

Do Corporate Cultures Change Over Time? Evidence from South Korea ©

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Abstract

We investigate corporate culture change in South Korean big businesses – the chaebol. This is based on a two-point survey in 1995 and 2006. We find the following. First, a lot of changes in values and attitudes of employees. Traditional collectivism and the positive-oriented attitude which characterized the dynamism of business have declined. Second, despite these overall changes, individual companies maintain their identities according to their chaebol group. Also, cultural differences have not been converging but rather diverging. Based on these findings we can hypothesize that business society has become more diverse. While maintaining core elements of traditional collectivism, society has to cope with widening diversity at individual and organizational levels. In this diversifying society the management of organizational culture is going to play a more important role to attract the right people and maintain organizational identity. From this we can posit that a ‘diversity paradigm’ could be emerging in business.

Keywords: corporate culture; change; chaebol; crisis; Korean business

Chaebols in the Korean Economy

Korean chaebols have shown quite unique corporate cultures, which may lead to strong cohesiveness of employees and played a role in rapid economic growth. Although there was criticism of the chaebol-dominated economy after the Asian financial crisis (AFC) of the late 1990s and Korean government introduced large scale restructuring and half of the top 30 chaebol collapsed, Korean economy recovered considerably, allowing it to overcome the global financial crisis of the late 2000s. The chaebols also bounced-back. For example, the total sales volumes of the four largest chaebols – Samsung, Hyundai Motors Company(HMC hereafter), SK, LG – are now about 50 percent of Korean GDP (Hankyoreh 2012). Whereas the sales of four chaebols were \$16,637 million in 1995, they were \$364,982

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million in 2006 and \$552,014 million in 2011 (see Table 1). Their sales have increased significantly over the last 16 years. Samsung's from 1995 to 2011 rose about 40 times, while HMC's rose 22 times and SK's rose 27 times. Furthermore, the proportions of sales in GDP in 2011 of Samsung, HMC, SK and LG were 17.9 percent, 10.6 percent, 9.5 percent, 9.1 percent respectively, that is close to half, which shows how much they affect the Korean economy. The impact on the economy may also be inferred through the number of chaebol affiliates and global rankings (Table 2). All four have greatly increased from 1995 to 2011 with the exception of HMC and LG in 2006. Some authors observed that most chaebols did not pursue diversification as actively as before the AFC (Choe and Pattnaik 2007). However, the increased rate of affiliates from 2006 to 2011 is higher than from 1995 to 2006. According to a Fortune Global 500 list, the financial global status of Samsung, HMC and SK rose, with only LG falling. For instance, in 2011 Samsung, HMC, SK and LG were ranked at 22, 55, 82 and 171 respectively in the world. In the case of LG, some group separation occurred, ie GS in 2005, which led the downsizing of the number of all affiliates and impacted on the global ranking. This paper focuses on what happened inside these chaebols after the 1997 AFC.

Table 1, Table 2

Corporate Culture of Korean Chaebols

Corporate culture is defined as a psychological sub-system employees share such as beliefs, values, or behavioral norms in an organization (Hofstede et al. 2010, Shin 1992, Schein 2004). Cho and Yoon (2001) defined the uniqueness of Korean corporate culture as 'dynamic collectivism' that combined with collectivism and progressivism ('positive-oriented' or 'change-friendly' mind). They argued that although corporate culture of Korean chaebols has been built on traditional collectivism similar to other East Asian countries, it applies only to in-group members within corporations. As a result, it tends to reinforce the boundary between in-group and out-group and to intensify competition, which in turn makes Korean society more competitive. This aspect also was described by Shin (1992) as 'progressivism' formed after industrialization. Progressivism means the propensity to pursue fast alteration in response to changes of environment and the propensity to prepare for the future with optimism, which means 'hurry up, hurry up' or 'can-do' spirit. Progressivism in addition to traditional collectivism, have been emphasized as important values to understand corporate

culture of chaebols in other studies (Steers, Shin, and Ungson, 1989, Ungson, Steers, and Park, 1997).

Our question is whether this strong corporate culture of Korean chaebols has been changing over time, especially under the environmental pressure such as AFC. Both Hofstede, Hofstede, and Minkov (2010) and Trompenaars and Hampden-turner (1998) argued that since the culture of society is included in determining corporate culture, if the macro culture of society changed, organizational culture can be changed as well. Moreover, recent civic group actions tries to actively change companies via corporate social responsibility also influences corporate culture (Hond and De Bakker 2007). Cho (2002) argued that dynamic collectivism was challenged by the AFC. With the AFC Korean employees experienced society-wise layoffs and the labor market became more flexible, which had not been typical. As this situation continued for some time, it is possible for the attitude of employees to be changed towards greater individualism. Also, it may be easier for employees to have more calculative (from relational to transactional) thoughts about their jobs, recognizing that organizations provided only temporary, rather than permanent, jobs. In this process we wonder how dynamic collectivism, a key characteristic of chaebol, may maintain.

Another question is whether there is difference within chaebols. Distinct corporate cultures among chaebols have been mentioned in both the academic literature (Cho and Yoon 2001) and popular press (Samil Consulting Group 1992). For instance, Samsung traditionally has been known as ‘Samsung of management’ which means Samsung stresses systematic approach to problem solving and personality of Samsung people is very conscientious, Hyundai as ‘strong drive’ which refers to the empowerment of people or leaders rather than system, LG as ‘harmony and solidarity’ which emphasizes the humane work environment, SK as ‘indomitable spirit’ which stress SK’s passion for the excellence. These distinct corporate cultures could have continued, converged, or diverged post-AFC. For example, on one hand, universal changes in HRM from seniority to performance based and institutional pressures from global organizations(e. g. IMF) , such as global standards for accounting or governance structures, may lead chaebols to shape their corporate cultures towards similar ways. On the other hand, however, there is also motivation to diverse corporate cultures because competitive advantage may come from differentiation and firms wants to maintain their identities.

Results of Surveys

To investigate such changes of corporate cultures of Korean Chaebols, we collected a longitudinal data set in 1995 and again in 2006 from the top four Korean leading chaebols: Samsung, Hyundai, SK and LG. In the 1995 survey we collected 730 responses and in the 2006 survey 991. In this survey, we defined collectivism (vs individualism) as a degree to which employees emphasize a basic cultural element that focuses on other people and family rather than individuals; progressivism (vs conservatism) as a degree to which employees want to change a current situation in response to the change of environment.

Table 3, Table 4

Table 3 and 4 showed the results of comparison between 1995 and 2006. As can be seen in Table 3, collectivism declined and at the same time individualism certainly strengthened after AFC. Average collectivism score decreased from 3.08 to 2.87 on 4-point scale. The biggest gap between 1995 and 2006 was “Company as the second house.” Value orientation toward obedience to the high rank person (e.g., own boss) decreased from 2.87 to 2.67. The value orientation towards ‘follow common opinions of colleagues’ also considerably decreased from 3.17 to 2.92, which shows a typical change from collectivism to individualistic culture.

Progressivism also declined considerably, though not as much as collectivism, from 3.11 to 3.01 on average (Table 4). Interestingly, the level of discrimination related to gender in the workplace (from 2.93 to 3.09) and preference for automation to enhance productivity (from 3.22 to 2.95) decreased considerably (Table 8). In the past, employees were willing to take automation technology if this was good for company productivity enhancement. But it will not be easy for companies to persuade employees accept new technology without sacrificing job security.

Table 5 shows comparison of changes in corporate cultures across four chaebols. The overall declining trend of collectivism similarly applies to all four chaebols. However, the declining ratios are different among chaebols, the largest drop in LG and the smallest drop in Samsung. In Table 5, we also found the overall declining trend of progressivism for all. What is interesting in this trend is that while there was homogeneity among four chaebols in 1996, the difference among chaebols became larger in 2006. The deviance ratio, (max-min) divided

by average, of collectivism is 0.023(0.01/3.08) in 1995 and 0.090 in 2006. The deviance ration of progressivism is 0.055(0.17/3.11) in 1995 and 0.076(0.23/3.01) in 2006.

Table 5

In table 6 we can see the change of typical personality, work climate, and management of organizational culture in each chaebol from 1995 to 2006. In terms of personality traits, extroversion and conscientiousness became stronger during the period whereas neuroticism became weaker. Work climate became tighter and cultural management based upon organizational ideology has been strengthened. In this overall trend difference among chaebols are remarkable. Samsung is the most conscientious, tight and ideologically controlling in 1995 as well as in 2006 while HMC is the opposite. LG situated in between in 1995 is moving toward Samsung, surpassing it in 2006 for some traits.

Table 6

Dynamic Collectivism Revisited

Survey results have shown some interesting implications about recent changes of corporate cultures in Korean chaebols. First, we found a new aspect of employee value orientation emerging. That is, traditional collectivism is attenuated. Also, positive-oriented mind that guarantees the dynamism of chaebols, declined considerably.

Second, there is a difference among individual chaebols or subsidiaries in overall changes. We found that the differences for value orientation and the differences for organizational norms and typical personalities of employees in each chaebol and affiliate were larger. It is also noticeable that differences among individual affiliates within each chaebol were apparent. In spite of this change, the background characteristics ‘stereotyped’ of corporate culture at chaebol group level still have a strong influence and distinguishable cultural characteristics of each chaebol formed from the founder’s still remain. Divergence theory rather than convergence theory prevails.

Third, there can be also special cases which shows dramatic cultural shift going beyond the comparable companies. This is LG case in our study. There was the biggest decline in collectivism and greatest changes in personality and work climate in the former

harmony-seeking company.

From these findings we can say that corporate cultures change over time, particularly in the process of coping with social big changes, but in different ways according to the original cultural characteristic and identities of organizations. Korean business culture became more diverse in the first decade of 21st century than in 20th century. What would become 'dynamic collectivism'? In spite of the declining collectivism and progressivism, Korea still maintains collectivism and positive-oriented mind. However, we might say, it is possible that the different kind of 'dynamic collectivism' appears in Korea. The similarities observed before in different business groups will become less important while differences will play more important roles. We can posit since the chaebols have unique cultures they will have different methods to develop and to change culture based upon each corporation or the characteristic of past culture. Korean business firms should be aware of the importance of organizational culture and make greater efforts to build or transform their cultures to attract good people and enhance competitiveness through HR in diversifying society.

We hope this study done about organizational culture change in Korea will provide a perspective for understanding and analyzing the dynamism or evolution of business organizations in 'collectivist' developing countries, such as China, India, South Asia and Latin America. Is cultural divergence is universal within countries achieving economic development?

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

Year	Samsung	Hyundai Motor	SK	LG
1995	5,165	5,746 ¹	1,721	4,008
2006	150,455	77,555	70,479	66,493
2011	209,431	123,867	111,593	107,123
The proportion of sales for GDP (2011)	17.9%	10.6%	9.5%	9.1%

Source: Choi (1996), the Analysis of 30 Korean Big Business Groups for 1996, Sky Daily News (February, 2012), Fair Trade Commission (2010), Hankyoreh newspaper (February, 2012).

Note: we assume that one dollar is one thousand won. Standard: K-IFRS (Korean International Financial Reporting Standard).

Table2. Number of Affiliates and Global ranking of Korean Chabols, 1995-2011

The Number of Affiliates				
Year	Samsung	Hyundai Motor	SK	LG
1995	55	48	32	50
2006	59	40	54	36
2011	79	55	90	60
Global Ranking of Four Chaebols based on Annual Revenues				
Year	Samsung	Hyundai Motor	SK	LG
2006	46	80	111	72
2011	22	55	82	171

Source: Fair Trade Commission (2012), Choi (1996), the Analysis of 30 Korean Big Business Groups for 1996. Fortune Global 500 list.

Table 3. Differences in collectivism, 1995 and 2006

Value Orientation	1995 (A) n=727	2006 (B) n=991	Difference (B-A)	p-value
1. I think that obedience to person who is in high rank is my duty	2.87	2.67	-0.20	0.000
2. Boss should take care of subordinates warmly like brothers and family	3.29	3.11	-0.18	0.000
3. Company is the second house	3.31	3.00	-0.31	0.000
4. I am willing to follow their opinions if colleagues suggest common opinions for some problems	3.17	2.92	-0.25	0.000
5. I follow the order of others when I go to a restaurant with many people	2.75	2.65	-0.10	0.001
Average	3.08	2.87	-0.21	0.000

Note 1: four point likert scales: 1- very disagree, 2 – disagree, 3 – agree, 4 – very agree

Note 2: the survey of 1995 was in Cho (1995). Data for 727 respondents of four corporations except Daewoo

Note 3: T-test was being used to determine p-value

¹ Hyundai Motors was detached from Hyundai Group in 2000 so the sales of Hyundai in 1995 is the sales of Hyundai Group, not Hyundai Motors.

Table 4. Differences in progressivism, 1995 and 2006

Value Orientation	1995 (A) n=727	2006 (B) n=991	Difference (B-A)	p-value
If my boss is female, I can closely serve her sincerely	2.93	3.09	+0.16	0.000
As office automation or factory automation is helpful for enhancing productivity even though it has a negative impact, the automation should be carried out soon	3.22	2.95	-0.27	0.000
Ability and business achievement are more important than the length of service in the workplace	3.11	3.01	-0.10	0.001
For better developed society, international culture should be accepted actively	3.00	2.98	-0.02	0.641
Social contradiction should be eradicated as soon as possible	3.30	3.00	-0.30	0.000
Average	3.11	3.01	-0.10	0.000

Note 1: four point likert scales: 1- very disagree, 2 – disagree, 3 – agree, 4 – very agree

Note 2: the survey of 1995 was in Cho (1995). Data for 727 respondents of four corporations except Daewoo

Note 3: T-test was being used to determine p-value

Table 5. Differences in value orientation, 1995 and 2006

Time	1995						2006					
	Hyundai	LG	SK	Samsung	The Whole	ANOVA p-value	Hyundai Motors	LG	SK	Samsung	The Whole	ANOVA p-value
The number of Sample	210	207	209	104			281	176	262	273		
Collectivism	3.08	3.08	3.10	3.03	3.08	0.338	2.96	2.70	2.80	2.96	2.87	0.000
Progressivism	3.01	3.18	3.15	3.08	3.11	0.000	2.99	3.11	2.88	3.08	3.01	0.000

Note 1: unit scale is 4: 1-very disagree, 2-disagree, 3-agree, 4-very agree

Table 6. Differences in personality traits, organizational climate and ideological management, 1995 and 2006

Time	1995						2006					
Group	Hyundai	LG	SK	Samsung	The Whole	ANOVA p-value	Hyundai Motors	LG	SK	Samsung	The Whole	ANOVA p-value
The number of Sample	210	207	209	104					281	176		
Personality (Extroversion)	4.24	4.05	3.72	4.71	4.11	0.000	5.15	5.24	4.92	4.75	4.99	0.000
Personality (Conscientious- ness)	4.36	4.99	4.90	5.45	4.85	0.000	4.68	6.36	5.35	5.72	5.44	0.000
Personality (Neuroticism)	4.36	4.99	4.90	5.45	4.85	0.000	4.58	4.82	4.53	4.99	4.72	0.000
Tightness of work climate	2.71	2.84	2.74	3.05	2.80	0.000	2.80	3.40	2.82	3.16	3.01	0.000
Ideology- driven	2.71	2.84	2.74	3.05	2.80	0.000	3.42	3.86	3.83	3.98	3.76	0.000

Note 1: 8-point semantic differential scale for personality

Note 2: 5-point Likert scale for other two variables