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Chaebols and Their Impact on South Korean Society

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<p>Conglomerates also known as Chaebols are part of the reason why South Korea became economically successful country. This thesis was based on studying how South Korea's Chaebols have impacted their society. The information was provided by already existing data, which goal is to achieve an understanding of Chaebol's position in South Korea's economic system.</p> <p>In the first chapter, the thesis dives into the meaning of Chaebols and their management structure. Further on, discussing the virtues and the pitfalls of Chaebols which brings out the idea that these conglomerates could be described as a big tree with branches growing into different industries that may not be part of its core business.</p> <p>Looking through the history, Korea was under Japanese domination which greatly influenced South Korea when Japan exported the industrial development to the other East Asian countries. After independence Korea began to develop these Japanese industrial ideas for their benefits.</p> <p>The Chaebols are strongly connected to both the country's political and economic factors and their dominance is very significant. Therefore, the thesis brought Samsung as an example in the second chapter, to see the comprehensive picture of how particular Chaebol came to be.</p> <p>With the knowledge of Chaebols, one can understand the Korean lifestyle better and the irony that lies within. The negative and positive impacts Chaebols have brought gives the reasoning for Koreans mixed feeling towards them. This research contributes to the literature on studying South Korea's economy and learning its management style.</p>	
Keywords	South Korea, Chaebols, conglomerates

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1 Introduction

This thesis examines South Korea's big conglomerate companies, known as Chaebol, and their impact on South Korean society. The key issues I address in the research concern the origins of the Chaebols and how the Chaebols have accumulated so much power in Korean society. Chaebols have been the key that helped South Korea's economy recover since the financial crisis in 1997. Before that, they were instrumental in the rapid development and growth of South Korea as an industrial economy. Since then, they have been at the forefront of new technology industries, such as mobile telecommunications. However, many believe that the Chaebols' era is over because this kind of corporate structure does not belong to the 21st century. Chaebols have also enjoyed very close contact with the government, which worries many Korean citizens. These issues affect everyone living in South Korea (Rachel Premack 2017)

What has drawn interest in chaebols over recent decades is that the largest ones—Samsung, Hyundai, SK, LG and Lotte—have been formed since 1950 and have made a huge mark worldwide, in addition to being the foundation of South Korea's rapid economic development. However, and somewhat astonishingly, is their increasingly persistent legal problems, associated reforms involving the government, and their survival despite many crises, especially the financial crisis in 1997 (IMF), although some big chaebols were not as resilient: for example, the Daewoo group. Yet the remaining big chaebols we see today in South Korea continue to exercise power in the everyday life of its citizens and influence the timing and content of economic reforms from the government.

South Korea has been receiving lots of attention now and in the past for its economic growth. Currently Koreans have been in the news due to their high achieving music and entertainment industries which have been breaking western records. South Korea is already very well known for its high technology, electronics and fast internet availability.

I received a great opportunity to attend one semester 2019 in Seoul, the capital of South Korea, at Soongsil University. During the exchange year I observed that the majority of students and teachers used Samsung or LG products. Samsung and LG are currently described as among the biggest companies in South Korea. As Samsung and LG are

domestic brands, I quickly caught on to the fact that Koreans heavily believe that buying domestic products works better than purchasing foreign brands. There is a strong sense of economic patriotism. Also, owning a domestic brand gives a certain status within the society. Having the right image of yourself as Korean helps to get a high-profile career. This is what Koreans explained to me during my time with them. I could see that Chaebols would be present everywhere. For me Samsung was just only about phones but for Koreans they use Samsung products in their daily life: for example, Samsung televisions, fridges, clothes and Samsung credit cards. Samsung even owns a theme park. Moreover, South Korea is filled with department stores across the country that are owned by chaebols: example here, Lotte Department Store or the Hyundai Department Store, which are mostly used by Koreans.

It is very ironic how Koreans praise and show how proud they are of their domestic brands since their name is spread across the world. However, on the other hand Koreans are very critical of chaebols for gaining more and more power over the economy, and they are afraid how this will affect their lives. (Immacolata Andolfo 2017/2018)

This research aims to develop a deeper understanding, especially for those who are interested to have a future career path in South Korea. In the first chapter of this thesis, I will include explanations regarding the structural definition of chaebols, the history of chaebols and the chaebols' effect on innovation.

2 Chapter 1: Chaebol

2.1 Definition of the chaebol management structure

Chaebols are family-owned business conglomerates in South Korea. This business structure consists of a large number of companies that operate in a range of industries, typically dominated by a single family member. The meaning behind the word Chaebol (재벌) means rich family or clan of wealth: chae (재) meaning wealth/property and bol (벌) meaning clan/group. (David Murillo & Yun-dal Sung 2013)

The chaebols can be seen as a big tree that extend their branches to various different industries that are not necessarily related to the main business - hence conglomerates. These big companies' main goal is to generate sufficient profits in their main business which can allow side businesses greater flexibility with respect to financial performance. This seems sometimes unnecessary, but one of the reasons why chaebols extend their businesses is to squash small and middle-sized companies trying to enter the big league, so to say. Due to this, many new start-up companies don't have the chance to thrive since their competitors are too big. Many chaebols also buy these new companies or their ideas (intellectual property) in order to stay on top. This leads to new innovations being buried or destroyed. As stated before, the main strategic goals in big companies concern their main, central business. (Jan Ahtiainen 2016)

To put it in a simple form we can see that the Chaebols consist of three key features: Firstly, the companies have many affiliate firms operating in various different industries; secondly, the dominant family manages and is in control financially of the group; and finally, this is the structure by which Chaebols have power in the national economy. (David Murillo & Yun-dal Sung 2013)

This we can see in Figure One how huge is their influence relative to Korean gross domestic product (GDP). Below you can see from the year of 2009, 2010 and 2011 the shares of Korean GDP which the chaebols have. In the first column are the 20 largest groups and comparing it to the second column are the shares of the five largest groups, which have been rising through the years.

In the second figure from 2016 Korea's GDP, it is very visible how large is the impact that chaebols have in the economy. The Korean Fair Trade Commission's data shows that South Korea's GDP in 2016 was \$1.4 trillion, of which the 31 biggest conglomerates' sales combined account for 84% (\$1.1 trillion). (Source Kim Jaewon 2017, Nikkei staff writer)

		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%

(KisLine, 2012)

Figure 1. Chaebols and their shares within the Korean GDP (David Murillo & Yun-dal Sung 2013)

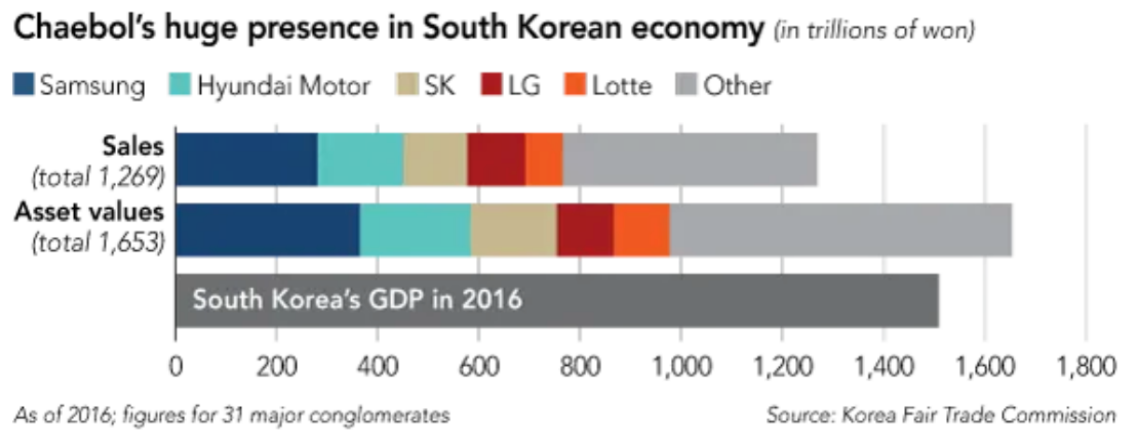


Figure 2. Chaebol's huge presence in South Korean Economy (Kim 2017, Nikkei staff writer)

To further understand the structure of chaebols, it is most important to recognize that the power needs to stay with a family member. It doesn't matter how many new business activities the conglomerates will obtain; the power will not be shifted to any third parties and stays within the chaebol family. (Immacolata Andolfo 2017/2018). This can be seen as chaebols have a so-called a general head, Chongsu. There are professional managers responsible for single companies inside the conglomerate, but they report to the Chongsu, who makes the final corporate decision. The Chongsu represents the owner family, and this management style is very specific to Chaebol as to keep ownership over all their affiliates. For example, the Chongsu of Samsung chaebol, Mr. Lee has no high position in the group nor is he the chairman of the board or any CEO of the affiliate's groups. Yet he holds overall the group shares 0,57% and his family holds a mere of 1.07% of the entire group's stocks in order to control the huge cross shareholding throughout Samsung. For an explanation see Figure 3: the Lee family has 1.67% control over Samsung group which is possible via the cross-shareholding structure. (Source: David Murillo & Yun-dal Sung 2013)

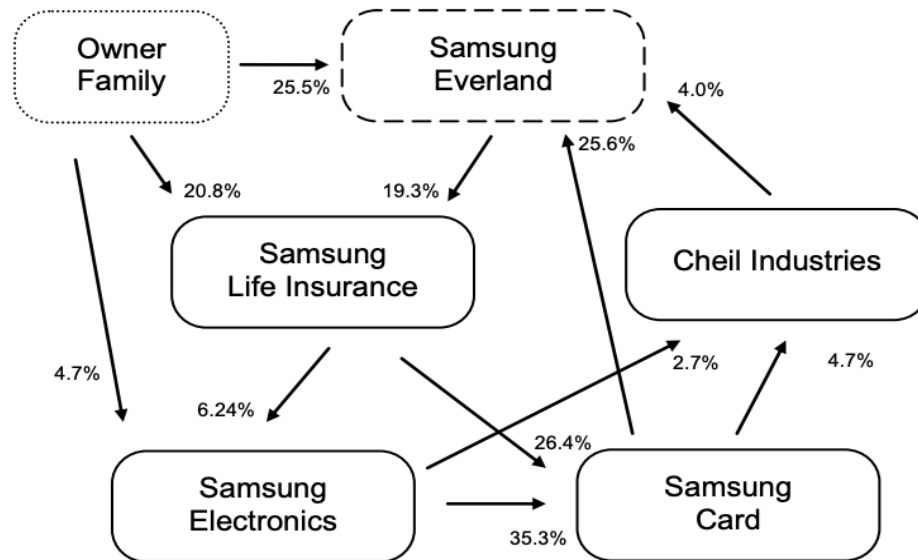


Figure 3. The Chongsu and Cross-Shareholding at Samsung in percentage ((Immacolata Andolfo, 2017/2018)

For many this can be seen as a very complicated structure. However, for chaebols' family owners it's a common system. Let's make a simple explanation in order to get a better understanding of the complex structure between the effect on the family controlling and those with the actual ownership in the listed affiliates. We can start by considering the example of a controlling family that owns a Chaebol with five affiliates, illustrated in Figure 4 below (Immacolata Andolfo, 2017/2018; Killeen, 2016)

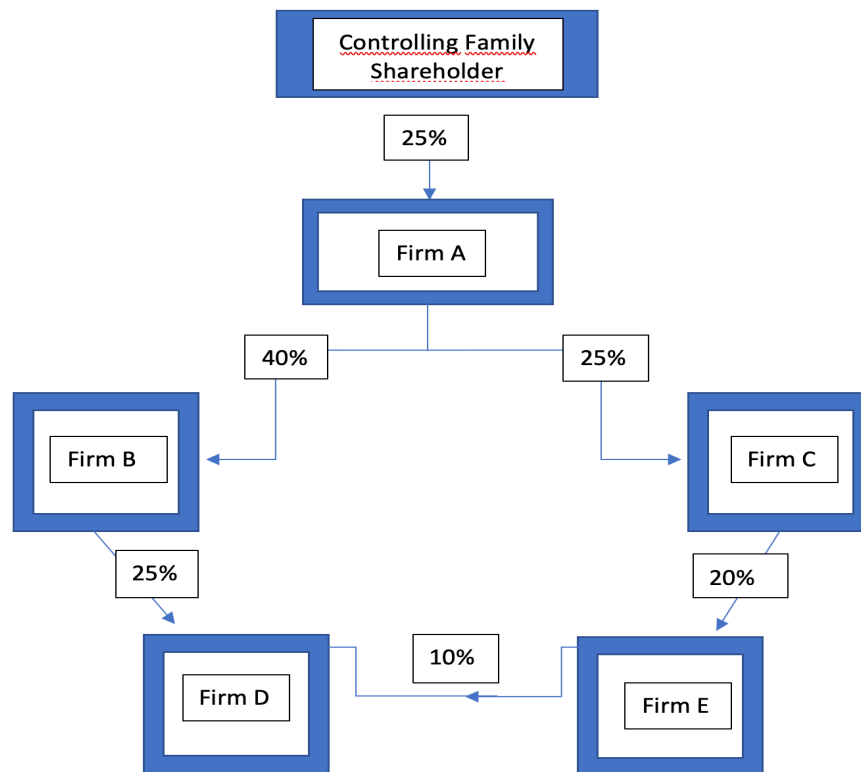


Figure 4. Ownership and Control in business groups (OECD Economic Surveys: Korea 2018; (Killeen and Kumar, 2016))

Let's imagine that the controlling family shareholders have 25% control of firm A shares. On the left side we can see that the firm A owns 40% of firm B shares who is holding 25% shares of firm D. On the right-side Firm A is holding 25% of firm C. Now firm C has the control over firm E by 20% while firm E owns 10% of firm D. So through this structure firm A and firm B gives the owner family an indirect control and ownership of the firm D. By this we can calculate the cash flow rights through firm A and B, and also through firm A, C and E. See the following calculation:

1. Cash flow rights in Firm D through firms A and B = $25\% \times 40\% \times 25\% = 2.5\%$
2. Cash flow right in Firm D through Firms A, C and E = $25\% \times 25\% \times 20\% \times 10\% = 0.125\%$

Lastly, we sum these two up to get the total cash flow rights of firm D:

$$2.5\% + 0.125\% = 2.625\%$$

Since we have now calculated the owner family's cash-flow rights over firm D. The second aspect of this structure is how the owner family has influence in firm D's board decisions. This raises questions about the owner family's voting rights in the affiliate firm. The voting right is measured by the lowest percentage in the control chain, therefore the lowest percentage from the company B side is 25%. However, we must also account the business E's indirect influence, thus the lowest number is 10%. Finally, we add 25 percent and 10 percent to get a total of 35 percent. Finally, we evaluate the separation computed with ownership minus voting rights; hence, we will have:

$$35\% - 2.625\% = 32.375\%$$

In this manner, the family is capable to maintaining dominance in any chaebol, regardless of size. (Immacolata Andolfo, 2017/2018; Killeen, 2016). The theory basically is that the greater the distance, the more likely there will be an incorrect arrangement between controlling influence and ownership in chaebol subsidiaries. The implications of this incorrect arrangement for other shareholders include the controlling shareholders' ability to "tunnel" income from enterprises with less cash flow rights to those with more rights (Immacolata Andolfo, 2017/2018; Jin, 2015) Selling an asset at an inflated price to a group of companies or making a loan to a controlling shareholder insured by a group business are examples of operations that fall under this category. Obviously, this structure aids the chaebol in gaining access to low-cost, readily available capital created within the business, but this may always be an issue for external shareholders, as these earnings might be distributed as dividends (Killeen, 2016).

Korean chaebols have evolved from U-form businesses to a sort of X-form firm in terms of organizational structure as they create more and more enterprises with external finance sources. The U-form is known for its centralized organizational structure utilized by organizations in which management functions as a single unit with jurisdiction over all functional lines (marketing, production, people, and finance). Instead, the X-form is an evolution of the U-form, which happens when U-form firms engage their resources in expanding into new business sectors after recognizing that investing in their current sector is unsuccessful while maintaining a centralized structure (Immacolata Andolfo, 2017/2018; Williamson, 1975). We are essentially talking about diversity when we discuss the various shapes that a firm might take. Diversification entails expansion into

or across other industries, rather than along the value chain. The appeal of the new industry and the ability to utilize the competitive advantage into those distinct sectors provide the opportunity for higher earnings. Chaebols have a history of being proactive in developing new goods and markets, as well as embarking on high-risk projects. Diversification has been going on since the 1950s, when chaebols began acquiring other businesses and failed businesses. Furthermore, because the government has always been the initial sponsor of these firms with numerous loans and favouritism, it has always been utilized as a means of sharing risk. (Immacolata Andolfo, 2017/2018)

2.2 History of Chaebols

Korea was left in a bad economic situation after liberation in 1945. That's when US took over till 1948 by privatization of previously owned properties of the Japanese occupation government and allied civilians. The Korean market underwent a significant transformation during the 1950s, transitioning from a country with an underdeveloped economy and destroyed infrastructure due to the war to one of the world's most powerful countries. Nevertheless, Korea received US aid, which assisted the country in rebuilding some of those structures and resolving other issues, such as a lack of raw resources. This assistance was particularly critical since it allowed Korean businesses to flourish and accumulate assets. As a result, in order to capitalize on this assistance and stimulate the economy. Therefore, Koreans were exposed and learned from Japan during the Japanese occupation they chose to replicate Japan's economic development model by creating chaebols (Immacolata Andolfo 2017/2018).

For us to understand the rise of South Korea we must go back in time and see where it all began. It is studied that developmental state began when Japan rises in to success from the year 1925 onward. A clear way to understand how Japan affected especially South Korea and Taiwan in their economic growth is how Stephan Haggard addresses this in his *Developmental States* (2018) book, premiered in University of Manchester in 2019. He addresses in his presentation that economist Akamatsu saw that developmental countries could industrialises by using export-oriented growth trajectory and he was the one who brought the idea of the flying geese model which shows the structural transformation in East Asia. This is illustrated in Figure 5 below.

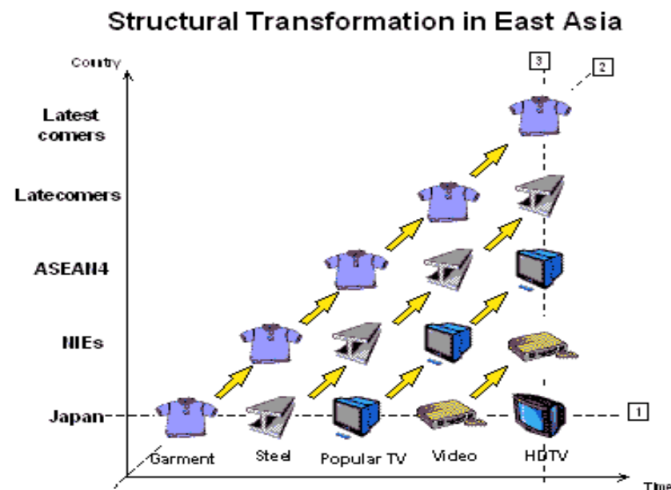


Figure 5. "Flying geese" Structural Transformation in East Asia (Picture taken from Stephan Haggard premiere in University of Manchester– Developmental state with Stephan Haggard 2019)

This shows how Japan's development model was adopted and adapted by other countries. Stephan Haggard continues to quote that Akamatsu noted that even though Japan would pass on industrial ideas to other countries, they themselves would upgrade their own capabilities and find new sectors from the leading goose which would be Japan. Hence South Korea made their own growth by upgrading and making new ideas. (Stephan Haggard 2019; University of Manchester)

There have been many case studies since the early 1950s about how Japan grew rapidly and how it brought success in other east Asia countries that didn't seem to be developmentalist like South Korea and Taiwan. Nearly two decades of studies "explained" the reason for east Asian growth by looking through the neoclassical growth theory. By contrast, economists like Alice Amsden, Stephan Haggard and others have made a case that the Korean state, as well as Taiwan, was anything but minimalistic; not only has it been extensively involved in nearly every sector of economic activity, but a persuasive case has indeed been made that this engagement was largely responsible for the country's amazing economic success. What was found in other developed countries that caused their failure was: influencing interest rates, providing industrial protection, supporting new companies, and directly guiding flows of fresh investment (Vivek Chibber 1999) Prof. Haggard explains that this debate took place in the backdrop of a revival of Neoclassical thinking in the 1960s, which was driven by a group of well-known economists. These development economists were primarily interested in positive and negative models, with the negative models focusing on South Asia and determining

why India and Latin America were expanding slowly. They were also looking at individual cases in east Asia and claiming that these countries had achieved success by liberalizing their trade and exchange rate regimes, and as development thinkers, this key proposition that the trade and exchange rate regimes were sort of crucial to long-run growth was central to Neoclassical propositions, which they were very much promoting. They weren't really relying on theory even though it is known from Neoclassical growth theory that factor inputs drive growth, and it's not completely obvious why a change in its trade and exchange rate regime would cause a long-run change in its growth trajectory, and yet economists still made the case that those kinds of policy changes could affect factor inputs across the board and contribute to productivity growth. Haggard's argument here is that, despite the theory, it was the examples of East Asia that allowed them to make these claims so firmly, and it was within that discussion that a group of economists recognized liberalizing reforms as the heart of east Asia's economic record (Stephan Haggard 2019; University of Manchester).

Now before diving into history of how chaebols came to be, it is important to know that originally Korea was heavily reliant on imports. The trade which was happening with countries gave Korea a big help to rebuild after the disaster which the Korean war (1950-1953) caused. However South Korea thought that the way to take more advantage for domestic firm compared to foreign firms was to implement a strategy called ISI= Import Substitution Industrialization. In general, the ISI aided the expansion of businesses, but it did not aid in the improvement of people's living conditions. This occurred as a result of domestic enterprises gradually raising their prices, with the major result being reduced consumption. Furthermore, several businessmen attempted to maximize earnings by abusing the corruptions of various politicians through this program. As a result, this behaviour resulted in a slew of useless profit-seeking enterprises that did little to benefit the people. (Immacolata Andolfo 2017/2018). To understand where Chaebols came from we can see that in Japan during the first world war business groups called *zaibatsu* were created. However, Zaibatsu was dismantled due to the ruling of US military government in Japan after the second world war. Zaibatsus then reassembled into *keiretsus*, which were alliances of enterprises whose CEOs would have collaborative meetings on a regular basis. The keiretsu system is made up of bank-dominated industrial organizations in which the bank center serves as a capital provider and a monitoring role is established. Chaebols share many similarities with keiretsus. A *kyeyol* is a member firm of a chaebol

group (the Korean pronunciation of keiretsu). The chaebol, unlike the keiretsu, does not have a similar external monitoring role. The kyeyol businesses are put under the direct authority of the group's central planning office, which is managed by the founding family members of the organization. (Source: David Murillo & Yun-dal Sung 2013) At first glance it might seem that chaebols and zaibatsu would be the same but, Koreans then created their own type of keiretsu's which finance strategy was bank centered by conceiving internal market transactions, particularly payment guarantees and collateral arrangements.

As Murillo and Sung say in their article: *“Structurally, chaebols are also more family-held, hierarchical, centralized, and rely more on government relations than their Japanese counterparts”* (Source: David Murillo & Yun-dal Sung 2013).

The reason why Chaebols are different than Zaibatsu is because Korean chaebols were purposefully developed to be champions of a rapidly rising economy, whereas zaibatus grew in reaction to the demand for military supplies following Japanese expansion in the 1930s. In Japan the family name carries more value so that even adopted child can become the next heir. However, in Korean society being related by blood is of more significance in terms of family ownership. In Japanese keiretsus ownership and management are essentially distinct and no family has the control over the whole group. This contrasts with the Chaebol's tight family control which is happening till today. (Source: David Murillo & Yun-dal Sung 2013)

2.3 1960s-1970s: South Korea's shift to development

In 1961 Park Chung-hee became president following a military coup. South Korea's economy was transformed under his 18-year reign, but at a large cost to civil rights. (Rachel Premack 2017). During Jung-hee Park's administration (1961-1979), special treatment was provided to specific corporations in order to stimulate economic growth, which accelerated the creation of the chaebol system. Park consciously followed in the footsteps of Japan's all-powerful Ministry of International Trade and Industry (MITI) (David Murillo & Yun-dal Sung 2013). To quote Chalmers Johnson *“Miti has enough instruments to create substantial positive inducements for many types of conforming*

decisions by the private sector; it can also make life thoroughly miserable for any company that defies its wishes” (Johnson in Woo-Chumings, ed. 1999).

Here the new Korean government created its first national champions by selecting big winners and great performers among Korean firms and awarding them exclusive projects, particularly in the military and construction industries. It also routed cash to them through a variety of means like tax breaks and export subsidies, as well as no-collateral loans and acting as their credit guarantor. (David Murillo & Yun-dal Sung 2013) To put in simple words President Park insisted that chaebol leaders follow his priorities and instructions if they wanted to grow and achieve success through the help of government.

At the beginning of 1960s South Korea was very poor. The Korean economy lacked most natural resources; the local market was too small for effective manufacture of many commodities, but it had enough of cheap labour, prompting the government to pursue an outward-looking growth strategy. To achieve early economic growth, the government sought to boost export based on the development of labour-intensive sectors. They implemented a variety of export promotion strategies, which resulted in the increase of export business operations and the scale of export enterprises through capital accumulation and innovation. (Long le, Ik Kim & Kim 2016) Since Park became president the change was shifted from Import Substitution to Export Promotion, although ISI was not completely dumped. His initial command was to nationalize all banks while simultaneously assisting chaebols with loans and export subsidies. The loans were issued in a priority sequence based on the industry in which they operated: first, he aided enterprises producing textiles, steel, and petrochemicals; second, he aided firms producing semiconductors and automobiles; and finally, he aided firms producing semiconductors and automobiles (Immacolata Andolfo 2017/2018). In other words, shifting to export-led industrialization gave the government the power to discipline Chaebols, since it was also subject to exterior trade common law, which all parties had to follow. Because of these developments, the chaebols began to acquire market share, and as a result, they were chosen as the primary tool for economic development. As a result, chaebols began to flourish and become prominent and influential both inside and outside of the country. Furthermore, the manufacturing sector's percentage of GDP

increased from 9% to 27%, while agriculture's share decreased from 45% to 25% (Immacolata Andolfo 2017/2018 (Cha 2008)).

To quote Stephan Haggard: *“Japan was heavily focused on export of manufactures and this would be a part of the concept of the developmental state. Since export being central to the larger growth process or at least being perceived as part of growth process. Export being important political consequence, since it would be ending up to be disciplining mechanism with respect to private sector”*. (Stephan Haggard 2019; University of Manchester).

Vivek Chibber clearly describes how South Korea was different from others: *“It soon emerged that a central difference lay in the quality of state intervention in East Asia: unlike in many developing states, where state subsidies were treated by industry as gifts, in Korea the state was able to extract performance from industry in return. The South Korean state, in other words was different in that it was able to “discipline” its capitalist class. Firms were given access to state resources, and in return, the state took it as its prerogative to have a say—sometimes a decisive say—in its investment’s decisions”* (Vivek Chibber 1999).

Park sought to make South Korea an aggressive exporter, first with textiles and then progressing to "upper rung" industries like chemicals and steel. The strategy worked: Between 1960 and 1970, South Korean exports surged by 1,340 percent. In comparison, Japan's exports surged by 200 percent during the same time period. (Rachel Premack 2017).

This may seem bit strict way to have control over the Chaebols, but it makes one think what happens if a firm didn't follow the government order? The firm would find that their tax returns are carefully looked over, or they are ignored in application for bank credit, or their bank loans aren't renewed (Vivek Chibber 1999).

To quickly summarize the industries that bloomed during this time;

Electronic industry: Samsung Electronics was founded in 1969 and has developed to become the flagship firm of the Samsung business group, finally emerging as the strongest player in the semi-conductor sector in the 1990s due

to its bold and aggressive approach. Daewoo Electronics, a subsidiary of the Daewoo Group, entered the electronics sector in 1973. Because it began with labour-intensive assembly production, the Korean electronics industry developed sooner than other sectors in the Heavy-Chemical Industry (HCI) sector. The government recognized the electronics sector's enormous potential as a key export industry that needed to be pushed.

Automobile Industry: Under Park's administration, the automobile sector had its beginnings. In 1962, a Korean resident in Japan founded the Saenara vehicle firm, which began with semi-knocked-down (SKD) assembly manufacture. The approach was changed to completely knocked down (CKD) in 1966 to encourage domestic manufacturing of parts and components. A number of incentives were offered to speed the localization of parts and components, with the objective of completing Korea's domestic automotive manufacturing. Hyundai Motor Company was founded in 1967 and developed the Cortina in 1968 under a technology license from British Ford. They were thus compelled to construct an original model on their own by engaging retired English engineers and acquiring technical support as well as bringing the engine and gearbox from Mitsubishi Motors in Japan. In 1976, Hyundai began mass production of the Pony, the first Korean passenger vehicle, and Korea became the 16th country in the world to own an automotive model. Hyundai successfully exported to the United States market in 1986, and the company expanded to become one of the leading players in the industry.

Steel Industry: The administration intended to construct a 300,000-tonne steel factory and sought financial aid from the World Bank. Following diplomatic normalization with Japan in 1965, the government received a long-term loan and reparation cash from Japan, and construction of a 1,000,000-tonne steel mill in Pohang began in April 1970 and was completed in July 1973. That is Pohang Steel Company (POSCO), which has risen to become the world's largest steel factory.

Shipbuilding Industry: The Korean shipbuilding industry began in the 1960s, but the scale and magnitude were not important until the establishment of

Hyundai Heavy Industry (HHI) in 1974. By combining numerous multi-national technologies, it absorbed several innovations and developed its own at the point of manufacturing. With the block construction technique, it learned product design technology from Japan's Kawasaki Heavy Industry and Denmark's Odense Steel Shipyard. Encouraged by the success of Hyundai, additional corporate organizations entered the shipbuilding sector. Following that, HCIs took a substantial part of output, with export volume increasing from 9.2 percent in 1964 to 42 percent in 1980.

(Long le, Ik Kim & Kim 2016)

2.4 1980s-1990s

Chaebols emerged as transnational enterprises in the 1980s, no longer reliant on government financing and assistance. In actuality, they grew to the point of having "excessive and redundant industrial capacity," and as their global market participation increased, problems in their corporate governance were found. To offset the negative influence that large corporations were beginning to have on the Korean economy, the government established stricter regulations governing them. (David Murillo and Yun-dal Sung, 2013)

Following the assassination of Park Chung-hee in 1979, the new Korean government chose to implement a number of changes. First and foremost, it stopped financing to private businesses and eliminated the interest difference. Second, it allowed a "rescue package" consisting of bank loans administered by the government to support failing enterprises (Immacolata Andolfo, 2017/2018; Long Le, 2016). During this time, the Cold War ended, and Korean enterprises attacked newly accessible markets. Korean enterprises were confronted with free market competition and changing labour-management relationships as a result of political democratization. Also, de-concentration of economic power riches became a serious concern, and fair trade and anti-trust laws were reinforced already in 1981. Three rounds of investment coordination began in 1979 and were completed by 1983. To achieve economies of scale, the government pushed these enterprises to merge into the newly formed Korea Heavy Industrial Company and

ordered automotive manufacturers to concentrate their production in a certain model of vehicle. (Long le, Ik Kim & Kim 2016) These bankrupt firms, on the other hand, were primarily taken over by chaebols, who eventually obtained special loans from the bank in order to get better support in restructuring those companies. As a result, several chaebols, such as Hyundai, Daewoo, and Samsung, rose to prominence. They were able to improve their position primarily as a result of the three-low phenomenon: low exchange rates, low international interest rates, and low petroleum costs (Immacolata Andolfo, 2017/2018; (Long Le, 2016)).

The year 1990 might be considered the beginning of globalization since Korea's outward foreign direct investment exceeded its capital inflows. When the new administration entered office in the early 1990s, it offered a strong push toward globalization. Faced with the globalization trend, the new administration understood that broad market liberalization was necessary. To avoid the likelihood of an intensified protective reaction, multilateral negotiations were continuing. The new administration implemented a series of reform measures aiming at deregulation and liberalization. Furthermore, the government's announcement to liberalize and globalize the economy compelled a large corporation to choose to globalize its businesses (Long le, Ik Kim & Kim 2016). Due to these new regulations, it allowed chaebols to obtain US dollar financing from overseas lenders, who were more appealing than domestic banks because they provided lower interest rates. Furthermore, because the South Korean won was pegged to the US dollar, the currency risk appeared to be decreased. International lenders, on the other hand, were eager to extend financing because they believed chaebols were profitable and that the Korean government would never allow them to fail (Immacolata Andolfo, 2017/2018).

2.5 1997

Chaebols become heavily indebted as a result of their access to foreign loans. As a result, their debt grew, making them more exposed to monetary policy changes in the United States (Immacolata Andolfo, 2017/2018; (Wash, 2017)). The issue arose in 1994, when the Federal Reserve decided to boost interest rates in order to prevent the US economy from overheating. Because the South Korean won was tied to the US dollar, as the dollar

began to appreciate against other currencies, the won began to appreciate as well. As a result, South Korean exports were less competitive, and businesses became less successful (Immacolata Andolfo, 2017/2018). Before the economic crisis of 1997 hit, South Korea economy started already to fail every year more. As the crisis hit, 16 out of 30 top chaebols went bankrupt, since they couldn't pay off their debts (Immacolata Andolfo, 2017/2018; (Wash, 2017)). When local banks were rushed to withdraw from international creditors' debts in November 1997, the economic crisis began. The financial market was thrown into chaos as a result of this. It all started when the Kia car firm ran into financial difficulties. The government extended a grace period to Kia as well, but the Kia's non-payment was postponed, causing credit crisis issues. Korea is in a precarious scenario as a result of the currency crisis in Southeast Asia, which is compounded by local problems. In response to these new circumstances, the Korean government requested IMF assistance with a credit of 59 billion dollars on the condition that the economy policies agreement be regulated (Long le, Ik Kim & Kim 2016). South Korea had to receive a bailout from the IMF and other wealthy countries during this crisis. They had to adhere to the terms of these agreements, the most crucial of which were austerity and the reorganization of the chaebols. Companies had to slash pay and lay off some workers to do this, and chaebols had to sell certain essential businesses at a discount to other chaebols. That is why, throughout the 1990s, the chaebol's image shifted dramatically, from a symbol of Korean economic success to a major failure owing to corruption. The Daewoo group, for example, declared bankruptcy in August 1999, demonstrating that the greatest assistance granted to chaebols in the past was no longer applicable (Immacolata Andolfo, 2017/2018). The government intervened in the banking industry, abusing the authority to provide permission, license, and approve investment in R&D and human resources. (Long le, Ik Kim & Kim 2016). Furthermore, government initiatives to boost corporate transparency compelled huge chaebols to prepare consolidated financial statements in order to improve the openness of their associated firms' investments and activities. Korean financial accounting rules were also amended by the government to bring them in line with international accounting standards (IAS). Korean companies eventually realized the value of openness and trustworthiness when it came to seeking finance in the markets. The Korean Stock Exchange (KSE) was extended to global investors, leading to a rise in direct financing for Korean businesses via the stock market but a decrease in indirect financing. The Monopoly Regulation and Fair-Trade Act, for example, forbade chaebols from participating in cross-shareholding,

excessive loan dependency, or speculative activities. In addition, reforms were made to corporate governance, which reduced access to cheaper bank loans, as chaebols adopted a shareholder-oriented management model and began to engage in shareholder activism (David Murillo and Yun-dal Sung, 2013).

The situation began to improve in 1998, owing to IMF assistance, or at least it appeared to improve at first. Chaebols worked hard to replace labor-intensive work processes with automated manufacturing as a result of this restructuring toward more high-tech firms. This was the simplest method to erode trade union bargaining power (Immacolata Andolfo, 2017/2018). The government and the owners of the four largest Chaebols agreed to improve corporate management transparency, eliminate cross-debt guarantees, improve capital structures, focus on core businesses, and strengthen cooperation with small and medium businesses (SME), and raise the mission of controlling shareholders and managers. The main five Chaebols were pushed to put a significant bet on the core industry, so that each of them could take the lead in simplifying company operations from there. Out-of-court settlements for the firm that was expected to recover were encouraged by the government. As a result, corporations and creditors were able to negotiate a more flexible reorganization or restructuring than in informal processes. The Chaebols that survived were advised to do everything possible to restructure their businesses, including inviting foreign investment, selling assets, and consolidating subsidiaries (Long le, Ik Kim & Kim 2016). Because the major goal was to promote openness, all corporations had to enable external auditors to be involved in the decision-making process and include external members of executive director committees. Eventually, the situation appeared to be improving. (Immacolata Andolfo, 2017/2018).

Firms' growth slowed after the financial crisis, with profitability decreasing. Korean businesses, on the other hand, made significant structural changes and managerial innovations. In terms of global economic recovery, China and Eastern Europe supplied the Korean economy with a breakthrough. Traditional sectors (automobiles, shipping, and steel) played a significant role in the Korean economy's rapid recovery. The Special Act for Nurturing Venture Businesses was enacted by the government. SME-led venture businesses received the required incentives from the government, including financial support and human resource procurement. Many academics who had previously worked

in huge corporations hurried to start their own firm. There were 2,000 venture enterprises in 1998, and there were 11,000 in 2001. Following that, it proceeded to fall before rebounding in 2006. In 2003, the government unveiled ten next-generation growth engines to promote innovation and entrepreneurship, reflecting post-financial-crisis efforts to identify new business opportunities and build a long-term investment plan. During the relevant period, Korean enterprises sought a way to survive. Despite the shift to high-tech, traditional enterprises increase their global competitiveness. These initiatives set the ground for the growth of globally competitive firms (Long le, Ik Kim & Kim 2016)

2.6 Chaebols: Virtues and Pitfalls

Virtues

To summarize what are the benefits of Chabeols? Below I will address few benefits in bullet points from the article Understanding Korean Capitalism: Chaebols and their Corporate Governance by David Murillo and Yun-dal Sung, 2013.

- **Leadership:** The chongsu's style of leadership should translate to unique management benefits, especially when a charismatic leader sets a clear vision that is subsequently implemented via properly crafted programs.
- **Risk avoidance:** A proclivity for risk avoidance, which aids in the group's financial well-being.
- **Lobbying:** Political lobbying, social capital development, and gaining the backing of government and political leaders have all been successful.
- **Entrepreneurship:** Chaebols are proactive in developing new goods, new product lines, purchasing and merging with existing firms, and entering new domestic and foreign markets, all of which are economically beneficial.

- **decision-making:** The CEOs of related enterprises are frequently led by chongsus through regular meetings. There, all CEO succession and large-scale investment choices are considered. Furthermore, most chaebols have 'strategy departments' or 'president rooms'⁷, which are either official or unofficial control towers for the organization. Despite the fact that it is illegal, the majority of chaebols engage in this activity. The head of the 'president chamber' or 'strategy department' is a sort of family servant who works for the shogun in the Japanese tradition of servants. Employees who work in these departments are frequently promoted to CEO positions in affiliated companies. In the chaebol, they are often viewed as valuable human resources who are quickly promoted.
- **Management from a long-term perspective:** Blood-related executives are more likely to act responsibly and seek long-term plans than professional CEOs, who are more likely to pursue urgent, short-term aims.
- **Internal capital and labour market in affiliated companies:** Mutual aid, know-how, skilled labour, and executives are all shared throughout the organization. All these factors help chaebols become swift movers in developing nations with little capital and trained personnel, since they reduce transaction costs by utilizing internal markets.

(David Murillo and Yun-dal Sung, 2013)

Pitfalls

- **Over investments or risk full investments:** Chaebols are prone to overinvesting or making risky investments because to easily accessible of domestic bank loans. It has been demonstrated that chaebols have larger market value-based debt ratios than their non-chaebol

counterparts, and that they continue to make capital expenditures even when their sectors are decreasing.

- **Diversifications of investments that are not in line with financial reasoning:** Chongsus are being forced to make investments that are not in line with financial logic. The reasons for this choice vary, but they include minimizing the economic or political danger of losing control of the chaebol (e.g., making an investment through a brand new business rather than utilizing existing affiliates to promote a transfer of power to an heir or relative), increasing the chongsu's general image or standing in society and political influence, and aiding the completion. The impact of this investment diversification on performance is uncertain.
- **internal trading or "tunneling":** Among Chaebol affiliates shareholders are suffering from the internal trading or so called tunneling. Firms acquire items from sister businesses even when nonaffiliated firms offer superior pricing in this practice. Some argue that chaebols employ policies that prioritize profit stability above profit maximization. Both events have the same result: they harm the interests of a company's shareholders by diverting resources or earnings to another company in the group.
- **senior posts are not filled on a meritocratic basis:** The next heir is most of the times the eldest male son or the one who is favoured the most within the family. A good example is when Samsung split in to 4 before the Asian Crisis which I will talk about in the next chapter.

(David Murillo and Yun-dal Sung, 2013)

3 Chapter 2: Samsung: the biggest Chaebol

3.1 History

Samsung being currently the biggest Chaebol, many have done study cases of its successful growth and dealings in crisis situations. Samsung is very highly respected company, even during my studies in South Korea I saw Samsung's products and services everywhere. Samsung's technology affects every aspect of South Korean life, and the country is nicknamed the "Republic of Samsung" by many. The distinction between Samsung and other electronics businesses is the nation's inherent interest in the company. (Zhou,Y. 2020). However, it is also the case that Samsung has a negative side that could and already had exposed the business to allegations of political manipulation. Yet the company is still highly praised in South Korea. So let's dive little bit into the beginning of Samsung group and how it became the biggest Chaebol.

Lee Byung-chul dropped out of college and started a tiny company called Samsung Trading Co. The company's first logo consisted of three stars and was based on a graphical depiction of the Korean Hanja word Samsung (Zhou,Y. 2020). You can see the logo development in Figure below.

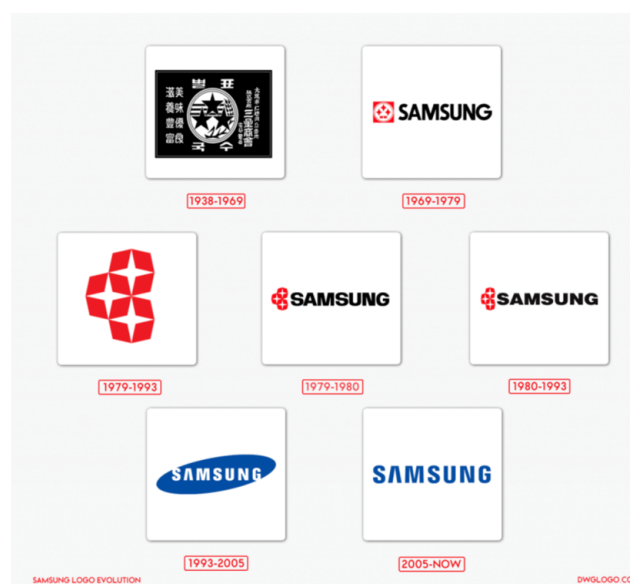


Figure 6. Samsung logo over the years (Picture from website: dwlogo.com/samsung-logo/; issued in 2019)

Inspired by Mitsubishi, Byung-chul established a family-centred management structure for the corporation; in other words, the Chaebol was created. Samsung started in March

1938 as a food dealing business in Daegu, South Korea. See Figure 7 below, illustrating the origins of the Samsung group. In the beginning they had only 40 employees and were selling dried-fish and noodles.



Figure 7. first company of the Samsung group (Picture from:(Immacolata Andolfo, 2017/2018))

It was in 1947 when Samsung moved to Seoul, as the company started growing more rapidly. Samsung's founder, and Hyosung Group founder Cho Hong-Jai started to invest together on a new firm named Samsung Trading Corporation. The company prospered and thrived, but the two investors split ways after a few years because of disagreements in management methods. Despite this, the trade company expanded into the Samsung C&T Corporation that we know today. Lee Byung-Chul founded in 1951 Samsung Moolsan which is now called Samsung Corporaiton. (Immacolata Andolfo, 2017/2018; Lee, 2009). However, a problem arrived due to the Korean war and Lee Byung-Chul had no choice but to flee Seoul. He relocated to Busan and started Cheil Industries Inc. in 1954, which has always been the state's largest woollen mill. The company has grown into various areas throughout the years, purchasing Ankuk Fire & Marine Insurance in 1958 and DongBang Life Insurance in 1963, among other acquisitions. Samsung Group founder Lee Byung-Chul was a fervent believer in the benefits of industrialization, and he wished for the company to be the industry leader in practically every field. (Immacolata Andolfo, 2017/2018; Samsung, 2018). During the late 1960s the corporation made its first step into the electronics market when Samsung-Sanyo Electronics was founded in 1968. For Samsung the 1970s were years of success since their investments went to new product ideas. That's when the production of its first

electronic product was realised, which was a black-and-white television set. Soon after, the firm started exporting its goods, and it quickly rose to become a prominent electronic manufacturer in its own market. In 1979 Samsung increased their production by starting mass manufacturing microwave ovens, (Immacolata Andolfo, 2017/2018).



Figure 8. The first Samsung Black and white TV: Model P-3202 (Picture from:(Immacolata Andolfo, 2017/2018))

The start of air conditioners and personal computers also began. In addition, a sales division was formed in Germany. Meanwhile, Samsung BP Chemicals was established. This was during the 80s where the company fast expansion started and creating autonomous subsidiaries for each of its several electronics businesses. In response, it opened a television assembly facility in Portugal in 1982, followed by others in New York, Tokyo, and England a few years later (Immacolata Andolfo, 2017/2018).

However, the Chairman Lee Lee Byung-Chul passed away in 1987 which caused the Samsung group to separate into four corporations:

- Samsung Group
- Shinsegae Group (Discount store, department store)
- CJ Group (food, chemicals, entertainment, logistics)
- Hansol Group (paper, telecom)

All these businesses that were separated from Samsung group are their own individual groups. Today these groups are not affiliated with or part of the Samsung Group anymore (Immacolata Andolfo, 2017/2018; (Ko, 2000)).

3.2 New management style

In 1987, Byung-third chul's son Lee Kun-hee replaced him after a family feud over inheritance. Kun-hee moved Samsung from a manufacturer to a worldwide technological powerhouse by investing extensively in semiconductor technologies (Zhou,Y. 2020). Human resources, technology, marketing, manufacturing, and design divisions have all played a role in Samsung's rise to prominence Immacolata Andolfo, 2017/2018; (Jung,2014)). The company's second chairman, was a driving force behind the company's rapid expansion. To improve the organization, he initiated new management style in Frankfurt 1993, because he was concerned about the quality of Samsung's products, which were not up to his standards. The Chairman saw many problems within departments, product assembly, inefficiency and many more aspects of the business. So the Chairman was very passionately committed to solving all the issues and making Samsung recognized worldwide (Immacolata Andolfo, 2017/2018). By encouraging employees' creativity and autonomy as well as openness with customers, this new management style encouraged employee-to-customer relationships. Equal opportunity and employee potential were the primary goals of creating the Open HR management system. As a result, this new strategy also aimed to boost social capital by helping workers develop connections and encouraging the best possible collaboration towards the ultimate objective (Immacolata Andolfo, 2017/2018). Let's look the figure bellow to get to know better about the new management.

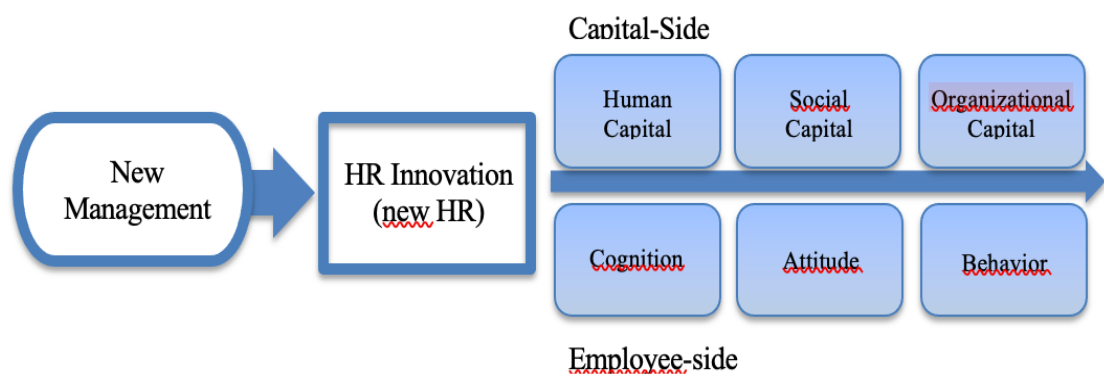


Figure 9. New management style (Immacolata Andolfo, 2017/2018; (Youndt and Snell, 2004))

As seen in Figure 9 above, we can understand what the new management style wanted to improve both in Capital-side and in employee-side. The changes in particular were:

- Employee skills, expertise, and competencies were promoted more via effective recruiting and education.
- The purpose of this new method was to increase social capital and develop employee relationships towards the main goal.
- Looking at the capital side, it wanted to create a new work process and organizational cultures by finally promoting organizational capital.
- Looking at the employees' side it aimed to improve employee cognition so that they could grasp where the firm is going and what the organization's primary priorities and goals are.
- It also intended to improve the employees' attitude toward their jobs.
- All of these changes would eventually result in new employee behavior that was more aware and guided by this new management structure.

(Immacolata Andolfo, 2017/2018; Youndt, 2004)

In addition to the new HRM system, Mr. Lee made several other enhancements. In order for the firm to be successful, he made marketing a top priority since he recognized its role in the value chain. As a consequence of Samsung's customer-centric strategy, customers are more loyal and committed to the company. As a result, Samsung has made the conscious decision to provide its consumers with well-designed products and services that provide both emotional and practical advantages. (Immacolata Andolfo, 2017/2018; Jung, 2014)

In the 1990s Samsung entered the business of mobile phones and in 1992 Samsung Electronics created the world's fastest CPU (Central Processing Unit) named the Alpha chip. However Samsung were not only growing in the electronic side but also on the construction side. This showed other business that Samsung wasn't only strong in their core business but also in other businesses. With this Samsung got the opportunity to build a few of the world's largest important buildings like Burj Khalifa in UAE, the two Petronas Towers in Malaysia and Taipei 101 in Taiwan (Immacolata Andolfo, 2017/2018; Grant, 2010). In 1995 Samsung premiered to the world the first liquid-crystal display screens which made Samsung the world's leading maker of liquid-crystal display panels.

During the Asian Financial crisis of 1997, Samsung did not suffer as severe financial losses as other large Korean corporations. With the loss-making sale to Renault of Samsung Motor, on the other hand, it suffered a significant blow (Immacolata Andolfo, 2017/2018).

Several goals were achieved over the decade of the 2000s. In 2001, BusinessWeek named Samsung Electronics as one of the world's top 100 information technology companies, and in 2007, Samsung Electronics won the No. 1 worldwide market share position for LCD for the sixth year in a row, according to the company. It's no secret that Samsung is now one of the most well-known names in the electronics industry. Among Samsung's consumer and industrial electronic products are appliances, digital media devices, semiconductors, memory chips, and integrated systems. One-fifth of all South Korean exports are currently made up of products from this company, making it a household brand. A significant supplier of batteries, semiconductors, CPUs and flash memory to firms like Apple and Sony is also a part of the company's business portfolio. Televisions and smartphones are two more areas in which Samsung has been a major player since 2011. When it comes to chip manufacturing, the business surpassed Intel last year (Immacolata Andolfo, 2017/2018).

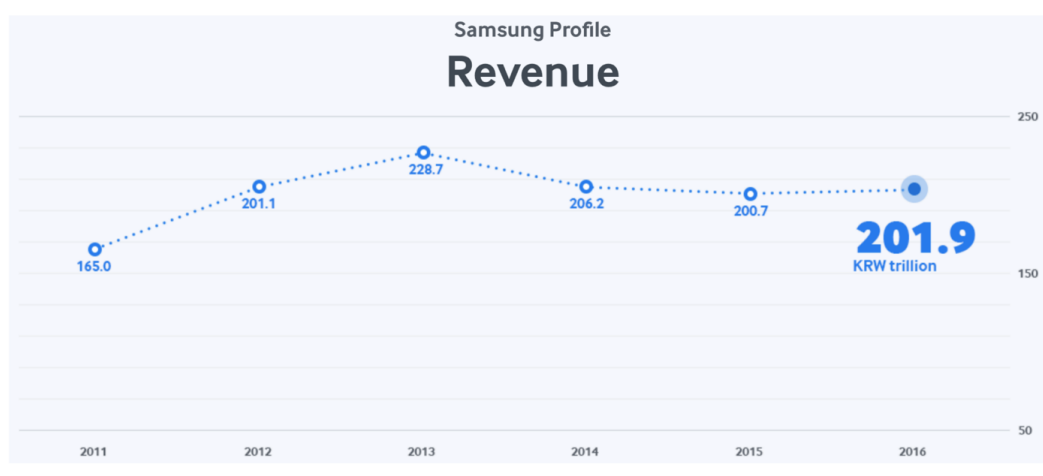


Figure 10. Samsung Profile Revenue from 2011 – 2016 (Immacolata Andolfo, 2017/2018).

As seen in Figure 10 above, the trajectory of Samsung Group sales between 2011 and 2016, which started at 165.0 KRW trillion in 2011 and finished at 201.9 KRW trillion in 2016, shows that the firm was on the right path. Lee Kun emphasized Hee's focus on brand awareness and management based on customer requirements and ambitions. This

has helped Samsung Groups develop greatly in both revenue and brand value. As a result of this growth, Samsung has risen from seventh place in 2016 to sixth place in 2017 on the list of the Best Global Brands. Samsung Electronics has been ever since at number six but in 2020 it got ranked 5th in Interband's Best Global brand and in 2021 it ranked 5th again with 20% increase compared to 2020. (Samsung newsroom, 10th October 2021). See the figure below.

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Brand Value (USD)	19.5 B (11%↑)	23.4 B (20%↑)	32.9 B (40%↑)	39.6 B (20%↑)	45.5 B (15%↑)	45.3 B (-)	51.8 B (14%↑)	56.2 B (9%↑)	59.9 B (6.5%↑)	61.1 B (2%↑)	62.3 B (2%↑)	74.6 B (20%↑)
Brand Ranking	19	17	9	8	7	7	7	6	6	6	5	5

Figure 11. Samsung Electronics Brand Value (Interband) (Samsung newsroom, 10th October 2021).

3.3 Scandal of Samsung heir

In 2014 Samsung had to face some bigger problems when their chief executive to be, Lee Jae-Young, has been charged with bribery and embezzlement, as well as payments allegedly paid to President Park. A 12-year jail sentence for Lee was in the making, which would be the heaviest sentence ever given to a chaebol official. Chaebol leaders have been imprisoned for embezzlement before but, this is the first time a chaebol leader has been arrested on corruption allegations. In this case, Park is accused of sharing classified state information with a close friend, Choi Soon-sil. Samsung reportedly paid \$36 million in bribes to Choi's sham charitable foundations in 2015 in exchange for her influence in getting a merger approved by the government (Premarck, 2017).

However, on August 25th of 2017 Lee was sent for 5 years to prison, but then on February 2018 he was freed. This made people realize again that Chaebols are powerful and for them to lose power wouldn't be the case for now. This of course made people sad since no real changes of the power changes even with clear accusation of illegal activities. (Immacolata Andolfo, 2017/2018). Most interesting in all of this is that even with all these scandals Samsung, for example, is still very loved and cherished with pride as a national symbol of success by Koreans.

3.4 Strengths and Weaknesses

Strength

As far as product lines go, Samsung provides the most diverse offering, which includes cell phones, TVs and audio/video players; cameras and camcorders; home appliances; computers and peripherals; printers and memory cards; and other accessories. One of Samsung's most significant advantages is the significant amount of money it invests in research and development. It has consistently made large investments in it from its inception, with major expenditures in this area occurring even during the company's early years, due in part to the efforts of Lee Byung-high Chul. As a result, the firm may have a strong portfolio among all the technological companies that have grown year after year. To be sure, investment in research and development and innovation is crucial to achieving and sustaining market supremacy, particularly in the technology industry, which is constantly evolving and where securing first mover advantages is usually required. (Immacolata Andolfo, 2017/2018).

When it comes to putting new capabilities into products, Samsung has the benefit of being the first to market. Through the construction of an Indian manufacturing facility, Samsung was able to capitalize on the booming Asian consumer market while also lowering the expenses of shipping and supply chain management. (Immacolata Andolfo, 2017/2018).

Weakness

In 2017, sales of Samsung smartphones fell. Due to the Chinese market's price sensitivity, a similar tendency was seen. Several of these products are sold at a lower price in India, which has a direct impact on Samsung's sales. But this strategy did not pay off for Samsung in the long run, despite Samsung's best efforts.

In the 2015 Bribery Scandal, the company's CEO paid South Korean officials to facilitate a merger, tarnishing Samsung's reputation. He was found guilty and imprisoned for more than a year before being released in February 2018, causing his popularity in South Korea and throughout the world to wane.

Samsung is an electronics pioneer, yet it is heavily reliant on third-party technologies. Online merchants with a big selection of items provide low prices since they do not pay expenses in the sales channel. It is believed that 70.8 percent of smartphones in the United States were sold by Samsung and Apple, demonstrating their dependence on the American market. Although Samsung has expanded its Asian operations and diversified its financial sources, it is still strongly dependent on the American market for its products. It is possible that another downturn in the American economy may threaten Samsung's profitability and deplete the company's working capital. Due to the US economy failing, Samsung will look to Asia and Europe for survival and avoid repeating its earlier mistakes. (Immacolata Andolfo, 2017/2018).

Hereditary Leadership: Since its establishment three decades ago, Samsung has always been led by one of its founding family descendants. In spite of the fact that retaining leadership within the family has provided Samsung tremendous stability, Samsung will stagnate owing to a lack of new ideas. Although there have been many problems with Samsung's succession, its heir Jay Lee has committed to end it. (Immacolata Andolfo, 2017/2018).

4 Chapter 3: Today

4.1 Current situation

South Korea's GDP is currently ranking 10th worldwide and 4th in Asia (Yonhap, The Korea Herald 2021). From the year 2020 South Korea's Fair-Trade Commission announced that the top 5 conglomerates haven't changed from 2019, when Samsung still had the first place, followed by Hyundai Motor, SK, LG and Lotte. As seen in Figure 2 above, the top five conglomerates' revenues were equivalent to almost half south Korea's GDP in 2019. Figure 3 shows the impact of the top five chaebols has over the stock market in 2018.

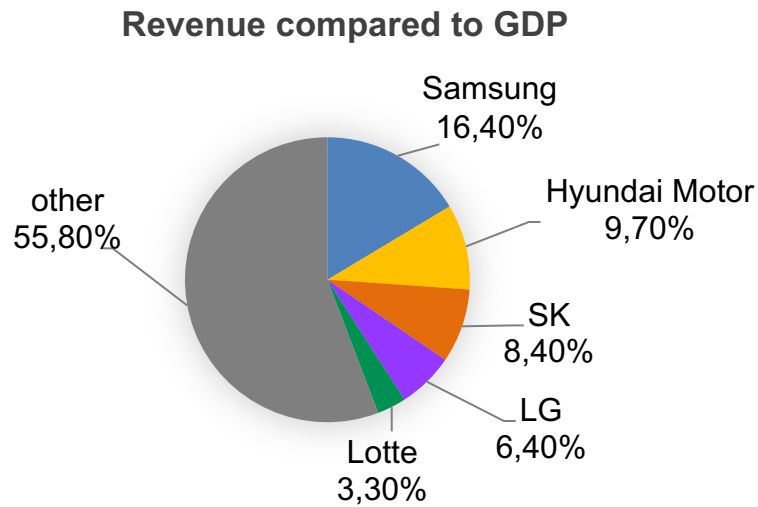


Figure 12. Revenue compared to GDP (Bloomberg 2020)

Going back to Samsung case, we can see no matter what scandals the Chaebols face they are still very powerful. According to Lee Cheol-haeng, director of the Federation of Korean Industries' corporate policy division, many Koreans have a dual perspective about chaebols: they loathe them while still wanting their children to work for one. Their enmity is well-founded, since it originates from a long history of commercial practices that are nepotistic and monopolistic. (Immacolata Andolfo, 2017/2018). They respect chaebols for converting South Korea into an economic powerhouse and boosting living standards through their products at the same time (Immacolata Andolfo, 2017/2018 (Katzman, 2017)). The number of thoughts that people have is infinite. Critics accuse Samsung of pushing out smaller businesses, restricting options for Korean customers, and colluding with other mega corporations. People are also enraged and dissatisfied with the government's support for the company. Simultaneously, everyone trusts the Samsung brand. It is known for providing the nicest after-sales care, since the company visits customers to enquire about their satisfaction and collect any complaints. Customer satisfaction is important to our company. People's familiarity with the brand, particularly with Android phones, which are all referred to as Galaxy, is another reason for the company's success in South Korea. People who are accustomed to Samsung products continue to buy additional Galaxy phones (Immacolata Andolfo, 2017/2018).

We acknowledge that the unceasing demand for change is not only motivated by hatred. This is the result of a long-standing nepotistic and monopolistic business strategy that

maintains the country in their hands and allows them to rule it unrestrictedly. Therefore, the country elected Moon Jae In as president in 2017, who has prioritized chaebol reform in his political agenda. Despite the fact that he was elected particularly for this goal, he has failed to implement any chaebol reform measures. On the other hand, as previously said, changes are exceedingly difficult, and past attempts show that it is practically impossible to abolish or modify firmly established chaebols (Immacolata Andolfo, 2017/2018).

5 Conclusion

After finishing this, work few things I would like to add from my point of view as a student who lived with and talked to Koreans. As I said in the beginning it came a shock to me to see how valued and hated chaebols are. I only saw Chaebols in series or dramas but never actually thought for them to be true. Mostly what you see in tv is made more dramatic, but to hear from Koreans themselves it sounded just like in the series. As I was talking about Samsung case with a Korean friend of mine, she told that her relative got a job in Samsung and said the benefits he got was crazy compared to Finland. With this I can Understand why many want to work for a chaebol corporation but then again say that they hate chaebols.

In the first Chapter I talk about the structure of Chaebols. How Chaebols, work and how their investments plans are to keep the business inside family. Chaebols have many names like Octopus or big tree with lots of branches since the three main characteristics key point as said in the chapter are the corporations have numerous affiliate enterprises working in diverse industries; second, the dominant family administers and controls the group's finances; and third, this is the framework through which Chaebols wield influence in the national economy. I also went through the Chaebols huge presence in South Korean economy and how the five biggest chaebols take up over the half of GDP. In this chapter I looked deeply of Chaebols structure in order to us understand how it works. Since for outsiders this can seem very odd, but for Koreans it a term of norm.

The second part of the first chapter I brought up the history of Chaebols from 1950 to the financial crisis in 1997. Since The history ids long I split them up in order to see

somehow what happened during which decade. In this part I go through what happened during the financial crisis in 1997 and how did South Korea recover from it. At the end of this chapter, I conclude the Virtues and Pitfalls about the chaebols. As how I look at it the pro and cons are like a 50/50 situations. Like in most cases something good brings also something bad. Some of the virtues of Chaebols as said in the chapter were decision making, leadership and risk avoidance. Some of the pitfalls from chaebols were over investments, investments that aren't in line of financial line and the senior position aren't filled with meritocratic basis.

The second chapter concludes about Samsung Group the biggest Chaebol in South Korea. Talking about Chaebols and not talking about Samsung would have felt right. In this chapter I go through where Samsung began to tis day. To really understand how big Samsung, we are can hear that Instead of South Korea being called The Republic of Korea its sometimes called The Republic of Samsung. I also talk about the management style of Samsung when the second chairman came to power and how he made Samsung the powerhouse it is known. At the end of this Chapter I bring out the Strength and weaknesses to have a bigger picture that it's not all good or all bad.

In the third chapter which is the last chapter I look how the situation is today and how the society feels about the chaebols. Also the fact that even though a new president was elected which had in his agenda to reform the chaebols, still not really has changed

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