

To what extent has the South Korean management system shifted to an LME since the 1990's?

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Introduction	3
Brief Literature Review	3
Essay Body	4
Conclusion	7
References	9

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Introduction

It is expected that market economies will differ in adopting and diffusing their pattern of HRM according to “systematically interdependent configurations” (Jackson & Deeg, 2008). These differences are observed generally in the shape of two types of ideal market economies namely coordinated market economies (CMEs) and liberal market economies (LMEs). To answer the topic “To what extent has the South Korean management system shifted to an LME since the 1990s?”, this essay provides a brief literature review of these two types of market economies in the backdrop of the South Korean management system. It also explains about the family-owned business organisations (Chaebols) because they had a strong history of doing business in South Korea and they were the ones that experienced a significant change of path from CME to LME.

The main essay body begins with the historical existence of Chaebols governing the state-led business management system before Korea transformed into LME during the 1990s. Although CME was being shifted to the changed path of LME, Chaebols still had significant control over the management system. So, the South Korea did not have an entirely changed LME since the 1990s, but rather an integration of old CME and new LME. The essay highlights important factors associated with this new transformation to LME. For example, Korea completely bypassed debates with business firms and other stakeholders in their policymaking. Secondly, a noticeable tension of ‘institutional complementarity’ (that plays a vital role in the process of change) was observed. The essay further explains the changes in the South Korean management system since the 1990s, leading towards a mixture of CME and LME effects. The essay provides arguments that to some extent, the Korean management system is centred on state-led CME and to some degree, it has incorporated LME.

Brief Literature Review

With the rise of globalisation in the 1990s, South Korea experienced a significant institutional change in the state-led model of capitalism based on the literature of ‘varieties of capitalism’ (VOC) (Kang, 2010). Two types of VOCs were proposed by Soskice and Hall (2001) namely coordinated market economies (CMEs) and liberal market economies (LMEs). Lee & Shin (2021) highlight that this literature principally focuses on how business organisations enter into an association with other actors such as governments, business associations, suppliers, workers and other stakeholders. If a business organisation uses a non-market association (such as business

organisations in Japan utilise strategic interaction among actors), then its economy is referred to as CME. By contrast, if a business organisation relies on market institutions to perform its operations, then it will be classified as LME. In simple words, LME economies are principally dominated by a minimal role of the government, short-term profit maximisation and shareholder ownership. By contrast, CMEs economies have less business autonomy, strict regulation of the labour market and a major role of the government.

In South Korea, the word 'Chaebol' denotes family-owned businesses that span across diverse industries through subsidiaries (Campbell & Keys, 2002). The five largest chaebols namely Hyundai, SK, Daewoo, LG and Samsung contribute towards the major GDP of South Korea and its exports. These Chaebols were exposed to liberalisation in the 1990s so that at a much lower rate they can borrow funds in US dollars from the international markets. The government lifted restrictions on foreign domestic investments and liberation was provided to the financial business market. This essay perceives that South Korean business organisations experienced an exposure of LME from CME that can be referred to as a careless or premature integration. On one side, the South Korean management system was state-led and Chaebols-controlled CME, whereas on the other side, it was a liberalised neoliberal LME. Due to this happening, the South Korean management system was not able to meet the challenges of the 1997 Asian Financial Crisis. The point is, to some extent, the South Korean economy continued to be CME along with a sudden integration into LME, due to which the Korean management system experienced an adverse type of Anglo-Saxon or neoliberal model, inappropriate for such type of newly achieved business development.

Essay Body

Historically speaking, South Korea had a state-led business management system but scholars such as Hundt (2005) and Pirie (2007) argue that Korea transformed into LME since the 1990s. Chaebols have been the largest conglomerate groups in Korean business management till 1990 when the Korean government used to offer them loans at low costs, as well as other incentives so that chaebols can globally compete. Campbell & Keys (2002) argue that the Korean government help was majorly associated with the top chaebol groups. Even in the early 1990s, most of the

business management control was limited to chaebols. It can be said that business management in South Korea had high levels of managerial entrenchment thanks to the fact that major firms were family-controlled. In January 1992, South Korea allowed foreign ownership of business firms (Campbell & Keys, 2002), however, the level to which foreigners can have ownership was pretty low i.e., total foreign ownership can be 10% while individual foreigner can have only 3% ownership. At the same time, in the mid-1990s, South Korea suddenly expedited the LME stance on management that can be observed by foreign ownership increment to 26% by the end of 1997.

The labour market in South Korea also shifted from CME to LME, and the existing lifetime employment system (Japanese-styled) turned significantly weakened. Lee & Shin (2021) highlight the occurrence of increased labour flexibility through employment leasing and layoffs resulted from statutory requisites. Hence, the irregular workers or part-time employees noticeably increased in South Korean firms, thereby transforming South Korean capitalism into an LME format of liberalised labour and financial market at large. However, South Korean management cannot be referred to as an entirely changed model of LME, but rather a variant of the old CME (non-liberal capitalism model). This means the role of the state (although marginalised) is still active in the new format of the liberal market economy (LME) model to manage the economy to some extent. South Korea experienced an incremental process of change towards LME, but leaving strong imprints of both CME, as well as LME in the management system to date.

The Korean business management's transition towards LME was different, solid and sudden compared to Japan. This is because unlike Japan where LME neoliberal reforms were incorporated gradually after great discussions, the state-led management system of Korea shifted towards LME by quickly incorporating heavy reforms (Tiberghien, 2007). Korea bypassed debates with business firms and other stakeholders completely and introduced heavy involvement of the International Monetary Fund (IMF) in the policymaking. However, this reveals another fact that the management system in Korea faced a great tension of 'institutional complementarity'. Here, institutional complementarity is extremely important to the heart of capitalism from the perspective of VOC literature. Soskice and Hall (2001) explain institutional complementarity in simplest terms. The firm relations (education and training, labour relations, inter-firm relations and financial system) are governed by the institutional sub-systems; when these sub-systems are coordinated in the correct manner, they attain complementarity by mutually reinforcing each other.

This institutional complementarity is extremely important because it provides an institutional advantage and increases firms' performance. Based on the VOC literature, it is expected that this institutional complementarity plays a vital role in the process of change.

It is discussed earlier that the most significant and powerful firms in South Korea were Chaebols. In this context, Witt (2014) highlights that the key institutional complementarities in Korea were associated with Chaebols. For example, long-term financial capital and indirect finance were available to Chaebols and the Korean management system pay little attention to the involvement of capital markets. The controlling families (Chaebols) had an inherent bias against the change of path to LME, so this situation created noticeable tension for institutional change in Korean firms. Therefore, despite having established that the "institutional complementarity" concept entails diversity, one cannot deny the tension of Chaebols that would not want their controlling monopoly to be disturbed due to LME. In the earlier discussion, this essay established the fact that the financial system in South Korea happened to be state-led in which Chaebols were the strong controlling firms. Therefore, the state's-controlled labour relations and managerial experimentations were being challenged by the LME-based neoliberal ideology in the 1990s (Kim, 2003). The LME reforms demanded the state to disengage from controlling the labour relations and financial system. During the 1990s, despite these LME reforms were in place, the Korean management system was still somewhat state-led thanks to Chaebols who had historical footings in business organisations. It can be said that the Korean management system was experiencing a mixture of CME and LME effects. This might be the reason that 'institutional complementarity' tension created by Chaebols (which prefer CME) and the new reforms demanding their disengagement (which prefer LME) did not result in correct 'institutional complementarity' in relation to the process of change. Resultantly, the Korean management system was embracing LME to some extent but there was no mutual feedback from Chaebols-governed organisations, and the LME change lacked a negotiated process among the main stakeholders. Therefore, the change to LME did not show adaptive and incremental changes in the Korean management system. During this change, the institutional complementarity that was previously driven through state-led controlling Chaebols was missing.

After the 1997 Asian Financial crisis, the Korean government took major changes against Chaebols. For example, Chaebols were instructed to sell failing business units, close down or

merge. However, continuous dominance of Chaebols has been observed in the shape of their major assets of Korea's GDP percentage (Samsung Group is holding 28%, Hyundai 11%, LG Group 6%) (Song, 2013). This shows that Korea's power paradox is still dominated by Chaebols.

The two sub-systems in South Korea experienced a simultaneous and separate change. The bitter experience was that the kind of mutual learning and managerial experimentation observed in CMEs was satisfied, however, the long-term commitments regarding labour and financial capital were no longer engineered or controlled by the state (Kang, 2010). Kang (2010) also argues that the owner-managers of the Chaebols were unable to meet the opportunities and challenges brought forward by such type of integration in CME and LME. The Chaebols-related top owner-managers were still dealing with previous long-term investment strategies, but the emergence of globalisation and LME were far more critical that they could successfully deal with. Tiberghien (2002) and Shin & Chang (2003) highlight the example of Daewoo Motor that started its production in many countries including Vietnam, Uzbekistan, Romania and Poland—all of them faced the crisis due to the Chinese investments in similar business. The reason was that state-led CMEs-oriented Chaebols financed their risky and expansionist investment strategies by banking on the stock market and rolling over short-term loans. This essay concludes that to some extent during the 1990s, the Korean management system showed clear signs of path-shifting change to neoliberal LME in which the coordination was being changed from state-led CME to market-based LME. However, Korea still has the past state-led CME controlled by Chaebols. This situation has landed the South Korea to experience a mixture of both CME and LME.

Conclusion

This essay acknowledges that historically, the South Korean management system happened to be a state-led coordinated market economy (CME) and controlled by family-owned businesses named Chaebols. During the 1990s, the government of South Korea started shifting towards a liberal market economy (LME) and lifted restrictions on foreign domestic investments at large. The South Korean management system also experienced a sudden change centred on increased labour flexibility through employment leasing and layoffs, liberalised financial markets and a marginalised role of the state. However, due to the strong footings of Chaebols in the state-led

management system in Korea, the new LME system faced a great tension of 'institutional complementarity'. Due to these tensions, the LME reforms demanded the state and Chaebols to disengage from controlling the labour relations and financial system. Resultantly, the management system of South Korea experienced a mixture of CME and LME effects coupled with incorrect or even missing 'institutional complementarity'. The essay concludes that since the 1990s, to some extent, South Korea has shifted towards LME but it also entails state-led CME. Therefore, to some extent, the South Korean management system is LME, but to a noticeable degree, it is still CME.

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