

Corporate Strategy in Korean Corporations

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..... <Contents>

1. Introduction
2. Changes in Overall Management Strategy
3. Changes in Production Strategy
4. Changes in Market Strategy
5. Conclusion

1. Introduction

Strategic planning is the process of deciding the basic mission, the objective, and the major strategies and policies of a company. The importance of strategic planning in the growth of a company is axiomatic. Given the social and economic conditions, it is essential for a company to have the right strategies to grow. A certain set of strategies may work for a company in specific competitive conditions and relations. However, in time these conditions must change and this is why some strategies become obsolete and inappropriate and new strategies have to be established in order to achieve the continuous growth of a company.

During the past fifteen years the Korean economy has achieved the unprecedented growth which has brought about the rapid increase in size of many Korean companies. This economic growth has not affected all Korean companies equally and some companies achieved more growth in size while others were not able to survive.

Certainly, the growth of a company depends upon many factors such as whether the company is in a growth industry, the degree of competition, etc.

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In this respect, "Japan has fascinated outsiders and there is some description and analysis of strategic management in Japan."⁽¹⁾

But, "very little has been written about strategic management practices in developing countries such as Brazil, Mexico, Spain,..., Korea, possibly China, and most of Eastern Europe."⁽²⁾

In this paper, an analysis of growth among Korean companies shows a definite set of management strategies in the growing companies. In addition, those strategies have changed as the Korean economy has gone through various stages of development. The changing patterns of corporate strategies in Korean companies can be observed in terms of overall management strategy, production strategy, and marketing strategy.

2. Changes in Overall Management Strategy

Looking back to the 1950's, one may say that Korea did not have any big companies or major industries except agriculture. This is because until the 1940's the Japanese colonization attempted to build an agricultural economy in the Korean peninsula for their own benefit. Because of the division of the Korean peninsula in the 1940's and the Korean War in the 1950's, South Korea was left with no major industries.

The first stage of growth for the Korean companies can be traced back to the 1960's. In this period, one of the critical factors to be a successful business firm was to find out how to make the product or products which a company was going to handle. As mentioned above, the Korean economy did not have any major industries except agriculture in the 1950's and, under these circumstances, one of the primary tasks for a new company was to find out the production technology, the machinery and the equipment for the manufacture of products. In most cases, there was no domestic technology available to

(1) William F. Glueck, *Business Policy and Strategic Management* (New York, McGraw-Hill, 1980), p.27.

(2) Ibid., p.27.

produce certain products and thus they had to depend upon foreign technology and machinery. During this period Korean companies imported basic production technology and machinery in all areas of industry, ranging from textile mills to sophisticated electronic equipment. Thus, the overall management strategy for Korean companies in the 1960's was to find out how to make certain products or, in other words, to make their missions "technically feasible" by finding out the necessary production technology.

In the 1960's, the typical contracts for production plants were carried out on a turn-key basis. Thus, foreign contractors brought their machines and technicians into Korea to build production plants. Upon completion of these plants and successful experimental operation by the foreign technicians, the plants, which were ready for production operations, were handed over to Korean companies. Thus, the overall management strategy was how to find the necessary production technology and machinery. In short, the main corporate strategy for Korean companies in the 1960's was to make the production of their products "technically feasible".

At this stage of development, if a businessman was successful in obtaining the necessary production technology and in constructing the plant, his success in business was assured in most cases and he was on the right track to a successful venture.

But, in the 1970's, a Korean company was no longer allowed to have a turn-key basis contract for plant construction. Furthermore, the acquisition of the necessary production technology and construction of the plant no longer guaranteed a successful business venture. The growth of the Korean economy slowly made it possible for Korean companies to build most of their production plants and only technology and machinery that was not available domestically was imported from overseas.

Under these conditions, management strategy in the Korean companies shifted from the 1960's "technically feasible" problems towards the new economic problems which they faced. At this time, Korean companies were

under the most favorable conditions for growth provided by the government development policy.

The three major economic policies that were relevant to the growth of Korean companies in the 1960's were:

First, the government, like that of any other developing country, adopted the economic policy of protecting domestic infant industries and companies by prohibiting importation of products which could be produced domestically.

Second, the government adopted an export-oriented economic development policy, in which the government asserted that exportable products produced domestically should first be exported and whatever was left would be consumed in the country. In addition, the government provided much direct and/or indirect support to Korean companies. As a result, many Korean companies tended to neglect the efficiency of their operations and to pursue government support. Most Korean companies made their management decisions on the basis of the government's economic development plan without themselves making any careful study of economic desirability of their projects. Whenever a company operated its business along the lines of the government's economic development plan, it received various kinds of support from the government. If the company was engaged in the export business, it received more support than the others.

Third, the shortage of foreign exchange limited the importation of non-essential goods and restricted travel overseas. One of the results of this policy was that some products, whose production or importation were limited, tended to be priced much higher than those of comparable quality produced overseas. In other words, Korean companies were able to survive despite the inefficiency of these operations.

The above three major economic policies provided a greenhouse for the Korean companies for some time. But, during the 1970's the government slowly deserted these policies and consequently the overall management strategy

of the Korean companies shifted towards how to make their products "economically desirable". Thus, one of the important objectives for Korean companies nowadays is to survive and to compete effectively in the domestic and international markets as the government slowly opens the Korean market to foreign companies.

This shift of management strategy from "to make things technically feasible" towards "to make things economically desirable" produced many changes in management. In the past, top management focused their attention on production facilities and technology. Their main concern was to obtain a large scale production facility and then to produce the products. But in the 1970's, for the first time, their concern shifted towards the efficiency of operations, profitability analysis, and short-range as well as long-range planning. This remarkable change in attitude achieved economic desirability for their products and for the company as a whole. Top executives in Korean companies were fully aware that their companies could survive under the umbrella provided by the economic policy of the government and that many of them would soon be economically undesirable and would be phased out from the economy in the near future. Thus, the overall management strategy in Korean companies is to make their products "economically desirable".

In the 1980's the corporate strategy will be shifted again. As the Korean economy reaches a more advanced stage of development, more attention will be placed on social factors such as pollution, production methods, working conditions, etc. Also the increase in per capita GNP will create a demand for products which were not available in the past.

As a result, corporate strategy in the Korean companies will be "to make their products socially acceptable" in all respects. In other words, those companies whose products, policies and business are accepted by the society will be able to continue their growth in the Korean economy. Thus the shift of corporate strategy from being "economically desirable" to being "socially

acceptable" is slowly occurring at the present time. For example, working conditions at some textile mills were widely accepted and positions at the mills were one of the most popular jobs for women until some years ago. But, due to the high temperatures and humidity in the summer time, the mills now face difficulty in obtaining women workers. Thus, the society no longer accepts such working conditions and the textile mills are changing their management policy by installing air-conditioning equipment at the textile mills. In short, the future growth of Korean companies will depend upon whether the company adopts the strategy of being "socially acceptable" in the near future.

The above shift of overall management strategy can be summarized as follows:

1960's: "Technically feasible"

1970's: "Economically feasible"

1980's: "Socially acceptable"

3. Changes in Production Strategy

According to Korean economists, the period of the 1960's was defined as the age of shortage economy, at which time everything was in short supply in the Korean economy. In contrast, they predict that the 1980's will be the age of surplus economy, which implies that, like advanced countries, Korea will be able to produce goods in sufficient quantity to meet demand. Meanwhile, economists call the present time a transition period, a period of moving from the age of shortage economy towards the age of surplus economy.

With the above observations in mind, one can analyse the production strategy in Korean companies during the 1960's, 1970' and 1980's.

In the 1960's, which was the age of short supply, one of the main missions for the Korean companies was to make and sell goods in the market. In this period, everything was in short supply so whatever was produced was sold in the market because of unsatisfied demand. Thus, it was the good old days

when goods produced were consumed by the consumers.

Under these circumstances, the production strategy was naturally focused on the "make" side and one may call the strategy "make and sell". What a Korean company did was to find proper products, manufacture them and sell them in the market.

As the Korean economy achieved rapid growth in the 1970's, it was no longer possible for Korean companies to pursue their "make and sell" strategy. More companies were formed and a wide range of technical know-how was either developed or imported, thus enabling companies to produce goods that were demanded in the market. Thus, the simple production strategy of "make and sell" was rapidly phased out in the last 1970's and a new mission was given to the Korean companies. The change in the production strategy stems partly from the easy availability of technical know-how, which made for more competition in the market by enabling more companies to produce the goods, and partly from the change in consumption patterns. In the 1960's, when everything was in short supply, consumers did not have much choice so they purchased whatever was available in the market. But, as more goods were made available to them, they started to have choices in their consumption. Consumers no longer accepted products of improper quality and price. In addition, the Korean government gradually opened the domestic market to foreign manufacturers by allowing the importation of consumer goods such as confectionery, kitchen utensils, refrigerators, etc., for the first time.

Under these circumstances, the new mission for a growing company naturally shifted from "make and sell" towards "better and more". The new production strategy of "better and more" implies that Korean companies should devote their endeavors to the improvement of quality in their products. Nowadays, it is widely accepted by Korean businessmen that a little difference in quality will, in these days, make a big difference in company growth. The improvement of product quality was also implemented to penetrate the overseas markets. This will be explained later.

Here the term "better" should be explained more carefully. The term "better" is a comparative word. When Korean companies pursue the "better product" strategy, it does not mean that they have to produce the "best" quality product. What it does mean is that Korean companies should produce "better" goods (i) in comparison with their competitors in the domestic market, and (ii) in comparison with what they produced in the past. At the present time, most Korean companies implement plans for quality improvement through improving production facilities and educating their employees.

Another aspect of the "better and more" strategy is efficiency in production. In the 1960's, when competition was not so keen and labor was relatively cheap, and Korean companies were under the protective umbrella of the government's economic policy, companies paid less attention to the concept of efficiency. They were more interested in the quantity of production rather than the concept of efficiency. But the new developments of the 1970's made the production quantity less important relative to efficiency in production because of the increased competition.

Defining efficiency as the ratio between input and output, one can raise efficiency when more output is obtained by using the same amount of input. Typical examples are: more production quantity is obtained with the same amount of input, or more sales are achieved with the same marketing expenditure. Nowadays, more Korean companies place their management focus on efficiency in production, and management efforts emphasize "more" production and "more" sales with the same amount of input. Thus, the term "more" is used here to represent the concept of efficiency.

In short, Korean companies are pursuing the production strategy of "better and more". The strategy is adopted in part because of the new developments in the 1970's, i.e. demand for better products in domestic and overseas markets, and in part by the necessity of improving management through an increase in efficiency in all areas of management.

As the Korean economy reaches a more advanced stage in the 1980's, econo-

mists predict that the 1980's will be the the age of surplus economy, just like that of the advanced countries. In the age of surplus economy, the production strategy of "better and more" will not be sufficient or effective for the continued growth of a company. In the age of surplus economy, the production strategy will shift towards the production of "new and different" goods in order to generate new demands among the consumers. When the economy is equipped to produce any goods in sufficient quality, companies with the old product lines will lose their market as new products change the consumption pattern towards the new product lines. Thus, it is apparent that the company which pursues the strategy of "new and different" products will grow rapidly in the 1980's.

Even in the 1970's, many companies engaged in the development and marketing of new products. But it is generally agreed that the scope of such activities by Korean companies was limited to the production of necessary goods not previously produced domestically. For example, refrigerators, which were not produced in Korea in the 1960's, are now produced in quantity and even an ordinary farmer would be expected to have one. But a refrigerator is not a "new and different" product from the marketing viewpoint. The production of refrigerators was simply to meet the demand as per capita income increased.

The term "new and different" implies that a company develops a new and different product which will create a new consumption culture in the society. For example, some years ago a Japanese company marketed an electronic thermo jar for cooked rice in Japan. The thermo jar for cooked rice keeps the rice warm for a whole day by use of an electronic device. The electronic thermo jar is now owned by most Korean families in the cities as well as in the countryside and has forged a new life style for housewives. In the past, wives had to cook rice three times a day in order to serve warm rice at breakfast, lunch and dinner. Now it is no longer necessary to cook rice three times a day as long as a family owns an electronic thermo jar to keep the rice warm all day. Thus, the product changed the cooking habits of housewives

and created a new consumption culture in family life.

Sooner or later, Korean companies will do business in an environment where sufficient goods are produced. In the coming years, the production strategy should be naturally focused on "new and different" products so that the company can become a part of the consumption culture which is starting to emerge in Korea for the first time.

4. Changes in Market Strategy

In the early 1960's, when the Korean economy was still in the infant stage, total commodity export was only around 30 million U.S. dollars. Korean companies exported mostly agricultural products and few manufactured products were exported. Under these circumstances, it is obvious that no company could grow if their sales were based on the overseas market. In other words, Korea did not have the capability of manufacturing exportable products and did not have an overseas market. Instead, if a company focused its market strategy on the domestic market, the company could grow under the protection and support of the government.

Thus, Korean companies which placed their market strategy on the domestic market experienced rapid growth, by producing and marketing mainly the daily necessities such as textiles, paper, sugar, etc. As mentioned earlier, companies which concentrated on the domestic market received the government's support and protection and many of them started out originally not knowing how to manufacture the product. Thus, those companies had a monopolistic position in the domestic market and became bigger by making and selling goods in the domestic market.

From the 1960's, when there was a big drive for export promotion by the Korean government, companies engaging in overseas market operations received direct/indirect support from the government. The government's policy for export promotion provided new opportunities for the Korean companies to

grow. Companies dealing with the overseas market could obtain low-interest loans from the government-owned banks and many other concessions. It turned out that by 1979, almost all large Korean companies engaged in export business and dealt with the overseas market in one form or another. Some of these companies have grown to be MNCs (multi-national corporations) from the developing countries. Thus companies in the overseas business grew rapidly in the 1970's and, in contrast to the 1960's, when the domestic market was explored, their strategy was to explore overseas market.

Throughout the 1960's and 1970's Korean companies made and sold products that were requested by consumers. In the 1960's Korean companies manufactured and sold mainly necessity goods which were desperately needed by the people. In the 1970's, when Korean companies engaged in the export business, they were provided with sample products by overseas buyers. Thus, all they did was to copy the sample products that were given to them for the overseas buyer.

In the 1980's, as the economy gets to a more industrialized stage, Korean companies will be in a completely new position. In the age of surplus economy, neither domestic consumers nor overseas buyers would request them to make specific products. Instead, companies will have to develop new products and offer these products to consumers and overseas buyers. When the consumers accept these new products developed by a company, that company will have a successful venture and at the same time be creating a new consumption culture. In short, Korean companies will deal with both the domestic market and the overseas market as one in the 1980's. It will be a whole new ball game.

5. Conclusion

The above analysis illustrates corporate strategies used by Korean companies in the 1960's and 1970's and explains how these will shift in the 1980's. This analysis can be summarized as follows:

1960's: Age of production facilities competition

1970's: Age of efficiency competition

1980's: Age of innovation competition

In the 1960's, when the Korean economy was still under-developed, one of the main management tasks was to make the production of goods technically feasible so that they could be sold in the domestic market. During this period, management attention was naturally focused on the manufacturing aspects of the business and there was a tendency for the biggest production facilities to win in the market and to grow even bigger. Thus, the 1960's may be called the age of production facilities competition. In other words, businessmen placed the highest priority on production facilities in their corporate strategy.

During the 1970's, when the Korean economy experienced rapid growth towards newly industrializing stage, one of the major management tasks was to make the company, as well as the products, economically desirable in the domestic as well as the overseas market. In the production area, improvement in product quality and operations efficiency is considered as a critical factor for further growth of a company. In this period, the government's policy helped to expand into the overseas market. The 1970's is the period during which a formal management system was established in most Korean companies for the first time, and the future growth of a company depends upon how well that company is managed and efficiently operated. Therefore, the 1970's may be called the age of efficiency competition.

In the 1980's, the Korean economy will move on towards the industrially advanced stage. In this period, unlike the previous periods, Korean companies will face the new task of innovation for further growth. For the first time, Korean companies should initiate innovations in technology, product, and management areas. They have to compete in the world market without direct support from the government. All these factors will direct corporate strategy towards innovation. Thus, the 1980's will be the age of innovation competition for Korean companies. Table I summarizes the changes in corporate strategy

in Korean companies.

Table I Changes in Corporate Strategy in Korea

	1960's	1970's	1980's
Economic stage	Under-developed economy	Newly industrializing	Industrially advanced
Management strategy	Technically feasible	Economically desirable	Socially acceptable
Production strategy	Make and sell	Better and more	New and different
Market strategy	Domestic market	Overseas market	Consumption culture
Mode of competition	Production facilities	Efficiency	Innovation