korean conglomerates accounted for 70% of South Korean investments abroad. The chaebols increased sharply their presence in the Asia-Pacific region (Thailand, Malaysia, Indonesia) as well as in Eastern Europe (Turkey, Czech Republic).¹³

The present financial crisis has also dealt a severe blow to the Korean chaebol. The most serious consequences of the crisis were felt by the construction and automotive industries, which led to an increase in unemployment in the country. In these areas production decreased by 30% or more. The other sector hit very hard was shipbuilding. Along with the drop in production and a reduction in domestic sales export volumes fell drastically. Total exports in November 2008 decreased by 18.3% compared with 2007, while imports — by 14.6%. But the current government is taking steps to invest at all levels of business in the country. Such investments are planned for priority groups of six areas in which South Korea intends to take a competitive position:

1. Energy and the environment.
2. The transport system.
3. New information technology (IT).
4. New developments in the integration industry.
5. Bio-industry.
6. Research.

¹² Akaba, Yuji; Budde, Florian and Jungkiu Choi (1). "Restructuring South Korea's Chaebol". McKinsey Quarterly Retrieved 13 February 2013.

¹³ Agence France-Presse (2006-01-25). "Hyundai Considers Czech Auto Plant".

IndustryWeek. Hyundai Türkiye fabrikası 500 bininci aracını üretti". Hyundai Assan Otomotiv. 21 August 2009. Retrieved 7 April 2013.

It should be noted that the shipbuilding and automotive industry are given the most attention, unnecessarily; they are considered the most effective branches of the economy of Korea. For their support government plans to spend more than a billion dollars during 2013. The 20th century was the era of flourishing economy for the Republic of Korea, which has risen to the top position in the world by economic factors.

For 50 years, the economy of South Korea, as well as its political system, has repeatedly changed, and with it has the management system adopted in the country changed, too. This flexibility and high adaptation capability of the system allowed the Republic of Korea to survive in crises in which other economies have suffered dizzying fiascos. Experiments with the introduction of a new management model and changing some elements of the old expanded opportunities for Korean companies that have become huge multinational corporations, able to compete with the world leaders in their fields.

A fundamentally new type of private property, the Korean *chaebol*, has become a powerful regulator of the economy of the whole country, which has repeatedly over the southern part of the modern history of the Korean peninsula represents both danger and the chief savior for the economic situation in the country. Such a "powder keg" is often not allowed by the government to make decisions that ultimately have a decisive effect on the overall development of the economy. The unfavorable situation forced the state to take measures to limit the powerful private owners.¹⁴ But Korean conglomerates have garnered enough power for more independent activity; they eventually managed to bring all actions of the government to nothing, giving more stability to the country in economic terms, and the system of labor relations that evolved in such corporations not without pressure from the state, has become one of the most effective in the world.

III. Impact of the American and Japanese management models for corporate business development in the Republic of Korea

Manifestations management features of South Korea have the same roots as the management model in other countries. Similarly to Japan, South Korea's business is largely dependent on the quality of labor as a basic resource. Like Japan, South Korea is quite severely limited in natural and territorial resources, despite the fact that the population of this small country (the area of the Republic of Korea is only 99,646 km²) in 2007 was estimated at 48.5 million.

Due to this fact, the term *insamansa* (personnel matters) got used to the everyday life of many generations of Korea. Many Koreans associate the economic growth experienced in the Republic of Korea from 1960 to 1980 with the efficient use of labor resources. Keeping this in mind, when analyzing management in Korea, we can not avoid focusing on the factors of production such as labor relations and human resources.

Throughout the 20th century, the Korean economy has experienced rises and falls, and in each cycle South Korea faced serious problems whose solution required rapid and informed decisions. During the colonial period, the main problem facing the Korean nation was to achieve independence, so that era

¹⁴ Jung, Dong-Hyeon (1). "Korean Chaebol in Transition". Rowley C. Managing Korean business: organization, culture, human resources and change / C. Rowley, T. W. Sohn, J. Bae. - London: Frank Cass publishers, 2002.

was dominated by patriotism. In 1950, the Korean War brought a change in the public mood. The main enemy of the South Korean people became communism. The Korean government took serious measures against poverty, which later impacted the industrialization of the Republic of Korea. This period (1960-1987) was the most successful in South Korea, in which there was a vigorous foreign investment (especially American).

Along with the industrialization of the Korean society, a prosperous nation stood before the issues of democracy, both in the political and in the manufacturing sectors. By 1987, many of the principles of a democratic society have been implemented, and seemingly nothing could shake the economic situation of South Korea until 1997, the year of the Asian financial crisis. For many Koreans assistance of the *International Monetary Fund* during the difficult period was the humiliation of the nation, but that did not stop the ideology of globalization and neo-liberalism came out victorious.¹⁵

During the 20th century the Korean nation rallied into a single body and put a deep imprint in the minds of the Korean people. But the main factors leading to vibrant economy and phenomenal economic growth are not limited to the internal changes witnessed in the country. U.S. funding of the Korean industry has also made a change in the consciousness of Korean citizens

Management in South Korea until 1987

Along with the political changes in country the overall picture of management has changed, too. Until 1987, in the system of labor relations the State played the major role, applying all of its power. The authoritarian government has taken stringent measures to introduce legislation aimed at economic development and growth. Employers and especially labor were in that period quite weak. The main features of management at the time included the vertical method of decision-making, paternalistic leadership and a high level of bureaucracy.

The most distinctive feature of industrial relations at that time was the suppression of autonomous workers' movements. After the adoption of the plan of economic development in 1962 in which the government's strategy focused on exports, adversely affected the labor market. Low wages, high discipline and limited rights characterized the workers' movement and the employment relationships in that period. Universal unionization of South Korea at that time was very low, compared with other countries. Emerging workers's organizations were completely subordinated to the state.

Korean firms at that time often applied strategies focusing on learning and imitating the counterpart companies in the economically more developed countries. During this period the Koreans chaebols started to form. The main characteristics in the field of personnel management included the *system of promotion by seniority*, a system of lifetime employment, the employment of university graduates, monthly salaries, the focus on the universal worker, chief of staff assessment. It is estimated that in 1987 South Korea's GDP was \$ 120 billion, more than half of the GDP of OECD member countries.

¹⁵ Lee-Jay Cho, Somi Seong, and Sang-Hyop Lee, ed. (2007). *Institutional and Policy Reforms to Enhance Corporate Efficiency in Korea*. Seoul: Korea Development Institute

The U.S. Bureau of Labor Statistics, as a rule, does not include the newly industrialized countries of Asia in international comparisons. However, the growing importance of South Korea in the global economy has forced the Bureau to include this country. The development of the economy of Korea in the first phase was made possible mainly due to the cultural characteristics of the country. Koreans are known throughout the world for their hard work.

The average work week in industry in South Korea is 54 hours (in the U.S. - 40, Japan - 41). Many businesses operate a six-day week in two shifts of 12 hours, and with three days of vacation per year. For Koreans work on Sundays is quite common. Even the Japanese complain: "They are working too hard." Korean managers work 70-80 hours per week, the Japanese 60-70, the U.S. about 50.

However, the labor force in Korea is not just cheap and hard. It is quite clever and well-educated. Korea, like every Confucian country, held education in high esteem. Almost all Koreans are literate, and the young Koreans are much harder in learning in high school than their peers in Italy or England. Study, as well as in Japan, takes place at home and at school —love of long-term hard work is instilled everywhere.

Most South Korean leaders have a diploma in electrical or computer engineering; many were educated in the United States. If we believe the Korea Development Institute, in South Korea the percentage of people with a Ph.D. degree is the highest in the world. All these qualities have not suddenly appeared after World War II. The Koreans are an ancient nation with high culture.

The Korean management in the period 1987—1997

With the adoption of democracy in the Republic of Korea, the main activity of the Government refocused to solve the problems that have more political than economic character. This rapid transition, combined with immature labor relations, has led to the emergence of many problems that required fast decisions.

For many decades, autonomous democratic unions existed only on paper, never before workers could dream of such rights as the right to strike or the right to collective bargaining between employers and trade unions on labor conditions. But with the declaration of democracy, these and other rights became real, which plunged the economic relations within the country in a state of near ruin.¹⁶

By mid-1980s, the workers challenged more and more of the old foundations in the industry. Their growing demands for political and human rights led in 1987 to a turning point, resulting in universal autonomous unionism, collective bargaining, and experiments with pluralism. During this period, labor strikes have taken a very tough character. The new government also disagreed with the old foundations in the industry, like the tyrannical use of work resources and authoritarian corporatism. After 1987 collective bargaining became the main regulator on issues such as the definition of wages and working time.

¹⁶ Interlocking Ownership in the Korean Chaebol, by Dong-Woon Kim, April 2003, Corporate governance: an International Review

Another indicator of the rapidly developing democracy has led to numerous attempts to create a second union with the aim of limiting the power of the Federation of Korean Trade Unions. Later, the administration of *Kim Young Sam* has defined its position focusing on globalization. The new government pressed for the increase of workers' salaries, which then forced many corporations to open branches in South-East Asia and Eastern Europe.

These changes have forced Korean corporations to reconsider their approach to personnel management. The new management model adopted in Korea, was named *sininsa*, and made a huge number of quality changes. The *system of promotion by seniority* was replaced by a new system based on the merits of a specific work, and lifetime employment with a more flexible system of employment of the population, thereby replacing the traditional Korean principles to rationalize and fair promotion.

In the newly adopted system of management the following changes were adopted:

1. movement of labor: an interview-based-blind,
2. hiring narrow profile specialists,
3. selective promotion,
4. equal career opportunities for men and women,
5. the pension fund is liquidated within organizations,
6. reward system: the amount of compensation based on the skills of the worker,
7. generic beginning salary of the worker.

Such methods, which were popular outside Korea, very soon became subject to criticism. The most critical was the *system of promotion by seniority*. Confucianism, which is one of the major ideologies of the Korean people, contradicts the more rational system of promotion. In order to smooth the transition, Korean managers were offered several groundbreaking alternatives, which included a blend of both systems of remuneration.

The Management of Korea after the Asian crisis of 1997

The Asian financial crisis and the assistance allocated by the IMF in 1997 led to a regular change in the social order of South Korea. By that time, the country has experienced failures in both the political and organizational areas. Since the recent innovations have changed some of the principles of a market economy, it was necessary to introduce several qualitative changes. The rapidly growing globalization and neo-liberal trends promoted similar transformations. Many companies have undertaken programs of wholesale restructuring and reduction of staff. Many Koreans have lost their jobs, and the most skilled workers have moved to other companies.

As a result of these measures, the unemployment rate stood at 8.6%. The possibility of collective bargaining fell sharply, and the unions have shifted their focus away from the level of wages, and job security. The number of employees working part-time has increased dramatically. The main measure to prevent the effects of the financial crisis was the creation of the Trilateral Commission. Its main task was to incorporate the workers in the decision-making process next to government and management. The

first meeting of the commission was held in January 1998, it beared many fruits and proved to be effective. Its results are felt to this day.¹⁷

During this period, many companies have taken various measures to improve the elasticity of labor exchanges. To reduce the number of cuts, companies resorted to measures such as the reduction of working time, overtime bans, the ban on the recruitment of new staff and the provision of leave without pay. The wage system was also changed. Measures like tariff reductions, delayed salaries, reduced incentives and other benefits, along with sending employees to the company's subsidiaries in lower-paid positions allowed large companies to solve some of their financial problems.

Management adopted a new model, which was based on contract work. The specificity of these contracts was as follows:

1. specific economic conditions (such as tariff rate), as the main incentive for the applicant;
2. reduced employment;
3. limited time frame (for example, seasonal work, contract for 2-3 years);
4. limitations of working in the item;
5. slight motion pictures;
6. use of already acquired knowledge (lack of training at the expense of the company);
7. explicitness.

1. The old principles of *lifetime employment* at one and the same employer were ousted. The State changed the laws giving limited freedom to layoffs. Employers do not miss this opportunity and use it to its full extent. Although the new management model was far from perfect, it still managed to shake the foundations of the basic tenets of the country. For the first time in the history of Korean corporations, managers are seriously thinking about the necessity to retain key personnel in the workplace. The modern model of management in South Korea has adopted many of the features of its predecessors: Japanese and American. The basis of the Korean system is Japanese, but every aspect was largely changed to become culturally relevant to Korean and American experienced managers.

The current Korean *system of lifetime employment*, the basis of which is the Japanese model, has undergone many changes. Unlike Japan, Korean employers do not rely on the fact that the new employee will remain faithful to his company for a lifetime. Thus, the applicant does not confine himself, limiting its potential and freedom of choice. For the Korean employee it is not difficult to change jobs, if the vacancy is most relevant to his material and professional preferences. At first look, such an attitude seems to be a carbon copy of the American mentality, but if you consider the financial side of this issue, the Korean model of management is still closer to the principles of the Japanese wage system.

In other words, the employee is encouraged to be more dependent on the years of service rather than on individual skills and level of professionalism. But in the case of a change of employment, these years are taken into account if the seniority acquired in another organization and the professional qualities can be applied to the new job. Another advantage of Korea's businesses in this aspect is that the organizations were given the right to self-determination in matters of promotion and hiring workers. To

¹⁷ O. Yul Kwon (2010). *The Korean Economy in Transition: An Institutional Perspective*. Northampton, MA: Edward Elgar

date, there are four different staffing policies used by Korean organizations: a system of rewards based on merit, based on seniority, and various mixtures thereof¹⁸.

2. In hiring, several factors were also copied from the Japanese. The main priority, like in the U.S. or Japan, are university graduates, but unlike in America, Korea paid little attention to the level of prestige of the university. The main criterion for selecting future employees is the result of examinations conducted by the organization. For a Korean student the exam is the most important of his career. Preparing them takes years, and their complexity depends on the degree of prestige of the organization, and are often much more complex than the entrance and final examinations of universities¹⁹.

They include not only the verification of theoretical and practical knowledge, but also the psychological aspect. The system of rigid inspection, copied from the Japanese but also transformed, given the cultural characteristics of another country. For example, when applying for a job also the gender of the applicant is taken into account not only the age and occupational factors.²⁰

The second feature when hiring is the recommendation of employees or friends of employees of the employing organization, but unlike Japan, the responsibility is with the person who made the recommendation. Thus, the system only slightly raises the graduate above other candidates. Often, the guarantor is a former teacher or graduate teachers, thus bringing the system to the U.S. declaration of liability, in which recruitment is carried out through a network of universities and business schools.

A distinctive feature of the recruitment process in Korea is forced immersion in the collective psychological environment, the so-called "white collar". After preliminary examination, the most successful of the graduates are sent to conditions close to the field in which they have an opportunity to get to know each other, learning all the advantages and disadvantages of their future colleagues.

3. Staff development of Korean corporations is on the job and fully paid for by the organization. The Japanese system of horizontal increase, in which the employee gains experience at each stage of production, is altered in Korea toward a more common vertical system increase. This is due to the special courses for workers. Going through such courses, the employee receives a theoretical, not practical, knowledge, thus saving time for training of the personnel, while combining all the advantages of the U.S. and Japanese models.

The employee is highly specialized in practical terms, but his theoretical knowledge shall cover the entire production process. The biggest weakness in the Korean system though, is that senior managers are yet hired through family or friendly relations with senior management. Thus, it appears that the middle-tier management of Korea is more advanced than a colleague, which has a negative impact on the overall policy of the organization, but the diligence of the policy is exemplary.

4. The process of decision-making in Korean organizations is very close to that of the Japanese system of management. On the one hand, an important aspect of Korean culture is respect for elders as implied by Confucianism. Under its pressure, the decision taken by senior management, is indisputable and binding, but in the Korean management system, the emphasis is not only on the length of service and

¹⁸ Kil S. H. *Understanding Korean politics: an introduction* / S. H. Kil, C.I. Moon - Albany: New York Press, 2001.

¹⁹ Kim D. O. *Employment relations and HRM in South Korea* / D. O. Kim. - Wiltshire: Antony Rowe, 2004.

²⁰ Sundfeldt, Björn, ed. (1991-05-02). *Teknikens Värld* (in Swedish) (Stockholm, Sweden: Specialtidningsförlagen).

age of the employee, as it is in Japan, but the personal qualities of the employee are also taken into account, which allows middle managers to listen to the advice of their younger colleagues.

Such a system has absorbed the positive aspects of both management models — Japanese and American. Thus, decision-making is not as slow as in Japanese organizations and its quality — not as low as in the U.S., where the manager is the only person authorized to solve problems in the workplace. However, such a system is not as effective as it might seem at first glance. Confucianism and sycophancy forces managers at various levels to make decisions that would flatter the leadership, which ultimately has a negative impact on quality.

5. *The policy of doing business in international subsidiaries* of large Korean companies is completely copied from the experience of their Japanese counterparts. In contrast to the branches of U.S. corporations, which are fast enough to adapt to the peculiarities of the country in which that branch was opened, Korean corporations seek to preserve the priorities of parent companies. Managers and other senior positions are appointed by the head office. Most high-level positions in foreign branches are occupied by Koreans.²¹

This policy is typical of all Asian countries in which it is considered that a policy can be carried out effectively only on the condition that performing leader is a compatriot. On the one hand, such a policy makes it easier to make decisions as individuals who share the same cultural background and speak the same language can quicker arrive to a compromise solution. On the other hand, it strongly inhibits the production process in many ways. People who take the job in such branches are not always able to share features of the employment relationship, are alien to the country, resulting in increased employee turnover. Also, it reduces the efficiency of all employees, even of those who are able to immerse themselves in this environment. Depending on the status of companies, this is a rigid hierarchy, making the atmosphere similar to the army. Ambitious people have to suppress their inclinations and play a leadership role of a reliable cog in the overall machine. But the head will never require to catch star from the sky, because each employee has clearly defined responsibilities. Koreans do not encourage competition, but do not have the staff to relax. Discipline is very harsh — being late is unacceptable.

6. Koreans made the most efficient synthesis of the two models in the field of sales. Koreans are not as focused on quality as the Japanese, which allows a greater number of products for a certain period of time. The quality of products though inferior to the Japanese, Koreans remain one of the leaders in the world. Regarding their American counterparts, Korean manufacturers have a lot in the field of advertising. Financing campaigns is not at such a high level as in America, but it is sufficient to maintain consumers interested in their products. Moreover, the Koreans took the leading position in many industries such as shipbuilding and production of semiconductors, which are no longer in need of advertising. Thus, the Koreans were able to find a middle ground in price-quality ratio, which is an enviable factor, both for American competitors, and for the Japanese.

7. *The negotiation process.* Unlike Japan and the U.S., the geographical position of the *Korean Peninsula*, which makes the country open to external invasions, led to the formation of the Koreans historical sense of acute vulnerability, national and personal insecurity; they can only rely on themselves in the struggle

²¹ Kim Kyeong-Won; Kim Hwa-Nyeon. "Global Financial Crisis Overview". *SERI Quarterly* (Samsung Economic Research Institute)

for survival in extreme conditions. As a result, the Koreans developed a tendency to maximalism, rigidity, stubbornness, underestimating the importance of tolerance and compromise in negotiations. An example is the mutual intolerance and radicalism of pro- and anti-Communist regimes of North- and South Korea.

8. Another feature of the Korean business is that the employment of women from the urban middle strata is subject of lively debate. Even today, Korea remains a country of housewives, where women of all social groups do not work after marriage. This situation is caused not only by the fact that the tradition requires women to stay at home and take care of her husband and children. To play a major role, various formal and informal restrictions need to be overcome; which is very difficult in many cases. For example, prior to the 1980s, wedding necessarily meant the dismissal of a woman and to date, the salary of women and men in any Korean organizations (including the state) are very different. Women earn on average one-third less than their male counterparts.

9. *The organization of the work environment.* Just as in Japan, the head of the department is always in the same office as his subordinates. However, the general manager is allocated separate space in his private office, which is closer to the American style of management. This allows management to monitor the actions of its employees, and gives more of an atmosphere of community. Dignity, taken from the American model, is that the general manager has the opportunity to work in a less hectic environment. Such an environment gives employees a greater incentive for development than in a Japanese corporation.

10. *The organizational structure of corporations* in South Korea is a special, distinctive from other features of Korean business. *Chaebols*, on the one hand, proved to be effective; at times the state violated them because it was afraid of losing control over the economy of the country. All this leads to a huge number of disadvantages of the system; corporations are lobbying very hard with government officials, which opens up avenues for corruptions. During certain periods, when state policy ran against the interests of the chaebols, they lost most of their political freedom.

11. *The mentality of Korean businessmen.* Writing about the Korean management it is paramount to mention the traditional elements of the mentality of Korean businessmen: the inequality in the system of succession and inheritance in favor of the eldest son. In the Korean family the eldest son inherits the lion's share of the family property, in contrast to the Japanese, where the only heir is selected from potential applicants.

12. *Exceptionality and power structure of the company.* Group decision-making in the company consists of the host company at the center and the members of his family and closest relatives on the paternal side. In accordance with the proximity to the central root of the family tree the subsequent layers of the management structure of the company are assembled.

13. *Submission*, a sense of belonging and a model of thinking for salaried employees. The phenomenon of *filial piety* and obedience in the family is modeled on all structures of society and relationships within the company: loyalty and obedience to superiors in the firm, strong sense of belonging to the firm, as a big family.

14. *Leaders of "authority" ensure "harmony."* Authority of the monarchy and the father-head of the family and the company are not questioned by other family members and subordinates, as a factor of peace and solidarity in the society. At the same time, the leader has the obligation to maintain harmony and fair resolution of conflicts between the members of his family and employees.

15. *The system of seniority in personnel management.* Age clearly defines the role and place of all family members in the firm, which has a decisive influence on the composition of the decision, placement and promotion through the ranks.

Today, however, some Korean chaebols are taking measures to change some of these features. Thus, management of Samsung has the following intentions:

1. Overcoming formalism and greater flexibility of thought leaders at all levels;
2. Delegation of authority and decision-making rights to lower levels;
3. Encouraging personal initiative aimed at achieving the common goals of the company;
4. Creating a new system of values for employees to increase their interest in productive work.

As a result of these combinations of American and Japanese features in the employment relationship, led to a completely new model of management. It is not perfect, as took over from his predecessors not only advantages but also some disadvantages, but has developed tremendously and became a subject for the study²².

Conclusion

The question of the most effective management was relevant throughout modern history. Over time, the effectiveness of individual state enterprises played an important role in the economic life of the country, which is directly proportional affected the world economy as a whole. In the conditions of globalization the economic debacle of one organization may lead to the financial collapse of entire countries, which further updated the topic of management. A great example is the Republic of Korea, which became an "economic miracle", attracting the attention of many economists.

Each management model, e.g. American or Japanese, has its advantages and disadvantages, but the flaws that sometimes are pronounced, are an integral part of any of the models, as they carry the mark of cultural component. The Korean experience is a productive combination of these models. Management of South Korea changed throughout the second half of the 20th century, and, as a result of such experiments, created a completely new system of organization management, which is not without its innovations, based on the characteristics of Korean culture.

One such innovation was the chaebol-large organization with a large number of affiliated firms, with a particular style of internal management. But the chaebol today is not only an example of effective business management, but also subject to the flow of criticism, condemning the corruption process taking place between the owners of such corporations and the authorities.

²² Nahm A. C. Historical dictionary of the Republic of Korea / A. C. Nahm, Hoare J. E. - 2nd edition. - Lanham: Scarecrow Press, 2004.

The history of the development of these relations has become a shining example of interaction between government and big business. The South Korean governments have managed to create a delicate, but still acting balance between its influence on the development of the country and the influence of the chaebol, which in difficult times played the role of “savior” of the economy, and in periods of prosperity became a burden for the government.

The control system adopted by these organizations became the property of the Korean people. Adapting to external conditions, it is also an effect of the state, but most of the changes still remained the result of cultural transformations caused by the shifting of American and Japanese management models to a new mentality. They became the basis for such an effective economic development of the Republic of Korea, which remains an “Asian tiger” even in the modern world conditions.

The global financial crisis that hit the entire global financial system plunged the economy of various countries into a state of near-panic. The negative impact of the crisis has caused irreparable damage to the Republic of Korea, the chaebols, which are not only contributors to the developing countries of Asia, but also are actively using investments derived from the more developed countries²³.

While the international community has to come to consolidated solutions, South Korea offers the measures that should lead to global economic stability. The Republic of Korea with its ideas, which was able to resume its status after the 1997 crisis in two years, is a matter of special interest.

On the present crisis, the government of South Korea appeared to be more prepared than the Asian crisis of 1997. At the beginning of 2008, it had a reserve fund of \$ 240 billion which was the 6th greatest in the world. But even this amount is not enough to ensure the country’s survival through such a long recession. To prevent panic, the government was forced to allocate money supply for banks. Such assistance was also extended to foreign bank loans. But soon it became clear that even \$ 100 billion is not enough to mitigate the impact of the crisis, after which the government has pledged another \$ 30 billion, but despite the activity of the state, which allowed lend to small and medium-sized businesses, the damage done to the economy was enormous.

However, the government's plans are still striving for the development of the economy, and not crisis containment. The winner of the 2007 presidential elections, *Lee Myung-Beck* has no plans to deviate from the program, which has become a major factor in his election campaign. He is not going to deviate from the program “747”, developed before his assumption of office by leading Korean scientists. Under this program, the government intends to keep the economic growth of at least 7% increase per capita GNP of \$ 10 thousand a year and take the 7th position among the countries of the world on major macroeconomic indicators.

To resolve these complex issues, which would allow develop Korea, while the world is raging in crisis, the President of the Republic, like many of his predecessors in the hard times, is ready to once again bet on chaebols, returning them privileges for better development by reducing taxes and loosening the limits on their activities. Another interesting move by the Korean government in the current crisis is that this time it has no plans to suspend international agreements entered into prior to September 2008²⁴.

²³ Locke A. Second time around / A. Locke // *The Economist*. - December 25, 2008

²⁴ Lee K. B. Korea and East Asia: the story of a Phoenix / K. B. Lee. -Westport: Greenwood Publishing Group, 1997.

Thus, Korea promotes speedy implementation of the agreement, "Chiang Mai Initiative", concluded between the 13 ASEAN countries on May 4, 2008. According to this agreement the setting up of a special crisis fund within the region is planned in order to reduce the importance of the IMF. It is quite possible that this is also due to the desire of the Korean Government, which remembers very well the "disgrace", when it had to seek assistance from the IMF in 1997.

The Korean Government signed up a free trade agreement with China in 2010, with India and Australia in 2011 and with Japan in 2012. This suggests that the Korea will be able to mitigate the impact of the crisis on its economy. These assumptions are corroborated by historical events. As in previous crises, the Republic of Korea made good progress, and dealt with their consequences in a very short time, thanks to the special structure of its largest corporations and management features used in them. Today, it is impossible not to take into account the fact that the country was prepared to global stress better than many of the countries of the world, suggesting further rapid development of this country in the near future.

The social face of the Korean manager also has a lot of American and Japanese traits, partly to mutate under the influence of local conditions. These are people who often have risen from the ranks (selfmade man) and turned the difficulties of their life to their own advantage (as exemplified by Confucius). They represent, or positioning themselves as people who care about the common good and are perfectly lean. At the same time these people are extremely self-confident and are surrounded by a truly universal awe and reverence of their subordinates.

The founder of "Daewoo", *Kim Woo-Jung*, began in 1967 as a small shop owner in tailoring, staffed by just five employees. Working just under a hundred hours a week, he has created an industrial conglomerate with a capital of 60 billion dollars and staff of 100,000 people. Kim became the motto of the corporation *creative approach, a willingness to take on any challenge and boundless dedication*. Kim titled his autobiography, "Every street is paved with gold", which is quite true to his business career until the financial meltdown in 1997 dealt a crushing blow to his empire²⁵.

Head of the "Hyundai", *Chung Ju-Yung* created his company in 1946. At first he was repairing cars, but soon went into the construction business and became one of the main contractors of the U.S. Army during the Korean War. He subsequently expanded its activities to electronics, shipbuilding, chemical industry, automobiles and the financial sector, earning from his subordinates the exotic nickname "sovereign-chairman."²⁶

In Korea even in large corporations the ownership and management remain undivided: the owner of the company personally carries out comprehensive control over its activities. This is achieved thanks to the special form of management, which is known in the western literature as "virtual headquarters". It is a kind of "personnel department" that defines the strategy of certain subsidiaries that delegate in this informal body his top managers. These companies provide funds for the maintenance of their representatives in it. Through a "virtual headquarters", the chaebol chapter provides guidance to all the companies of its industry group, but is not responsible for their failures.

²⁵ South Korea: The death of Daewoo". *The Economist*. 19 August 1999. Retrieved 2008-11-20.

²⁶ Richard M. Steers (1999). *Made In Korea: Chung Ju Yung and the rise of Hyundai*. Routledge.

Of course, the chaebol system also has its drawbacks, mainly related to their excessive centralization and domination of personal relationships. After the devastating 1997 crisis, the Korean government adopted a policy of gradual disintegration of the chaebol²⁷.

Comparing the Korean and Japanese forms of business organization it becomes obvious that the main feature of the Korean business community is to have a comprehensive network of personal relationships, which are primarily based on family relationships, but does not exclude relations with compatriots and collectives — for example graduates of the same school. This network does not have a distinct focus or, more precisely, a limited extent for certain participants. Its structure is similar to that of the Chinese communities; for all their ethnic and cultural diversity of complex and personal relationships among its members, it forms a single information field where any news is immediately known to all.



²⁷ Interlocking Ownership in the Korean Chaebol, by Dong-Woon Kim, April 2003, Corporate governance: an International Review
