

Suggestion for the policies in building the cultural enterprises in Vietnam through the Korean Chaebol's experiences

Pham Quy Long, Nguyen Thi Phi Nga, Tran Trieu Khoi

Abstract

South Korea, once known as one of the poorest countries in the world, has been seriously implementing its economic development strategy since 1962. After nearly four decades, this country has achieved extraordinary magic in economic success that make the whole world knows as "*Miracle on the Han River*." Along with the wonderful development of the country in the Northeast Asia is the birth and development of many large enterprises (conglomerate, hereinafter referred to as *chaebol*) playing an important role for the development of the country. Among the reasons that made South Korea to be the developed country, the culture of cooperation plays an important role as it helps people to contribute to the development of the country, regardless of their position, class and job. Vietnam is in the process of rebuilding and developing the country, it is necessary to have the cooperation of all the members of the companies, organizations and citizens in the whole country, while many of them do not know how to cooperate with each other. From the Korean research, the current article attempts to systematize, assess some of the prominent success and failure of the Korean Chaebol culture, and thereby draw some policy in how to build business culture in each company in Vietnam.

The qualitative methodology was applied for the current research through the texts, documents analysis and deep interview as well.

Keyword: Culture, Korean culture, Chaebol, Business culture, Chaebol culture.

Introduction

In everyday life and business, everyone acknowledges that businesses, whether big or small, face the question of how to work together between individuals and groups. Many businesses fail, not because of lack of capital, lack of market search or the ability to meet customer needs but just because they can not find the right answer to the question of how to motivate collaboration between individuals. Because while businesses try to achieve their goals, some individuals may have other concerns and are willing to sacrifice their interests to pursue their personal goals. How to focus all resources to help businesses succeed in every project? The solution lies in the "corporate culture". Despite appearing for decades, this concept is still drawing the attention of many academics and business executives wishing to

find a sustainable and harmonious development model of work value and income, and other values to help them do business more effectively.

Starting from the historical development of the Korean economy, the cooperation between the government and the Chaebol organizations has played a significant role in economic growth and has made Korea's astonishing success. Chaebol has rapidly grown into a large group operating in the world market and one of the reasons for its success is the building and development of corporate culture.

The next section of the paper will analyze the reasons for the successes and limitations of corporate culture to the success of the chaebol.

1. The Chaebol's successful reasons

Previous studies have shown that the successful development of chaebol has several main causes:

First, the Chaebols received special privileges from the government. To ensure that these companies operate in the direction of the state, the government has instructed state-owned banks to provide low-interest loans to these companies, and to supervise these companies's loan. With the government's policy to shoulder the financial risk so that Chaebol can confidently carry out the economic development task as planned by the government, the government guarantees the repayment in case the company can not pay the loan. The government also reduced taxes on Chaebol, especially for construction companies performing infrastructure projects such as bridges.

In the 1950s and early 1960s, Korean companies mainly produced textiles. In the 1970s, the government decided to rapidly develop heavy industries including steel, petrochemical, automotive, machine building, shipbuilding and electronics. The government has chosen the most potent Chaebol and motivates them to implement this plan with huge concessional loans. By the end of the 80's, some chaebol had become big corporations on the international ranking. Each Chaebol has an average of dozens of subsidiaries specialized in various business areas. During the 1990s, the five biggest Chaebol (Samsung, Hyundai, LG, Daewoo and SK) generated up to 50% of Korea's gross domestic product.

Second, the Chaebol has a strategic approach to new technology effectively. In the early days, instead of researching and developing their own technology, Korean companies bought foreign copyrights and technology and produced similar goods at a cheaper cost. Having developed at a higher level, Chaebols have created new technologies and products that are competitive with traditional manufacturers. Observing the competition of consumer electronics such as televisions, refrigerators, air conditioners, washing machines, mobile phones manufactured by Korea and Japan we can see this trend clearly.

Third, the chaebol's development in the context of the domestic market and the word relatively favorable. The consumption demand in the country and global after the war created a wide market for

chaebol's products, including the big order from USA during the US-Vietnam's war. But, the Korean chaebol itself has a positive strategy of occupying new markets. This is an important element for the successful export-oriented industrialization.

Fourth, in the 60s-70s, South Korea has the advantage of manpower - a young, industrious, creative and disciplined workforce. The training of human resources appropriate to the process of industrialization has been paid attention by the government and enterprises. In the structure of human resources, the team of key entrepreneurs plays a key role. It is impossible to have the success of the chaebol without their talented captives such as Hyundai's Chung Ju Young, Samsung's Lee Byung Chul, Daewoo's Kim Woo Chung, Lucky Goldstar's Koo In Hoe, These people began their careers with small businesses producing soap, clothes, car repairs, construction and sales, but they took the opportunity and accept risky to divert business to the new fields, innovate technology and move to the world market. They belong to the business class wholeheartedly for the development of the country.

Fifth, it can not be ignored that although chaebols are government-directed in pursuit of national goals, but they are not constrained by social objectives other than business such as job creation, unemployment avoided. Even goals that are highly profitable are unlikely to put pressure on Chaebol's growth strategy. With the government's financial incentives, chaebol focuses on rapidly growing and occupying export markets. Despite a large percentage of sales, Chaebol employs only 5% of South Korean workers in terms of employment. The chaebol employ many inexpensive workers abroad. In reality, the Chaebol does not play a significant role in creating employment for domestic workers.

Table 1.1. Ten famous chaebol in Korea

	Late 1950's	Middle 1960s	1974	1983	1990	1995	2000
1	Samsung	Samsung	Samsung	Hyundai	Hyundai	Hyundai	Hyundai
2	Samho	Samho	LG	Samsung	Daewoo		Samsung
3	Gaepung	LG	Hyundai	Daewoo	Samsung	Daewoo	LG
4	Daehan	Daehan	Hanjin	LG	LG	LG	Samyang
5	LG	Gaepung	Ssangyong	Ssangyong	Ssangyong	SK	Hanjin
6	Tongyang	Samyang	SK	SK	Hanjin	Ssangyong	Lotte
7	Keukdong	Ssangyong	Hanhwa	Hanhwa	SK	Hanjin	Daewoo
8	Hankook Glass	Hwashin	Daenong	Hanjin	Hanhwa	Kia	Kumho
9	Donglip	Panbon	Dong-Ah	Kukje	Daelim	Hanhwa	Hanhwa

			Const				
10	Taechang	Tongyang	Hanil Syn.Textile	Daelim	Lotte	Lotte	Ssangyong

Source: *Stephan Haggard, et al., (eds.), Economic Crisis and Corporate Restructuring in Korea: Reforming the Chaebol p.41.*

2. Some lessons from the failure of chaebol Korea.

It is undeniable that Chaebol has helped to transform Korea's economy into an export-oriented industrialization. However, chaebol was also seen as the cause of the 1997-1998 financial crisis in Korea. This is due to the government's long-standing preference for them and the chaebol itself. Specific reasons as the following:

\ *Firstly*, the "friendly" relationship between the government and a number of large enterprises distorts business performance metrics, and there is no strict monitoring system, so corporations have borrowed for widespread investment, including poor profitability projects. Family-type management facilitates investment decisions that are subjective, lack in careful scrutiny and supervision. Since the end of the 1970s, the pervasive investment due to preferential treatment also triggered the economic crisis in Korea, which was associated with the 1997 global economic crisis. Many Chaebols are unable to pay their debt. President Chun Do Hoan's government has been rescheduling debt relief for the Chaebol through special assistance programs with hot loans from the United States and Japan. Chaebol's widespread investment surges persisted until the 1997 economic crisis. The outstanding debt of South Korea's 30 largest Chaebol, up to 400% of equity in the 1990s. Chaebol has huge sales but low profit margin. Because of the low rate of return, poor repayment ability. The consequence is that the Chaebol always need to borrow more capital to sustain growth and become a big burden on national finances. It is clear that over-privilege and lack of close government oversight have made the chaebol abusive and thus undermine the national economy.

As the Asian financial crisis of 1997 unfolded, foreign banks simultaneously stop to lend more to Chaebol. Half of the top 30 Chaebols (including Kia, Ssangyong, Sammi, Jinro, Hanbo) went bankrupt or merged with other Chaebols. Since the government has secured loans for foreign borrowing chaebol, the South Korean government has also faced a huge debt of ten billions of dollars in insolvency despite the government's foreign debt accounting for only 30% of GDP. In December 1997, South Korea pledged to implement a package of economic reforms in exchange for a \$ 58 billion loan from the IMF.

Secondly, Chaebols have been pursuing expansion and invest in many areas without concentrating on a few key areas. Such outreach does not only affect the main area, but also causes poor

management in many areas. This is more evident when chaebol is in the hands of a family and it is obvious that a family can not have enough good specialists to run a huge business in a variety of sectors.

At this point, Chaebol did not draw lessons for himself from the model they followed - the Keiretsu model of Japan. Japanese corporations often do not develop supplementing industries on their own, but order other businesses, most of which are small and medium-sized enterprises both domestically and internationally to produce and supply.

Third, the Chaebol-led industrialization pushed the focus of capital-intensive activities to a limited number of Chaebol. The overwhelming development of the Chaebol and their close connection with the government has been a concern for fair policy-making. Chaebols may press the law to create favorable laws for their businesses, or to earn more for their group of friends than to serve public interests.

Fourth, from a management perspective, family ownership is not appropriate for managing a large business. A family takes full control of the chaebol, leaving independent factors, including smallholders, the state or other members of the clan in deciding strategic planning project and investment field. In Korea, chaebol also does not learn the Keiretsu's experience. In Japanese corporations, ownership is subdivided, the process is decentralized and professional management mechanism is independent of the ownership mechanism.

It may be commented here that the success and failure of the business does not necessarily originate from the ownership regime. The poor performance of a state-owned enterprise is not primarily owned by the state, but because the state owner does not employ good managers and executives. There is no mechanism for effective monitoring and evaluation of results. Lack a good management and business oversight mechanism, even some of Korea's largest chaebol remain bankrupt even though they are privately owned in the most radical form - of one family or one person.

The weaknesses of Chaebol were dissected during the Asian financial crisis of 1997. The government of former President Kim Tea Chung decided to restructure the corporations with the following main content:

- Establish and control financial ratios to ensure financial security for corporations. In which the debt-to-equity ratio does not exceed 200%.
- Do not allow the parent company to guarantee debt to its subsidiary.
- Forbid the chaebol owned by non-bank financial companies.
- Transparency of management by disclosing financial statements, financial information and business information.
- Focus on the key industries to increase competitiveness globally.

- Appoint personal responsibility of the leader of chaebol family in the management and leadership of the corporation.
- Increased powers for minority shareholders. The board of the chaebol is obliged to have independent members, not shareholders but still have the right to vote and decide. This is a more effective monitoring and control for corporations.
- Prohibition of bribery, forms of influence on decision-making processes is prohibited.

The reform has changed the face of business in Korea. Some chaebol are bankrupt, split into several companies and sold separately. The chaebol are forced to transfer some companies to each other to reduce investment outside of their industry.

3. Lessons for building culture in Vietnam's economic groups

Each company has different management styles, however, from the successes and limitations of the Korean Chaebol, according to the authors' previous articles, enterprises should realize the ultimate vision of the company is creating value for customers and respecting human dignity, including company's high ethical standards.

Creating value for customers and managers with a view to respect human value should be seen as a management philosophy because it respects customer responsibility and rights and treats fairness based on the ability of the company's capacity and competence of employees. That business philosophy, can be generalized according to the following diagram:

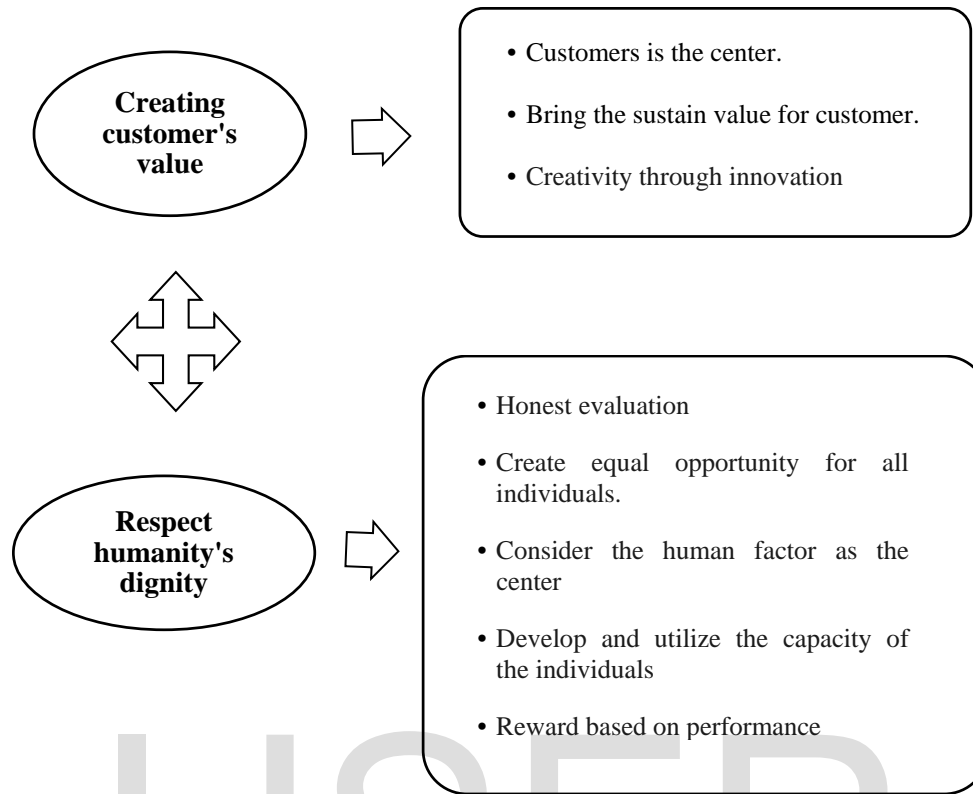


Figure 1: Business Philosophy

Creating value for customers is the business objective that makes every effort to continually maximize customer satisfaction and delivers the best value for customers.

Managing with respect for human dignity is the principle of managing the right individual judgment, the diversity of each employee, developing their abilities, and help them demonstrate their competence.

More specifically, businesses must always strive for full trust. Businesses must win the trust of customers with outstanding quality and brand value so that customers perceive that their businesses are the most trusted.

Second, the business must strive to become the most attractive business to investors. Businesses must win the recognition of investors.

Third, the enterprise fosters talents for all individuals to join the company. Businesses provide the best working environment where all the talented people converge and work as they are.

Fourth, businesses must build a business that other businesses must recognize as highly competitive and still have to find many points need to learn from that business. The competitive

advantage here is that businesses do better than competitors in the same industry and adhere to the development plan of the macro policy.

It is possible to construct enterprise's culture into professional rules based on two key business principles of "creating value for customers" and "respecting human values" into the following key aspects:

3.1. Responsibilities and obligations to customers

Businesses enterprise should elevate the views and trusts of customers to their business platforms. Provide customers with practical value to ensure absolute trust from customers.

Respect customers

Business respect the opinions of customers and meet their needs at all times. Therefore, businesses should consider their customer as the most important measure of the decisions and directions of the business.

Create value

Businesses operate to create value for customers through customer satisfaction in order to build the foundation for business prosperity. Business must constantly create the true value for customers in order to get benefit and satisfy customers in the allowed capacity.

Provide value

Business must always be true to the customer and always promise, to provide customers with products and services with optimal quality, reasonable price and delivery quickly and accurately.

3.2. Fair competition

Business activities in the direction of the globalization of the business must always comply with the laws and regulations of the countries together.

Adhere to free competition

Businesses should support the principle of a free market economy. Therefore, the pursuit of free competition and through the provision of products and services with optimal quality will find the trust of customers. Businesses must compete fairly and skillfully with their competitors, but not exploiting their interest or exploiting their weaknesses.

Compliance with laws and regulations

Businesses, especially multinationals, must strictly control domestic and foreign business practices in compliance with laws and regulations, respecting local business practices.

3.3. Fair deal

All business transactions will take place on the principle of fair competition with equal opportunities to ensure the parties involved. The enterprise builds customer trust and cooperative relationship through fair and clear business transactions. Such relationships are built for a long period of trust and growth together.

Fair opportunity

Businesses provide equal opportunities and look for companies that are qualified to become partners. All candidates are registered and selected fairly through a clear and objective assessment process.

Fair trading procedures

All business procedures are properly controlled. The terms and procedures of the transactions will be discussed between the related parties. It is not acceptable to abuse a position that is worse than a business transaction of any kind. Transaction information is exchanged through appropriate procedures in a timely manner. Transactions are evaluated on a controlled basis.

Support for business partners

Businesses support long-term development for distributors and suppliers by enhancing their competitiveness through technical support from the management. Enterprises share the advantages of business initiatives.

The company also seeks to pursue and cooperate with distributors and suppliers in promoting a healthy business environment that keeps the trade system fair.

3.4. Basic ethical principles for workers

Based on honesty and equity, the employees of the business establish a true value and fulfill their mission through continuous self-development and fairness in the implementation process.

Basic ethical principles

Businesses must cultivate and build a team of employees always proud of their company and always keep a honest attitude. Company staff always keep high ethical standards and constantly strive to keep their personal dignity and honor of the company.

Complete mission

Employees of the company always fulfill their duties according to the company's standards and policies. The tasks assigned must be performed in the best way as well as in compliance with the laws and regulations of the company. Company employees must protect and preserve company property and do not disclose confidential information while working at the company if required. Employees of the company always improve their work efficiency by exchanging and cooperating with their colleagues and other departments.

Self-developed

Company's employees always show themselves as exemplary employees and always try to strive constantly to develop themselves.

Fair in doing work

Employees perform their duties based on honesty and fairness, seeking to foster a healthy corporate culture.

While performing their duties, the corporate employee does not accept any financial gain from the partner that may obstruct the fair assessment. Employees do not engage in any unethical and unethical behavior that is imposed by social norms in the performance of their duties as well as in their personal lives.

Avoid conflict with the interests of the company

Employees avoid any personal behavior or relationships that conflict with the interests of the company.

3.5. Corporate responsibility for employees

Enterprises respect staffs/workers and treat them fairly based on their ability and performance. The company always encourages the creativity of workers.

Respect for dignity

Businesses always believe in employees and respect their personal qualities; Businesses always make the utmost effort to help employees increase their pride in work autonomy; Businesses establish the necessary regulations and guidelines for employees to fulfill their duties in fairness.

Fair treatment

The business provides the same opportunity for every employee based on their abilities. At the same time, businesses should also take clear measures to assess the employee's ability and accomplishment and give them adequate compensation.

Promote creativity

Businesses maximize their efforts to foster a proactive working environment along with human resource development and management based on long-term development plans and active support to nurture employee capabilities. Businesses also need to create a culturally respectful organization for their employees, respecting and sharing mutual understanding in the diverse lives of their employees.

3.6. Accountability to society and the state

Businesses contribute to national welfare, to the development and protection of shareholders' interests by the development and cooperation of shareholders through business co-operation.

Reasonable business development

Enterprises conduct business, respecting social values at home and abroad. Businesses also accelerate business expansion based on stable business growth.

Protection of shareholders' rights

The enterprise protects shareholders' interests by making big profits through effective management.

Contribute to social development

Businesses contribute to national and social development by creating employment, paying taxes, and promoting welfare culture.

Protect the environment

Businesses keep clean and prevent environmental pollution, take all necessary measures to preserve precious natural resources.

Above are some lessons learned from the author group's visit, interviews, the secondary and primary data collection in some Korean Chaebols. However, Vietnam and Korea have both similarities and differences, so the construction of corporate culture in Vietnam also needs to consider the circumstances, avoid the phenomenon of conflict between enterprises within industry and national scope.

4. Comments instead of conclusion

The success of Korea's economic development in general and its success in the growth of the Chaebol in particular over the past four decades has been a top contributor to the government. The role and influence of the government on the business development of the Chaebol is enormous. This has positive and negative aspects, which led to the unprecedented development of the Chaebol beyond the control of the government and spread to the world market. The process of economic reform of Vietnam requires the economic development with many components and economic organizations in which we need the model organizational structure of the big enterprise to lead and link the other organizations to develop in the context of regional and global competition contributes to market expansion and economic growth of the country. But with the development of economic groups in Vietnam, the role of the state is indispensable. Government mechanisms and guiding documents/policies are almost decisive for the emergence and development of economic groups and the impact of corporate culture.

Talking about business culture, it is impossible not to mention the overall society and business. In a general, every business is considered as a miniature society. Big society has big culture, small society/business also has its own culture. The culture influenced and at the same time an integral part of the culture.

As the famous administrator E. Schein has said: "*Corporate culture is embedded in the social culture, the deep stage of social culture. Corporate culture requires both the productivity and efficiency of production, and the concern of the employer and the relationship between people. Broadly speaking, the whole national production needs to be built on a high-level corporate culture that combine both the national culture and adapt to the new current environment and the future*".

To continue to grow in today's environment, businesses must regard culture as their guiding principle. At the same time, in the process of development, apart from the common values of each nation's culture, each enterprise must create its own identity for its own benefit and to compete with other enterprises. One thing is easy to see that without cultural identity, enterprises can not find their standing place in the market. What happened to the Korean Chaebol proved that. By looking at the cultural

characteristics of Korean Chaebol businesses, the authors would like to add a new perspective on one of the causes for the successes and failures of the famous Korean Chaebol, and thereby open up the hints for the corporate culture development of businesses in Vietnam to build a strong corporate culture that contributes to the success of every business.

Due to limited time and reference material, the research is still limited so that the comparison between Korean and Vietnamese business culture cannot be fully compared. These limitations will continue to be researched and developed to contribute to the building of a corporate culture at present.

In addition, with the studies on the experience of formation and development of economic groups in the world - Korean chaebol, assessing the reality of Vietnam, the current study set out several reasons for the formation of economic group in Vietnam as well as the urgent requirements for support from the State. On this basis, the study has made some recommendations and solutions to promote the formation of economic groups in Vietnam as well as urgent requirements for support from the State. On that basis, the study offers a number of recommendations and solutions to promote the formation and development of economic groups in order to bring the growth of corporations in particular and contribute to the development of Vietnam.

The authors hope to contribute a small part to the development of the enterprise system in Vietnam, setting up a modern enterprise model to explore and expand the domestic market as well international, enhance the competitiveness of enterprises.

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