

## **Recent Perspectives on Doing Business in Korea**

*by Michael Roberts, Ph.D. candidate in International Business  
Richard Ivey School of Business, The University of Western Ontario*

As a smaller economy that already experienced its decades of rapid growth in the 80s and 90s, and is now developing at a more moderate pace, South Korea does not attract the same headline news as its large neighbour, China. However, economically, Korea is now enjoying the fourth highest GDP growth rate in the world (6.1%), and has recently emerged as the eighth largest exporting country--making Korea one of only two countries to increase their exports since the beginning of the economic crisis.

As one of Canada's top 10 trading partners, doing business with South Korean companies represents an important and stable opportunity for Canadian firms. The Canadian and Korean economies are in many ways highly complementary. The South Korean economy is driven by consumer product manufacturing giants such as Samsung, Hyundai, and LG, but lacks the natural resources needed to continue its growth aspirations. It has virtually no mineral, lumber, oil or gas reserves. Its agricultural industry is not sufficient to feed its population of 48 million, understandable when we recognize that this highly mountainous country is only slightly larger than Lake Superior.

Since suffering near financial collapse during the Asian financial meltdown in the late 1990s, Korea has undergone substantial reforms in its financial sector and corporate governance structures. The government has greatly reduced restrictions on international financial transactions and is welcoming to foreign direct investment. This represents an excellent opportunity for Canadian companies to enter into a stable yet high growth economy. With a world leading telecommunications infrastructure, a very large middle class, and nearly half its citizens living within a one hour radius of Seoul, Korea may be a more comfortable market for Canadian firms to enter than other emerging markets.

However, understanding the unique Korean social and business cultural is key to succeeding in this market. The following cases have been chosen to highlight important dimensions of doing business in Korea that reflect the economic, financial, and social changes that have taken place over the past decade.

The Lundbeck case highlights the history of the Korean pharmaceutical market as it has developed since the economic reforms of the late 90s. It traces how changes in the business environment, government regulation, and societal preferences have radically altered the landscape of one industry. Beyond being an interesting strategy case, the HyundaiCard case presents an excellent overview of the changes and developments in the Korean commercial financial industry. In the past fifteen years, the Korean financial industry with the help of the government has systemically transformed the country from an almost entirely cash based economy to one dominated by credit cards and Internet banking. The Hyundai / Kia case presents a successful case of corporate

restructuring in the auto industry that highlights the corporate restructuring efforts of the government and business leaders over the past decade. The final case, Samsung Tesco Homeplus, provides a uniquely Korean perspective on corporate social responsibility (CSR). Amongst its other important lessons, this case demonstrates that CSR priorities are highly influenced and shaped by the cultural of the society in which the organization operates. The emphases on education and cultural centres as CSR initiatives can be useful background knowledge for Canadian entrepreneurs looking to market their products and services in Korea.

### **Lundbeck Korea: Managing an International Growth Engine**

In 2005, the vice-president of Lundbeck, a Danish based pharmaceutical firm, needed to decide what to do with one of his most promising subsidiaries, Lundbeck Korea. Over its short lifetime, under the leadership of the country manager and the Asia regional manager, the subsidiary had grown well beyond the original goals set for it. The vice-president wanted to create a reporting structure and management mix that would balance the local demands that Lundbeck Korea required for growth with Lundbeck's overall strategy of specialization, speed, integration and results. The case also traces Lundbeck's internationalization efforts in Asia over the past 20 years. The company had grown from pure licensing arrangements to establishing its own country level subsidiaries. This case introduces the dynamic tensions between taking advantage of local management expertise and executing a corporate strategy developed for an entire global group. In addition, it illustrates the importance, but difficulties, of being sensitive to local management goals, while promoting a global corporate culture.

### **HyundaiCard's Marketing Strategy**

In the competitive South Korean credit card market, a review of the past decade of HyundaiCard's marketing strategies and evaluation of anticipated possible difficulties of being a market follower revealed several challenges for senior management. Despite a tremendously successful creative business model based on customer needs, innovative products and integration of online and offline customers, the company's performance had not progressed in the past seven years. HyundaiCard had difficulty relating its creative business model to the strong personas of the leading players in the credit card industry. How could HyundaiCard, a market follower, successfully position itself as a market leader? Could HyundaiCard's marketing strategy keep enhancing its competitive edge in the market? What future strategy would be best for HyundaiCard?

### **Acquisition and Restructuring of Kia Motors by Hyundai Motors**

In recent years, greater competition and diminished profits, due to domestic and global oversupplies as well as higher development costs, have led the automobile industry to engage in domestic and international mergers and strategic collaboration. This case examines one of the largest mergers and acquisitions (M&As) in the Korean automobile market in recent years: the acquisition of Kia Motors (Kia) by Hyundai Motors (Hyundai). The case describes the background conditions of the acquisition, the integration processes after the acquisition, and the requisites for Kia Motors to normalize management within a short time. Hyundai, in acquiring Kia, enhanced its competitive power in both domestic and global markets, achieving economies of scale and scope

and strengthening its global market basis. That said, Hyundai/Kia faced several pressing challenges, among them the cooperation of Renault and Samsung Motors, the unclear domestic treatment of Daewoo Motors, and M&As taking place among top motor companies worldwide. This case study asks students to analyze the process of post-acquisition restructuring and the resulting synergy effects, inviting them to think through the strategies by which Hyundai/Kia may thrive in the global automobile market. Further, it illustrates both the current state of the domestic Korean automobile industry and recent trends in the global automobile market.

### **Samsung Tesco Homeplus and Corporate Social Responsibility**

Samsung Tesco Homeplus (STH), one of Korea's large hypermarkets, increased its investment in social contribution activities and systemized the organization in charge in the aftermath. It especially focused on education and cultural services, saving the environment and sharing with others. As a consequence, by December 2008, STH was considered one of the most innovative companies and one that realized true customer value. It had won a variety of awards, such as the Green Management award, Social Contribution Company award and the Eco-friendly Management award. After creating a corporate social responsibility (CSR) team in 2005, it won the CSR award given by the British Chamber of Commerce in Korea and was selected as one of Korea's Most Admired Companies. While much progress had been made, company executives wondered what factors would be the keys to their continuing CSR activities. This case presents points of contention and issues in the practice of corporate social responsibility by STH. Social contribution activities and STH were aligned with both sustainable management and customer value-oriented management. Various activities in extended education, environment and charity ultimately led customers to view STH as not just a discount store that simply sold products, but a "value store." STH conducted systematic programs and activities in the areas of extended education environment and charity after having declared itself a "social contribution" company. This case illustrates how a company can develop its social contribution activities. In addition, discussion will centre on the long-term impacts that social contribution activities have on enterprises.