

Globalization And Corporate Management Of Korean Companies

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ABSTRACT: *This research was carried out due to establish how increase in globalization influenced Korea and Korean governance management system. While Korea was one of the most strict and closed in management system country among the Asians. We aim that this research would help us to have a better understanding of the impact of globalization and its result on Korean governance system.*

Korea has its unique corporate governance system where globalization has had a big impact on it and its changing to a globalized system. Chaebols are the most important factors in this Korea's governance system as they are big family firms that control the Korea's economics. In this paper we have shown the impact of cross cultural effects and the human resource management on Korea's corporate governance.

KEYWORDS—*Chaebol, cultural effect, globalization, governance, South Korea*

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I. INTRODUCTION

The Asian financial crisis was a period of economic crisis that has been hit most of the East Asian countries since the beginning of July 1997 and fears of a global economic down due to the economic contagion. The Asian crisis had impact countries in many ways. And in Korea one of the reasons was to affect the cooperative management system. Corporate management problems in Korea before the financial crisis of 1997, which led to severe financial vulnerabilities and poor performance, is well documented. Many problems with corporate governance are due to the focus on ownership control, especially among Chaebols. Overcome from commercial groups in Korea and different types of relationships between companies. These features mean a bit of corporate office weakness and transparency, which in turn often facilitates allocation of inefficiencies from resources and many risk taking. The weak governance structure became even more severe by two factors, one of which was the passive nature of the Korean banking system, with its limited risk management and credit analysis skills, a huge state role both directly and indirectly as head of banks. This second factor was the many links between its corporate and financial sectors, in particular the control of Chaebol over many commercial banks and other non-bank financial institutions. Result of lack of public order was reflected in the market of limited production of weak companies. In the capital markets, poor corporate governance, translated in foreclosure, stock market valuation, and so on, low interest rates for minority shareholders.

What are Chaebols that have a big impact on Korean corporate governance? Chaebol refers to Korean cluster companies, which, in terms of structure, is a multinational company owned by several international subsidiaries. This term was used in Korea in 1984. Today, several groups of family firms in South Korea are classified into this category. The most famous Korean Chaebol companies are Hyundai, Samsung, LG Group.

II. CORPORATE GOVERNANCE

2.1 Theoretical approach

By the definition, corporate governance is a system that control and direct a company in order to make a better decision to benefit all stockholder where the transparency and independent directing board are the key points of it. And, Stockholder defines as all the owners, managing directors, stockholders, employees and the customers. Unlike the western corporate governance system Asian has a slightly different system of corporate governance where we can easily notice emerging markets in Asian countries such as, Malaysia, Indonesia, Hong Kong and South Korea where the largest direct shareholdings, often families and also involved with management, own generally about fifty percent. Direct equity ownership is typically slightly more than fifty percent in India and Singapore, and less so in S. Korea about twenty percent, Taiwan thirty percent, and Thailand around forty percent. Rights of controlling owners are reported for many East Asian corporations, with this divergence mostly maintained by pyramid structures according to the Stijn Claessens, Yurtoglu B. Burcin [1], [2]. Kim and Woochan Kim are expressing corporation governance in South Korea in three groups: (1) newly privatized companies; (2) large corporation run by professional management and (3) banks with substantial

equity ownership in the hand of foreign investors. While, Korean large companies are mainly large Chaebol-affiliated or family run firms that keen on changing and reforming [3].

Korean companies are mostly in one those three type of the cooperate governance. Firstly, companies that used to be a government owned companies which moved to the private sectors. Secondly, large companies with a top style management which mostly are Chaebol owned companies and finally, the banks that are work with foreign investors.

There are three particular elements of the legislature started administrative changes of the corporate administration framework in Korea. To begin with, the rebuilding of top managerial staff (BOD) piece requires the arrangement of outside executives for traded on an open market firms. Prior to the changes, board individuals in Korea were regularly designated as a major aspect of a status based advancement plot (Kim and Briscoe, 1997), which is like the circumstance in Japan. This convention had negative ramifications for corporate checking by sheets [4], [5]. Board size could turn out to be too substantial to ever be effective, bringing about coordination disappointments, as affirmed by Yermack (1996) and Eisenberg et al (1998) [6], [7]. The advancement connected board structure additionally regularly brings about another layer of chain of importance inside the BODs. Along these lines, the check and adjust systems could neglect to work, and board individuals could turn into an elastic stamp for administration choices.

The correction of the Listing Act in February 1998 requires organizations recorded on the Korea Exchange to have no less than 25% outside chiefs on the BOD. To guarantee the freedom of outside chiefs, the Act cleared up the conditions for outside executives by barring the present and previous workers of an organization, family or companions of controlling shareholders (CSHs), and any individual who had a business association with the firm/business aggregate. Further to this statutory prerequisite, the declarations of a Code of Best Practice for Corporate Governance in September 1999 and February 2003 affected changes to the Securities and Exchange Act in March 2001 and December 2003 individually. Vast recorded enterprises with resources more noteworthy than 2 trillion won (roughly 2 billion USD) must build up an Audit Committee and an Appointment Committee under the BOD, with its individuals contained for the most part of outside executives. The 2001 revision likewise requires that no less than a large portion of the board individuals from these extensive firms be outside executives. Second, the change of the corporate administration framework was government driven, with the help of the International Monetary Fund and the International Bank for Reconstruction and Development who provided salvage reserves taking after the 1997 emergency. The driving force for change was exogenous. Third, the adjustment in the administration framework was from a relationship based insider demonstrated towards an outcast model. Seeing the conventional relationship-based model as one reason for the 1997 emergency, the Korean government picked to draw nearer to the Anglo-American framework. Specifically, the presentation of an outside chief framework was progressive to the current framework. The corporate changes taking after the emergency tended to many issues, for example, fortifying controlling shareholders' legitimate duty, shareholder activism, autonomy of the review board of trustees, permitting a holding organization framework (chiefly for chaebols), and solid and straightforward bookkeeping/administration data. Notwithstanding this inside component of administration, the Korean government permitted (antagonistic) mergers and acquisitions as a technique for enhancing administration frameworks through market observing. In any case, the presentation of the outside executive framework has turned out to be a standout amongst the most essential components of the change (Cho and Kim, 2007; Choi et al., 2007; Min, 2013) [8], [9].

1.2 Corporate governance in South Korea

The corporate governance experience in South Korea has been affected by chaebols a lot. Chaebols are large conglomerate business which is much time run by families in South Korea and many top companies are under those families run businesses. Also these families are known for not following the disclosure norms of corporate governance. The corporate governance norm have been made mandatory in Korea recently and out of the five companies has been chosen for the research, many of them have started disclosing data only in the last few years. Companies like Kia Motors and LG Electronics are only disclosing some information about following of corporate governance norms. On other hand companies like POSCO has been disclosing information continuously as much as it's possible with other shareholders. POSCO has won many awards for its corporate governance both inside Korea and overseas whereas Samsung and Hyundai are still known as Chaebols and never disclose their information but still Samsung shows lot improvements in their governance and disclosure information in past few years [10].

There are by all accounts a few changes of corporate administration hones on the share costs of the organizations in the event of South Korea. Samsung share costs have seen an uptrend from the time its administration and exposure rehearses have turned out to be more globalized and opened. POSCO share costs have stayed pretty much steady over the five year time frame considers while costs of the other three organizations, LG, KIA and Hyundai have debilitated. One reason at the moping offer costs might be because of

resistance of corporate administration practices and general doubt about the organizations as there is no exposure of data.

III. CHAEBOL AND CORPORATE GOVERNANCE

Chaebols is Korean big business conglomerates that had a big impact on global economy along with South Korea's economy. Some believes that influence of Chaebols on South Korea's development is unprecedented while many others point at their problems such as corrupt relations with government and cronyism. Although the issue has been reduced since the Asian crisis but still it has a very huge impact on corporate governance in South Korea. This capitalist model does not have any similarity with South Korea's counterparts.

Chaebols refers to a collective of formally independent firms under the single common administration and financial group or family which literally in Korean means group of wealth. Murillo and Sung (2013), define Chaebols as a three business structure: (1) it consists of many affiliated firms operation in a diverse number of industries (2) ownership and control of the group lie in a dominant family and (3) the business group accounts for a great percentage of the national economy (Table1) [11].

Table 1 Chaebols and their shares within the Korean GDP

		2009	2010	2011
Asset/GDP	20 largest groups	75.3%	78.6%	85.2%
	5 largest groups	46.5%	49.9%	55.7%
Sales/GDP	20 largest groups	75.3%	78.6%	85.2%
	5 largest groups	46.5%	49.9%	55.7%

Source: KisLine (2012)

According to Gupta and Sharma (2013) research conclusion, South Korea follow stakeholder form of corporate governance and South Korea initially did not believe in outsiders interfering in company's business and does not have mandatory requirements of independent directors and various committees to look after the company's work; and base on Murill and Sung (2013) conclusion; it is commonly understood that the chaebol system has been particularly effective in generating economic development in the form of a non-Western model of state-driven economic growth that presents similarities (and differences) with its East Asian counterparts [12]. In the case of Korea, the reason for the chaebols' success can be found in idiosyncratic elements of economic policy and the institutional and economic development that shaped the country over the last 60 years. To this day, this particular form of corporate governance – which allowed the chaebols to succeed as drivers of wealth creation – remains highly relevant. But it is obvious that with globalization, borderless trades and merging the markets Korean firms and Chaebol system are slowly changing in their corporate governance.

IV. CROSS-CULTURAL DIFFERENCES IN GOVERNANCE

In Western business cultural a firm becomes a conglomerate with mergers, acquisitions of several enterprises engaging in mostly unrelated field of business in respect to raw material sources, production technology, production development or the marketing channels. Murillo and Sung (2013) research explains as good example of Western corporate governance, General Electric (GE) which is a stock traded company in New York Stock Exchange with operation in every different business field such as, aviation, capital energy, healthcare and etc. where General Electric (GE) boards are monitor and controlling all subordinates and more than two-third of the directors are independent under the New York Stock Exchange unlike the Chaebols where family owners dominant the power [13].

Meanwhile in Japan, the corporate governance type of Zaibatsu started during the First World War to Second World War then reformed to Keiretsu system where the bank-dominated industrial groups are in the controlled. The bank is in the Centre of capital provider. And by comparing Korean and Japanese, we can see that Chaebols are functioning very similar to Keiretsu, while the Chaebol seems to lack in corresponding external monitoring. So Chaebol is just an alternative to Zaibatsu while change the bank-centered financing system to devising internal market transactions [14].

Also, by searching into the family governance we can find out Koreans are much family based than Japanese and in Korea the blood lines respected to the family that carries the weight more. This makes Koreans more single family controlled whereas it is not like that in Japan.

But let's look at the slightly differences between Chaebol and Keiretsu. This comparison is shown at the table 2 below.

Table 2 Difference in Chaebol and Keiretsu

Chaebol	Keiretsu
A clone of Zaibatsu as a group of companies built around a bank and owned by an actual family	Cross holding
A group of companies not a conglomerate	Large concentration
No private bank as a part of it	Informal links with the government
State owned banks as the centre of a chaebol	Private banks as a part of it

Source: Authors

The cross cultural comparisons show that Korea basically has developed its governance system from its rival, Japan, Keiretsu. Keiretsu is not use in Japan anymore and the new type of governance replaced it now but in Korea we still can see the Chaebols in power where are using this system. The governance style in Korea is very different from the western type of corporate governance and we can totally we that management culture in Korea still has long way to go in order to be globalized but globalization is injecting to this country and many big companies in Korea are turning to the new form of the management which is globalized.

The impact of 1997 Asian crises on Korea and Korean corporate governance and how Korea changed after the crises while Korea has a different governance system compare to other countries especially from the western countries have been shown. It is commonly understood that the Chaebol system have been important in Korea's economy development in the form of a non-Western model. This system of governance has allowed the Chaebols to succeed as a driver of wealth creation in Korean and it remains highly related but influence of globalization effected Korean corporate governance a lot and we know that better corporate governance leads to higher returns on equity and greater efficiency. South Korea primarily did not trust in outsiders interfering in company's business and does not have required requirements of independent directors and various committees to look after the company's works but due to the globalization the changes slowly are about to come.

The Korean cooperate governance has been effected by many factors in case of globalization and as we have predicted in the hypothesis, the cross cultural effects and globalization in the human recourse management of Korea had a big impact on this matter.

V. CONCLUSION

The impact of 1997 Asian crises on Korea and Korean corporate governance and how Korea changed after the crises while Korea has a different governance system compare to other countries especially from the western countries have been shown. It is commonly understood that the Chaebol system have been important in Korea's economy development in the form of a non-Western model. This system of governance has allowed the Chaebols to succeed as a driver of wealth creation in Korean and it remains highly related but influence of globalization effected Korean corporate governance a lot and we know that better corporate governance leads to higher returns on equity and greater efficiency. South Korea primarily did not trust in outsiders interfering in company's business and does not have required requirements of independent directors and various committees to look after the company's works but due to the globalization the changes slowly are about to come.

It's proven that after the Asian crisis hit Korea, many changes started in Korea and corporate governance is one them. Giant firms like Samsung, Kia and Hyundai had to adopt with the globalization in order to survive and that's how the changes started in Korea. We can totally see that this globalization changes, resulted positively in Korean corporate governance and helped growth in Korea. Thus, globalization has not totally implemented in Korea yet and globalization still can make a lot changes in Korea and by comparing Korea to Japan or western countries we can conclude that, Chaebols are still in power in Korea and globalization is one of the best solution to modernize it.

To sum up, we can summarize that globalization impact in Korea's corporate governance was huge after the Asian crisis but not perfect and globalization can result positively in governance culture and the country's human resource management. And this would only happened if Chaebols in Korea open their governance to the international more and let the globalization enter their firms more.

The Korean cooperate governance has been effected by many factors in case of globalization and as we have predicted in the hypothesis, the cross cultural effects and globalization in the human recourse management of Korea had a big impact on this matter.

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