

Management in South Korea Revisited

Edited by
Chris Rowley and Malcolm Warner

Management in South Korea Revisited

This edited collection examines the changing contours of Korean management and business, presenting recent scholarly research into this important Asian economic player. As one of the original 'Little Dragon' or 'Tiger' economies, South Korea has grown and prospered since the early years of the 1960s, and is now home to several major world-class multinational companies, such as Hyundai and LG, Samsung. In turn, it has developed a distinctive style of management, which derives from a shared Asian heritage but is nonetheless unique to South Korea. The collection covers a variety of themes, topics and issues from a range of perspectives and fields in management and business studies.

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Chris Rowley is Professor of HRM at Cass Business School, City University, London, UK and Director of Research and Publications, HEAD Foundation, Singapore. He has published widely in the field of HRM and Asian business and management in the leading journals and in edited books. He is currently Co-Editor of the *Asia Pacific Business Review*.

Malcolm Warner is Professor and Fellow Emeritus, Wolfson College, University of Cambridge, UK, and Judge Business School, University of Cambridge, UK. He was the Editor-in-Chief, of the *International Encyclopedia of Business and Management* [IEBM], 8 volumes (2002), and the author/editor of many books and articles on China. His new work is *Understanding Management in China: Past, Present and Future*, (Routledge: London and New York, 2014). He is currently Co-Editor of the *Asia Pacific Business Review*.

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Yung-Ho Cho, Gyu-Chang Yu, Min-Kyu Joo and Chris Rowley

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Context and implications for Korean management and business

Malcolm Warner and Chris Rowley

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clsuk.permissions@cengage.com

Notes on Contributors

Peter J. Buckley, OBE, FBA, is Professor of International Business, Founder Director of the Centre for International Business, University of Leeds (CIBUL). Founder Director of the Business Confucius Institute at the University of Leeds and Cheung Kong Scholar Chair Professor in the University of International Business and Economics (UIBE), Beijing. President of the Academy of International Business 2002–4.

Kyungro Chang is a Professor at Sungkyunkwan University, Suwon, Korea. He received his PhD from the Ohio State University, USA. His research fields are service management and marketing.

Yung-Ho Cho is a Professor at Ajou University, Suwon, South Korea. Interested in organizational culture and organizational change, he has conducted a series of surveys to investigate cultural change in big businesses in Korea.

Douglas R. Gress, a long-time resident of Seoul, Korea, is currently an Associate Professor of Economic Geography at Seoul National University's College of Education, Korea. His research primarily concerns Korean firms and firm networks.

Sven Horak is an Assistant Professor at The Peter J. Tobin College of Business of the St. John's University in New York City, USA, where he researches and teaches in the area of international business and management. His research interests include the fundamental analysis of informal network structures, the influence of informal institutions on decision making behaviour and Asian Management.

Min-Kyu Joo is a Senior Researcher at the Kim & Chang Law firm. Min-Kyu is interested in human resource management and organizational behaviour. Prior to his researcher career, Min-Kyu worked as a Research Associate at the Korea Labor Institute.

Ronald V. Kalafsky is an Associate Professor in the Department of Geography at the University of Tennessee, USA. His research explores the performance, strategies and location-based challenges of manufacturers and exporters located in industrialized economies. Current projects include studies of manufacturers in Canada, Japan and Korea.

Haiying Kang is a PhD Researcher in the School of Management, Centre for HRM, Division of Business, University of South Australia, Australia. Her research interest is international human resource management in South Korean multinationals.

Taehee Kim is a Research Professor at Sungkyunkwan University, Suwon, Korea, where she also earned her PhD degree. Her research fields are organizational behaviours and human resources management.

NOTES ON CONTRIBUTORS

Jeoung Yul Lee is an Assistant Professor and Department Chair of the Department of International Business, College of Business Management, Hongik University, South Korea. He earned his PhD from Yonsei University Business School (South Korea). He was also a Post Doc at the Wharton School of the University of Pennsylvania during 2006–2008 and has published 11 papers in international SSCI journals, such as *Management International Review*, *International Journal of Human Resource Management*, *International Business Review*, *Journal of International Management*, *Long Range Planning*, *Managing Service Quality* and *Management Decision*.

Michael C. McDermott obtained his PhD from the University of Glasgow, UK, before joining the University of Strathclyde, UK. He is the author of several books and numerous journal articles. He has extensive consultancy experience worldwide on corporate internationalization, and inward investment. Since returning to academe, he has been based at Northern Kentucky University's College of Business, USA.

Byung Il Park is an Associate Professor in International Business at the College of Business Administration, Hankuk University of Foreign Studies, South Korea. His research currently focuses on knowledge acquisition and performance in international joint ventures. His research interests also include mergers and acquisitions, absorptive capacity, corporate strategy, and corporate social responsibility of MNEs. He has published in such journals as the *Journal of World Business*, *International Business Review*, *Management International Review* and *Asia Pacific Journal of Management*.

Louise Patterson is Assistant Professor at the HR Department, School of Management, Kyung-Hee University, Seoul, Korea. Her main focus is gender discrimination in the Korean workplace.

Chinmay Pattnaik is a Senior Lecturer at the University of Sydney Business School, Australia. He earned his PhD from Seoul National University Business School, South Korea. His papers have appeared in *Journal of International Business Studies*, *Management International Review*, *Journal of Business Research*, *Asia Pacific Journal of Management*, *Multinational Business Review* and *Journal of Contemporary Asia*.

Chris Rowley is Professor of HRM at Cass Business School, City University, London, UK and Director of Research and Publications, HEAD Foundation, Singapore. He has published widely in the field of HRM and Asian business and management in the leading journals and in edited books. He is currently Co-Editor of the *Asia Pacific Business Review*.

Jie Shen is Senior Research Fellow in the International Graduate School of Business and Centre for HRM, Division of Business, University of South Australia, Australia. His main research interests are international human resource management, human resource management and industrial relations. He is the author of *Labour Disputes and Their Management in China* and the co-author of *International HRM in Chinese MNEs*.

Brandon Walcutt is a Professor in the Department of International Studies, Hankuk University of Foreign Studies, Seoul, Korea. His main study interests are tourism and entrepreneurship.

Malcolm Warner is Professor and Fellow Emeritus, Wolfson College, Cambridge, UK, and Judge Business School, University of Cambridge, UK. He was the Editor-in-Chief of the *International Encyclopedia of Business and Management* [IEBM], 8 volumes

NOTES ON CONTRIBUTORS

(2002) and the author/editor of many books and articles on China. His new work is *Understanding Management in China: Past, Present and Future* (Routledge: London and New York, 2014). He is currently Co-Editor of the *Asia Pacific Business Review*.

Gyu-Chang Yu is a Professor in the School of Business, Hanyang University in Korea, South Korea. He has published academic articles in international journals and done consulting on HR and leadership for Korean chaebols.

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The changing contours of Korean management and business

Chris Rowley^a and Malcolm Warner^b

^a*Cass Business School, City University, London, UK and HEAD Foundation, Singapore;* ^b*Judge Business School, University of Cambridge, Cambridge, UK*

Introduction

In this introduction, on the changing contours of Korean management and business, we look at recent research on this important Asian economic player and set it in its background and context. As one of the original ‘Little Dragon’ or ‘Little Tiger’ economies, which expanded at spectacular rates of growth post-1960s, the Republic of Korea, more widely known as South Korea (‘Korea’ from now on here), has expanded and prospered (see Rowley 2013). However, there has been less academic interest in its development than in its Japanese and more recently in its Chinese equivalent (see Warner 2013).

Korea has made great progress in recent decades. It has, for instance, moved from military authoritarianism to democracy in the late 1980s and weathered the 1997 Asian Financial Crisis as well as 2008 Global Financial Crisis (see Rowley and Bae 1998; Rowley, Sohn, and Bae 2002; Rowley and Jun 2013; Warner 2013). It now has several major world-class multinational companies (MNCs), known generically as *chaebols*. Today, such diversified conglomerates as Hyundai, LG, Samsung and others are internationally known. In turn, Korea has developed a distinctive style of management (see Chen 2004), which derives from a shared Asian heritage (see Warner 2003; Woodside 2006) but remains nonetheless *sui generis* (Rowley 2013). It has also developed its own human resource management (HRM) policies and practices (Zhu, Rowley, and Warner 2007; Rowley and Bae 2013a).

Political background and context

Korea has changed greatly over the last few decades (see Rowley 2013). The country held its first free presidential election under a revised democratic constitution in 1987, with former army general *Roh Tae-woo* winning a close race. In 1993, *Kim Young-sam* (1993–1998) became Korea’s first civilian president. *Lee Myung-bak* (2008–2013) pursued a policy of global engagement, highlighted by hosting the G-20 (2010) and Nuclear Security (2012) summits. Korea also secured a non-permanent seat (2013–2014) on the UN Security Council and will host the 2018 Winter Olympic Games. *Park Geun-hye*, its first female President, took office in 2013. The Korean peninsula still remains divided after over 60 years of strife, with a communist North still at odds with the capitalist South.

Economic background and context

Korea has demonstrated incredible growth and global integration to become a high-tech industrialized economy, while the North stagnates both economically as well as politically and socially (Kwon 2010). In the 1960s, Korea's gross domestic product (GDP) per capita was comparable with levels in the poorer countries of Africa and Asia, yet it is now the world's 12th largest economy. GDP (official exchange rate) was US\$1.146 trillion, GDP per capita (PPP) was US\$32,800 and GDP composition by sector of origin was services 57.5%, industry 39.8% and agriculture 2.7%. The labour force was 25.5 million, by occupation being 70% in services, 23.8% in industry and 6.2% in agriculture.

A system of close government–business ties, including directed credit and import restrictions, helped this success. The government promoted the import of raw materials and technology at the expense of consumer goods and encouraged savings and investment over consumption. However, the Asian Financial Crisis of 1997 dramatically exposed long-standing weaknesses in Korea's development model, including high debt/equity ratios and massive short-term foreign borrowing. GDP collapsed in 1998, although it quickly recovered in 1999, and numerous economic and labour market reforms, including greater openness to foreign direct investment (FDI) and imports, were adopted. Growth moderated to about 4% annually between 2003 and 2007. The export-focused economy was hit hard by the 2008 global economic downturn, but again quickly rebounded, reaching 6.3% growth in 2010. In 2012, however, the economy experienced sluggish growth at around 2.3% due to market slowdowns in the USA, China and the EU. It faces the key challenges of balancing heavy reliance on exports with developing domestic-oriented sectors, such as services and a rapidly aging population and labour market.

Management and business background and context

The above systemic management evolution has been well described in earlier work (Rowley and Bae 1998; Rowley, Sohn, and Bae 2002) and more recent accounts (Rowley 2013, 122), which describe its 'rollercoaster ride of development, management and culture' as being changed from 'being eulogised to being castigated'. The responses to the crisis that hit Asia in 1997 helped to bring its intrinsic problems to the boil. The drivers of state-led development, the *chaebols*, were accused of 'crony capitalism' and were under great pressure to mend their ways. Some, such as Daewoo, collapsed, although others, such as Samsung, continued. The latter is now the world's biggest technology company by sales. Nevertheless, *chaebol* domination continues, as seen in the shares of company assets as a percentage of Korea's GDP. For example, Samsung Group accounted for 28%, Hyundai Automotive Group 11%, SK Group 8%, Hanwha 7%, LG Group 6%, Lotte 5%, Kumho Asiana Group 4%, Hyundai Heavy Industries GP 4%, GS Group 3%, Doosan 3% and other companies 21% (Song 2013). Such domination gives Korean business its distinctive character.

Also, many see continuing *chaebol* abuses such as domination and stifling entrepreneurship and small firms, especially in the domestic constrained retail sector (as manufacturing can look to export; see our later study on machine tool exporters). Retailers have tried to boost sales by forcing vendors to take more goods, but sluggish domestic consumption, combined with draining education expenditure (see Mundy 2013), limits this and unfortunate cases, such as with Namyan Dairy Products, Posco Energy, Baesangmyun Brewery and others, have hit the media (Song 2013).

Management and business are seen as underpinned by Korea's historical evolution and national culture, creating distinctive corporate cultures. A recent study (Rowley 2013)

Table I. Overview of content.

Study	Themes	Subject	Organization types	Sectors	Sample/methods
1	Corporate culture Change and continuity variations Collectivism and progressivism Discrimination and gender Culture	HRM/OB	MNC	Several	Questionnaire survey
2	Explanatory framework Resourcing Development Rewards	HRM	Small Private	Several	Interviews: Korean, Canadian, Israeli
3	Commitment: organizational + occupational Turnover intention Organizational citizenship Management practices Networks	IHRM	MNC	Several	Systematic review
4	Informal relation-based ties International collaborative formations Technology acquisition Realized absorptive capacity Exporting Friction of distance International trade fairs Site-selection decisions Negotiations	HRM/OB	Local	Sports	Survey
5	Explanatory eclectic theory Cross-national distance Commitment to foreign markets Foreign affiliate divestment	OB/IB IM/IMR	Several	Several	Interviews: Korean, German
6		IB	IJVs International acquisitions	Several	Questionnaire survey
7		IB/Geography	MNCs	Machine tools	Secondary data Questionnaire survey
8		IB	MNCs	Autos	Secondary data Interviews: Korean, American
9		IB	MNCs Affiliates	Several	Questionnaire survey

clearly brings out the interaction between social values and corporate culture, which is 'differentially viewed as more collectivist by Westerners versus more than individualistic by Japanese' under the rubric of 'Dynamic Collectivism' (134). In spite of growing internationalization, informal networks (see the later study on these) and Confucian values such as harmony, solidarity, work and the like are indeed still important but are now being reshaped. Corporate culture still retains its influence in Korean business, although it is now evolving into a new stage of development (see the later study on corporate culture change). Management education and training are also being geared to better cope with globalization (see Warner 2013). This change can also be seen in the evolution of Korean workforce development and skills (Rowley and Yoo 2013), labour markets (Rowley, Yoo, and Kim 2011) and trade unions (Rowley and Yoo 2008; Rowley and Bae 2013b).

Content and themes

We cover a range of subject and topic areas in this collection on Korean management and business, from HRM and international HRM (IHRM) to organizational behaviour (OB) to international business (IB) and international management (IM). These cover, respectively, corporate culture, discrimination and gender, HRM practices, commitment and informal networks to international collaborative formations, exports and overseas location decisions and divestment strategies. With this, we progress from the more micro to the macro, from the domestic to the international. The studies often develop theoretical implications and propose useful practical and managerial insights and future research avenues. An overview of our content by theme, subject, organizational types, sectors and methods is presented in Table I.

The contributions in this collection not only cover important broad conventional areas of management and business studies, but also bring in other outlier fields, such as sports science and geography. The structure of the contributions follows the logic of moving from HRM to OB to IB, IM, and so on, and from a focus on the internal to the external, from home to overseas. Such a progression we believe adds 'value-added' to this collection.

We start with a study covering a topic that underpins many of the rest of the contributions, namely corporate culture. The study, 'Changing corporate culture over time in South Korea', argues that corporate cultures are often seen as deeply ingrained and slow moving. Using a survey from 1995 and 2006, this work uses examples between and within the *chaebol*. This is partly because of their strong corporate cultures, importance in economic development and growth, and the rising public and political backlash against what are seen as overly powerful and secretive institutions. This research examines changes in the values and attitudes of employees that characterized traditional *chaebol* dynamism: collectivism and positive-oriented attitudes.

Building on corporate culture ideas, we move onto the next study, a more micro- and practice-based focus. An area where we might a priori expect change with wider cultural and societal shifts is discrimination and gender relations. The study, 'Explanations for Continued Gender Discrimination in South Korean Workplaces', investigates potential explanations for continued gender discrimination despite decades of policy reforms and improved education for females. It uses both primary and secondary data sources. Institutional theory, voluntary compliance regulatory enforcement strategy and a typology of regulatory non-compliance provide the framework from which four explanations regarding the origin and nature of company equal opportunity compliance issues are derived.

Given this study, what else might be happening in HRM? Our next study covers this and IHRM. The contribution, 'International human resource management policies and practices of South Korean MNEs: a review of the literature', examines recent work on the IHRM of Korean MNCs. This work covers the broad HRM policy and practice areas of resourcing, rewards and development. This includes those HR policies and practices towards home-country nationals and expatriates.

Another area of HRM and linked to corporate culture concerns staff commitment and this is the topic of our next contribution. 'Turnover intentions and organisational citizenship behaviours in Korean firms: the interactional effects of organisational and occupational commitment' investigates the effects of the organizational and occupational commitment of employees on turnover intentions and citizenship behaviours. It covers the sports sector, relatively under-researched despite its annual average 13% growth rate since 1994.

Moving from the more micro to the more macro, a further link to culture and management in organizations concerns informal networks, which our next study covers. The contribution, 'Antecedents and characteristics of informal relation-based networks in Korea: Yongo, Yonjul and Inmaek', notes that although much has been written about Chinese *Guanxi* networks, Korean informal relation-based networks are less commonly researched. Three forms are distinguished. *Inmaek* describes a social network in general, while *Yongo* networks draw primarily on existing kinship-, university/school- and regional origin-based ties and *Yonjul* ties exist for a purpose, often to secure personal gains and benefits. For the formation of these networks, the three core elements *hakyon* (education-based ties), *hyulyon* (family or blood ties) and *jilyon* (regional origin-based ties) play major roles and provide the common ground.

We continue to broaden our focus and spread our analytical breadth, now to IB, as covered in the next study. 'Realised absorptive capacity, technology acquisition and performance in international collaborative formations: an empirical examination in the Korean context' identifies and compares critical factors facilitating the technology acquisition from foreign partner firms and performance enhancement in 'international collaborative formations'. This uses examples of local Korean firms and European, the USA and Japanese MNCs. A new concept, 'realised absorptive capacity', is utilized.

A key area of IB concerns internationalization, especially what might encourage it (see Rowley, Maqsoom, and Charoennam, forthcoming). A fascinating example of this is provided next. 'Go big or stay home? Korean machinery firms, trade fair dynamics and export performance' notes that many manufacturers export increase sales and expand into new markets. Korean manufacturers export in order to expand outside of small domestic markets, but then confront the common constraints, including access to market intelligence and geographically distant prospective customers. This study examines efforts by machine tool manufacturers to minimize the so-called 'friction of distance' involved with exporting through the use of international trade fairs. Emphasis is placed on the influence of individual export destinations and on the role of firm size *vis-à-vis* firm export intensities and overall export strategies and motivations.

A part of the internationalization process that is often more hidden in the mainstream literature is the external and internal competition and negotiations between MNCs and not only competing host countries, but also other potential host locales within countries. An example of this fascinating process is provided next. 'Interstate competition in the US South for South Korean auto investments: a US perspective'. There is intense intra-regional competition to secure such 'trophy investments'. Yet, research offers little insight on the detail of the very final stages of the international site-selection negotiation process.

This study focuses on the role of US government officials and Southern state stakeholders seeking to secure investments by Hyundai Motors and Kia Motors. An exploratory eclectic theory is used to explain site-selection decisions.

Finally, within IB, there is the all too often underplayed process of exiting from FDI and commitments abroad. The reverse process of overseas withdrawal is a topic of our final contribution. 'Distance and divestment of Korean MNC affiliates: The moderating role of entry mode and experience' examines the impact of 'cross-national distance' on the divestment of foreign affiliates. On the basis of the dimensions of cross-national distance, this study examines the impact of each measure of distance on the divestment of affiliates using MNCs headquartered in Korea and their affiliates in 67 host countries.

Discussion

The contributors to this volume hail from a variety of countries and universities or business schools across the world, namely Australia, Korea, the USA and the UK. This feature points in part to the spread and geographical reach of interest in Korean management and business. The conceptual and methodological rigour of the research described is, we would argue, to be commended. A wide range of subject backgrounds and perspectives is also apparent and should be seen positively. Again, contributions are based on a variety of types of empirical field research, which strengthens their plausibility and significance. There is much to be learned by the Western observer and reader from these contributions. The respective contributions to this volume all point to a wide gamut of changes, some highly visible, as well as some more subtle and less evident, some explicit and some implicit.

It is clear that the range of subjects covered in this collection is comprehensive enough to allow some generalizations to be made concerning the ongoing evolution of Korean management and business, although we must be cautious in extrapolating too much from the evidence. It is clear that it has developed its own style of management, whether *vis-à-vis* the *chaebol* or the small- and medium-sized enterprise sector (see Li 2013). Only very limited progress has been made on the gender front, however (see Rowley and Lee 2009; Rowley and Yukongdi 2009; Cooke 2013). No doubt, further social change will kick in during the coming years, but barriers still remain in this vein.

There are many themes that overlap between the respective studies included and these were shown in Table I. The cross-disciplinary nature of these contributions is also evident, with some overlapping between HRM and OB and others more specifically contributing to our understanding of IB. All of the contributions point to many new changes with which Korean managers and businesses have to come to terms. Importantly, these pieces have relevance for a range of literature, such as on business systems and varieties of capitalism (Rowley and Truong 2013; Rowley and Yukongdi 2013), and so on, showing continuing differences between countries. Korea has come a long way since the early days of industrialization in the 1960s, has modernized in ways unimaginable to those writing some decades ago but continues to plough its own furrow in its own way.

Conclusions

It is evident that Korean management and business has evolved a distinctive style in its home context, despite the 'rhetoric of globalisation' (see Rowley 2013, 146) and that a form of Korean 'managerial revolution' has taken place. Although it has affinities to the Japanese model, it has retained key differences. Yet, having been traditionally hierarchical

for so long, management strategies and structures have now to adapt to the demands of more broadly educated managers and a highly more skilled workforce, given the substantial investment in human capital which has been made in recent years. In turn, managerial values are undergoing many changes, albeit we must be cautious in deducing that ‘convergence’ has taken place. Even so, Western-style business schools have proliferated to a degree far more than in say their Japanese neighbour. There are also strong pressures as to improve the language-skills of Korean managers, starting with the introduction of English as the main language at both university and management education levels, unlike either China or Japan. In many ways, Korean management is moving closer to a global model but still keeping its own character in a new guise.

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Changing corporate culture over time in South Korea

Yung-Ho Cho^a, Gyu-Chang Yu^b, Min-Kyu Joo^c and Chris Rowley^d

^a*Business Administration, Ajou University, Suwon, South Korea;* ^b*School of Business, Hanyang University, Seoul, South Korea;* ^c*HR·IR Research Center, Kim & Chang Law Firm, Seoul, South Korea;* ^d*Centre for Research on Asian Management, City University, London and HEAD Foundation, Singapore*

Corporate culture change is an interesting topic, not least since cultures are often seen as deeply ingrained and slow moving. Here we look at the example of the large, diversified conglomerates in South Korea – the *chaebol*. This is partly because of their strong corporate cultures, importance in the country's economic development and growth and growing public and political backlash against what are seen as overly powerful institutions. We find that over the decade from one crisis, the 1997 Asian financial crisis, to the next, the 2008 global financial crisis, there has indeed been change between and within *chaebol* corporate cultures. However, this is not as straightforward as it seems and the situation in and after 2011 has become even more complex, mainly due to changes in the global environment.

Introduction

Corporate culture change is an interesting topic, not least as cultures are often seen as deeply ingrained and slow moving. Here we look at the example of the large, diversified conglomerates – the *chaebol* – in South Korea (hereafter Korea). This choice is partly because of their strong corporate cultures, importance in the country's initial and continuation economic development and growth and the growing public and political backlash against what are seen as overly powerful institutions. We find that over the decade from one crisis, the 1987 Asian financial crisis (AFC), to the next one, the 2008 global financial crisis (GFC), there has indeed been change between and within the corporate cultures of *chaebol*. However, this is not as straightforward as it seems and the situation in and after 2011 has become even more complex, mainly due to changes in the global environment.

We report the initial findings from a comparison of surveys we undertook in 1995 and 2006 vis-à-vis developments in Korean *chaebols* later, in 2011. First, a great deal of change in values and attitudes of employees seems apparent. Traditional collectivism and the positive-oriented attitude that characterized *chaebol* dynamism declined. Second, despite overall changes, individual companies maintained their identities according to their *chaebol* group. Also, cultural differences have not been converging, but rather remained distinct and diverging. On the basis of these findings, we can hypothesize that business society has become more diverse. While maintaining core elements of traditional collectivism, society has to cope with widening diversity at individual and organizational

levels. In this diversifying society, the management of corporate culture is going to play a more important role in attracting the right people and maintaining organizational identity. From this finding, we can posit that a ‘diversity paradigm’ could be emerging in Korean business.

Chaebols in the economy

Chaebols have played a critical role in the rapid post-1960s development and economic growth. Nevertheless, there was criticism of the *chaebol*-dominated economy after the 1997 AFC and the government introduced large-scale restructuring and half of the top 30 *chaebols* collapsed. However, the economy recovered and the 2008 GFC seemed less impactful. The *chaebols* also soon bounced back. For example, the total sales volumes of the four largest *chaebols* – *Samsung*, *Hyundai Motors Company* (hereafter *HMC*), *SK* and *LG* – are now about 50% of Korean GDP (Hankyoreh 2012). Whereas their combined sales were \$16,637 million in 1995, they were \$364,982 million in 2006 and \$552,014 million in 2011 (see Table 1). *Samsung*’s sales rose about 40 times, while *HMC*’s 22 times and *SK*’s 27 times, respectively, during 1995–2011. Furthermore, the proportions of sales in GDP in 2011 of *Samsung*, *HMC*, *SK* and *LG* were 17.9%, 10.6%, 9.5% and 9.1%, respectively, which in total is close to one-half (47.1%), clearly indicating how much they affect the economy.

The *chaebol* impact on the economy may also be inferred through their number of affiliates and global rankings (see Table 2). These changes greatly increased from 1995 to 2011, with the exception of *HMC* and *LG* in 2006. Some (Choe and Pattnaik 2007) observed that *chaebols* did not pursue diversification as actively as before the AFC. However, the increased rate of affiliates from 2006 to 2011 is higher than that from 1995 to 2006. According to a Fortune Global 500 list, the financial global status of *Samsung*, *HMC* and *SK* rose, with only that of *LG* fell. For instance, in 2011 *Samsung*, *HMC*, *SK* and *LG* were ranked at 22, 55, 82 and 171, respectively, in the world. In the case of *LG*, some group separation occurred, i.e. *GS* in 2005, which led the downsizing of the number of all affiliates and impacted on the global ranking.

Chaebol corporate cultures

Part of the powerful performance of the *chaebols* (along with other business system factors, see Rowley and Bae 1998 and Rowley, Sohn, and Bae 2002) is down to having quite unique and strong corporate cultures, which may lead to strong cohesiveness of employees. ‘Corporate culture’ is defined as a psychological sub-system employees share, such as beliefs, values or behavioural norms in an organization (Shin 1992; Schein 2004; Hofstede, Hofstede, and Minkov 2010). Cho and Yoon (2001) define the uniqueness of

Table 1. Sales of *chaebols*, 1995–2011 (unit: \$ million).

Year	Samsung	Hyundai Motor	SK	LG
1995	5165	5746	1721	4008
2006	150,455	77,555	70,479	66,493
2011	209,431	123,867	111,593	107,123
Proportion of sales for GDP (2011)	17.9%	10.6%	9.5%	9.1%

Sources: Choi (1996), Hankyoreh Newspaper (February, 2012) and Korea Fair Trade Commission (2012).