

<CASE>

THE CHUN-GANG EXPORT COMPANY

—Business Correspondence—

John Gibbons

Background

The Chungang Export Company with its principal offices in Seoul, Korea, has a worldwide export network principally for the export of Korean textiles. Since the beginning, sales have been high due to low labor costs in Korea which resulted in low export prices. Chungang employs about 20 office workers (secretaries, errand boys and girls, etc.) and 10 managers and staffworkers (economists, marketers, etc.). In short, business has been very good.

The one problem that Chungang experienced over the last few years was the import surcharge on textiles imposed by the United States—Chungang's and Korea's largest trading partner. However, this was not a major problem due to the fact that while prices for Chungang's exports were forced up they were still more than competitive in the U.S. as well as the world market.

Mr. Kim, Dong-Hee has been president and chief executive officer of the company since its inception with government support in early sixties. He was educated in England where he received the equivalent of a masters degree in foreign trade in the late fifties.

Mr. Kim's executive assistant, Mr. Song, Doo-Yong, received his MBA

Author: Instructor of Graduate School of Business Administration, Seoul National University.

Note: This case is purely fictional. Some of the feelings or situations expressed exist in my experience, but never have they appeared in this specific combination. This is totally a figment of my imagination. The figures that appear are also contrived. They are merely for show and should not distract the reader from the real problems considered here human relations and business correspondence.

form a mid-western American university in 1966 and shortly thereafter joined Chungang. Mr. Song and Mr. Kim have always gotten along within the bounds of their boss-employee relationship but have never been as close as one might think they would be in the light of their similar educational background and professional interests. The other employees of the company have always attributed this distance between the two men to the difference in their educations (one British and one American) and the difference in their ages (Mr. Song is 30 years old and Mr. Kim is 45).

Nonetheless, this combination of men and talents has been good for Chungang, and as its sales have expanded and the company has grown in size, whatever conflicts on procedure, decision making, or personnel have arisen have somehow been smoothed over. With the constant demand for good quality, cheap textiles Chungang has been so busy filling orders and servicing accounts for the past 10 years that personal or factional disputes have had no chance to rise to unmanageable proportions.

It should be mentioned, however, that the two most dominant personalities at Chungang are Mr. Song and Mr. Kim. Whenever a dispute has arisen in the past the two factions involved have always been Mr. Song's and Mr. Kim's. The advantage, however, has usually been with Mr. Kim and his group since most of the staff and managers have lined up on his side. He controls the personnel function--hiring and firing.

Problem Situation

Lately, Korean labor costs have begun to rise due to the Korean Government's pushing of wage increases as part of its "October Revitalization" program in connection with the industrial arm of the "New Village Movement". These increases have not been great by Western or Japanese standards, but they have been enough in combination with the lag effects of the U.S. textile import surcharge to start posing some problems in terms of an increasing need for Chungang to start worrying about serious competition

for the first time in its existence.

To meet this challenge, Mr. Kim called together his staff including a member for each of the functional areas concerned—finance, marketing (Mr. Song), production (an advisory function since Chungang produces no textiles itself but rather acts as an export agent), and planning (traditionally a part of the marketing function but split off recently by Mr. Kim, opposed by Mr. Song, to facilitate meeting this new problem).

The staff council met over the course of several weeks and developed a plan to meet the new competition that market and political factors had forced on Chungang. Among the decisions of major importance made by this group and seconded by Mr. Kim were:

- (1) To diversify markets to lessen dependence on the U.S. which currently accounts of about 70% of Chungang's business.
- (2) To put pressure on Chungang's producer-suppliers to diversify their product lines which until recently have been very limited in terms of patterns, colors, and grades.
- (3) To set up a correspondence department under the direction of the president, Mr. Kim, for handling all foreign correspondence, English translation, and foreign contracts to facilitate foreign business.

Decisions number (1) and (2) were agreed upon and implemented; however, decision number (3) caused some trouble. The Kim-Song relationship which as was seen was never very close had had extra stress put on it in this instance. Not only had Mr. Kim taken away the planning function from Mr. Song earlier but also with the decision to create the new Correspondence Department Mr. Song had lost an additional function which he had cherished and wanted to keep. Nevertheless, he was over-ruled by the staff meeting. For the implementation of decision (3) several proposals were made. Among these were:

- (1) Keep the same system as used presently. This system presently utilizes the writing skills of both Mr. Song and Mr. Kim on a "time free"

basis. That is, when either man has time he works on the correspondence that has backed up. The secretary presently used for this system is only a commercial high school graduate with limited experience and types English very poorly. The system is under the control of Mr. Song.

(2) Hire a Korean college graduate with experience in English writing. Also, a secretary who has graduated from a good college of secretarial science should be hired to replace the present secretary. The function would report to the president not Mr. Song and the Marketing Department.

(3) Hire a young American (male or female) to act as head of the Correspondence Department reporting as an executive assistant to the president. If the American can type, all the better then he can control the whole function. If not, a secretary as described in (2) above should be hired to act as the American's assistant.

On the technical side of this problem, logic would seem to point to alternative (3). While the estimated costs for this would be high (₩100,000 per month for the American and ₩40,000 per month for a good secretary, at the maximum) the staff meeting seemed to favor it first. Only Mr. Song dissented in the meeting, it might be added, with more than a little agitation. (While he enjoyed the U.S. while studying there he developed some prejudices and dislikes for Americans in general, and the thought of having one in his own office as a potential, to him, contestant for power upset him greatly.)

The council voted down proposal (1) out-of-hand and considered proposal (2) only as a poor alternative. It was felt that even though a Korean could be paid less at about ₩50,000 per month (as is the current practice in Korean business—for similar work the American gets more because of his English ability) the chances of finding one fluent enough in English writing to fill this function adequately were not good.

The upshot of this whole affair was a violent confrontation between Mr.

Song and his small faction and Mr. Kim and his group of supporters. The easiest solution would have been to fire Mr. Song and replace him with a more agreeable person with less power. Mr. Kim, however, vetoed this idea easily because of Mr. Song's quite superior performance with Chungang as well as his many so far lucrative foreign business contacts.

Therefore, in an attempt to lessen tensions and to put the force of Chungang's energy back on the task of solving the problem of meeting competition, Mr. Kim proposed a compromise solution which was accepted by Mr. Song. They decided to invite the correspondence expert from an international consulting firm which has an office in Seoul to come to their offices and:

(1) Run a simple cost analysis on the costs of the two proposals, (2) and (3). (Mr. Song had relaxed his stand on (2) but was still violently opposed to (3)).

(2) Arbitrate through the cost analysis and his knowledge of business correspondence, its use, and its effectiveness the disagreement to a solution satisfactory to both sides. (The consultant, it should be noted, while a foreigner has lived in Korea around four years, taught business correspondence part time for that period at Korea's best known graduate school of business, speaks fluent Korean, and understands Koreans well for an American. He is known to both men and acceptable to both.)

The cost analysis can't been seen in the appendix which follows.

APPENDIX

Cost Analysis

Proposal(2)	Hire a Korean	AMOUNT
<u>ITEM</u>		
Korean's Salary		₩50,000
Secretary's Salary		40,000
	Gross Outlay	₩90,000
	*Less: Effectiveness Coefficient (.40×50,000)	(20,000)
	Net Outlay	₩70,000

Proposal(3) Hire an American	
<u>ITEM</u>	<u>AMOUNT</u>
American's Salary	₩100,000
Secretary's Salary	40,000
Gross Outlay	₩140,000
*Less: Effectiveness Coefficient(.80 × 100,000)	(80,000)
Net Outlay	<u>₩60,000</u>

Some Questions for Thought

1. Assuming the cost analysis is correct, how do you think Mr. Song will react to this subjective evaluation bearing in mind the foreignness of the consultant? Do you think there is any better way for the consultant to make his point? How would you attempt to compare the costs of these two alternatives?

2. Assuming that Mr. Song accepts the validity of the cost analysis, how would you go about arbitrating this disagreement? Place yourself in the position of the consultant and answer the following questions:

- a. What arguments could you make on behalf of effective written communications?
- b. What needs and wants could you appeal to in Mr. Song to make him see the benefit of a native English writer writing Chungang's English correspondence?

3. On the human relations side of this affair, how do you think Mr. Kim's actions contributed to this final clash between him and Mr. Song? What do you think is the motive of Mr. Kim in taking away so much of Mr. Song's responsibility?

* **Effectiveness coefficient**—a subjective evaluation based by the consultant on his vast experience in international business correspondence as to the amount of a person's salary that a company will earn back monthly on his performance. In the above example, if a Korean is hired, *at the worst* the company will earn back ₩20,000 on his performance in letter writing. The *worst* the company can do by hiring an American is to earn back ₩80,000 a month. In other words, the Korean will contribute ₩20,000 to Chungang *at least*, monthly, and American *at least* ₩80,000.

4. Assuming that Mr. Song was overloaded, how would you have gone about relieving him of some of his responsibility? What significance do you see in the fact that these two men have different educational backgrounds?