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## **The Korean Business Systems**

-national characteristics and the impact of the FTA between Korea and  
the EU from a European Corporate Perception

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## Abstract

In recent years, Korea has achieved considerable economic growth accompanied by potential business opportunities for international companies. The European Union is currently negotiating a free trade agreement (FTA) aiming at increased trade and business relations. Hence, the Korean business system and its foundations in societal characteristics need to be taken into account by European political and economic actors. The purpose of this study is to identify those characteristics and to explore their linkages as perceived by European companies. In addition, their perception of the FTA's impact on characteristics of the Korean business system will be explored. This research is based on the socio-economic approach of business systems theories. Empirical findings resulted in a comprehensive image of the Korean business system enriched by a European corporate assessment. For this, ten semi-structured interviews have been conducted. While assessing the FTA positively, European companies expect this political measure to have a rather limited impact on their business activities. In the long term, it could be concluded that the FTA indirectly exerts influence on societal characteristics and linkages of the Korean business system.

**Keywords:** Business Environment, Business System, Republic of Korea, European Union, Free Trade Agreement, Varieties of Capitalism

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## Abbreviations

CEO	Chief Executive Officer
CME	Coordinated Market Economy
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GI	Geographical Indication
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LME	Liberal Market Economy
NIE	Newly Industrialized Economy
NTB	Non-Tariff Barrier
OECD	Organization for Economic Co-operation and Development
OEM	Original Equipment Manufacturer
SME	Small and Medium-sized Enterprise
TBT	Technical Barriers to Trade
UN	United Nations
WEF	World Economic Forum
WTO	World Trade Organization

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## 1. Introduction

*This research broaches the issue of characteristics of national business environments, their linkages in an international context and impacts of free trade agreements on business systems. Hence, the following chapter comprises an introduction into the research area followed by a problem discussion which outlines this thesis.*

### 1.1. Background

Bilateral free trade agreements (thereafter FTAs) have recently experienced a renaissance in international trade diplomacy. As economic importance is reallocated to the East Asian realm, FTA negotiations and ratifications mostly involve at least one Asian party. Especially, the regions forming the current global triad, namely the European Union (thereafter EU), the United States of America (thereafter USA) and Japan, seek to establish and maintain economic relationships with Asian newly industrialized economies (thereafter NIEs) (Dicken, 2007).

Being aware of the need to create wealth for its citizens and economic growth for located companies, the EU has been intensifying its global efforts to enhance unlimited trade relations. Recently, the EU has been negotiating a comprehensive FTA with the Republic of Korea (thereafter Korea). This agreement is expected to eliminate import duties as well as non-tariff barriers and provide an extensive liberalization of trade in services. (EC, 2009a) Additionally, liberalization of investment, both in majority of the service and non-service sectors, are included in this agreement. In that way, the EU aims to open this NIE and its attractive growth potential to European companies.

Different political and economic environments create a complex background for FTA negotiations and contents. Furthermore, the participating parties' societal characteristics need to be considered when evaluating business and trade opportunities abroad. Hence, academic research about business environments requires taking a wide context into account. International Business reflects the scientific branch focusing on economic activities across borders. Studies and methods of complex international environments applied within this academic field traditionally have been focusing on fragmented analyzes (Volberda, 2006). Reciprocal interactions between institutions and firm activities abroad have been recognized. (Hall & Soskice, 2001; Porter 1990; Whitley, 1999) However, complex international





environments have contributed to rather narrow fields of research leading to de-contextualized findings (Redding, 2005). Thus, there is a strong need for a holistic approach that includes business, politics and underlying cultural dimensions.

The FTA between Korea and the EU is still under negotiation and waits for its ratification. Against this background the Korean business environment as perceived by European corporations deserves further academic attention. Additionally, a European corporate assessment of the FTA's impact on their Korean business activities opens an intriguing new field for analyzes. This paper thus attempts to gain new insights into European company's perception of the Korean business system and their expectations on the FTA by applying a socio-economic approach of business systems theories.

## **1.2. Problem Definition**

Redding (2005) points out the necessity of analyzing societal systems of capitalism when identifying internationally differing firm-strategic characteristics and opportunities. Amending Whitley's (1992, 1999) theory of business systems Redding develops a comprehensive model of societal systems. In order to apprehend historical trajectories in a specific context, three layers need to be examined.

The top layer or business system comprehends main areas of business structures and processes that display a firm's coordination and control of economic activities, comprising ownership patterns, network activities and management styles (Whitley, 2005a). Business systems show specific adjustments and exploitations of the second layer, which reflects formal established orders of the institutional context. Here, varieties of capitalism can be examined through the degree of state influences on economy (Hall & Soskice, 2001; Whitley 2005b). The basic layer comprises informal institutions collected under the general term culture (Redding, 2002). Cultural factors of authority, interests and ideology are seen as symbols strongly linked to activities of actors in a system (Weeks & Galunic, 2003; Geertz, 1973).

A core approach of Redding's model of societal systems is the assumption that culture underpins institutions while institutions underlie the specific development of a business system. Thus, when trying to identify business systems, formal and informal institutions need to be taken into consideration. Interrelations between culture, formal institutions and business



systems create linkages that are specific for a chosen context. This context might be a state, society or industrial clusters. (Redding, 2005)

When analyzing the Korean business system, a current and comprehensive snapshot of identified characteristics and linkages within the Korean business environment is reflected upon and contributes to an extensive understanding of the NIE. This research acknowledges recent academic critiques about weaknesses of capturing context, culture and policy implications in international business theories. Furthermore, by evaluating the Korean business system from a European corporate perception, intriguing insights into practical local business processes are revealed. Elaborations on European corporate assessments of the FTA between Korea and the EU further add value to academic reflections on these specific bilateral negotiations and result in fascinating observations of dissenting valuations among political and commercial sides.

### **1.3. Research Purpose**

The purpose of this research is to identify the Korean business system and its foundations in societal characteristics. Furthermore, linkages between those characteristics as perceived by European companies shall be explored. In addition, a European corporate perception of the FTA's impact on characteristics of the Korean business system shall be analyzed. Hence, this research is based on the socio-economic approach of business systems theories and follows Redding's (2005) model of business systems. In order to meet the research purpose two research questions are elaborated upon.

*What are the characteristics of the Korean business system and how are the characteristics of the Korean business system linked to each other?*

*What proposed impact does the FTA have on characteristics of the Korean business system as perceived by European companies?*

### **1.4. Thesis Disposition**

After outlining the background and purpose of this research in chapter one, the second chapter provides an inclusive description of the methodological approach chosen in order to contribute to the study's credibility. The following chapter then elaborates on the theoretical framework chosen and introduces the conceptual model used throughout the analysis.



Additionally, the contextual dimension of the FTA between Korea and the EU is presented to the reader. Chapter four contains the illustration and analysis of empirical findings collected through primary and secondary data. Here, major characteristics and linkages within the Korean business environment are assessed from a European corporate perception. Furthermore, a European corporate evaluation of the impact of the FTA is included. Consequently, a novel model comprising key aspects and linkages of the Korean business system is presented. The final chapter addresses conclusions resulting from this thesis and elaborates on academic and managerial implications.



## 2. Methodology

*This chapter provides the reader with the methodological approaches chosen in this thesis. In order to increase the credibility of this research the authors of this study reflect on the used research design, the choice of a single case study and discuss data collection methods.*

### 2.1. Research Design

When starting the research process, an explorative interview with the Korean-German Chamber of Commerce and Industry Chamber of Commerce and Industry located in Korea was conducted to identify industries of interest. As each of the European based industries turned out to face distinct challenges and opportunities on the Korean market, the authors decided to focus on a general non-specific analysis of the Korean business system. Also, after reviewing existing literature it became clear that a suitable approach would be to stay at a more abstract economic level in order to be able to find out general characteristics and linkages within the Korean business system and their alterations under the FTA. Furthermore, earlier academic research with a holistic approach on national business systems, institutional particularities and the interaction with a society's culture showed to be marginal for this study's purpose.

The authors decided to use an existing conceptualization that is suitable to comprehensive business system analyzes as it covers cultural, institutional as well as firm-specific aspects. This rather general conceptual model was applied on the Korean context as the authors filled in country-specific details with the help of existing literature about the Korean business environment. Furthermore, a theoretical framework about the academic background of the applied conceptual model was constructed. In order to test the developed interview guide as well as to evaluate the importance of the chosen conceptual framework one test interview was executed with a corporate manager formerly responsible for establishing a European corporate sales organization in Korea.

According to Aiken (1999) the aim of an exploratory research is to elucidate a realm that is not well understood and investigate how it will be affected by various procedures or manipulations. Since the aim is to employ the chosen conceptual model against the background of a European perception; an approach not covered by earlier studies, this research is marked by a rather exploratory approach.



In personal interviews, open-ended questions are generally used to meet exploratory research approaches (Remenyi, Williams, Money & Swartz, 1998). Furthermore, Merriam (1994) describes the use of words and pictures rather than numerical presentations of findings to be an exploratory feature. The authors addressed the exploratory purpose of understanding characteristics and linkages in the Korean business environment by conducting eight interviews with open-ended questions. The analytical presentation follows Merriam's (1994) description in order to elucidate the complexity of the different environmental layers, and linkages.

According to Merriam (1994), qualitative research is of mainly inductive nature, as researchers aim to develop abstraction and theories rather than to test existing theories. The research conducted in this paper can be categorized as qualitative and inductive as the aim is to elucidate the topic by applying qualitative interviews and secondary data for reflecting European corporate insights into the Korean business environment. Nevertheless, inductive and deductive are rather complementary than exclusionary as researchers tend to switch between them (Adams, Khan, Raeside & White, 2007; Saunders, Lewis & Thornhill, 2009). In contrast to inductive studies, deduction is characterized as a process in which known facts are examined in order to build a basis for drawn conclusions (Merriam, 1994; Sekaran, 2000). By collecting primary and secondary data about the Korean business environment and utilizing Redding's (2005) conceptual model of societal systems, the authors aim to elaborate on characteristics and linkages of the Korean business system and impacts derived from the FTA. Hence, the authors combine both inductive and deductive approach in this research.

## **2.2. A Case Study Approach**

Yin (2009) points out that a case study approach is preferable in contexts of complex, not easily distinguishable boundaries between phenomena studied. According to the theory of societal systems of capitalism, national business systems are significantly influenced by contexts they are embedded in (Redding, 2005). Therefore, a case study approach is chosen in order to identify both the characteristics of the Korean business environment and linkages between them as perceived by European companies. Furthermore, a case study is also chosen to investigate how a contemporary phenomenon, in this study the FTA between Korea and the EU, will affect the characteristics and linkages of the underlying layers of the Korean business system. By employing a qualitative case study approach, this thesis can provide the reader



with a perspective of how European companies' experience the current Korean context and how the FTA, once ratified, may influence the interplay between the underlying layers of the context.

Considering the four different types of case study design outlined by Yin (2009), this research investigation falls under what Yin describes as embedded single case design which is characterized by multiple units of analysis within a single binding context representing the case. Furthermore, Merriam (1998) argues that a single case study is a bounded system, which can be described as a case that can be seen as a system surrounded by boundaries, which can consist of single or multiple individuals, things, groups or phenomenon. The authors perceive the Korean business system as the context of analysis in which the participating companies are operating. Thus, the Korean business system is chosen to be the case.

Sampling of a restricted numbers of individuals is an important aspect, since it is impossible to include all members of a population being studied (Remenyi et al., 1998). The population considered in this research comprises European companies operating on the Korean market. The sampling technique used here is similar to what Remenyi et al. (1998) would describe as the judgment sampling technique, also called purposive sampling. The authors selected individuals to include in this research with the consideration of what kind of knowledge and information those individuals could possess and contribute. Therefore, the sampling frame includes managers and sales representatives from European companies holding some responsibility for their companies' Korean or Asian market activities. In order to receive a more comprehensive picture of the FTA negotiation process and the scope of the agreement the authors included two additional interviews with people from a European governmental institution and trade-promoting agency.

### **2.3. Data Collection**

In order to gain an understanding of the Korean business system, both primary and secondary data was collected. This collection approach should make allowance to the need of triangulating findings with heterogeneous sources as mentioned by Merriam (1998).

The analysis of secondary data included articles and company based publications. Due to the highly practical approach this study required furthermore the consideration of agency based business magazines related to the Korean context. Such sources were found to be of great



informational value in terms of updated reflections on a currently altering business environment.

The collection and analysis of secondary data comprised the major source of detailed information needed for this study. In order to develop an extensive reflection of the Korean business system company representatives were interviewed. Yin (2009) describes the strength of interviews as source of information to be found in its targeted character that enables direct focus on a case study topic. Also, the provision of perceived causal interferences reflects this method's insightful outcome. However, the authors of this study acknowledge the impact of possible drawbacks related to this data collection tool.

The interviews conducted for this study were based on a set of questions which aimed to reflect the chosen framework. Following the suggestion of Saunders et al. (2009), the interviews were of semi-structured nature as the order and choice of questions as well as situational follow-up questions differed according to the interviewee's coverage of relevant data. As the aim was to discover distinct linkages throughout the Korean societal system of capitalism the interviewees were considerably directing the order of questions related to current business activities (Appendix 9-11). When preparing the questions and conducting the interviews, a critical incident approach was considered to validate and specify responses with examples of the interviewees' experiences. Flanagan describes the essential nature of the critical incident technique as a process through which specific decisive facts concerning behavior in defined situations are gathered. The analyst is supposed to apply a set of probes in order to elicit critical information about specific incidents. Such probes involve descriptions of what led to a certain situation, what involved individuals did or did not do effectively and results of an action (Flanagan, 1954). The authors of this study applied these follow-up questions. This proceeding was chosen in order to facilitate a research based on understanding a complex context from the interviewees' point of view rather than proving a hypothesis of context details (Redding, 2005).

The authors have chosen to comprise companies from various industry sectors in order to give an eclectic insight of a European corporate perception of the Korean business system. The industry sectors include steel and iron, machinery, automotive, telecommunication and forestry products. The interviews were conducted personally as well as through telephone



contact. All interviews were recorded and transcribed to realize a full collection and assessment of received data.

In order to analyze the derived findings from the conducted interviews, the authors followed the logic of the qualitative content analysis. Hsieh and Shannon (2009) describe this research technique as a method for subjectively interpreting the content of text data through a systematic process of coding and identifying patterns. This approach provides the authors with knowledge and an understanding of the Korean business environment.

#### **2.4. Quality of the Research**

In order to increase the credibility of this rather practical research the authors used triangulation and chose diverse cases following the logic of Merriam (1998) and Patton (2002).

In order to evaluate construct validity of this study, it is necessary to assess whether the measures for the concepts behind the used interview guide do measure what they are intended to measure (Remenyi et al., 1998). The authors were aware of this issue when preparing the question sets used for data collection. In response, a test interview with a manager formerly responsible for establishing corporate activities in Korea was conducted. Furthermore, the interviewees' answers were attempted to be confirmed in the interviewers' words during the interview. After the interviews, a summary was sent to the participating interviewees in order to ensure both sides' understanding of the primary data collected. Nevertheless, the authors cannot totally exclude the possibility that interviewees might define theoretical constructs differently. Merriam (1998) and Patton (2002) discuss the importance of multiple sources of evidence in order to strengthen the construct validity. For this study information received from the interviewees was triangulated with secondary data based on quantitative and qualitative methods. Furthermore, different industrial backgrounds of the chosen companies contributed to varying sources of primary data collection. In order to ensure secondary data triangulation, publications based on academic research, state agencies and business actors were used. Besides the risk of insufficiently constructed questions, the biased behavior of both interviewer and interviewee may have a considerable impact on the quality of the data collected as mentioned by Yin (2009)





According to Marchan-Piekkari and Reis (2004), many informants may feel uncomfortable to use a foreign language in interview situations. Resulting limited and short answers can restrict the amount of information gained from the interviewees (Zalan & Lewis, 2004). Thus, addressing the diversity of the interviewees' linguistic background, the questionnaire was translated from English into Swedish and German (Appendix 9-11). During the translation process, the authors used a decentred approach, outlined by Eckhardt. This approach implies that there is no correct way of translating a sentence into another language. Instead, it rather emphasizes to create a translation which reflects the meaning in the closest way possible. (Eckhardt, 2004) As the authors of this research are of Swedish and German heritage the quality of translation is perceived as sound. However, it has to be acknowledged that the data collected might be alienated by translating and retranslating questions and responses, as mentioned by Jones (2004). In order to raise the credibility of the findings, the interview summaries as well as applied quotations were sent to the interviewees for confirming the empirical outcome. Furthermore, the cultural understanding of concepts used in the interview guide might differ and distort the intended meaning of a question as perceived by interviewees as well as the following analysis of data by the interviewers. This issue has been acknowledged by Jones (2004).

External validity reflects how generalizable findings are outside the research they originate from (Remenyi et al., 1998). As proposed by Merriam (1998) and Yin (2009), consideration of various industries in the conducted case studies contributed to the external validity of this research for other studies related the Korean business system.

Another aspect of credibility is whether evidence and measures used are consistent and stable (Remenyi et al., 1998). Reliability thus assesses the possibility to repeat the results found. As the Korean environment is of dynamic nature it might be difficult to conduct such an analysis under similar conditions. Furthermore, interviewing one manager representing its company reflects the high impact of subjective experience on the collection of primary data. As proposed by Merriam (1998) the authors tried to overcome this issue by triangulating personal experience with academic literature about patterns in the Korean business environment.



## **2.5. Delimitations**

This research focuses on analyzing the Korean business system from an international point of view. As secondary data in the Korean language was not considered, limitations may result from the chosen distanced assessment on national business environments. Particular national insights into specific characteristics may have been neglected. At the same time, the linkages drawn between traits of the Korean business system have a rather subjective character as they solely rely on the authors collected findings about European perceptions. Findings about the FTA's estimated impact on European business activities in Korea are further of vague character as the implementation of the agreement is yet to be witnessed.

The choice of methodology implies additional limitations of this research. As this study's approach is qualitative, findings are influenced by subjective assessments by the interviewees. However, the authors tried to enhance the relevance of the results by considering both secondary and primary data. Despite its limited character, it can be concluded that the results found in this study add considerable value to academic and managerial domains. Additionally, limitations are regarded as potential implications for future research.



### 3. Conceptual Framework

*This chapter provides the reader with a literature review concerning influential societal aspects in business systems in order to introduce the conceptual model applied in this thesis. The chapter further outlines the chosen bilateral FTA whose impact on the conceptual model will be discussed with empirical findings.*

#### 3.1. Varieties of Capitalism

Recent research in international business has attempted to address the complexity of the socio-economic world in two ways. While scholars like Porter (2000) and Hall and Soskice (2001) focused on a rather normative approach on explaining comparative institutional advantage, other researchers followed a more descriptive line when elaborating on distinct societal market orders (Fligstein, 2001). However, neither the economic or sociological academic branches could converge on their understandings and effectively disentangle interactive effects between political, institutional and cultural traits that characterize historical economic growth and comparative advantage in specific contexts (Redding, 2005).

Redding (2005) acknowledges Porter's (1990) attempt of explaining societal variation in industrial success within the diamond model. At the same time, Redding (1994) argues for a weak consideration of factor and demand conditions. Foss (1996) sees a lack of capturing relevant firm specific features when isolating clusters using the model. Yetton (1992) further describes the adequateness of Porter's diamond for developed industrial regions rather than for developing countries. Van den Bosch and Van Prooijen (1992) point out the model's weakness of incorporating national culture as influencing factor on national comparative advantage. As this paper attempts to include historical, cultural and institutional influences on a developing countries' economy, Porter's diamond is chosen not to be considered.

In their reflection on comparative capitalism Hall and Soskice develop an approach to varieties of capitalism aiming at incorporating microeconomic perspectives into macroeconomic analyzes. A distinct feature of this approach is the consideration of a range of institutions that condition strategic interactions among economic actors, thus enabling national and sub-national analyzes of economic performance. (Hall & Soskice, 2001) Whitley (2005b) reinforces the nation-state as unit of systemic logic since it governs private property rights, regulates conditions for market entry and exit, competitive behavior and organizes



labor markets. Additionally, Redding (2005) points out that the context of analysis of societal systems of capitalism may contain states, societies, industrial clusters or sectors. Nevertheless, Hall and Soskice (2001) as well as Whitley (2005a; 2005b) attempt to centralize the role of firms and how their behavior is influenced by institutions of the political economy, therewith linking microeconomic and macroeconomic analyzes.

Standing in the center of Hall's and Soskice's attention, the firm is seen from a relational point of view meaning that the development and exploitation of dynamic capabilities and core competencies relies on the quality and coordination of their internal and external relationships. The authors mention industrial relations, vocational training and education, corporate governance, inter-firm relations and relations to own employees as determining spheres of relationships that reflect management-, network- and capital issues. (Hall & Soskice, 2001)

Generally, Whitley addresses two key features of capitalism typologies. States can be distinguished by the extent to which they are involved in coordinating and steering economic development. This involvement shows strong relations to the state's extent of risk sharing in economic investments. The extent of active encouragement and structuring of independent intermediary associations which represent interest groups reflects the second key feature that helps to compare capitalisms. (Whitley, 2005b)

The comparative capitalism literature offers several categorizations of market economies. While Amable (2003) distinguishes five types comprising the Market-based model, Social-Democratic model, continental European model, Mediterranean model and the Asian model, Hall and Soskice (2001) define two major forms of market economies which Whitley (2005b) further separates into four state types. As the authors of this research perceive the conceptualization of Hall and Soskice (2001) and Whitley (2005b) to be rather inclusive, the focus shall be on their categorizations.

Hall and Soskice categorize two distinct forms of capitalism found as ideal types at the poles of a continuum. One ideal category includes liberal market economies (thereafter LMEs), often exemplified by the political economy of the USA, which are characterized by their relatively strong extent of market coordination mechanisms through investment in transferable assets. In LMEs, the market dominantly coordinates economic behavior while the state establishes clear rules of competition within which the behavior of varied types of



economic actors is free. (Hall & Soskice, 2001) This limited involvement in economic development reflects the state's role as an arm's length enforcer of contracts (Whitley, 2005b). Characteristic for LMEs are deregulated labor markets, short-term oriented company finance, general education and distinct inter-firm competition (Gourevitch, 1996). The facilitated redistribution of impatient capital complemented by low risk sharing of the state enables such economies to conduct drastic innovations (Redding, 2005; Jackson & Deeg, 2008).

The second ideal category of capitalism comprises coordinated market economies (thereafter CMEs), exemplified by the market economies of Germany and Japan, which are defined by their extent of market coordination mechanisms through investment in specific assets (Hall & Soskice, 2001). Non-market mechanisms governed by state institutions have a relatively large impact on firm behavior (Jackson & Deeg, 2008). Such states are actively concerned with developing specific industries and actors. They provide financial assistance, sanction failure of specific firms and have strong influence on entry into new industries. Interest group representation is supported to the extent to which it facilitates the state's coordinating role. Patient capital with a focus on long-term development, cooperative inter-firm relations, and extended vocational and firm-specific training create a business environment enhancing competitive advantage through gradual innovation. (Jackson & Deeg, 2008)

In addition to the two categories mentioned above, Whitley distinguishes three types of promotional states or CMEs related to their extent of standardizing interest groups representation and involving independent associations of interest groups in economic development. Dominant developmental states include rather limited support of independent business- and labor associations that could challenge state dominance. Business corporatist states delegate some power to intermediary business associations while the involvement of labor interest groups is limited. The inclusive corporatist state type does not only actively involve in economic development but also encourages both business and labor interest group organizations. (Whitley, 2005b)

Hall and Soskice further highlight the importance of institutions for relationships that firms develop; especially in situations where markets and hierarchies alone do not lead to firm's coordination of their endeavors. They define institutions as set of formal and informal rules that economic actors follow for normative, cognitive or material reasons. Such institutions



comprise business or employer associations, trade unions, networks of cross-shareholding and collaborations. (Hall & Soskice, 2001)

As Whitley's four ideal types of states differ in their extent of regulating and managing capital and labor markets, they also do so in institutionalizing political cultures and legal systems. He points out that these varying approaches lead to diverse standardization of interest group formation, skill formation systems and labor relations. Being combined with complementary institutions, states shape institutional regimes that support specific business systems to develop at a national level and are expected to generate distinct firm types. (Whitley, 2005b) Hall and Soskice (2001) as well as Gourevitch (1996) support this view of macro-political structures and policies guiding microeconomic firm strategies. Regulatory systems which include laws, rules and administrative procedures generate incentives that reward or punish certain industry- and firm structures (ibid). As firms located in a specific political economy do not fully control the challenges and opportunities offered by institutions, they are expected to follow the institutional structure when choosing appropriate strategies (Hall & Soskice, 2001).

Literature about comparative capitalisms focusing on distinct characteristics of institutional frameworks emphasizes the complementarity of institutions as the characteristic feature of models of market economies (Deeg, 2005; Amable, 2003). The context of institutional frameworks is reflected by a particular systemic logic comprising rules leading to predictable patterns of behavior by actors within the system, typical strategies, and routine approaches (Jackson & Deeg, 2008). The approach of institutional complementarity suggests that states with a certain form of coordination in one area of an economy may also have evolved complementary practices in other spheres. Thus, institutional complementarity then would reinforce distinctions between particular forms of capitalism. (Hall & Soskice, 2001)

Furthermore, Deeg (2005) describes how countries differ in their complementarity in reinforcing and discouraging certain forms of economic organization and firm behavior. Whitley states that the greater such contradictions between dominant institutional arrangements, the more opportunities companies' top-managers have to develop idiosyncratic characteristics and individual firm strategies and capabilities. At the same time, the likelihood for an established cohesive national business system within a state may be low. This aspect reflects the complexity of national complementary institutions and their impact on associated



business systems and firm characteristics. (Whitley, 2005b) Besides institutional reproduction of specific organizational capabilities, governance structures, inter-firm relations and employment relations, Redding amends Whitley's theory by addressing historical influences on the development of a nation's societal system of capitalism. Specific historical events, institutions, people or conditions may be found as influences on a nation's development. Redding highlights the significance of historical forces in their explanatory contribution for the analysis of international business. (Redding, 2005) Furthermore, Hall and Soskice (2001) point out the relation between history and a nation's political economy in form of actions leading to formal institutions and operating procedures on the one hand and repeated experience building up common expectations that guide actors to effectively coordinate their interactions on the other hand.

Emphasizing the role of culture, history and informal rules, Hall and Soskice state that formal institutions alone do not guarantee attaining a relevant equilibrium between economic actors. Shared understandings about likely behavior of economic actors are based on common cultural comprehension. Thus, the concept of culture is reflected by common understanding or available strategies for action that evolve from experience of acting in a certain environment. A set of informal rules is a result guiding strategic interactions of a political economy. Informal rules based on culture complements situations of incomplete contracting between economic actors. (Hall & Soskice, 2001)

### 3.2. Business System Analysis

Taking academic research about varieties of capitalism into account, Redding (2005) develops a comprehensive yet clearly arranged framework, which attempts to include microeconomic and institutional features based on a cultural foundation in order to evaluate macroeconomic particularities and linkages across a specific national form of capitalism. This framework is outlined in Figure 1 on page 19 and divided in three layers each capturing a specific structure of societal systems of capitalism.

Starting from the bottom, the culture layer reflects contextual values, norms and socially constructed realities, which have a profound impact on the behavior of individuals and groups in a society. The *rationale* component of culture represents a society's understanding of the reasons for companies' existence, why economic activities are conducted and how to conduct





such activities. A society's interpretation of horizontal order determines the way individuals are related to each other and reflects the cultural dimension of *identity*. Vertical order on the other hand complements a society's culture with the extent to which power based on *authority* is morally legitimized, defined and conducted. (Redding, 2005) The cultural concept of authority also has been addressed in Whitley's (2005b) categorization of state types as prevalent norms governing subordination. However, cultural influences on the shape of market economies often have been disregarded or poorly considered (Hall & Soskice, 2001; Gourevitch, 1996).

In Redding's framework, culture underlies the institutional layer which represents formal forms of order and reflects a standardized and predictable environment for corporations and exchange. Analyzing institutions of *capital* includes the accessibility of money and what key actors and tensions are typical in a certain society. (Redding, 2005) Whitley (2005b) refers to financial regulations as the extent of state involvement in economic development involving financial assistance and sanctioning of specific firms, groups and industries. Gourevitch (1996) mentions the influence of financial systems to shape firm structures and relationships among financial institutions, between finance and borrowers as well as each of them and governmental regulators.

Furthermore, *human capital* reflects how people are educated in order to contribute to a business system and how the interest group of employees is organized in a labor market with a specific degree of regulation, bargaining and welfare (Redding, 2005). Having a major academic impact on Redding's framework, Whitley (2005b) relates the component of human capital to standardization of skill formation systems and labor relations as well as of interest group representation. Gourevitch (1996) highlights labor relations, national research systems and human resources training as influential policies shaping firm behavior and organization as well as macroeconomic national distinctions.

*Social capital* then defines a society's perceived trust in institutions and a state's legal system as well as perceived trust between individuals. This form of capital is a major reflection of stability patterns of economic exchange. (Redding, 2005) Whitley (2005b) in turn addresses the importance of the reliability of legal systems and formal institutions for encouraging economic opportunism or commitment and cooperation among economic actors.





In addition, Redding (2005) includes the *role of the state* as a domain of the institutional layer in order to capture the extent to which a government dominates economic development, the extent of antagonism towards professions, independent banks or parts of the civil society; and the degree of formal regulations of markets. This feature can be found in Whitley's (2005b) framework in form of market segmentation and entry constraints organized by governments. Furthermore, Redding (2005) includes the role of a civil society, if developed, as to supplement or replace forms of state order.

In order to understand how particular cultural traits and institutions have shaped Korea's business environment, a historical perspective on the country's development is inevitable (Whitley, 1999). Redding intends to incorporate *historical trajectories* in his analysis of business systems. Considering that his attempt to capture comprehensive outlines of capitalisms has a rather snapshot character, Redding points out that internal dynamics might be existent yet usually inhibited by constraints of certain ideologies or distinct forms of state planning. (Redding, 2005) A historical perspective on the development of national forms of capitalism thus contributes to understanding specific features (Whitley, 1999).

The third layer of specific business system is strongly shaped by its institutional environment and its underlying culture. It reflects firms, inter-firm relations and typical management styles. The component *ownership* includes ownership structures as well as boundaries of controlling ownership. (Redding, 2005) Market economies show different extents of vertical and horizontal integration of production activities under single corporations. Such structures are strongly influenced by national legal systems (Gourevitch, 1996). However, national industries are too complex to allow a general statement about just one typical structure of a national business system (Redding, 2005).

*Networks* reflect links across the economy and between firms including alliances of production chains and sectors, sourcing or subcontracting relationships and collaboration agreements (Redding, 2005). Gourevitch refers to antitrust policies and linkages to suppliers and distributors for evaluating production systems. The legal system related to cooperation and alliance opportunities considerably shape a nation's innovation capability and power relation between small and medium-sized enterprises (thereafter SMEs) and major corporations. (Gourevitch, 1996)



Figure 1: Business System Analysis

<b><u>BUSINESS SYSTEM</u></b>		
<b>OWNERSHIP</b>	<b>NETWORKS</b>	<b>MANAGEMENT</b>
<p>Nature of control via ownership (direct, market, alliance)</p> <p>Integration of productions chains under ownership</p> <p>Integration of units in different sectors under ownership</p>	<p>Alliance coordination of production chains</p> <p>Collaboration between competitors</p> <p>Alliance coordination across sector</p>	<p>Employer-employee interdependence</p> <p>Delegation to employees</p>
<b><u>INSTITUTIONS</u></b>		
<b>CAPITAL</b>	<b>HUMAN CAPITAL</b>	<b>SOCIAL CAPITAL</b>
<p>Sources of funding</p> <p>Conditions of access</p> <p>How is capital market behavior monitored</p> <p>Forces affecting use of capital</p> <p>Key actors</p> <p>Key tensions</p>	<p>Education and training</p> <p>Interest groups: work-related social groupings</p> <p>Labor markets/structures</p> <ul style="list-style-type: none"> <li>• Active labor market policy programs</li> <li>• Employment protection legislation</li> <li>• Welfare benefits system</li> <li>• Centralization of wage bargaining</li> </ul>	<p>Institutionalized trust</p> <ul style="list-style-type: none"> <li>• Law</li> <li>• Established societal fabric</li> </ul> <p>Interpersonal trust</p> <ul style="list-style-type: none"> <li>• Moral base</li> <li>• Pattern (who is trusted)</li> </ul>
<p><b><u>ROLE OF THE STATE</u></b></p> <ul style="list-style-type: none"> <li>• Extent of state dominance and risk sharing</li> <li>• State antagonism to intermediaries</li> <li>• Degree of formal regulation of markets</li> </ul>		<p><b><u>ROLE OF CIVIL SOCIETY</u></b></p> <ul style="list-style-type: none"> <li>• Responsibility for order (e.g. professions)</li> <li>• Ethics of trustworthiness to foster exchange</li> <li>• Empowerment, decentralization bourgeoisie</li> </ul>
<b><u>CULTURE</u></b>		
<b>RATIONALE</b>	<b>IDENTITY</b>	<b>AUTHORITY</b>
<p>Formal – Instinctive use of maths, scientific, method, economic, logic, accounting</p> <p>Substantive</p> <ul style="list-style-type: none"> <li>• What is the firm for?</li> <li>• What is wealth for?</li> <li>• Who is the economy serving?</li> </ul> <p>Substantive</p> <ul style="list-style-type: none"> <li>• Primary carriers</li> <li>• Secondary carriers</li> </ul>	<p>To whom does the person instinctively owe allegiance</p> <p>Patterns of support and dependence (looking sideways, not up and down)</p> <p>Options: self, family, working-group clan, professions, community, society at large</p>	<p>On the what basis is authority seen as legitimate</p> <p>How sensitive is the society to hierarchy</p> <p>Related moral norms</p> <p>The conception of control: how do bosses justify their power in the economy</p>

Source: Redding, 2005: 135



The third domain of business systems comprises of the *management* of human, technical and financial resources. There is a specific focus on employee-employer management, interdependence delegation to employees and interaction with labor markets. (Redding, 2005)

After elaborating on the comprehensive nature of Redding's framework the following section comprises an overview of the FTA's dimension and content and shall contribute to the reader's ability of evaluating the current trade political circumstances between the regional parties.

### 3.3. FTA between the EU and Korea

#### 3.3.1. The Road to the FTA

In an era of globalization, climate change and an aging population have resulted in major structural challenges for European states (EC, 2010a). In 2000, the first Lisbon agenda was launched in order to meet these issues (EC, 2010b) by reforming and renewing the European economy (EC, 2008). The aim of the agenda was to give impetus to the economic growth and job-creation by reinforcing the internal market and strengthen competitiveness of the European economy in a global context. To achieve these goals, the EU's trade policy has been an important and integrated part of this approach. Furthermore, it is important for the EU to reduce barriers for companies to access foreign markets. This can be achieved not only through multilateral negotiations like the Doha Round, but also through bilateral negotiations with individual countries to increase market access and remove trade barriers. (ibid)

As a part of the Lisbon strategy, the Global Europe initiative was launched by the EU's Commission to make EU-based firms more competitive in a global context (Mandelson, 2007). In this initiative, a framework for future trade policies was outlined to achieve goals of growth and job-creation within the Lisbon Strategy (Regeringskansliet, 2007). A key part of this initiative includes ratifications of FTAs with Asian countries (EC, 2008).

With trade worth over €65 billion in 2008, Korea has become the EU's eighth largest trading partner. Even though, trade between the partners has enjoyed an annual average growth rate of 7.5 percent between 2004 and 2008, significant obstacles, such as stringent standards and test requirements, remain for European companies when entering and operating on the Korean market. Within the framework of the Global Europe trade policy strategy, Korea was



designated to be a priority FTA partner. The aim of the FTA negotiation with Korea has been to achieve trade liberalization between the parties with far-reaching liberalization of services and investments. (EC, 2009a)

### 3.3.2. Content of the FTA

The following subsection is based on the European Commission's (2009b) reflection on the content of the FTA. The objectives of the agreement are established in the first chapter. In chapter two, objectives of eliminating both customs duties and regulatory obstacles, so called Non-Tariff Barriers (thereafter NTB) on trade in goods are stipulated. NTBs are accompanied with considerable cost for exporting companies as they often exceed customs duties especially for SMEs. In order to give domestic producers time to gradually adapt to the new environment, customs duties are going to be removed over a transitional period. Nevertheless, the majority of customs duties on goods will be eliminated at the time of enforcement of the agreement while in year five practically all customs duties on industrial goods will be completely removed on the tariff elimination schedule. A transitional period of more than seven years will be applied on a limited number of highly sensitive agricultural products and fisheries.

A main benefit of the FTA for European exporters includes the removal of custom duties worth €1.6 billion. Customs duties of €850 million shall be removed already on day one when the agreement enters into force. Within the largest sector, machinery and appliances, the FTA will remove customs duties worth €450 million. The second largest sector, the chemical sector, is going to experience a reduction of customs duties worth €175 million. In absolute numbers, other industrial sectors are smaller, but will gain substantial cost savings through duty relief at the point of ratification. For example, 93 percent of customs duties are going to be eliminated within footwear- and textile exports as well as iron and steel custom duties will decline by 93 percent. The average annual export of agricultural products to Korea is worth over €1 billion. Currently, only 2 percent of the agricultural export from the EU to Korea enters Korea duty free, but with the FTA basically all of EU's agricultural export to Korea will be fully liberalized and is expected to result in annual savings worth €380 million.

Provisions concerning the use of traditional trade defense instruments that already exist within the World Trade Organization (thereafter WTO) legislation, such as anti-dumping, anti-



subsidy and global safeguard, are established under the Trade Remedies chapter. The main principle is to respect the rights of the obligations foreseen by the WTO legislation along with setting out disciplines in order to limit the use of these instruments to circumstances where this is essential and guarantee that all the parties concerned are treated fairly.

The intention of the Technical Barriers to Trade (thereafter TBT) chapter is to reduce obstacles to trade between Korea and the EU that can occur through technical regulations, standards, conformity assessment procedures and similar requirements. Under the TBT the parties have agreed to engage in cooperation on standards and regulatory issues. Measures to further facilitate trade of animals and animal products, plants and plant products as well as to preserve the high level of human, plant and animal health are established in the Sanitary and Phytosanitary chapter.

In the Customs and Trade Facilitation chapter, both parties have agreed upon to enhance cooperation in customs and customs matters. The concerned provisions in this chapter will provide an increased transparency and legal certainty as well as simplify and increase the efficiency of border procedures.

In chapter seven, provisions in regard to Trade in Services, Establishment and E-Commerce are stipulated. The provisions cover liberalizations of investment in most of the services and non-services sectors, such as transport, telecommunications, finance, legal services, environmental services and construction.

One important issue for the European competitiveness is the protection and enforcement of Intellectual Property Rights (thereafter IPR). Provisions for these matters are stipulated under the Intellectual Property chapter. This chapter covers clauses regarding copyright, designs and geographical indications (thereafter GI), with the aim of complementing and updating the TRIPS Agreement. Based on the EU's internal rules, enforcements of IPRs and provisions on copyright are aligned with latest international developments. Furthermore, the clauses are expected to offer a high level of protection for commercially important GIs for both parties, such as Champagne and Irish whiskey from Europe as well as Boseong green tea from Korea.

Under the Competition chapter, both parties have established provisions with the aim of prohibiting and sanctioning certain procedures and transactions of services and goods which



result in unfair competition and trade between the parties. The parties aim therefore to prohibit anti-competitive practices. Practices such as anticompetitive merges, cartels or inappropriate behavior of companies with market dominant position are subjected to enforcement measures. This chapter also ensures that companies from both parties have equal access to each other's markets. Under the section of subsidies, the parties have also decided to remedy or remove subsidies that cause distortion of competition in regard to international trade. Transparency provisions are also included in this section, which oblige the parties to annually report the total amount, types and sector distribution of subsidies.

As trade can be influenced by a domestic regulatory environment, the parties have agreed upon criteria of pursuing an efficient and predictable regulatory environment for economic operators. The criteria are stipulated under the Transparency chapter. Covered matters include commitments of permitting concerned individuals to comment on new regulatory measures that are proposed.

Provisions of pursuing shared commitment and a framework for cooperation on trade and sustainable development are established in the Trade and Sustainable Development chapter. The agreement promotes close dialogue between the parties regarding matters of environment and labor as commitments on companies to standards on environment and labor issues are included. Provisions on institutional structures and commitment monitoring are stipulated as well.

The provisions of dispute settlement mechanism can be found under the Dispute Settlement chapter, which is based on the model of the WTO Dispute Settlement Understanding. The major difference is shown in a quicker conduction of related procedures.

The agreement also includes chapters for Payments and Capital Movements, Government Procurement and Institutional, General and Final Provision along with protocols for Rules of Origin, Mutual Administrative Assistance in Customs Matters and Cultural Cooperation.





## 4. Empirical Analysis

*The aim of this chapter is to present empirical findings gained through primary and secondary data collection. At the same time, this chapter provides a detailed characterization of the chosen national business system and analyzes major linkages between characteristics of the chosen Korean business environment from a European corporate perception. Furthermore, European corporate expectations on the impact of the FTA on local business activities are analyzed. Hence, this chapter provides answers to this paper's research questions.*

### 4.1. The Korean Business System

The following subsections discuss main characteristics of the Korean business environment. The chosen conceptual framework of Redding (2005) is thereby applied to categorize traits and illustrate their arrangement in Figure 2 on page 49. After identifying characteristics of the Korean business system, institutional particularities and the role of the state are analyzed. Subsequently, historical influences and cultural characteristics are discussed.

#### 4.1.1. Business System

##### Ownership

###### *Chaebol*

Policy restructurings after the Asian Financial Crisis have resulted in a gain of importance of privately owned companies in Korea (Yanagimachi, 2004). At the same time, the public sector still holds a prominent role in the country's economy (Jung, 2001). Previously dominant governmental ownership in banks and large companies was reduced and accompanied by a rising share of foreign ownership in firms. Statistics reveal that foreign shareholders owned over 50 percent of the shares in POSCO, Hyundai Development, Samsung Electronics, Cheil Communication, Daelim and Hyundai Motors by the end of 2003. (Yanagimachi, 2004)

The Korean economy has been dominated by business groups called chaebols. Chaebols can be described as highly centralized companies, which are mostly owned and controlled by their founding family. (Dicken, 2007) Additionally, the Korean business group is characterized by a distinct particularistic managerial appointment, which implies strong central control over



decision making (Whitley, 1999). Chaebol top managers and founding families have maintained their influence through owned shares in the companies and the companies' subsidiaries (Yanagimachi, 2004). This cross-shareholding enables them to control firms despite owning a small amount of the total shares (Kim, 2003). In 2002, top managers and families of the ten largest chaebols owned 9 percent on average, while the total ratio of internal ownership comprised approximately 45 percent (Yanagimachi, 2004). Thus, an entire chaebol group can be efficiently controlled by the founder or his nominated successor. Moreover, central allocation of responsibilities in the headquarters enables owners to exercise control over all group affiliates. (Jung & Kwon, 2002) Whitley (1998) classifies this type of ownership relation as direct control.

#### *Vertical and horizontal integration*

Chaebols can be further characterized by their diversified business portfolio. Among the largest Korean chaebols production chains are both vertically and horizontally diversified. (Whitley, 1998) This implies that up- and downstream activities are coordinated under one company which at the same time offers a variety of products and services within different industry sectors (Chung, Lee & Jung, 1997). Smaller chaebols tend to focus rather on vertical integration than unrelated diversification (Whitely, 1998). Hence, the ownership structure of large chaebols can be characterized by a high level of vertical and horizontal integration (Whitely, 1999). Thereby, relations between a chaebol's subsidiaries are hierarchical and close. At the same time, trust in business relations between the affiliates is not considered to be of high relevance, due to the hierarchical power that exists between the members. (Bstieler & Hemmert, 2008)

### **Networks**

#### *Supplier relations*

Being of large size, Korean chaebols are quite self-sufficient and exhibit low dependency on suppliers and distributors. Their dominant bargaining power enables chaebols to dominate business partners that mostly are SMEs which have adjusted their business activities to single corporate customers. Whitley describes the chaebols' behavior towards subcontractors as rather predatory. (Whitley, 1999)





### *Collaboration and alliances between competitors*

Whitley describes the relationship between different owner families in their role as representatives of the chaebols as of adverse nature. This has led to a significant unwillingness of chaebols to cooperate in joint projects such as complementary R&D programs. Especially new industries are often characterized by fierce competition for dominance. Corporate rivalry for a leading position may often be the underlying motivation behind many of the new investments. The adverse relationship and rivalry between chaebols can be exemplified by the relationship between Samsung and Lucky-Goldstar and their ambition to dominate the electronics industry in Korea. (Whitley, 1999)

According to Whitley (1999) there has been low degree of alliance-based modes of integration in the post-war Korean business system. However, in recent years, an increase of technological collaboration between companies could be noticed. The increase of corporate alliance formations is an indication that large corporations do not have the capability of accessing all resources imperative for successfully developing new products. When building alliances with firms outside their business group, personal trust is crucial for Korean companies. This reflects a considerable barrier to do business as trust historically is predominantly acquired through social ties such as the family or the group. Since Korea is a so-called “low-trust” society, where individuals are acculturated to have a more distrusting attitude towards people that are outside a group, it takes much more time and patience to build relationship with outsiders. (Bstieler & Hemmert, 2008)

## **Management**

### *Organizational system*

Morden and Bowles characterize the organizational system of Korean corporations as hierarchical and disciplined reflecting the prevailing social pattern. Korea is a society where respect for authority, seniority and job status is a traditional norm. Employees are expected to show a high degree of loyalty towards their employer. At the same time, employees are perceived to be a highly valued asset which is reflected by the perceived importance of job training. For companies of a certain size, providing training for their employees is mandatory by law. (Morden & Bowles, 1998)



However, Whitley describes the level of employee-employer commitment for manual workers in most chaebols as limited. Korean firms are rather reluctant to make long-term commitment to their workforce. Earlier, labor mobility in Korea, both imposed and voluntary, has been prevalent. During the 1970s, the annual rate of labor turnover being between 52 and 72 percent was quite common. The high rate of labor turnover was especially common in manufacturing industries. (Whitley, 1999) Coyner and Jang argue that entrepreneurial spirits among many of the young Koreans with the ambition of becoming successful in a short period of time has contributed to a high turnover rate. While labor mobility has contributed to facilitating structural changes in a dynamic economy, it has also created difficulties for Korean companies to retain skilled labor and training staff. (Coyner & Jang, 2007)

### *Management style*

The Korean business management style is a reflection of the Confucian family unit (Selvarajah, 2010). Studies of the Korean management have shown that Korean companies are organized and run in a hierarchical, authoritarian and centralized manner. This is particular prevalent among chaebols, where the founders of the companies still make large parts of management decisions personally. (Fukuyama, 1995) Hence, the Korean management style can be characterized by top-down decision-making and enforcement of vertical hierarchical relationships. Furthermore, a low degree of consultation with subordinates and low degree of trust both vertically and horizontally can be identified. There is an inclination among Korean managers of being unwilling and uninterested to consider the subordinates' concerns and the capacity of the subordinates' to contribute beyond their obedience. (Whitley, 1999)

The rather authoritarian management style described by Whitley, promotes surveillance of task performance. Physical interiors of office and workspace are frequently arranged in manners that facilitate the supervisor's surveillance of work processes. In general, subordinates are perceived as immature with the need for corporate guidance and direction. This aspect is related to the significant specialization of roles for manual workers along with a low mobility between jobs and skill categories. (Whitley, 1999)



### 4.1.2. Institutions

#### Capital

##### *Financial system*

Until recently, the Korean economy was strongly influenced by the governmental Economic Planning Board that played a central role in mapping industrial development. Through its institutions, the government exercised its role as resource allocator and regulator including strict control over the financial system and economic decision-making. The Bank of Korea was directly controlled by the Ministry of Finance. (Dicken, 2007) A nationalized banking system along with the government's exclusive right to borrow capital abroad created an underdeveloped domestic capital market which made it rather difficult for companies in Korea to raise large amount of funds (Kim, Hoskisson, Tihanyi & Hong, 2004). Governmental control of essential resources including credits, preferential tax treatment, foreign exchange and licenses for new businesses, led to a strong necessity for private companies to nurture relations with the government and bureaucrats (Jung, 2001). At the same time, the growth of chaebol groups has been a result of the state's credit policy, which provided those preferred corporations with access to cheap capital through keeping interest rates low and controlling bank credits (Dedeski, 1994). As there was no need for founding families of chaebols to find capital by selling shares on stock markets, financial risks could be limited as well as corporate control was maintained. Whitley classifies this type of financial system as credit-based financial system. (Whitley, 1999)

##### *Capital market*

In 1997, Korea fell into a financial crisis which was followed by an increase in national financial liberalization and an independent banking system. Such measures and the opening of the capital market enabled chaebols to gain access to alternative sources of finance while the dependency on government controlled commercial banks decreased. Chaebols utilized the new independent banking system by becoming owners of some of the new financial institutions. (Lee, Lee & Lee, 2002) Nevertheless, these measures did not facilitate the Korean capital market to perform growth rates proportional to the pace and size of its economy. The domestic equity market has been unable to take an important role in the economic development in Korea. In 2005 Korea's capitalization rate over its GDP has only reached 88



percent. Furthermore, corporate financing through capital market remains a sparsely utilized option. (Kim, 2008) Furthermore, the traditional reluctant corporate perception of the capital market as a source of capital has been accompanied by a perceived diminishing of corporate control. Recently, however, a younger generation of managers and owners has supported a financial system of indirect and direct financing similar to the US system. (Redding & Witt, 2004)

## **Human Capital**

### *Education*

One of the main national priorities has been to invest in human capital. Even during harsh circumstances, such as the Korean War and the turmoil of the post-war, the society emphasized and invested in education. The importance of education can be reflected by the educational investments done by the government. (Lee, 2002) The latest data available from 2005 indicate total governmental investments in education to be around 4 percent of the GDP. At the same time, the total educational investment from both public and private side was around 7 percent of the total GDP, which is well above the average expenditure of around 6 percent among the member states of the Organization for Economic Co-operation and Development (thereafter OECD). Korean investments in education exceed the average of OECD member states in both primary, secondary, post-secondary non-tertiary and tertiary education. The OECD average lied around 1.5 percent for tertiary investments and 4 percent for other educational expenditures while in Korea investments in tertiary education was around 2 percent and 4 for all other education. (OECD, 2009)

About 97 percent of all Korean between the age of 25 and 35 do graduate from upper secondary education. This puts Korea on top in the ranking among OECD member states. Of the 25 to 35 years old Korean population, 53 percent complete a tertiary education. (OECD, 2008) According to Lee (2002), several international tests have indicated that the performance of Korean students at early ages is among the best in the world. In assessment surveys, the Programme for International Student Assessment (PISA) conducted by the OECD concluded that Korean students at the age of 15 have one of the highest scores (OECD, 2008). In the Global Competitiveness Report 2009-2010 issued by World Economic Forum (thereafter WEF), Korean primary education was ranked 29<sup>th</sup> of 133 countries in terms of quality (WEF,



2009). Korea has significantly expanded its tertiary education over the last 20 years, which has resulted in the highest enrollment rate among the OECD countries. There is a general consensus among Koreans that the substantial expansion of the tertiary education has been at the expense of the quality of education. (Grubb, Sweet, Gallagher & Tuomi, 2009) In the Global Competitiveness Report 2009-2010, Korea was ranked 49<sup>th</sup> of 133 countries in terms of the quality of its higher educational system (WEF, 2009).

### *Labor-Management relations*

A majority of Korea's trade unions are affiliated with national organizations while being organized at enterprise level (Kim & Lee, 2007; Deloitte, 2009). Labor working conditions are determined through collective negotiating processes between management and enterprise unions. This process applies for both small and large companies in Korea as a majority of the negotiations are conducted at office or plant level. Negotiations involve mainly wage and benefits matters leading to agreements that usually last one year. During collective bargaining processes with labor organizations, employers' federations represent companies. It has become common to follow concession bargaining including concessions on working conditions in exchange for job guarantees. Incorporating no-strike clauses in agreements comprises a further recent development of management-labor relations. (Deloitte, 2009)

Korea has adopted a modern labor institution similar to that of Japan (Yoon, 2005). However, the labor-management relationship in Korea is of rather adverse nature and has adopted a conflict model that is more similar to Western models (Morden & Bowles, 1998). The labor-management relationship is characterized by the militant attitudes of labor unions towards the management (Yoon, 2005). At the same time, there is tendency among chaebol management to have an adverse attitude towards trade unions (Morden & Bowles, 1998). Furthermore, there seems to be an inclination among Korean companies of not hiring members of unions. This attitude is reflected by an active corporate discouragement of employees to join labor unions. That tendency is especially prevalent in textile and clothing industries (Whitley, 1992). In some occasions, disputes between companies and labor unions have developed into hostile confrontations and violent public demonstrations (Morden & Bowles, 1998). This adverse labor-management relationship is further reflected by Korea's rank in The Global Competitiveness Report 2009-2010 as 131<sup>st</sup> out of 133 countries in terms of cooperation in labor-management relations. (WEF, 2009)



### *Labor market*

The Korean labor market is characterized by its relative inflexibility (Hwang, 2006; Kim & Cheon, 2004). This characteristic is illustrated in The Global Competitiveness Report 2009-2010 which ranked Korea 92<sup>nd</sup> out of 133 countries in terms of employment rigidity, 108<sup>th</sup> in terms of hiring and firing practices and 109<sup>th</sup> in costs of firing. Furthermore, in a survey conducted by the WEF in 2009, business executives perceived restrictive labor regulations as most problematic for doing business in their countries and ranked it as number 4 among 15 other issues. (WEF, 2009) Low labor flexibility has been argued to be one the main obstacles for the Korean economy to achieve a steady growth. However, the turnover rate has increased dramatically after the financial crisis in 1997. The Korean labor market underwent structural changes as an outcome of firms' need of being able lay off excessive workforce and facilities in order to survive and realize restructuring processes. In 1998, employment protection regulations were restructured including the workers dispatch system and collective dismissal. Despite these efforts, underlying factors encumbering the flexibility of the Korean labor market still subsist. In unionized companies, employees benefit from the national employment protection law endowed with high employment protection, high wages and strong bargaining power. At the same time, irregular workers and employees in SMEs experience employment insecurity, low protection, lower wages and increased turnover rates (Hwang, 2006; Kim & Cheon, 2004). As a result, it has been argued that the enhanced labor flexibility has been achieved only partially through the utilization of irregular workers (Kim & Cheon, 2004).

### *Social welfare system*

One of the underlying aspects concerning the lack of flexibility related to the Korean labor market is the country's frail social safety net. When decreasing the rigidity of the labor market, an improvement of the social safety net is imperative in order to prevent the downfall of marginal employees. (Kim & Cheon, 2004) As Korea does not provide any effective state social security system family groupings tend to absorb consequences of unemployment for individual members (Morden & Bowles, 1998). Furthermore, Fukuyama (1995) argues that in general, there no such sense like managerial paternalism among Korean companies that can be found in German and Japanese corporations, which contribute to its employees' welfare.



Kim and Cheon divide the social safety net for unemployment in Korea into three levels, namely social insurance, public assistance and special programs. At first, when being laid-off, the employee will be provided unemployment benefits from the Employment Insurance scheme. Besides unemployment benefits, a numerous of active labor market policies such as assistance with vocational training and job loss prevention are provided. Secondly, if an unemployed person does not meet requirements for unemployment benefits and is unable to provide him- or herself for a living, then living expenses for low-income unemployed employees will be provided by the Livelihood Protection Program. Thirdly, public programs are provided by the government including most necessary needs such as the public-work program. (Kim & Cheon, 2004)

Kim and Cheon argue that Korea's social safety net contains three main drawbacks. A large proportion of workers is not included in the Employment Insurance scheme, even though the coverage has been expanded. Furthermore, the typical unemployment period is longer than the maximum duration of the benefits and the benefits do not cover the ex-workers' previous incomes. Also, gaps between the layers of social safety net for unemployment have been identified and result in a large part of the people not being protected against unemployment and poverty. (Kim & Cheon, 2004) Less than 53 percent of workers are estimated to gain benefit from the social safety system (Kim & Lee, 2007).

## **Social Capital**

### *Institutional trust*

As the center pillar of social capital, social trust has been recognized to contribute to economic, social and political development through reducing transaction costs and accounting for solutions of collective action problems (You, 2005). In their studies, Fukuyama (1995) and Peng (2009) categorize Korea as a low-trust society.

Recent studies have identified considerable distrust in social, political and economic institutions, embodied by the legal system, law enforcement, or large companies in contemporary Korea (Bstieler & Hemmert, 2008). Korea has one of the lowest levels of social trust among OECD countries (Peng, 2009) which is reflected by Korea's ranking within The Global Competitiveness Report at number 67<sup>th</sup> out of 133 countries in terms of public trust of





politicians (WEF, 2009). Park and Shin (2006) concluded that the economic crisis has resulted in a decline of trust in public institutions. Hahm (2003) argues that the high level of distrust can be explained by Korea's cultural heritage which has assessed law as unnecessary to enable a functioning society (ibid) as well as a poor substitute for virtue and ethics (Whitley, 1992). Historically, the legal system has not played a prominent role in the Korean society, as the rule of law was not associated with a positive ideal for Koreans but rather with an equation to punishment. Hence, Koreans have developed low confidence for law in general. (Hahm, 2003)

### *Social mobility*

As a result of the rapid economic growth, Korea has undergone a comprehensive and conspicuous social change. Contemporary Korea displays a strong resemblance with other industrial and post-industrial societies in which wealth, occupation and education determine a person's social status to a large extent. (Hwang, 2007) Park has identified several distinctive features of structural changes in Korea that have evolved over the past decades. Among them is the occupational structure in Korea, which developed under a rather short time span compared to traditional industrialized countries such as European societies. Also, rapid economic development has been accompanied by considerable educational expansion as well as relative equality of income distribution across classes. Furthermore, Park argues that Korea has displayed a distinctive feature in class distribution and upward social mobility reflecting the rapid and compressed process of industrialization. The structural mobility rate was a reflection of considerable expansion of the industrial classes at the expense of the agricultural class. (Park, 2003)

### *Interpersonal trust*

Korea's society is marked by strong familism and an inclination to work with the people within their personal network. Park describes how individuals tend to group in networks based on close interpersonal ties such as blood ties, place of origin and schooling. Individuals outside the most common networks of families, close friends or colleagues, are not perceived as trustful. Hence, the development of trust with members outside one's network is encumbered by concerns of familism. In a society marked by rapidly advancing information technology the identity concept of familism has negative impacts on Korea's economic





development. A low level of interpersonal trust can be seen as an explanation for Korean chaebols being controlled by both families and quasi-families. Companies use to limit costs of monitoring and controlling by recruiting individuals for important positions that show common blood ties. At the same time, the administrative capacity of the family has put limitations on the size of the business organizations as companies rarely can utilize economies of scale in order promote market competitiveness. (Park, 2004)

According to Uslaner, interpersonal trust does not heavily depend on individual experience but rather reflects collective cognition based upon moral foundation. A common value of ethical assumption is the basis for trust among individuals. This moral foundation of trust implies that people can both cooperate with people they consider to be trustworthy as well as with strangers. Hence, strangers can be viewed with positive assumptions and presumed to be trustworthy. Furthermore, Uslaner argues for a negative relation between hierarchy and moralistic trust. (Uslaner, 2002) A general observation of oriental societies with a rather collective culture, such as Korea, identifies shame to be the moral basis (Kwon, 2005). The traditional Korean culture was based upon Taoism Shamanism and a high value of face-saving behavior in order to preserve the honor of the family. Avoiding shame through face-saving behavior is manifested by the strong attempt to keep up a behavioral mask in social relationships. (Lee, 1999)

#### **4.1.3. Role of the State**

##### *Government intervention*

Sharma argues that the Korea historical background has been marked by comprehensive governmental involvement and control in the country's economic development. Prior to the Asian financial crisis the government closely interacted with corporations and banks in order to mobilize and channel capital to strategic industries and favored projects. This strategy has been a winning concept as it generated considerable economic growth. However, this "market-distorting" strategy came under close scrutiny as economists argued that it has been one cause for the Asian financial crisis. (Sharma, 2004) Hence, financial reforms were implemented to transform relationship between the government and industry (Lee et al., 2002). Restructuring measures enabled liberalized capital flows. At the same time, there was no intention of replacing the highly interventionist development model with an Anglo-American non-interventionist model. While the new Korean economic model emphasized an open and



transparent economy, the economy is still being supervised and regulated. (Shin, 2003) The Global Competitiveness Report ranked Korea as number 98<sup>th</sup> out of 133 countries in terms of burden government regulation and 100<sup>th</sup> in transparency of policy making. In addition, the WEF's survey of business executives in 2009, ranked inefficient government bureaucracy as main obstacle of doing business in Korea. (WEF, 2009) Hence, the Korean government resides to be strongly involved (Redding & Witt, 2007). Coyner and Jang (2007) give examples of business initiatives which have been prohibited from governmental side through ignorance and hostile approaches towards business initiatives. Also, firms entering a new industry are to some extent experiencing protection from foreign competition in the domestic market (Redding & Witt, 2007).

### *State-business relationship*

A transformation of the relationship between state and industry could be noticed in 1961. This relationship was decisive for an effective industrialization of the country (Kim, 1997). The industrialization was initiated by the General Park Chung-Hee, who took over power through a military coup in 1961. Influenced by Japan's Meiji Restoration and Confucian ideology, Park Chung-Hee took the role as the father of the country and demanded personal loyalty to the state as well as devotion to the industrialization. Not only bureaucrats were influenced by Park Chung-Hee's application of the Confucian ideology, but it also influenced business owners in the private sector. The government applied a patriarchal role towards chaebol companies and established forms of direct control. (Tsui-Auch & Lee, 2003) The close relationship between government and business helped to accelerate the country's development while the success of any company became depended on close relationships with the state (Coyner & Jang, 2007).

Although the relationship between the state and business was transformed in 1997 as a consequence of the Asian financial crisis (Lee et al., 2002), the influence of the government is still palpable (Coyner & Jang, 2007). Hence, the term "Korean Inc." is still perceived to be valid. Korean companies have therefore generally built up long-term relationship between the companies' top executive and the key government bureaucracy. (ibid)



### *Antagonism to intermediaries*

Unlike the Korean manufacturing industry, the service industry comprising financial intermediation, communications, education, transport and storage sectors, has been strongly protected against international competition through numerous domestic regulations (Jones, 2009). In 2002, the government unveiled its ambition to transform Korea into a knowledge-based economy and turn the country into the international business and financial hub of Northeast Asia (Kim & Lee, 2007). This ambition involves finance, logistics, foreign investment, manufacturing, information technology and research and development (Lee & Hobday, 2003). The governmental strategy can be seen as contradictory to previous development plans of export-led industrialization policy marked by comprehensive interventional policies and a preference for loans instead of Foreign Direct Investments (thereafter FDI) (Kim & Lee, 2007). Despite a reduction of government influence, the Korean government is still perceived as the “godfather” influencing most aspect of the Korean economy. In some cases, the government dictates what kind of products shall be produced and which companies should produce them. (Lee & Hobday, 2003)

### *Juridical system*

In their survey about the perception of the international business climate in Korea, Kim and Lee concluded that one of the major frustrations among foreign investors is the inconsistent interpretation and application of regulations among government agencies. Participants in the survey emphasized regulatory issues encumbering efficacious administration and hindering clear communication with concerned parties which resulted in redundant requests of information. (Kim & Lee, 2007) Moreover, regulatory issues constituted major challenges for both foreign and Korean companies. Recently, the government established a policy of frequent working-level rotation within one to two years in order to prevent agglomeration of expertise by single civil servants. The framing of laws and regulations is usually done rather generally, which makes the application of the law dependent on the discretionary interpretation of working-level officials. These two practices have resulted in inconsistent application and interpretation of the law as well as they facilitated discrimination and corruption. Unpublished internal ministerial guidelines and unwritten administrative guidelines are frequently used by the working-level officials as a base of interpreting and



administering laws. As a consequence, personal relationships are of more importance than in other Asian countries. (Lee & Hobday, 2003)

#### 4.1.4. Historical Influences

##### *The Confucian ideologies under the Yi dynasty*

Whitley suggests that countries like Korea which underwent industrialization recently and over a short period of time, did not face impacts of individual detachment from families, pre-industrial structures and values as a result of gradual alteration of the state. The Korean society could maintain a high degree of homogeneity and isolation from external influences over the centuries which led to an undiminished strong influence of Confucian values and norms on the Korean culture. (Whitley, 1991)

Whitley further describes the current Korean chaebol system as a reflection of historical patterns of authority and identity reinforced by family structures, the state structure and policies emerged during the country's industrialization process. A particular historical influence on Korea's culture can be found in its Confucian roots. (Whitley, 1991) According to the Confucian ideology identity can be solely achieved through family membership and obeying the concept of collectivity as being superior to individual needs (Pye, 1985).

Looking back to pre-industrial state structures, the Confucian Yi dynasty from 1392-1910 was strongly influenced by patterns of loyalty, obedience and trust (Hyun, 2001). Within families, inheritance was equally divided between sons, which inhibited accumulation of large properties across generations. Additionally, Korean nobility was inter-generationally demoted by the central state leading to a constant competition of aristocrats for central state offices and family prestige. In that way, an intermediate aristocracy between the central state power and the population was prevented from holding considerable power. Furthermore, Confucian norms built the foundation for state confiscations of greater amounts of private property that was not related to religious purposes. (Whitley, 1991)

Regarding Korean patterns of authority and obedience, Confucian ideologies were adopted to strengthen Korean rulers' moral worth (Whitley, 1991). Authorities needed to master Confucian classics for gaining moral worth. Thus, political orders were synonymous to moral orders and were out of question for any justification towards groups that had not enjoyed



Confucian education. Political power of interpretation of the Confucian classics remained in a small circle that controlled definitions of authority and virtue. (Whitley, 1999)

As Korea prevented local centers of power to establish, there was no need for local authorities to legitimate domination through reciprocal services. This in turn inhibited a development of intense vertical integration of loyalty between authorities and the general population. (Whitley, 1992) The family remained to be the core institution in society and strengthened the omnipotent ideal of the Korean father whose authority was beyond question (Whitley, 1991).

Whitley identifies common ascriptive characteristics as the Korean basis for interpersonal trust. As the relatively isolated Korean society was not exposed to cultural heterogeneity, informal mechanisms of trust generation and reproduction have continued to be of great importance in business life. Ascriptive foundations of trust such as common family, university or birthplace rather inhibit an institutionalization of trust between strangers. (Whitley, 1991)

#### *Japanese colonization*

Being a colony under Japanese rule from 1910 to 1945 profoundly influenced the modern history of Korea. The bases of many Korean governmental, economic and educational institutions were established by the Japanese regime during colonization. (Seth, 2009) During this period, Japanese law was largely incorporated into the Korean law and left practically unchanged after Korea regained independence in 1945 (Hahm, 2003). The authoritarian rule along with mass mobilization and forced assimilation campaigns influenced, in often dramatic and traumatic ways, the Korean society and are viewed by most Korean as one of two greatest tragedies in modern history besides the division of the country. The colonization was to become an important determinant for the trajectory of Korean history after 1945. (Seth, 2009)

The first decade of colonial rule was viewed as a “dark period” by the Korean people. Seth describes this period with harsh political repression that suppressed both cultural and political life in Korea. The shape of a modern Korean nationalism including a strong sense of loyalty to a Korean nation which was defined by its distinctive culture, language, history and heritage, evolved. At the same time, a clear distinction among the Korean nationalists emerged during this period, which would profoundly influence the path of Korean history after 1945. One grouping comprised moderate nationalists which were similar to Western cultural nationalists



while another grouping of radical nationalists was inspired by the Soviet Union and Communist movement. (Seth, 2009)

Under Japanese colonial rule Korea's economy grew considerably (Seth, 2009). A study concluded that the Korean economy grew with more than 3 percent annually between 1910 and 1940 (Müller, 1997). The Japanese regime developed a complex infrastructure and industrial base as well as it modernized the agricultural sector (Seth, 2009). While Japanese residents and interests majorly gained benefits from this development in the short run (Müller, 1997), it left a considerable industrial legacy which would influence post-colonial Korea in the long-term (Shin, 1998). Foremost, an entrepreneurial spirit was nurtured during this time. Nevertheless, the degree to which this period influenced the shape of industrial transformation of Korea after 1945 is debated. (ibid)

Seth identifies the years of 1919-1920 as an important period for Korea's economic development as contempt attitudes towards commerce and business of the elite started to disappear while merchants and landlords began to actively participate in modern industry. The perception of Korea's industry as an important source of national strength emerged among a majority of Korean academics while the traditional negative perception of the occupation as a source of weakness and backwardness was opposed. The Korean state-directed model including mass mobilization of the population for national purposes is a legacy from the Japanese colonial rule. (Seth, 2009) Another legacy from the Japanese colonial rule is a psychological impact of the colonial experience on the Korean people. A sentiment of exploitation and an assumption of Japanese feeling superior over the Korean people created a sense of resentment and a firm determination to catch up with the Japanese. (Müller, 1997)

Besides the psychological and human capital legacy, Müller assesses that the Japanese colonial rule also left a model of economic growth. Some scholars argue that the Korean industrial growth since 1960s was an imitation of the early stage of Japanese development. It is important to consider that the colonial period left Korea with the best understanding of the Japanese among Asians, giving them a favorable position to utilize various Japanese institutions and strategies which proved to be successful during Japan's period of similar economic development. Furthermore, there is a strong sense of rivalry with Japan, which has



contributed to encourage Korean companies entering industries where Japanese companies have been successful. (Müller, 1997)

*Korean War – Division of the country*

As an outcome of Japan's defeat in World War II the Korean peninsula was liberated in 1945 by the USA and Soviet Union (Coyner & Jang, 2007). However, the liberalization of the country was entailed with its second great national tragedy; the division of Korea (Seth, 2009). The country was divided along the 38<sup>th</sup> Parallel between the Soviet Union and the USA. The division was regarded as a temporary solution until an agreement upon a unified political state would be achieved. The Republic of Korea was established in August 1948 followed a month later by the proclamation of the Democratic Republic of Korea (thereafter North Korea) in the North. (Coyner & Jang, 2007) Much of Korea's industry was located in the North while the South was characterized by its agricultural infrastructure. The defeat of Japan has left Korea with no external markets for its products which resulted in an impoverished state that depended on US aid. (Seth, 2009)

According to Seth, the Korean War had both a major impact on the Korean society as well as it enhanced the power of the Korean state. In the beginning of the war, a massive flow of American aid was sent to Korea giving the Korean government access to foreign currency, which they could use to reward or discipline businesses and industries. Additionally, the government could use the Korean War as a way of legitimizing itself by the use of anticommunist rhetoric. Thus, the Korean War and anticommunist streams enabled the Korean state to be a rationale for state power. (Seth, 2009)

The division of the country has led to what Kwon describes a "siege mentality". A constant threat of invasion by North Korea has put emphasis on economic rather than political achievements since building a strong economy after the Korean War was given priority to prevent further escalations. (Kwon, 2007)

The currently increasing political tensions between North Korea and Korea reflect its importance for Korean economic development. At the upcoming G-20 meeting of finance ministers, Korea seeks to receive support for its plans to cut funds to North Korea. Furthermore, Korea plans to demonstrate how the nation's economy will remain stable against





the perceived North Korean risk. (Kang, 2010) Immediate reactions on international stock exchanges have resulted in decreased stock prices and a depreciated Won. While international investors started selling Korean shares, Koreans alleviated divestments by buying up such stocks. (Myrsten, 2010)

### *Industrialization*

Korea eventually headed into a period of industrialization under the former President General Park Chung-Hee, who took over leadership after a military coup in 1961. This era was marked by interventionist state policies aiming at economic growth and sector development through strong governmental coordination. (Li, 2002; Chung, 2007) The Korean military regime controlled bank credits and interest rates, prices, tax concessions and access to foreign exchange. The financial system was based on bank credits rather than capital markets. State controlled financial institutions have been strongly interconnected with firms and supported favoritism of chaebol companies that followed plans of economic development. In this manner, chaebol companies have experienced major state involvement in strategic decisions. (Jones & Sakong, 1980) At the same time, the relation between state and chaebols created the perception that chaebols would be bailed out by the government if necessary (Kwon, 2007). Chaebols could profit from a reduced expected business risk when seeking capital while being dependent on bureaucrats' will. These circumstances resulted in firm support for governmental programs and strong personal relations. This situation in turn favored centralized decision making and preferential treatment of management successors with ascriptive criteria. (Whitley, 1991)

Additionally, Li mentions the dependence of labor unions on governmental approval for being allowed to engage in wage negotiations under the Park Chung-Hee era. With little room for union leaders to participate in discussions with major firms and a gap between the state's labor law principals and actual enforcement, distrust between workers and authorities have grown. The peak of violence was reached during political democratization in 1987 when the state intervention in the Hyundai shipyard strike led to city-wide revolts. (Li, 2002)

### *Asian financial crisis*

In 1980, the Korean economic policy started to shift towards a greater degree of liberalization (Dicken, 2007) and the government reduced its role as credit allocator (Kim et al., 2004).





Loans, associated with preferential interest rates from the government, were gradually removed while commercial banks were privatized. These loans have over the past two decades supported companies' investments in strategic sectors and were the main source of capital for companies. The liberalization of the financial sector led to financial resources becoming less scarce on the capital market. Nevertheless, there were still factors that imposed barriers on the development of a domestic capital market in Korea, such as lack of transparency and a weak corporate governance. (ibid) For example, the financial statements of the Korean companies were significantly difficult to rely on (Whitley, 1999). However, by providing debt securities between subsidiaries and emphasizing on a "too-big-to-fail"-image to the lenders, the chaebol business groups could remain their image of being trustworthy debtors. Furthermore, companies' internal capital market capacity gained increasing importance as a mean of allocating capital between the subsidiaries. The chaebol groups aimed to expand their internal capital market capacity through expanding into non-banking financial operations, which became a central role of financing the growth of companies. Thus, much of the equity capital that was used by chaebols to establish new subsidiaries originated from other subsidiaries within the chaebol. (Kim et al., 2004)

Throughout the months of 1997 and 1998, Asian economies fell into a financial crisis that resulted in a variety of considerable macroeconomic restructurings across the region. Explanations for this event include two major views respectively focusing on structural weaknesses and policy distortions and instability of international financial markets. (Park & Choi, 2004) Park and Choi (2004) argue for an interrelation of these views when elaborating on the rather unexpected heavy impact of the crisis on the regional power house Korea. In line with Korea's accession to the OECD in 1996, the country underwent capital account liberalization, which increasingly exposed Korea to new sources of financial hazards. Despite first structural changes, the country's heavy industry-based economy could only slowly adjust to immediate alterations in capital flows (Li, 2002). While trade declined in 1995 and 1996, the industry maintained high production levels which contributed to large current account deficits that could only be met by increased capital inflows. Inadequate investment strategies in low-profit industries relied on short-term overseas borrowing. As foreign investors observed the country's economic contraction, speculations on a depreciating won contributed to a plummet in currency value by around 50 percent. (Kwon, 2007) The debt-financed high



growth strategy that ignored basic market principles of efficiency need was accompanied by weak supervision policies of the fragile Korean financial system, a lack of transparency and the government fails to respond to early signs with appropriate policies (Park & Choi, 2004). An immense increase in interest-rates and the diminished profitability then resulted in large numbers of bankruptcies as well as high inflation and unemployment rates (Kwon, 2007).

The financial crisis highlighted structural weaknesses in the Korean financial system, such as inefficient credit system (Demetriades & Fattouh, 1999). As a result of Korea's critical situation, the IMF proposed a rescue package consisting of macroeconomic policies addressing flexible exchange rates, financial sector restructuring and other structural reforms. On a macroeconomic level, Korea's market was opened to international trade and capital account liberalization. The elimination of FDI restrictions should lead to increased investments while industrial sectors were opened up. Financial sector restructuring involved an increase of the banking sectors independence, adaption of international standards for auditing and disclosure, and increased opportunities for foreign shareholders in the banking sector. Further structural reforms addressed the structure and corporate government of chaebols. An increase in competition should be realized by reforms including management transparency, the abolition of cross-payment guarantees, core business specialization and financial structure improvements. Furthermore, chaebols should be prevented from dominating non-bank financial sector, cross-investment and illegal internal trading and abnormal wealth inheritance. The inflexible Korean labor market witnessed the introduction of the first permission of retrenchments in Korean history. (Kwon, 2007)

Although having committed to the IMF rescue package and witnessed a rapidly economic recovery, Kwon assesses the reform of the Korean economy as unfinished. Continued possibilities of state interference in a not fully privatized banking sector, chaebol's ownership of non-banking institutions and strong family control over the company, discourage of labor dismissals and a remaining protection of the domestic market from global economy reflect the difficulty to significantly change the Korean national economy within a few years. (Kwon, 2007)



#### 4.1.5. Culture

##### **Rationale**

###### *The firm's purpose*

An underlying business rationale in the Korean society puts emphasis on firm's responsibility to contribute to the country's economic development (Redding & Witt, 2007). Hence, the purpose of companies is to implement governmental economic policy. This rationale is closely linked to national pride and a shared feeling of vulnerability, which originates from a history marked by perceived aggressions from China and Japan as well as a potential war with North Korea. (Redding, 2005) Instead of selfishly pursuing individual economic interests, emphasis is put on common needs (Lee-Peucker, 2007). Redding and Witt describe this underlying logic as strong governmental leadership accompanied by collective effort as a reasonable response. However, this rationale of business is starting to change among a younger generation of managers and owners. A study conducted by Redding and Witt concluded that this generation had a higher propensity to emphasizing shareholder values. The Asian financial crisis as well as study visits in the USA have had particular influence on the increasingly western perception of shareholder value in Korea. (Redding & Witt, 2007)

###### *Perception of wealth*

Until some decades ago, private economic activities and wealth accumulation were prohibited and perceived as unethical as it infringes the Confucian value system. Hence, official elite viewed successful merchants as a potential threat and alternative source of power and prestige to the official examination. (Whitley, 1992) Theoretically, money was viewed as negative. Conspicuous consumption by rich individuals was viewed with abhorrence. Nevertheless, the industrialization of Korea was accompanied by the emergent of capitalist values and has been entailed with a change of perception on wealth and commerce. In contemporary Korea, the social status of businessmen has increased. Today, occupation has a rising status in the Korean value system while money is an important measure of success among the population. (Jung, 2002)



## **Identity**

### *Collectivism*

The Korean contemporary society's strong consideration of the Confucianism ideology is reflected in its distinct collective thinking. Hyuen describes the social pattern of collectivism as being marked by the extent to which individuals are closely linked to one or more collectives, such as family, clan or nation, and are willing to suppress their own interests for the harmony within and interests of the group. Among Koreans it is commonly accepted to show loyalty by fulfilling expected obligations towards both family and society at the expense of individualism. (Hyun, 2001) This mentality is further embedded in the cultural sense of a "we" relationship approach which is reflected by commonly used expressions such as a husband referring to his wife as "our" wife (Min, 2009).

### *Familism*

Park views the concept of familism as affections and concerns for one's family leading to actions that intent to guard and strengthen this core union. Although traditional Korean familism has to some extent contributed to the country's economic development it also caused adverse effects on the Korean society. Strong importance of familism has contributed to a distinct extent of social issues such as nepotism, regionalism and corruption which in turn is undermining interpersonal trust among Korean people. Furthermore, individuals are differentiated to be either members or non-members of families and quasi-families. This distinction can be witnessed in organizations and, moreover, in governmental institutions. The development of familism in the Korean society has been reinforced through political and historical events as Japanese colonization, rapid social and economic transformation of the society and a lack of investment in social welfare systems have led to a common sense of uncertainty and insecurity among the Koreans. Hence, the family has remained to be the core institution to ensure social safety and prosperity. (Park, 2004)

### *High Context Culture*

The concept of high- and low context cultures was introduced by Edward T. Hall in 1960. A high context culture is marked by main characteristics such as eating is perceived as social event, communication is rather indirect and implicit and business and work habits tend to be relationship oriented with an understanding of building friendships before making business.



Also, rewards are based on seniority, work is perceived as a necessity and respect is associated with hierarchical status and authority. At the same time, individuals in a high context country show a high degree of acceptance of one's perceived destiny. (Hollensen, 2001) Moreover, authorities take more responsibilities than those in low context culture. Kim, Pan and Park identified Korea to be a high-context culture as people would tend to be rather socially oriented, complacent with their existing life and less confrontational. (Kim, Pan & Park, 1998)

### *Nationalism*

Coyner and Jang characterize the Korean society as showing a remarkable nationalistic attitude, which is founded on a collective desire to improve the society and the perceived obligation to proudly represent its country among the community of nations. Koreans continuously are obsessed to establish a national identity and culture which is perceived to having been close to extinction during the colonial rule of Japan. (Coyner & Jang, 2007)

Hence, Coyner and Jang witness the nationalistic sentiment against the background of historical events. Repeated invasion attempts from neighboring China, Mongols and Japan have left a legacy of vulnerability related to state sovereignty. Despite being liberated by the USA from North Korean invasion in 1945, the Western power is commonly regarded as being a cause to the division of the country. The US presence in Korea is therefore perceived as another example of a foreign power to suppress, control and prolonging the division of the country. (Coyner & Jang, 2007)

Coyner and Jang discuss that the recent growing nationalistic sentiment among young Korean people is related to the country's accelerated economy and former President Park Chang-Hee's legacy of nationalistic rhetoric. This legacy has been utilized under the presidency of Kim Dae-Jung and Roh Moo-Hyun, who molded the concept of "minjok-juui". "Minjok-juui" can be translated to "racism" while referring to a more prideful recognition of a common ethnicity. The benign form of racism is manifested in a pronounced aversion towards foreign influence on the fate of the nation. Moreover, working for a foreign company can be perceived as unpatriotic as the society acts out its pride of Korean export strength while behaving reluctant to the consumption of foreign products. As nationalistic sentiments



strongly permeate the Korean daily life foreigners need to consider this issue sensitively. (Coyner & Jang, 2007)

### **Authority**

#### *Confucianism*

Ramirez mentions the Confucianism ideology as deeply rooted in the contemporary Korean society. This value system is based on an understanding of a “Will of Heaven” which is perceived as the natural law, surrounding the universe and facilitating its order, harmony, unity and continuity. Being a part of this universe, the government therewith subordinated and can only achieve legitimacy if it has been given its role and follows the “Will of Heaven”. (Ramirez, 2010)

Ramirez further describes that in Confucianism, the emperor is perceived to be appointed by the “Will of Heaven”, which makes him to be the worldly equivalent to the cosmic order. Following this logic, the society can be seen as a family, in which the emperor takes the role of the father, husband and head of this family. Although a majority of countries with Confucian heritage have adopted government institutions similar to Western institutions, the division of governmental power into executive, legislative and judicial bodies rather follows the understanding of imperative unity which is reflected in a concentration of power in bureaucracy. Hence, among governmental power executive bodies are more influential. (Ramirez, 2010)

#### *Government system*

Ramirez argues that Korea’s political system was historically marked a monolithic distribution of power to the emperor. According to Confucius, political unity is the most important factor for the consolidation of a state whose central political power is inevitable. This logic is based on the understanding that the state needs to protect itself from external threats and requires a strong capacity to govern its interest in an efficient and effective manner. Hence, separation of powers was not acknowledged as a decent means in Korea. The structure of a Confucian government can be characterized as hierarchal with officials being subordinated to a central political power. While Confucianism supports the notion that governments require acceptance by their subordinates, citizens are not supposed to participate



in governmental matters. (Ramirez, 2010) Thus, Ramirez (2010) argues that a Confucian governmental system is not build upon democratic principles.

*System of relationship*

According to Ramirez, familial types of relationships within bureaucracy mark the Confucian relationship system. Regulating mechanisms in a Confucian government are rather conducted by paternalistic leaders than by impersonal authorities. These leaders are so called Mandarins who can be described as the parents of the people. Despite the Confucian emphasis on a meritocratic principle, the emulation of a family relationship system has gained dominant influence. Once a Mandarin is hired by the government this carrier path is determined by merits and skills as well as by the quality of relationships with co-workers and superiors. Hence, Confucian bureaucracy is of paternalistic nature. (Ramirez, 2010)



**Figure 2: The Korean Business Environment**

<b><u>BUSINESS SYSTEM</u></b>		
<b>OWNERSHIP</b>	<b>NETWORKS</b>	<b>MANAGEMENT</b>
<ul style="list-style-type: none"> <li>• Predominately private ownership</li> <li>• Chaebol</li> <li>• Direct control</li> <li>• High level of horizontal and vertical integration</li> <li>• Hierarchal governance</li> </ul>	<ul style="list-style-type: none"> <li>• Low dependency of chaebols on suppliers</li> <li>• Intense rivalry and low level of cooperation between the chaebol groups</li> <li>• Increase tendency of corporate alliance formation</li> </ul>	<ul style="list-style-type: none"> <li>• Hierarchal, authoritarian and centralized management system</li> <li>• Top-down decision making</li> <li>• Low degree of employer - employee commitment</li> <li>• Labor treated as specialists</li> <li>• Strong labor supervision</li> </ul>
<b><u>INSTITUTIONS</u></b>		
<b>CAPITAL</b>	<b>HUMAN CAPITAL</b>	<b>SOCIAL CAPITAL</b>
<ul style="list-style-type: none"> <li>• Credit-based financial system</li> <li>• Funding through internal capital</li> <li>• Financial liberalization</li> <li>• Shift to a capital market-based financial system</li> </ul>	<ul style="list-style-type: none"> <li>• High level of investment on human capital</li> <li>• High quality on elementary and low quality tertiary education</li> <li>• High tertiary enrollment</li> <li>• Adverse labor-management relationship</li> <li>• Militant labor union</li> <li>• Inflexible labor market with high level of employee protection</li> <li>• Low social safety net</li> </ul>	<ul style="list-style-type: none"> <li>• Low level of institutional trust</li> <li>• High degree of fluidity of social mobility</li> <li>• Low level of interpersonal trust</li> <li>• Shame as morale base</li> </ul>
<b><u>ROLE OF THE STATE</u></b>		<b><u>HISTORY</u></b>
<ul style="list-style-type: none"> <li>• Decreasing state and business relationship</li> <li>• Interventionist development model</li> <li>• Decreasing antagonism to intermediaries</li> <li>• Complex and interpretive law</li> </ul>		<ul style="list-style-type: none"> <li>• Yi dynasty</li> <li>• Japanese colonization</li> <li>• Division and the Korean War</li> <li>• Industrialization of Korea</li> <li>• Asian financial crisis</li> </ul>
<b><u>CULTURE</u></b>		
<b>RATIONALE</b>	<b>IDENTITY</b>	<b>AUTHORITY</b>
<ul style="list-style-type: none"> <li>• Firm's shall contribute to the country's economic development</li> <li>• Strong leadership by the state</li> <li>• Shift to a more emphasis on shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>• Collectivism</li> <li>• Familism</li> <li>• High Context Country</li> <li>• Nationalism</li> </ul>	<ul style="list-style-type: none"> <li>• Power is given by "Will of Heaven"</li> <li>• Unified and centralized political power</li> <li>• Hierarchical and authorial governance</li> <li>• Paternalistic leadership</li> <li>• Centralized control, weak intermediaries</li> </ul>



## 4.2. European Corporate Perceptions of the Korean Business System

The following subsections confirm and add characters of the Korean business system. Furthermore, major linkages derived from the interviews are discussed. Additionally, European corporate expectations on the impact of the FTA on local business activities are analyzed. Summaries of all interviews used in this analysis can be found in Appendix 1 to 9. Figure 3 on page 63 then illustrates confirmed and additional characteristics. Identified linkages are included in that figure as well.

### 4.2.1. Business System

#### Ownership

Korean characteristics of private ownership forms, chaebol's market dominance and their diversified business integration imply indirect importance for European companies' choice of ownership when doing business in Korea.

Analyzing the development of their Korean subsidiary's ownership structure, all interviewed corporate managers mentioned a somewhat increasing gradual commitment. A typical market entry was marked by unsolicited customer orders that led to a representation through local distributors and agents. (Interview 1-6, 8) Interviewees 1, 2 and 3 described the decision of setting up a wholly-owned subsidiary as a reaction to a positive local business development. An explanation for the preferred 100 percent ownership structure may be found in previously stringent FDI regulations, which restricted foreign ownership of Korean companies, as well as a reluctant attitude among Korean companies to cooperate with outsiders. This has resulted in closed business networks, which made it difficult for foreign companies to gain access to appropriate business networks in Korea (Interview 5). In this sense, the identified characteristic of **100 percent ownership** can be added to the domain ownership. Also, there is a palpable linkage between *ownership* and *networks*, whereas an important foundation for closed networks can be found in the country's cultural domain *identity*.

*“Some of our competitors that entered the market in recent years have experienced much more difficulties to find good business partners as those are already tied up and Korea is a very closed society.”* (Interview 5)

#### Networks



Business relations to local business partners have been described as a decisive basis for a successful establishment in Korea. As chaebols' joint project activities use to be of large scale, European suppliers to chaebols assess such collaborations as bearing particular business opportunities (Interview 1).

Regarding European experiences of establishing and nourishing direct business relationships, several country specific features have been identified to have a considerable impact.

Interviewee 5 mentioned the importance of an early market entry when meeting local product demands and establishing manufacturing activities. Once local distributors and suppliers have entered economic relationships they tend to be strongly bonded to their partners. Committing exclusively to one customer is described as a matter of honor. (Interview 5) This feature of rather closed business networks can be seen in line with the earlier described traditionally weak power of small- and medium sized suppliers and distributors that usually depend on relations to a single chaebol. Hence, the newly identified characteristic **closed business networks** can be added to the business system domain of networks.

Fruitful business relations are perceived to depend first and foremost on the ability to build mutual trust among partners (Interview 5, 6). Trust has been a distinctive characteristic of the Korean culture and emphasizes the importance of interpersonal relations. In that sense, a strong linkage between business *networks* and *social capital* can be drawn.

*“You need to know that you can rely on people. You need to feel some trust. Then, the contract does not matter that much.”* (Interview 6)

*“It takes some endurance to establish contacts. You need to work with people, be positive, show that you are not afraid of working hard and contribute to the society's development.”*

(Interview 6)

At the same time, interviewee 3 experienced that Korean business partners tend to prefer socializing amongst Korean contacts. In connection with the country's long period of isolation, a bilateral lack of experience in working across cultures as well as language barriers are major challenges for establishing relations between potential European and Korean business partners (Interview 8). Hence, interviewee 1 mentioned the necessity of having a comprehensive understanding of the Korean business culture when conducting business with local partners.



The Korean language is a key point for successfully negotiating with Korean business partners who strongly prefer communicating in the Korean language and often show a lack of knowledge of the English language. (Interview 1) One reason for choosing local agents and distributors in an early phase thus seems to be an attempt to bypass cultural barriers for successful network intensification (Interview 3). Employing Korean managers in leading positions of local subsidiaries might be a further measure to avoid the impact of cultural differences on business relations (Interview 1, 4). Additionally, choosing potential partners which already have a certain degree of international business experience or assigning local negotiations and establishments of business contacts to Asian headquarters are further strategies to avoid a negative impact of strong cultural disparities (Interview 2). As the building of mutual trust has been perceived to be strongly connected to familism and nationalism, a linkage between *networks* and *identity* with a reinforcing intermediate linkage to *social capital* can be indicated.

Furthermore, some interviewees highlighted the significant value of following local business etiquettes. Taking part in business dinners and engaging in local business organizations was perceived as adding value to establishing and nourishing business network. (Interview 3, 6) Korea is characterized as a high-context culture where social orientation and hierarchical respect reflect the importance of interpersonal relations. Hence, Korea's business *networks* seem to be significantly linked to the cultural characteristic of *identity*.

*“Somehow, you need to take part in social life, which is not always easy. There are lots of characteristics to Korean business dinners and other social events that need to be kept in mind.”* (Interview 3)

## **Management**

Although Korean characteristics of management control and supervision are perceived to have a limited direct impact on European companies' management style, some interviewees identified Korean management traits to imply consequences for local business activities.

The distinct hierarchical and centralized Korean management style is strongly linked to a general paternalistic authority perception in the Korean culture. Hence, Korean employees expect their working environment to be governed according to Korean authority standards.



Several interviewees described Korean employees to be diligent yet reluctant to take decisions within their responsibility without guidance of their managers (Interview 3-6). Hence, European companies attempt to recruit Korean employees who value a European management style marked by appreciation for employee initiative (Interview 1, 5, 6). A new characteristic of **local recruitment practices** thus can be added to the domain of management. In that sense, the domain *management* can be linked to *authority* norms.

Authority norms do also have an indirect impact on the relation between Korean companies' management and their networks to European business partners. Several interviewees highlighted the importance of establishing contacts with managers that have critical power to decision making (Interview 1, 2, 6, 7). Those contacts in turn imply great potential for building a network leading to successful local business activities. At the same time, European companies try to avoid the societal need of considering personal bonds in business situations by having restrictions on representation expenses or leaving certain decisions to expatriates who do not have the same amount of network duties (Interview 5). Thus, the relation between *management* and *authority* can be extended to a linkage between *management* and *networks*.

#### 4.2.2. Institutions

##### Capital

Interviewee 7 characterized Korean capital funding as controlled by a right-winged bank system. The rather credit-based financial system of Korea is perceived to have little impact on European companies' local business (Interview 3). The limited importance of capital institutions has two major reasons. Firstly, the participating companies in this study are not active within the financial sector. Thus, regulations and characteristics of the capital market are of minor concern. Secondly, some interviewees mentioned the capital needed for local business activities as either funded internally from in-house treasury departments, or sourced externally through international capital markets. With increasing importance and extent of investments, European headquarters control decision upon sourcing originations. (Interview 4, 5)

Interviewee 5 further mentioned the acquisition of a former Korean distributor as an opportunity resulting from the business partner's bankruptcy during the Financial Crisis. This is reflected by statistics of inward FDI, which grew significantly during the financial crisis



(Alexander, 2008). FDI in Korean companies reflects Korea's financial liberalization. Hence, a linkage between *history* and *capital* can be identified.

### Human capital

Being asked about their perception about and the impact of Korean labor laws, some interviewees characterized those regulations as significantly stringent. At the same time, business activities within marketing, sales and service seem to be less effected by labor laws than manufacturing activities. (Interview 2, 3)

The distinct inflexibility of the Korean labor market can be associated with highly restrictive lay-off regulations (Interview 5, 6). Even in times of low economic business activities, labor downsizing will only be an option if the company's survival is directly related to this measure. Furthermore, interviewee 5 mentioned that labor cuts need to be realized in each department equally. Salary compensation usually offered in situations of lay-offs tends to exceed European standards. (Interview 5)

Additionally, Korean labor rights are perceived to be rather burdensome as lay-off regulations are restrictive even in case of personal misbehavior shown by employees (Interview 5, 6). In order to prevent such situations special attention is given to recruitment and selection of employees who fit into the European corporate culture and are eager to work in such an environment (Interview 6). Hence, a distinct linkage can be found between *human capital* and the business system domain of *management*.

The Korean business environment is marked by a distinct labor union culture. Interviewee 8 mentioned a strong historical influence on the structure and attitude of labor unions. As labor unions were kept from corporate management decisions during the country's period of industrialization, they developed a rather adversarial attitude towards companies. These circumstances combined with a sporadic emotional approach to critical situations have led to strikes in the past. (Interview 8) A strong linkage between *human capital* and the country's *history* thus need to be taken into consideration.

*"Labor union strikes have evolved as an issue for international companies."* (Interview 8)



Labor unions have been perceived to follow a rather political agenda while showing somewhat militant characteristics. Labor unions, which are centrally governed, use to broach the issue of power distribution within companies. Exhausting negotiations exceed salary topics and include non-downsizing guarantees (Interview 5, 6). A typical demand is the increase of labor ratio to profit gains. Interviewee 5 mentioned that already at the first meeting parties need to reach agreements in order to avoid immediate and partly violent strikes.

*"Fostering relations to labor unions takes a lot of energy." (Interview 5)*

One successful approach to avoiding critical labor union strikes has been a particular emphasis on establishing mutual trust and a cooperative attitude by creating an open environment for the discussion of both parties' concerns and following a European management style of respectful employee treatment (Interview 5, 6). Thus, a further linkage between *human capital* and *management* can be outlined.

### **Social capital**

The above mentioned linkages between *social capital* and *network* highlighted the importance of interpersonal trust established through long-term relations between business partners. *Social capital* and *identity* have further been linked according to the impact of familism, high context and nationalism traits on interpersonal trust.

The Korean law court system builds on the US including a rather competitive lawyer culture. Lawyers earn their money from tensions between economic partners and aggressively advertise their service, which is paid when they win legal disputes. Since even the winning party is in charge of court costs, legal disputes are expensive and exhausting. (Interview 5)

Korea is perceived to have a very well developed legislation system (Interview 6, 7). Business rights are assessed to be well developed in terms of investments, ownership rights and intellectual property rights (Interview 5). At the same time, legal enforcement is perceived to bear some difficulties for foreign companies as a gap between theoretical rights and implementation of those was mentioned (Interview 6). Korean companies seem to possess local advantages resulting from cultural embeddedness (Interview 3). Despite its non-corrupt character law courts tend to favor Korean companies in legal disputes (Interview 5). The



equality of domestic and foreign companies before the law holds some potential for improvement (Interview 6, 7).

*“Within the frame of laws bureaucrats are given considerable space for finding issues to close contacts’ advantage.”* (Interview 7)

A lack of transparency and international legal approach has been a hampering factor for foreign enterprises to commit investments into the Korean market (Interview 6). Laws seem to imply considerable space for bureaucrats to be interpreted in favor of specific contexts (Interview 7). The Korean government is expected to meet these challenges in the near future (Interview 6). Hence, a linkage can be identified between the *role of the state* and *social capital*.

#### 4.2.3. Role of the State

As mentioned previously, European companies’ perceived institutional trust can be related to the interpretive character of Korean law. Thus, the *role of the state* can be linked to *social capital*. Furthermore, interviewees described the government’s large influence on national industries.

Tariff and non-tariff barriers fixed by the Korean state have restricted European companies’ local business activities to varying degrees. Several interviewees stated that they were affected by tariff duties to a limited extent (Interview 1-3, 5). While experiencing a decreasing degree of trade barriers, current import duties imply marginal costs that provide competitive advantages for home-based competitors (Interview 5, 6). National demand for specific products can be one reason for the limited extent of custom duties (Interview 2).

Non-tariff barriers, however, are perceived to have a more far-reaching impact on European companies’ local business. In some industries, Korean regulations and technical standards consist of a composition of US, European and Korean restrictions. The resulting complexity of regulations raises difficulties for European companies to meet these demands (Interview 5, 7). At the same time, bureaucratic assessments of product standards include considerable administrative efforts and a loss of potential profits gained from product improvements (Interview 3, 5).





*"Getting approvals can easily take up to half a year, a long time during which you cannot realize earnings from a product."* (Interview 3)

Considering tariff and non-tariff barriers, the distinct interventionist role of the Korean government reflects the cultural perception of expected strong leadership of the state. At the same time, considerable relations between the state and business sectors have been mentioned (Interview 7, 8). Hence, a linkage can be identified between the *role of the state* and cultural *rationale*.

Furthermore, governmental relations to national industries were experienced to exceed general terms of economic protectionism. Korean politicians holding high positions partly have their origin in the country's economic environment thus ensuring intense interactions between both parties. The situation of close relations between state and chaebols and the way the Korean state is governed in a commercial manner was labeled with the description Korea Inc. (Interview 8) Establishing contacts to public bureaucrats holding some power of decision is as important in state relations as it is within business networks. Successful market entry and penetration thus depends on contacts to state representatives (Interview 2, 5, 7). Interviewee 5 further described how important good relations to public authority are. Until some decades ago, Korea was a rather underdeveloped economy, in which bonding with the family was a safe investment for a decent living. Family members and friends from university needed to help each other as no state ministry was giving any support. This cultural behavior led to a degree of corruption among people with decisive power. (Interview 5) The relation between collectivism, cultural familism and governmental relations to the Korean economy thus seem to facilitate nepotism (Interview 6). Hence, a linkage between the *role of the state* and *identity* can be distinguished.

*"The industry can have an effect on trade barriers established by politicians."* (Interview 7)

#### 4.2.4. History

As mentioned above, the country's period of industrialization was marked by adversely governmental attitudes and laws towards labor unions. As a result, labor unions have evolved to take aggressive roles in negotiations with corporations. Interviewees shared this perception leading to a linkage between *history* and *human capital*. Further, the financial crisis resulted in acquisition opportunities for European companies which in turn opened Korea's closed





networks to a certain degree. This event can be shown through a linkage between *history* and *capital*.

Interviewee 8 mentioned a distinct nationalist attitude among the Korean people. Korean customers have been described as being highly loyal to products made in Korea. When establishing in and penetrating the local market, European companies have experienced a strong nationalistic pride affecting consuming behavior (Interview 5-7). Manufacturing components in Korea has had a positive side effect of being associated with Korean origin (Interview 5). The inward focus of Koreans has been identified as a result of historical political threats by colonial powers like Japan (Interview 7). Thus, a linkage between *history* and *identity* can be drawn.

#### 4.2.5. Culture

Cultural traits are assessed to have an underlying effect on any characteristic of the state, institutions and the Korean business system. Major cultural linkages to the interviewees' perceived features of the Korean business environment have been mentioned above. The following explanations thus reflect on interdependencies already stated in earlier sub sections.

#### Rationale

As stated earlier, some interviewees identified strong governmental influence on trade regulations and considerable relations between the state and business sectors leading to different extents of entry and penetration barriers. Consequential, a linkage between cultural *rationale* and the *role of the state* was described.

*“I got the impression that the Korean state is driven like a company. The state considerably supports the international competitiveness of national industries. Also, leading individuals with an industrial background are chosen to take leading governmental positions.”*

(Interview 8)



## Identity

As some interviewees perceived advanced relations to governmental bureaucrats as inevitable for successfully conducting business in Korea, *identity* traits of collectivism and familism was linked to the *role of the state*.

*“Korea is a country which strongly builds on relations. Earlier, the country did not have a social welfare system which made it necessary to provide and receive help among families and friends. Thus, it is highly important to maintain good relations to authorities.”*

(Interview 5)

Furthermore, mutual trust between business partners was identified as a crucial prerequisite for a fruitful business network. Hence, *identity* characteristics of familism, high context and nationalism was linked to interpersonal trust in *social capital* and ultimately connected to *networks*.

The distinct nationalistic pride reflected by the consumer behavior and the view of foreigners result from historical influences during the period of Japanese colonization. Thus, a linkage between *identity* and *history* can be identified.

*“The Korean customers strongly prefer locally manufactured products as they are proud of their domestic companies.”* (Interview 7)

## Authority

Hierarchical and authorial characteristics of decision making in Korea was perceived to be crucial when establishing relationships and coordinating internal management systems. Hence, a linkage between *authority* and *management* can be drawn. This linkage in turn can indirectly be extended to *networks*.

*“In Korea, there is a much stronger hierarchal structure than we are used to in Sweden. It is very important to talk to the right person that has the authority to take decisions.”* (Interview 1)



### 4.3. Expectations on the FTA

As a part of the EU's current trade policy, Korea was designated to be among the key countries with whom the EU aims to maintain and increase its trade. In 2006, the EU initiated FTA negotiations with Korea, which particularly focused on dismantling trade barriers. (Interview 7)

*"This is the most ambitious agreement that we have ever negotiated."* (Interview 7)

The interviewees stated that they had a rather positive perception of the FTA between the EU and Korea, albeit with a large variation on the extent to which the agreement would affect their business activities on the Korean market. In terms of tariff duties, several of the interviewees expected that the FTA would have a rather limited effect (Interview 1-3). Interviewee 1 and 3 stated that tariff duties have not played an important role for their business activities in Korea. However, interviewee 1 mentioned that dismantling tariff duties for the automotive industry could have a strong yet indirect impact, on the company's business activities in Korea. Interviewee 2 explained that a predominant part of the company's products imported from Asian countries are not covered by the agreement while only a limited number of niche products are imported from Europe. Only interviewee 5 explicitly stated that through dismantling of direct trade barriers the FTA could have a direct effect on their business activities in Korea. Dismantling of the tariff duties could result in a positive impact on their ability to offer their customers more competitive prices while expanding their market share (Interview 5).

Regarding non-tariff barriers, several of the interviewed corporate managers predicted that the FTA would have a positive yet indirect effect on their company (Interview 1; Interview 6). Interviewee 3 and 5 indicated that the expected convergence on norms and technical regulations between Korea and the EU would have a positive impact on their ability to compete on the Korean market. Additionally, this positive effect was perceived to depend on demanding the same requirements from both European and Korean companies (Interview 3).

*"Agreement or not – our business is successful and flourishing."* (Interview 3)

Hence, the FTA is perceived to have a significant impact on the state's interventionist trade measures. As the extent of state intervention is likely to diminish, this influence might in turn



be able to affect the linkage between the *role of the state* and *rationale* in the long term by holding a potential to ultimately change the Korean rationale perception of state leadership.

Further expectations mentioned included improved dispute settlement procedures, which could address the international demand in improved transparency and legal security (Interview 6). Besides, the FTA was perceived to be a foundation for improved market entry conditions for European companies and might lead to a more open Korean business environment. (Interview 1, 6)

*“The FTA contributes to a more positive business atmosphere between European and Korean actors, which will create a positive environment for investments and trade.”* (Interview 6)

Thus, the FTA is perceived to address the characteristic of complex and interpretive law. This in turn might evolve to have an indirect long-term impact on the experienced low level of institutional trust through the linkage between *social capital* and the *role of the state*.

Two interviewed corporate managers clearly stated their general satisfaction with the extent to which their business activities are going to be affected by the FTA (Interview 2, 3). Despite the agreement’s far-reaching results, some restrictions maintain. Interviewee 5 did not perceive that local corruption was adequately addressed. Interviewee 6 mentioned that the Korean government needs to continue its effort to liberalize the Korean market. Furthermore, technical standards within the interviewee’s industry would not be addressed by the FTA. Also, public procurement regulations still hold some potential for Korean companies to exclude European competitors (Interview 7).

Furthermore, interviewee 8 pointed out the great importance of mutual understanding and ultimately, mutual commitment. As these attitudes are considered to depend on a certain degree of experience and long-term relationships, the interviewee sees some restrictions on enabling trust and mutual conception on reliance through the FTA.

*“Eventually, you need to have an interest and ambition to work together for a common good.*

*Here, I think we still have a journey to make.”* (Interview 8)

When assessing the outcome of the agreement, previous political and economic relations between the EU and Korea have to be taken into considerations as they set the framework and



rational boundaries to what could be achieved during these negotiations. While the FTA addresses economic and legal measures, the agreement has been negotiated on a political stage. A more comprehensive agreement would have required further concessions from the EU's side. The aim of this FTA is to improve entry conditions for European companies. Ultimately, it is upon the companies to successfully seize opportunities in the Korean business environment. (Interview 7)

*"We are in charge of trade policy and providing the companies with conditions for their business activities. Whether the companies succeed is another issue."* (Interview 7)

#### **4.4. Characteristics and Linkages of the Korean Business Environment**

This section provides the reader with the illustrated result of this paper. The following comprehensive figure is based on the characteristics identified through secondary findings. Characteristics and linkages derived from the earlier analysis are included. Figure 3 on page 63 illustrates those confirmed characteristics marked italic and additional characteristics accentuated bold. In order to enhance the visual clarity, linkages are randomly shown in different line layouts.

Figure 3: Characteristics and Linkages of the Korean Business Environment

<b>BUSINESS SYSTEM</b>		
<b>OWNERSHIP</b>	<b>NETWORKS</b>	<b>MANAGEMENT</b>
<ul style="list-style-type: none"> <li>• Predominately private ownership</li> <li>• Chaebol</li> <li>• Direct control</li> <li>• <b>100% ownership</b></li> <li>• High level of horizontal and vertical integration</li> <li>• Hierarchal governance</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Low dependency of chaebols on suppliers</i></li> <li>• <b>Closed business networks</b></li> <li>• Intense rivalry and low level of cooperation between the chaebol groups</li> <li>• Increase tendency of corporate alliance formation</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Hierarchal, authoritarian and centralized management system</i></li> <li>• <i>Top-down decision making</i></li> <li>• Low degree of employer - employee commitment</li> <li>• Labor treated as specialists</li> <li>• Strong labor supervision</li> <li>• <b>Local recruitment practices</b></li> </ul>
<b>INSTITUTIONS</b>		
<b>CAPITAL</b>	<b>HUMAN CAPITAL</b>	<b>SOCIAL CAPITAL</b>
<ul style="list-style-type: none"> <li>• Credit-based financial system</li> <li>• Funding through internal capital</li> <li>• <i>Financial liberalization</i></li> <li>• Shift to a capital market-based financial system</li> </ul>	<ul style="list-style-type: none"> <li>• High level of investment on human capital</li> <li>• High quality on elementary and low quality tertiary education</li> <li>• High tertiary enrollment</li> <li>• Adverse labor-management relationship</li> <li>• <i>Militant labor union</i></li> <li>• <i>Inflexible labor market with high level of employee protection</i></li> <li>• Low social safety net</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Low level of institutional trust</i></li> <li>• High degree of fluidity of social mobility</li> <li>• <i>Low level of interpersonal trust</i></li> <li>• Shame as morale base</li> </ul>
<b>ROLE OF THE STATE</b>		<b>HISTORY</b>
<ul style="list-style-type: none"> <li>• <i>Decreasing state and business relationship</i></li> <li>• <i>Interventionist development model</i></li> <li>• Decreasing antagonism to intermediaries</li> <li>• <i>Complex and interpretive law</i></li> </ul>		<ul style="list-style-type: none"> <li>• Yi dynasty</li> <li>• <i>Japanese colonization</i></li> <li>• Division and the Korean War</li> <li>• <i>Industrialization of Korea</i></li> <li>• <i>Asian financial crisis</i></li> </ul>
<b>CULTURE</b>		
<b>RATIONALE</b>	<b>IDENTITY</b>	<b>AUTHORITY</b>
<ul style="list-style-type: none"> <li>• Firm's shall contribute to the country's economic development</li> <li>• <i>Strong leadership by the state</i></li> <li>• Shift to a more emphasis on shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Collectivism</i></li> <li>• <i>Familism</i></li> <li>• <i>High Context Country</i></li> <li>• <i>Nationalism</i></li> </ul>	<ul style="list-style-type: none"> <li>• Power is given by "Will of Heaven"</li> <li>• Unified and centralized political power</li> <li>• <i>Hierarchical and authorial governance</i></li> <li>• Paternalistic leadership</li> <li>• Centralized control, weak intermediaries</li> </ul>





## 5. Conclusion

*Based on a discussion about characteristics of and linkages within the Korean business environment, as well as expectations on the impact of the FTA from a European perception, conclusions about final results are drawn.*

### 5.1. Concluding Remarks

When analyzing the Korean business environment it became clear how comprehensive and mutable national business systems are as they show strong interrelations to national institutions and cultural backgrounds. The developed model of the Korean business environment added current insights of key aspects while acknowledging earlier academic research. After all, governmental dominance in business structures, network relations among business partners and institutional trust aspects remain most characteristically for the Korean business environment. At the same time, a strong impact of historical incidents on national business environments could be supported.

Furthermore, primary empirical findings collected among European companies affirmed identified characteristics found through secondary sources. European companies and organizations strongly highlighted the need to consider cultural traits of identity when evaluating business systems. At the same time, when doing business in international markets specific characteristics of a business system are perceived less decisive compared to national product demand and a stable institutional business environment. Hence, increasing local embeddedness in national business systems was assessed to be a rather logical business behavior. Nevertheless, European companies can gain competitive advantages by applying non-Korean management styles.

Identifying linkages between characteristics of business systems proved to be a valuable method in order to capture complex coherences and enhance understanding for societal particularities. Linkages identified by European companies and organizations supported the model's vertical order of its layers. It can be concluded that business systems depend on formal categories which in turn are strongly affected by cultural distinctions.

At the same time, such linkages need to be confined in their amount as more or less strong interrelations can be identified among any traits of business environments.



Throughout the analysis it became evident that European companies assess the FTA as a restricted measure to addressing critical characteristics and linkages in order to improve business opportunities and enable market entries. As such a strategic trade policy aims to affect governmental decision making and institutional structures and processes, it does not influence deeply rooted societal values and norms. Like other FTAs, the agreement between Korea and the EU approaches economic aims through political relations, thus implying restricted measures on altering highly contextual characteristics.

Aligned technical standards, increasing transparency, improving dispute settlement systems and a more friendly business atmosphere are likely to contribute to increased international competition on the Korean market. By enhancing Korean companies' competitiveness through local business activities, European companies may in turn have a considerable effect on the shape of the Korean business system.

While being seen as a restriction, the limited impact of FTAs can also be assessed as a potential approach to long-term impacts on the cultural layer of business environments. Addressing formal characteristics which reflect underlying cultural values and norms might be the only external measure of initiating more far-reaching societal changes without endangering cultural integrity and societal sovereignty. As the findings suggest, cultural, institutional and business layers have constantly been influenced by internal and external historical developments. In that way, affecting governmental and institutional layers implies promising long-term opportunities for alterations which have to evolve rather from inside-out a nation.

Thus, the authors of this thesis conclude that FTAs like the one between Korea and the EU imply reciprocal economic opportunities and might have considerable potential to affect societal business systems to a mutual benefit.

## **5.2. Academic Implications**

European cooperative perceptions on the Korean business system have, to the best of the authors' knowledge, not been studied at a point of time when the impact of a FTA was subject to future observations. Thus, this study contributes to a comprehensive understanding of business systems from an international corporative point of view and implies opportunities for





further research on the development of Korean societal capitalism with regards to the impact of international companies and FTAs.

Furthermore, by including a variety of scientific approaches this study supports earlier recommendations of analyzing complex topics within the field of international business with a multidisciplinary approach. Institutional environments need to be analyzed in an eclectic context as an isolated assessment does barely meet the variety of environmental influences.

As the Korean business system is likely to continue undergoing fundamental changes and impacts of the FTA are yet to be observed, there is a need for further studies to address changes in characteristics of the Korean business environment as well as witnessed alterations for European corporations resulting from the agreement's implementation.

### **5.3. Managerial Implications**

By considering the elaborated findings of corporate experiences and acknowledging cultural implications for business relationship building, European companies planning to start business activities in Korea can surpass early irritations and drawbacks resulting from unfamiliarity with the local business environment. Hence, this study should provide managers with insights into interrelations between particular characteristics of the Korean business system that contribute to identifying potential challenges and assessing business opportunities.



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## Appendix 1

### Summary of interview 1 with the Market Chief at Outokumpu, Sweden

Interviewee 1 holds the position as chief of markets for several business departments. The interviewee has so far not been working outside Sweden and is responsible for Korea as a part of Outokumpu's global activities.

With its headquarters located in Finland Outokumpu produces a range of stainless steel products and services worldwide. The company's local profitability has been growing within the last years as business activities focus on sales of niche products that do not compete in major product categories. The share of Outokumpu's Korean turnover compared to its total turnover lies in the single digit area.

The Korean market is one of Outokumpu's growth markets. Starting with one employee, the company today employs a staff of around 6 people in Korea. Outokumpu operates in two sales offices in Seoul and Busan, which were established about a decade ago. The company started its Korean business with single customers and local agents. From the point when local market activities have grown to a considerable amount, Outokumpu saw the need and benefits of a constant local presence and invested in Korean offices. Outokumpu wholly-owns its Korean offices, which are subordinated under a bigger sales department in Shanghai, China.

On a local basis, Outokumpu has been working closely together with local leading engineering corporations such as Hyundai and Doosan as well as German automotive subcontractors located in Korea. Being an important business partner considering the size of business, Hyundai was initiating contact by showing interest in several of Outokumpu's products. The interviewee mentioned no specific difficulties with its existing business network as many business partners have considerable experience in global markets.

As its Korean business partners participate quite actively in global business projects, Outokumpu has been involved in such projects comprising a variety of industries such as gas, oil and automotive. At the same time, the strong Korean steel industry is perceived as a major competitor.



All of Outokumpu's local employees have a Korean background. The interviewee mentioned the necessity of having a comprehensive understanding of the Korean business culture when conducting business with local partners. The Korean language is another key point for successfully negotiating with customers as Korean business partners strongly prefer communicating in the Korean language and often show a lack of knowledge of the English language. At the same time, Outokumpu's Korean employees need to have a good understanding of the company's European cultural background.

Outokumpu's Korean offices are subordinated to the chief of Asian-Pacific business activities located in Shanghai. Thus, the Chinese office is in charge of controlling all business activities in Korea while further reporting to managers in charge of Outokumpu's growth markets.

The interviewee has not been aware of any issues related to the enforcement and implementation of Outokumpu's legal rights on the Korean market.

Regarding governmental influences on doing business in Korea, the interviewee perceived the Korean government's decision to depreciate the local currency a few years ago as a great impact on the company's business activities. Also, the governmental relations to Korean industries may have resulted in a rather defensive attitude towards imported products. Tariff barriers, however, have not been relevant for Outokumpu's business in Korea.

A distinct Korean hierarchical structure has been perceived to have strong cultural influences on local business activities. It is crucial to meet and negotiate with company representatives that are able to take decisions.

Despite low perceived restrictions in terms of tariff duties, the interviewee mentioned that a cut in tariffs in general might have a positive effect on different industries' business activities in Korea. The Free Trade Agreement may further be a foundation for a greater openness of the Korean business environment towards global business. This in turn holds some potential for an easier market access of non-Korean companies. Outokumpu witnessed great local market growth within the last years and expects to continue taking over some market share. However, as the market is highly competitive and price oriented, doing business within some local distance has led to a considerable disadvantage in terms of transport costs.



## Appendix 2

### Summary of interview 2 with the Strategic Portfolio Director Developing & Emerging Markets at SCA, Sweden

Being the Strategic Portfolio Director for Developing and Emerging Markets, interviewee 2 has been responsible for SCA's Korean business for the last five years while being located at the company's headquarters in Sweden. The position includes mediating between R&D, strategic management and brand management in order to develop the company's defined developing markets.

SCA develops, produces and markets personal care products, tissue packaging, publication papers and solid-wood products in over 100 countries. In Korea, SCA focuses on personal care products. After a period of positive market growth, the Korean turnover still holds an approximate share of less than 1 percent of the company's overall turnover. However, as the Korean society undergoes a demographic development towards a growing amount of elder people, the interviewee estimates a continuous growth.

SCA's Korean business belongs to the company's Asia-Pacific markets. Initially, the company established an office with rather representing functions and took advantage of business relations to a local distributor and its market networks. After experiencing accelerating growth for about a decade, SCA established its first Korean sales office in Seoul in the beginning of the 1990s and stopped earlier business relations with its distributor. The wholly-owned subsidiary is directly subordinated to the Asia-Pacific headquarters in Shanghai, which in turn reports to the Swedish global headquarters.

As establishing business contacts and negotiating details with interesting business partners has been a responsibility of Korean, Chinese and European managers at the Asia-Pacific headquarters in Shanghai, the interviewee does not perceive cultural differences as a particular difficulty for the company's local activities. Additionally, potential partners for local cooperation's often show a degree of international business experience. Furthermore, the Korean office is fully led by Korean employees.

SCA's Korean business activities have not been strongly influenced by local labor rights as the company's functions are yet restricted to sales and service. Regarding legal enforcement



SCA did not experience specific differences of legal treatment compared to local competitors and business partners.

Although not being in extensive direct negotiations with governmental departments, SCA needs to follow local product regulations and tests. These demands, however, are not perceived to have a particular character compared to other markets. The focus may be more on the process of contacting representatives holding a power of decision. The Korean government recently reacted on demographic changes and decided to subsidize eldercare. Indirectly, the subsidization of retirement places facilitated SCA to accelerate its market entry and growth. Furthermore, SCA does not experience tariff duties on its products that are imported from other Asian markets.

The interviewee's expectations on the FTA are rather low as a majority of SCA's products on the Korean market are imported from countries in the Asian region and do not fall under the agreement between the EU and Korea. The interviewee is satisfied with the extent of the FTA as niche products manufactured in Europe are easier to be imported to the market.



## Appendix 3

### **Summary of interview 3 with the Chief Executive Office at Reinhausen Korea Ltd., Korea**

Interviewee 3 has been working in international markets for 30 years, of which he lived abroad for 3 years. Since the establishment of the company's wholly-owned daughter company in Seoul in early 2009 he has been working in Korea as Chief Executive Officer (thereafter CEO).

The company has been active in the electronics machinery industry. Its activity in Korea goes back 30 years from now and lately enhanced leading to establishing a sales and service office. Considering experiences from its other 22 international daughter companies, the group decided to create a 100 percent owned affiliate in Korea.

On a local basis, Reinhausen has been working together with Original Equipment Manufacturer (thereafter OEM) customers within equipment manufacturing and attempts to deepen these relations that date back decades ago. However, Reinhausen has stopped working with OEMs on a basis of licensing. Furthermore, Reinhausen cooperates with a local agent that is responsible for contacts to the high numbers of end customers. A part of its end customers comprise public firms. Reacting to the growth of its customers Reinhausen decided to intensify its business activities in Korea.

Through its long-term presence in the country the company experienced a low degree of control over business partners.

Reinhausen Korea Ltd. consists of 12 employees of which the CEO is the only German and the remaining staff comprises Korean citizens. The Korean daughter company mainly controls its business activities on its own. Partly, the German headquarters have a general controlling function.

Related to Reinhausen's investment originating from headquarters the company has not experienced any particularities in terms of external influences on capital funding.

As Reinhausen at this point of time solely conducts sales, marketing and service business activities its contact to local labor right regulations and labor unions has been limited. The



CEO experienced rather fast decision processes of corporate governance and political actors while employees tend to be less prone to decision making. The interviewee also pointed out a characteristic work ambition and diligence of local employees.

Regarding the degree of legal enforcement the interviewee assessed the affiliate's legal rights as theoretically similar to local firms. At the same time, the CEO stated that Korean companies might have local advantages as a result of their cultural embeddedness. Generally the Reinhausen subsidiary did not have any experience in unequal legal treatment.

When entering the market, the affiliate did not encounter particular entry barriers. However, bureaucratic complexity of Korean regulations is perceived to be longsome and stricter compared to the company's other locations. Besides this difficulty, tariff and non-tariff barriers have not been playing an important role as the products offered are demanded by Korean industry and import duties have been around 8 percent.

The interviewee perceives that the strong cultural feature of complex social and business life rituals has been of great importance for Reinhausen's business activities. Furthermore, Korean business partners have been experienced to prefer socializing amongst Korean.

The CEO mentioned that he has been informed well by the European and German Chambers of Commerce about the FTA between Korea and the EU. The interviewee stated his expectation on the FTA of establishing a common set of norms and technical standards to be valid for the European and Korean sector. The need to fulfill local certifications can take up considerable time that is lost for creating earnings. Generally the interviewee is satisfied with the extent to which their business activities within the machine industry are addressed by the FTA as long as local competitors are perceived to have to meet the same requirements as international firms.

However, a particular difficulty mentioned is currency fluctuations. The exchange rate between Euro and Won has an impact on the payment of commission-based salaries paid from the German headquarters to Korean employees in Won. Furthermore, the development of salary costs and production costs have rapidly been rising. Within the last year, salaries increased by about 5 percent. The interviewee stated that local value adding is a way to meet cost development based on currency fluctuation.





## Appendix 4

### Summary of interview 4 with the Global Account Manager at Volvo AB Logistics, Sweden

Being the Global Account Manager for Volvo ABs Logistics department in Sweden, interviewee 4 has been working with the Korean market connected to Volvo Construction Equipment's (CE) local activities. Although not working directly with Korean business activities, the interviewee has been referring to personal experiences gained when living in the country.

As a part of the Volvo Group, Volvo CE produces a wide range of construction machines and connected services worldwide. After starting with sales of trucks on the Korean market Volvo CE acquired a production unit of Samsung during the Asian financial crisis in 1998. Today, Volvo CE holds sales offices and manufacturing facilities related to Volvo Penta. Having established a complex production chain network around the world, Volvo Group's sub-departments closely interact with another on international markets. The departments market activities are thus to be seen in interrelation to a wider corporate network. In Korea, Volvo AB wholly owns its facilities.

When establishing business contacts in Korea, Volvo AB has been taking advantage of buyers within the group to distinguish potential suppliers and to follow a group process of finding suitable business partners.

Currently, Volvo Logistics in Korea is led by a Korean manager who reports to Volvo's East Asia office in Shanghai. Depending on the subsidiary's importance of decisions, a local board either decides on investment decisions in interaction with the treasury department and Volvo Finance or follows global strategic plans developed at the headquarters.

The interviewee could not relate to specific impacts of local labor rights but mentioned difficulties with Korean labor unions resulting in a strike-alike situation. Furthermore, the interviewee perceived governmental influences to be strong in the past and mentioned the importance of nourishing relations to bureaucrats.



Attention to cultural differences was mentioned to be particularly important in meeting situations. Special consideration must be taken to the duration and process of conducting negotiations. The interviewee described the Korean hierarchy as centralized to chiefs holding some power of decision. Unlike the European understanding only the chief takes decisions and commands them to subordinates who are not supposed to communicate their opinions.

The interviewee's expectations on the FTA are somehow vague related to his current restricted involvement in the company's Korean business.



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## Appendix 5

### Summary of interview 5 with the CEO of Scania Korea Ltd., Korea

The interviewee has been working as CEO for Scania Korea Ltd. for more than 2 years. Before that, the interviewee held an international position abroad for 10 years. The CEO also has been a chairman of the automotive committee within the European Union chamber of commerce in Korea and as such taken part in various discussions about details around the FTA.

Scania is a global manufacturer of buses, trucks and engines in about 100 countries worldwide. Besides an international production and procurement chain, Scania offers product related services across the world. The wholly-owned subsidiary Scania Korea Ltd. consists of the headquarters located in Seoul and two branches in Busan and Sacheon. While administrative tasks are controlled from Seoul, production, storage and delivery activities take place in Busan and Sacheon. Additionally, Scania cooperates with 20 Korean retailers. Despite the highly competitive environment the market has been interesting and is listed among the 15 most important markets for Scania.

Scania's local activities date back to the 1960s when the first unsolicited orders for trucks were received from single customers. At the end of the 1970s, Scania established a business relation to its distributor Asia Motors. Asia Motors produced passenger cars and light trucks. At the same time Asia Motors possessed a workshop chain Scania needed to offer its customers comprehensive product services. During the 1980s and 1990s Scania continued to develop its market activities. As a result of the Asian financial crisis, Asia Motors went bankrupt. Being confronted with not having a distributor in place Scania decided to open its first subsidiary in 1997 while taking over former employees of Asia Motors who were familiar with the Swedish company.

The interviewee described local business relations as a long-term process focusing on the creation of mutual trust. Today, foreign companies face the difficulty of finding suitable business partners when entering the market. The most interesting Korean companies already are bound to specific groups such as Scania. As loyalty of suppliers and distributors is seen as a matter of honor, the interviewee perceived the market to be rather closed for new entrants.



A main advantage of having a close network to Korean business partners is their developed contact to public authorities. Also, the rapid development of the Korean economy and the considerable market size offers a great potential network. On the other hand, Korean customers do strongly prefer home made products. As Scania's products contain a distinct proportion of locally manufactured components, the company can build on this competitive advantage. Many Korean companies were not capable of managing the Asian financial crisis, which forced Scania to secure its business partners' survival. This corporate behavior is perceived to be expected by Korean firms.

As Scania Korea Ltd has had long-term business relations on the market and the technical expertise of the Korean industry developed at fast pace, no expatriates are needed anymore to secure the products high technical standards. Scania employs two foreign staff members in Korea. The corporate control is governed by global and local systems.

The Korean financial market is perceived to function well in terms of investment related legislation. However, the interviewee mentioned some difficulties in building plants compared to the European environment. Scania follows international investment regulations and sources its capital from within the company's financial department.

Labor rights have been playing an important role in Scania Korea's local activities. The interviewee described particular difficulties of dismissing employees even in situations of personal misbehavior. In times of low economic business activities, labor downsizing is only an option if the company's survival is directly related to that measure. In that case, labor cuts need to be realized in each department equally. Salary compensation also tends to exceed European standards.

The interviewee further described Korean labor unions as following a rather political agenda and having a somewhat militant character. Labor unions are centrally governed and use to broach the issue of power distribution within companies. Exhausting negotiations exceed salary topics and include non-downsizing guarantees. A typical demand is the increase of labor related to profit gains. The interviewee mentioned that already at first meetings parties need to come to agreements in order to avoid immediate and partly violent strikes. However, Scania managed to establish positive relations to labor unions, as they are satisfied with the company's treatment of employees.



Rights are perceived to be well developed in terms of investments, ownership rights and intellectual property rights. Though, legal enforcement can be difficult for foreign companies. Despite its non-corrupt character, law courts tend to favor Korean companies in legal disputes. The law court system builds on the U.S. American including a rather competitive lawyer culture. Lawyers earn their money from tensions between economic partners and aggressively advertise their service, which is paid when they win a case. Since even the winning party is in charge of court costs, juridical disputes are expensive and exhaustive.

Scania has experienced a decreasing degree of direct and indirect tariff barriers. Currently, import duties for Scania's products reach 8 to 10 percent. This marginal cost provides competitive advantages for home-based competitors like Hyundai and Daewoo. Korean homologation regulations within the automobile industry, however, are of greater concern. Although environmental and security standards are at the same level in the USA, EU and Korea, the actual documentation is different in Korea. Related administrative expenses reflect a significant time-loss. Each product improvement undergoes an assessment by public authorities and Korean test procedures. The recently introduced dumping quota system implies another difficulty for the heavy truck industry. The amount of asset trucks is restricted while newly acquired trucks need to be compensated with the discard of older trucks. A side effect of this restriction, which especially harms market entrants, is a flourishing of illegal trade with license numbers.

By drawing a line to the historic path of Korean culture the interviewee highlights how important good relations to public authority are. Until some decades ago, Korea was a rather underdeveloped economy, in which bonding with the family was a safe investment for a decent living. Family members and friends from university needed to help each other as no state ministry was giving any support. This cultural behavior led to a degree of corruption among people with decisive power. Today, foreign companies like Scania try to avoid the dilemma of considering personal bonds in business situations by having restrictions on representation expenses or leaving certain decisions to expatriates without the same amount of network duties.

The interviewee describes the cultural paradox of Korea as to be one of the most modern economies with an extensive dependency on international trade while being strongly turned



inwards in terms of interpersonal trust and traditional values. Scania Korea's employees are partly chosen according to their attitude towards European business cultures. These employees face a non-Korean, non-centralistic leadership style in Scania Korea and, in contrary to the Korean leadership style, are supposed to contribute with their ideas.

Expectations on the FTA are connected to the abolishment of direct and indirect trade barriers. Scania hopes that with a reduction in customs duties and homologation regulations, the local industry is going to have a positive impact on the company's imports and market shares. This in turn would be of benefit for its customers to whom a more competitive price could be offered. A further request concerns the reduction of perceived corruption in Korea. Korean labor unions should also be given the chance to understand that companies and unions have the same goals, are interdependent and gain from a fruitful and peaceful cooperation.



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## Appendix 6

### Summary of interview 6 with the CEO at Ericsson, Korea

The interviewee has been working for four years as CEO for Ericsson in Korea. Furthermore, the interviewee has been part of the European Union Chamber of Commerce in Korea Board in Korea. Having its Global headquarters based in Sweden, Ericsson offers mobile and fixed networks, multimedia solutions and telecom services around the world.

Ericsson's local activities on the market reach back to 1894 when the company sold the first switchboard to the King of Korea. The wholly-owned subsidiary was established in the 1980s in Seoul and has been there with its current functions since the 1990s. Ericsson holds another minor office in Busan. Not seeing pay-offs on the market yet, Ericsson strategically invested in infrastructure projects in order to achieve its economic breakthrough in the close future. Korea is perceived to be an important market within the coming years.

Ericsson has developed a local network of suppliers and distributors with whom it cooperates in close partnership. The interviewee mentioned the need to be patient and resilient when trying to set up a network with local partners. Different local fora for investments and development as well as contacts to the European Union chamber of Commerce in Korea have played a facilitating role. When establishing contacts in Korea, the interviewee pointed out that communicating the company's sincerity of market activities and interest in the country's positive development is inevitable. Furthermore, building trustful relations to partners can compensate contractual agreements. Another crucial cultural aspect to follow is the demonstration of respect towards authorities and business partners. The interviewee described the business environment to be facilitating nepotism.

Approaching influential people is perceived to be a time intense and cumbersome process which hopefully leads to further contacts that can be of help when entering and penetrating the market. Foreign companies need to engage in different organizations. A positive attitude, the will to work hard in the country and to commit to Korea's development is the foundation for acceptance in the country. Having a competitive advantage over domestic competitors which compensates foreign liability is another crucial prerequisite.



A majority of over 90 percent of Ericsson's local employees are Korean accompanied by some Swedish managers. Korean labor rights are perceived to be rather burdensome as lay-off regulations are strict even in case of personal misbehavior. Ericsson thus tries to prevent such situations by recruiting employees that fit into the European corporate culture and are eager to work in such an environment. A difference to the local working culture is the encouragement of employees to apply a degree of work- and behavior-related freedom. The interviewee describes Ericsson's relations to Korean labor unions as cooperative and trustful. However, the range of discussion points with local labor unions has a greater extent than experienced in Sweden. The positive contact has been a result of a long-term development and the creation of an open environment for discussing concerns that appeared in the past.

Being asked about the company's perception of legal enforcement, the interviewee mentioned a gap between the theoretical rights and implementation of those. In case of a dispute companies like Ericsson have less influence than on other international markets. However, the interviewee perceives that the legislation system to improved over the years. The equality of domestic and foreign companies before the law holds some potential for improvement. A lack of transparency and international approach has been a hampering factor for foreign enterprises to commit investments into the Korean market. The interviewee expects the government to meet these challenges in the near future.

Strong governmental influence on strategic investments in Korea is perceived to reside. Ericsson could take advantage of the Swedish Presidency of the EU at a time when crucial Korean visits in Europe related to the FTA negotiations were conducted. Personal meetings between the Korean President and Ericsson's group chief contributed to successful agreements around Ericsson's future market activities in Korea.

Ericsson's has been facing a range of non-tariff barriers. The strong pro-Korean consumption attitude among customers and a variety of industry specific standard regulations have led to supply costs that exceed the costs experienced by domestic companies.

The FTA is perceived to have a positive yet indirect effect for Ericsson. Especially improved dispute settlement procedures are expected to increase transparency and legal security. Furthermore, the FTA's contribution to a more positive business atmosphere between European and Korean actors is going to positively affect investments and trade. Improved





prerequisites for market entries may be another result from the FTA. However, the Korean government needs to continue working on the market's free economic character. The interviewee though does not see the industry's technical standards to be addressed by the FTA.



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## Appendix 7

### Summary of interview 7 with a Counsellor for a European Ministry, Belgium

Interviewee 7 has been working with trade matters as Counsellor for a European ministry. He has been engaged with the development of the FTA between Korea and the EU since the start of negotiations in 2006.

General traits of the Korean business environment were described to be a complex combination of a somewhat defensive fight spirit and a corporatist social conservative understanding. The foundation of Koreans taking the role of tough hardliners in negotiations is referred to the historical political situation of the country being surrounded by several influential empires. As a small country, Korea was in a defensive role trying to assert its interests. The rather corporatist economic understanding is manifested in the establishment of major Chaebols that consolidate a variety of products and services. Despite alterations after the Asian financial crisis, capital funding is still controlled by a right winged bank system instead of stock market funding. Thus, a low degree of risk capital is compensated by close contacts to banks supplying new capital. While relations between major companies are rare, inter-linkages to public authorities are even more intense. This characterizes the Korean market as difficult to enter and penetrate. Local customers choose domestic products as a matter of national pride of their companies.

Investments within the manufacturing industry and joint venture activities are not strongly restricted while sales efforts related to the banking business need to be approved by the Korean finance department.

Being asked about the Korean legal system, the interviewee mentioned the well-developed law structure and fulfillment. However, protection of the law in situations of legal disputes implies potential for improvement. Laws leave considerable space for bureaucrats to be interpreted in favor of specific contexts.

Depending on industries a variety of tariff- and non-tariff barriers can be identified. Regarding the automobile sector, public authorities being in close contact to economic representatives have developed a substantial range of regulations hampering sales on the market. Besides applying US and European standards, specific Korean regulations raise the



complexity for manufacturers to meet all demands. Developed relations to Korean actors holding some power of decision are inevitable when trying to reach economic agreements.

Regarding the EU's agenda of enlarging free trade politics to growing markets, Korea has been classified to be among the countries in which the EU would want to maintain and increase its trade share. The foremost aim has been to dismantle trade barriers.

During the first rounds of preparatory meetings a range of common goals was set up followed by several rounds of negotiations in 2007. When both parties saw the need to accelerate the process intersessional meetings were conducted during 2008 and 2009. At the end of 2008 parallel negotiations with the European Commission and EU member states were initiated. The European Commission then sent back updated expectations to Korean authorities before negotiations between the two parties officially were concluded in May 2009. However, within the EU and among the EU member states the process of negotiations is still ongoing.

The interviewee described negotiations around customs duties in the automotive sector as most difficult. Within the EU, a major aspect to discuss was the extent to which customs duties for Korean products and services should be abolished stepwise. Intense discussions with economic interest groups of automobile industry, the pharmaceutical sector, plastic and textile manufacturers took place.

The outcome of the negotiations resulted in a variety of alterations. Besides abolishing a great number of tariff barriers, a considerable dismantling of technical regulations within the automotive and heavy truck industry could be reached, which may have a positive effect on equal conditions of competition and price compositions. In general, the manufacturing industry and service industry is going to face lighter forms of sales and business improvement. Public procurement, however, still underlies a range of restrictions on the Korean market.

Being strongly involved in developing the FTA the interviewee assesses the current outcome to be among the most ambitious trade agreements ever negotiated. Previous political and economic relations need to be taken into consideration when reflecting the value and potential of this agreement and its rational boundaries to achievements that were able to be reached at this point. After all, this FTA has been negotiated on a political scene. A more far-reaching agreement would have implied major concessions from the European side. The aim has been



to improve conditions of entering and penetrating the Korean market. European companies are still in charge of realizing their business activities successfully.



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## Appendix 8

### **Summary interview 8 with the Chief for Korea and Japan at the Swedish Trade Council, Korea**

Interviewee 8 has been working for the Swedish Trade Council as Chief since 2009 and currently holds the position of Chief for Korea and Japan. Being located in Seoul, the Swedish Trade Council comprises a staff of 10 employees. With its network, experience and local knowledge the organization offers a variety of consulting services to Swedish companies that consider entering and getting established in the Korean market. The Swedish Trade Council is owned to 50 percent by the Swedish state and by the Swedish economy respectively. Before establishing a local office the organization offered its service as commercial office under the umbrella of the Swedish embassy.

Reflecting about the Korean business environment, the interviewee mentioned the dominance of a few family-owned chaebols that over time succeeded to become international actors. This development can partly be founded on a distinct nationalistic attitude that reinforces Korean pride of procuring home-made products. Until a few years ago, the interviewee also experienced that the country's wealth was prioritized before individual leisure by having a standard working time of six days a week. It was stated that historical influences such as Japanese colonization might have contributed to Korea's perceived pressure to perform outstanding economic results in order to keep a degree of sovereignty. Furthermore, the interviewee described a natural antagonism in Korean behavior. While being characterized by a rather nationalistic attitude the country has been open for international trends.

Besides consulting trade councils, companies have the opportunity to get into contact with Korean business partners on fares or by local companies approaching Swedish firms. According to the interviewee's experience, there are two main options for Swedish companies to enter the Korean market. Usually, they cooperate with a distribution partner who takes care of local sales and representation. The second option contains a registration of the company in the country while recruiting local employees. Joint ventures and acquisitions of Korean firms have been minor strategies.



The interviewee mentioned a bilateral lack of experience in working across cultures and linguistic differences to be major challenges for potential European and Korean business partners.

The Korean business environment is marked by a distinct labor union culture. Historically, labor unions were kept distanced from corporate management, which intensified an adversarial attitude. These circumstances combined with a sporadic emotional approach to critical situations have led to strikes in the past.

The interviewee pointed out that through diverse support the Korean government has had considerable influence on Korean companies' international success. A recent example is the green growth state initiative comprising national stimulus packages with the aim of creating one million new jobs and demonstrating Korea's leadership in green technologies. The situation of close relations between state and chaebols and the way the Korean state is governed in a commercial manner was labeled with the description "Korea Inc". Politicians holding high positions partly have their origin in the country's economic environment thus ensuring intense interactions between state and economy.

Regarding the FTA between Korea and its second largest trade partner the interviewee expressed the wide application of negotiated standards in a variety of industries. However, the FTA cannot address the importance of personal relations between business partners. The most critical foundation for successful business is a common interest and ambition to cooperate for a positive bilateral outcome. In this matter, the FTA only has a limited influence.



## Appendix 9

### Interview guide for the European corporate managers

#### Introduction

What is your position within the company? [Welche Position haben Sie im Unternehmen/ Vad har du för befattning i företaget?]

How long have you been working overseas? [Wie lange haben Sie insgesamt im Ausland gearbeitet?/ Hur länge har du arbetat utomlands?]

How long have you been working with the company's Korean business activities? [Wie lange haben Sie für Ihr Unternehmen in Korea gearbeitet?/ Hur länge har du arbetat med företags verksamhet i Korea?]

What is your main responsibility in regards to Korean-European business of your company? [Was sind Ihre Arbeitsaufgaben in Korea?/ Vad är dina arbetsuppgifter när det gäller företags koreanska verksamhet?]

#### Company background

Where in Korea is your company located and what kind of business activities does your company conduct in Korea? [Wo in Korea sind Sie lokalisiert und welche Art von Geschäftstätigkeit verfolgen Sie dort?/ Var i Korea har ni Er verksamhet och vilken typ av verksamhet har Ert företag i Korea?]

For how long has your company been in the country? [Wie lange ist Ihr Unternehmen schon in Korea vertreten?/ Hur länge har företaget funnits i Korea?]

How did your company start? [Wie hat Ihr Unternehmen seine Geschäftsaktivitäten in Korea gestartet?/ Hur startade företags sin verksamhet i Korea?]

What is the ownership structure of your company? [Welche Eigentumsstruktur hat Ihr Tochterunternehmen in Korea?/ Hur ser ägarstrukturen ut för företags verksamhet i Korea?]



### **Current business activities**

Please tell us about your experiences of being economically active in Korea. [Bitte erzählen Sie von Ihren Erfahrungen, in Korea geschäftlich tätig zu sein./ Varsågod och berättar om dina erfarenheter av att vara verksam på den koreanska marknaden.]

### **Ownership**

Why did you choose this kind of ownership structure? [Wieso hat Ihr Unternehmen diese Art von Unternehmensstruktur in Korea gewählt?/ Varför valde företaget denna typ av ägarstruktur för Er verksamhet i Korea?]

### **Networks**

With which local business partners does your company cooperate? [Mit welchen lokalen Unternehmen arbeiten Sie zusammen?/ Med vilka lokala företag har Ert företag ett samarbete med i Korea?]

Can you give us examples of your company's cooperation with local business partners? [Könnten Sie ein Beispiel für die Entwicklung einer solchen Zusammenarbeit geben?/ Skulle Ni kunna ge oss exempel på samarbeten som Ert företag har med lokala företag?]

Did your company experience any difficulties when interacting with Korean companies? [Welche Schwierigkeiten haben Sie bei der geschäftlichen Zusammenarbeit mit lokalen Unternehmen erlebt?/ Upplevde Ert företag några svårigheter med samarbete med koreanska företag?]

### **Management**

How are responsibilities shared in Korea between your company's expatriates and local employees? [Wie ist die Verantwortung zwischen lokalen Angestellten und Mitarbeitern von außerhalb Koreas verteilt?/ Hur ser ansvarsfördelningen ut i Er koreanska verksamhet mellan den lokalt anställda personalen och personalen som kommer utifrån Korea?]





Please explain the monitoring and control system of your company's activities in Korea. [Wie wird Ihre Geschäftstätigkeit in Korea überwacht und kontrolliert?/ Hur övervakar och kontrollerar Ni Er verksamhet i Korea?]

### **Financial market**

What external influences did your company experience when taking investment decisions in Korea? [Welche äußeren Faktoren hat Ihr Unternehmen bei Investitionsbeschlüssen erlebt?/ Vilka yttre faktorer påverkade företagens investeringsbeslut i Korea?]

### **Labor market**

How does the local labor law affect your company's business operations? [Auf welche Weise haben Arbeitsgesetze Ihre Aktivität in Korea beeinflusst?/ På vilket sätt har arbetslagarna i Korea påverkat Er verksamhet i Korea?]

How do labor unions affect your company's business? [Auf welche Weise haben Koreanische Arbeitnehmerverbände Ihre Geschäftsaktivitäten beeinflusst?/ På vilket sätt har de koreanska fackföreningarna påverkat Er verksamhet?]

### **Legal system**

Do you perceive that your company's legal rights are protected? [Würden Sie sagen, dass Ihre gesetzlichen Rechte in Korea geschützt werden?/ Bedömer Ni att Ert företags juridiska rättigheter i Korea är skyddade?]

Do think that the same legal rights are applied to your company and to local companies? [Schätzen Sie, dass Ihr Unternehmen dieselben Rechte hat wie lokale Unternehmen?/ Bedömer Ni att Ert företag har samma juridiska rättigheter som de inhemska koreanska företagen?]

How does your experienced unequal appliance of legal rights impact your business? [Wie haben Sie erlebt dass die unterschiedliche legale Behandlung Ihre Unternehmensaktivitäten beeinflusst hat?/ Hur upplever du att skillnader i tillämpningen av lagen har påverkat företagens verksamhet?]



## Government

What difficulties did your company experience when entering the market? [Welche Schwierigkeiten mit staatlichen Institutionen hat Ihr Unternehmen bei der Etablierung in Korea erlebt?/ Vilka svårigheter upplevde företaget när företaget gick in på Koreanska marknaden?]

In which way does the Korean government interfere in your business activities? [Wie haben Koreanische Institutionen Ihre wirtschaftlichen Aktivitäten beeinflusst?/ Hur upplever du att skillnader i tillämpningen av lagen har påverkat företagets verksamhet?]

## Expectations on the FTA

How do you think the FTA could influence your company's business in Korea? [Auf welche Weise denken Sie dass das Freihandelsabkommen Ihre Geschäftstätigkeiten beeinflussen wird?/ På vilket sätt tror du att frihandelsavtalet kommer påverka Ert företags verksamhet i Korea?]

What do you think have to change in order to mitigate your company's difficulties? [Was muss Ihrer Meinung nach verändert werden um die wahrgenommenen Schwierigkeiten in Korea zu erleichtern?/ Vad anser du behövs förändras för att underlättar företagets upplevda svårigheter?]

Are you satisfied with the extent to which the FTA will affect your company's business? [Sind Sie zufrieden mit dem Umfang um den Ihre Geschäftstätigkeit in Korea vom Freihandelsabkommen beeinflusst wird?/ Är ni nöjda med den utsträckning som Er verksamhet påverkas av frihandelsavtalet?]

What of the challenges the company faces now in Korea do you think will not be addressed appropriately with the FTA? [Welche Schwierigkeiten und Handelsbarrieren denken Sie werden nicht vom Freihandelsabkommen beeinflusst?/ Vilka hinder och svårigheter som Ni påverkas av, kommer inte att beröras av frihandelsavtalet?]



### Measures of success and importance

How did profits of your company's business activities in Korea develop in the last 5 years? [Wie hat sich die Profitabilität Ihrer koreanischen Unternehmenstätigkeit in den letzten 5 Jahren entwickelt?/ Hur har lönsamheten för företagens koreanska verksamhet utvecklats de senaste 5 åren?]

Did the development of profit for your company's business activities in Korea match your company's expectations in the last 5 years? [Hat sich die Profitabilität in den letzten 5 Jahren entsprechend Ihrer Erwartungen entwickelt?/ Hur har utveckling av lönsamheten för företagens koreanska verksamhet levt upp till företagens förväntningar?]

How large is the turnover of the Korean business activities in proportion to the total turnover of your company? [Wie groß ist der Umsatz des koreanischen Aktivitäten im Verhältnis zum totalen Umsatz?/ Hur stor är den koreanska verksamhetens omsättning av företagens totala omsättning?]

How do you assess the importance of your company's business activities in Korea to be in the near future? [Wie wichtig schätzen Sie Ihre koreanische Unternehmenstätigkeiten in der näheren Zukunft ein?/ Hur viktig skulle du uppskatta att den koreanska verksamheten kommer att bli den närmaste tiden?]



## Appendix 10

### Interview guide for the Swedish Counsellor for a European ministry

#### Introduction

What is your position within the organization? [Vad har Ni för befattning organisationen?]

How long have you been working overseas? How long have you been working with matters of trade relations with Korea? [Hur länge har Ni arbetat utomlands? Hur länge har Ni arbetat med frågor kring handelsrelationer med Korea?]

What is your main responsibility in your ministry of the European Union? [Vilka är Era arbetsuppgifter inom den Svenska Representationen?]

#### Business activities of European companies in Korea

What impression does your ministry have from the Korean business environment? [Vilken uppfattning har ditt ministerium av den koreanska affärsmiljön?]

How would you describe specific features of the Korean business environment? [Hur skulle Ni beskriva särskilda karaktärsdrag av den koreanska affärsmiljön?]

What difficulties did your ministry identify? [Vilka svårigheter har ditt ministerium identifierad?]

#### Financial market

What specific investment regulations do companies have to consider? [Vilka särskilda investeringslagar finns det som företagen behöver ta hänsyn till?]

#### Legal system

Do you perceive that European companies' legal rights are protected in Korea? [Bedömer Ni att de europeiska företagens juridiska rättigheter i Korea är skyddade?]



Do think that the same legal rights are applied to European companies and to local companies?  
[Bedömer Ni att de europeiska företagen har samma juridiska rättigheter som de inhemska koreanska företagen?]

How do you experience that unequal appliance of legal rights impact European companies' business activities? [Hur upplever Ni att skillnader i tillämpningen av lagen påverkar de europeiska företagens verksamheter?]

### **Government**

What difficulties do you experience European companies have when entering the Korean market? [Vilka svårigheter upplever ni att europeiska företagen kan ha när de går in på den koreanska marknaden?]

What trade barriers did you identify? [Vilka handelshinder har ni identifierad?]

In which way does the Korean government interfere in European companies' business activities? [Hur påverkar staten företagens verksamheter i allmänhet?]

### **Expectations on the FTA**

Why did the EU choose to negotiate a trade agreement with Korea and which goals do you want to achieve? [Varför har den EU valt att förhandla ett frihandelsavtal med Korea och vilka mål vill ni uppnå?]

Could you elaborate on the negotiation process between the EU and Korea? [Kan Ni berätta om själva förhandlingsprocessen mellan Korea och EU?]

What items of the negotiation were most difficult to agree on? [Vilka förhandlingspunkter har varit svårast att komma överens om?]

What role did interest group play during the negotiations? [Vilken roll har intressegrupper spelat under förhandlingsprocessen?]



How do you think the FTA will influence European companies' business activities in Korea?  
[På vilket sätt tror Ni att frihandelsavtalet kommer påverka företagens verksamheter i Korea?]

Are you satisfied with the extent of the FTA? [Är Ni nöjda med frihandelsavtalets utsträckning?]

What of the challenges do you think will not be addressed appropriately with the FTA? [Vilka hinder och svårigheter kommer inte att beröras av frihandelsavtalet?]

What do you think have to change in order to mitigate your company's difficulties? [Vad mer anser Ni behövs förändras för att underlättar företagens upplevda svårigheter?]



## Appendix 11

### Interview guide for the manager of Swedish Trade Council

#### Introduction

What is your position within the company? [Vad har du för befattning i organisationen?]

How long have you been working overseas? [Hur länge har du arbetat utomlands?]

How long have you been working with the company's Korean business activities? [Hur länge har du arbetat med organisationens verksamhet i Korea?]

What is your main responsibility in regards to Korean-European business of your company? [Vad är dina arbetsuppgifter när det gäller företagets koreanska verksamhet?]

#### Organization's activities in Korea

Where in Korea is your company located and what kind of business activities does your company conduct in Korea? [Var i Korea har Ni Er verksamhet och vad för typ av verksamhet har Er organisation i Korea?]

For how long has your company been in the country? [Hur länge har organisationen funnits i Korea?]

What is the ownership structure of your company? [Hur ser ägarstrukturen ut för organisationens verksamhet?]

#### Swedish companies' business activities in Korea

Please tell us about your experiences of being economically active in Korea. [Kan Ni berätta om Era erfarenheter av den koreanska affärsmiljön.]

#### Ownership

What kind of ownership structure do Swedish companies choose for their business activities in Korea? [Vilken struktur av äganderätt brukar företag välja för deras verksamhet i Korea?]



### **Network**

How do Swedish companies tend to come in contact with their local business partners? [På vilket sätt brukar svenska företag komma i kontakt med lokala samarbetspartners?]

Do your clients (companies) experience any difficulties when interacting with Korean companies? [Upplevde era kunder (företag) några svårigheter med att samarbeta med koreanska företag?]

### **Capital Market**

Are there any particular investment regulations that companies have to consider? [Vilka särskilda investeringslagar finns det som företagen behöver ta hänsyn till?]

### **Labor market**

How has the local labor law affected the Swedish companies' business activities in Korea? [På vilket sätt påverkar arbetslagarna i Korea svenska företags verksamheter i Korea?]

How has the Korean labor unions affected the Swedish companies' business activities? [På vilket sätt påverkar de koreanska fackföreningarna verksamheten?]

### **Legal system**

Do you perceive that Swedish companies' legal rights are protected? [Bedömer Ni att de svenska företagens juridiska rättigheter i Korea är skyddade?]

Do you think that the same legal rights are applied to Swedish companies and local companies? [Bedömer Ni att företagen har samma juridiska rättigheter som de inhemska koreanska företagen?]

In your experience, how does the unequal appliance of legal rights affecting the Swedish companies' business activities? [Hur upplever Ni att skillnader i tillämpningen av lagen påverkar företagens verksamheter?]





## **Government**

In your experience, what kind of difficulties do Swedish companies encounter when entering the Korean market? [Vilka svårigheter upplever Ni att företagen har när de går in på den koreanska marknaden?]

In your experience, what kind of trade barriers do Swedish companies encounter? [Vilka handelshinder upplever Ni att företagen upplever?]

In which way does the Korean government interfere in the Swedish companies' business activities? [Hur påverkar staten företagens verksamheter i allmänhet?]

## **Expectations on the FTA**

How do you think the FTA could influence the Swedish companies' business activities in Korea? [På vilket sätt tror Ni att frihandelsavtalet kommer påverka företagens verksamheter i Korea?]

What more do you think has to be changed in order to mitigate the difficulties as experienced by Swedish companies? [Vad mer anser Ni behövs förändras för att underlättar företagens upplevda svårigheter?]

Are you satisfied with the extent of the FTA? [Är Ni nöjda med frihandelsavtalets utsträckning?]

What of the difficulties will not be addressed by the FTA? [Vilka hinder och svårigheter kommer inte att beröras av frihandelsavtalet?]