

## Can Korea Go to the Next Level?

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### Executive Summary

The South Korean economy has climbed out of post-war poverty to OECD member status. The business model of providing good quality outputs at competitive prices, which has been Korea's growth engine for the last fifty years, is now facing strategic challenges from developing countries offering competitive products and services at significantly lower prices.

The following areas are of special concern:

- For Korean products and services to compete in advanced markets, a new mindset is required.
- Korean companies need to more effectively compete in advanced markets rather than continue to compete with low-cost products and services from developing countries.
- In spite of many talented managers with proven, flexible thinking skills, few Korean companies as *organizations* have been able to move from the earlier authoritarian mindset that stresses the “one, best answer” approach to problem solving.
- Korean managers at all levels need to adopt critical and creative thinking without undue fear of reprisal from senior management.
- To regain international competitiveness, Korea needs intensive global business professional skills training at all levels.

**Introduction to recent business history:** “The Miracle on the Han River” was no fluke. Korean thinking patterns and management practices have worked extraordinarily well during the last half of the 20<sup>th</sup> century. Korea's remarkable climb from poverty is undeniable proof that the current, prevalent forms of thinking and management have brilliantly succeeded.

But during the past five to ten years, world-class competitors have entered the Korean market. At the same time, Korea companies need to compete more effectively globally. The twenty-first century international competition is already proving itself to be remarkably different than what it once was. Korean companies are increasingly finding world-class international competitors within their domestic market while abroad new competitors from developing countries are offering quality products more cheaply than Korean manufacturers. For Koreans to more effectively compete in the international marketplace, new ways of thinking is required.

**Drop in Korean competitiveness:** Korean exports have slid in US market share in each of the past three years with electric goods and electronics slipping from 9.25% to 5.37%,

according to the Korea International Trade Association (KITA). The blame for this slippage is that Korean products are losing *price* competitiveness to goods made in developing countries.

Search on “international competition” on Korean periodical web sites and you can find additional examples of Korea’s drop in international competitiveness. But the point we are making is that, within an *international* context, the Korean mindset sometimes appears to be potentially responsible for this drop. International commerce, particularly at the advanced levels, requires detailed planning based on critical thinking and imagination. Contrary to the need to get things done as quickly as possible, there are no shortcuts to good planning and execution.

Employees must appreciate that their jobs are at risk given the increased levels of international competitiveness. A more competitive awareness needs to be more widely spread within all levels of Korean companies

**Examples of predominate Korean thinking:** Let’s now look at a common example of Korean decision-making: the way organizations traditionally evaluate options like major purchases or strategic decisions. Please keep in mind, this paper focuses on corporate or organizational group behavior, which can be remarkably different than how many individual Koreans normally think.

First, an evaluation committee is drawn up. These representatives consider their options by determining evaluation or selection criteria. As one of the first steps, it is common to turn to well-recognized “experts.” These people may reside within the organizations, but often they are university professors or other outsiders recognized and respected by top management. As such, they are commonly regarded as possible or likely possessors of the “best knowledge.”

While Western evaluators will also look to respected authorities for insight and guidance, those opinions are at least initially kept at arm’s length, since the authorities’ or experts’ prior work is considered at best as only one source of information. Korean organizations, however, are more likely, due to political considerations, to uncritically accept the findings found in the experts’ white papers or verbal opinions. These findings are massaged into the evaluation criteria so as to make experts’ findings meet the evaluation committee’s needs.

This is not to say there are no other relevant evaluation criteria. Of course there are. But obscure selection criteria can be given remarkably heavy weighting due to political considerations – sometimes at the expense of much more relevant evaluation criteria.

Considering other examples, let’s consider how many Koreans communicate their opinions. Recently arrived foreigners are often taken back by how wordy Koreans can be in expressing themselves. To the uninitiated Westerner, their Korean counterparts seem to be pulling ideas from the air, rattling off ideas and opinions that may be only relevant to the subject. Too often Korean public speakers ignore the need for their remarks to begin with an introduction, have a body of logic, and end with a relevant conclusion.

While some Korean organizations expect and deliver well organized and logical evaluation reports, many do not. One long-term American resident of Korea who is fluent in Korean calls this form of thinking a “bucket of rocks.” He described over the decades wading through countless reports so lacking in organization that it seemed that the ideas were written down willy-nilly, similar to throwing rocks into a bucket. These reports seemed to be a mish-mash of observations, conclusions and opinions. Too often the final reports lacked logical presentations and logical build-ups, and ended without clear, logically supported conclusions.

These recommendation reports frequently lacked adequate consideration of various possible scenarios so there may be no self-checking of logic to justify their advocacies. Rather, many report writers blindly “barreled down the runway” advocating the “one, best solution.” As a result, implementation plans rarely addressed many of the real, practical issues that could affect – and counter – long-term implementation and operational processes. The common practice was to quickly set off on an agreed upon/authorized direction and then deal with problems as they were encountered.

There are some advantages to be said for this approach. This type of thinking has allowed Korean organizations to be remarkably quick and nimble. But at the same time, a lot of expense and inefficiency is not being recognized. So, from a foreign perspective, Korean implementation can come across as chaotic. At the same time, much of the waste is not formally recognized by managers during the break-neck rush to get things done. The liability is that this approach works only if the evaluation criteria get it right on the first attempt, and the implementation is fortunate enough not to encounter any significant problems, and there are remarkably capable and experienced people on the implementation team. Getting enough of these positive factors consistently in place, however, is not likely to happen for most companies anywhere in the world.

**Creative thinking found among Koreans:** One of Westerners’ stereotype is that Koreans lack in critical and creative thinking. Yet, many Koreans are excellent at the game of *gō* (in Korean “*paduk*.”) These same thinking skills are essential to win against a competent opponent and Korea has many *paduk* players - including at the master level.

So, if there is native critical thinking, why has Korean technology has been unfairly criticized as only being creative in terms of application rather than original development? Samsung, for example, ranks number two in registered patents after IBM, but not even Samsung has developed a world-renowned generic product, such as a Xerox copying, etc.

But let’s look at this from a different angle. Not even most Koreans know the world’s first MP3 player was created by the Saehan Information Systems. Yet, let’s not forget that today Korea’s MP3 players are either being out marketed by Apple or undercut by Chinese knock-offs.

So the stereotype remains that Korean engineers adapt others’ discoveries to the Korean market and/or improve on original, foreign design for local manufacture and eventual export. But if there are so many who can think critically and creatively, why don’t we see so much of

this thinking in business? Some observations suggest that younger Koreans who have these thinking skills are stifled by authoritarian organizational cultures. The exceptions are most commonly found in senior top management. Age as well as rank earns these executives the intellectual freedom often found throughout the ranks of Western management.

The worst example of suppressed thinking was the tragic Korean Air crash in Guam when the navigator dared not challenge the pilot's authority. The navigator and the captain individually were very bright, highly educated people. But their organizational construct proved to be tragic – something that Korean Air later went to great expense to correct. In any case, much of this mindset can be traced to the educational system.

**Comparing Korean and Western educational systems:** Many Koreans are very critical of the Korean education systems when they compared it with those of other countries. When it comes to science and math, Koreans are near the top globally, but in liberal arts and related subjects, students do substantially less well.

The twenty-first century is presenting many more choices. The traditional “one, right way” approach taught in the Korean educational system and enforced in society is proving to be less feasible in the multinational world in which Korea must more effectively compete.

Consider the differences in education between the West and Korea. In the beginning, Western schools teach children essay composition in grade school starting with the summarizing of information as a preliminary step to later writing essays. The real difference in educational systems begins in middle school where Western students learn to outline and prioritize information so as to organize ideas, and facts into a logically organized form. High school students are required to do simple original research, requiring them to find sources of information, evaluate what information is relevant, and faithfully cite information sources, since plagiarism is a serious academic crime with severe penalties.

In Korea, children are taught correct answers and methods. Until recently, there has been little effort to teach written composition. Students learn by memorizing facts, dates, formulae, etc. so as to achieve maximum scores on multiple-choice exams – even in foreign languages testing. Assigned “research papers” require students to cite information sources, but they are generally not taught how to organize information into a logically sequenced format. Fundamental evaluation and analysis skills are frequently not taught. Furthermore, plagiarism in Korea is not a serious academic crime.

Western university students are expected to learn how to analyze, evaluate and organize all empirical data and theories in a logical order; develop and evaluate various possible objectives beyond personal prejudices; reveal and analyze all known influencing factors; consider potential future changes and secondary results; construct interim analytical “proofs” to check for gaps in logic; and document not only “what” and “how” but also information sources for possible double-checking.

Many Korean university students, after surviving a secondary academic hell of memorizing facts and figures, essentially take a well-earned vacation during their college days. Most have learned the “best” answers or ways – often uncritically accepting what has been taught to them by their teachers and seniors. The good news is that recently Korean universities are recognizing this problem. Several schools are attempting to introduce creative thinking, such as teaching students to summarize readings and to critically answer questions. But it’s too early to know if these fixes are enough to correct the overall problem.

**Korea’s Double Blind Spot:** Today many Koreans seem to operate with a double blind spot. That is, the first blind spot is a lack of critical skills in the organization and prioritization of data and theories; a lack of analysis of information to reach conclusions with options for solutions. The second blind spot is the lack of awareness that such skills exist and that their international competitors are applying those skills.

To further understand this, consider the difference in logic between Koreans and Westerners. For example, Westerners – particularly North Americans – often ask, “Is that legal?” In other words, they place a high premium on empirical relevant and specific data. Some may argue that Westerners may be obtuse to other legitimate concerns, but this fact-based approach is often used to minimize friction among individuals in societies that place a high premium on individualism.

Koreans, on the other hand, are more likely to ask, “Is that right?” Like Westerners, Koreans first consider whether the issue is true or false, but being members of a more consensus-centric society they also give serious consideration to personal, philosophical and political issues. Since the social context can be extremely serious, often Koreans are compelled to interject personal or emotional opinions into the evaluation process. These “soft” considerations, intermingled with empirical data considerations, often leaves Westerners with the impression there is a lack of a “building process” in logic development.

This is not to say that one thought process is better than the other, but the Western one is more likely to keep thought concentrated on organized facts and data. The Korean thought process is more socially aware and better for cohesive group thinking. But if tough decisions are to be made that extend beyond Korean society, there is something to be said for the Western frame of mind.

**Current Korean thinking in international arenas:** In March 2008, *Newsweek* gave an excellent account of the Hyundai & Kia success story in America. While recent years have been good for the Koreans, there are new challenges as Hyundai attempts to move from selling high quality low- and mid-priced automobiles to marketing upscale, luxury vehicles.

For the first time in years, the company is substantially missing sales targets. The cause of this failure appears to be lack of consistent marketing that adds luxury value to the equation of basic features and price that has successfully sold the lower-priced cars. Apparently they have not been able to convince customers they offer a “value proposition” where the total value of the product or service is greater than the mere sum of the parts.

Another example: Korean Aerospace Industries has produced arguably the world's best jet trainer, the T-50 Golden Eagle. It is also the world's most expensive. Given its high performance, extreme versatility, quality engineering and manufacture, the plane offers a superior value proposition, not only as the ultimate trainer, but if need be, as a quality attack plane. Unfortunately, so far the planes have not found a buyer outside of Korea. Apparently, the Koreans find it difficult to properly position this superior product. Most Koreans have not yet graduated from the "features, functions and price" school of selling associated with lower level product sales.

As Korean companies move up the food chain to create and market products that cannot be produced by competitors in developing countries, they are being forced to market using advanced sales skills that emphasizes the overall value proposition. While we are confident that some Korean companies will get over this hurdle, we know this is not likely to be an easy task.

When one considers the thousands of Koreans who live and study in Western countries each year, one would expect to see this internationally competitive thinking having a greater impact on Korea. As invaluable as that experience may have been, it is often wasted. When Koreans return home, they are forced by senior management to conform to traditional thinking and business processes. These bright and often creative people upon entering Korean organizations often find themselves dominated by the *pom seng pom sa* ("live and die by form") approach commonly found in lower and middle management. Too often they are forced to essentially make up business measurement data to satisfy uncritical superiors' "get-it-done- on-time" expectations.

For example, all business students must study cost accounting. But Korean companies rarely use cost accounting and similar professional business measurement criteria beyond going through the motions. As a result, the actual financial health of a company is often unclear. And in an increasingly cost-competitive international arena, accurate internal costs knowledge is only becoming more critical for long-term survival.

To be fair, just as in the US, Korean companies often succeed simply because their competitors are as ill-managed as themselves. But, circumstances can change. American companies got a rude wake-up call in the 1980s when Japanese companies began offering superior quality assurance and inventory control management systems. After initially dismissing the Japanese threat, American companies "faced the music" and revamped important management systems to meet and sometimes beat the Japanese at their own game.

Traditional management and thinking works well, so long as there is no new competition. But the Korean marketplace continues to open up to some of the world's most competitive foreign companies. At the same time, Koreans companies are being forced to more intelligently compete with developing countries' products in overseas advanced markets. Given this development, Korean executives need to reassess their organizations' competitiveness.

**Questions for the future:** In the twenty-first century, many Korean companies are facing greater global competition. The above-summarized traditional management is likely to become more costly in terms of waste and more likely to result in a further drop in competitiveness.

Korean executives may do well to honestly ask themselves and their organizations the following questions:

- Are the academic processes and related business practices, which once served Korea well, now preventing Korea from moving up to the next level?
- Should any OECD country's primary industries compete with those from developing countries?
- Can Korean companies expect to successfully compete higher up the food chain where the value propositions can be much more important than simply price and features?
- How well can Korean employees "think outside the box" to anticipate foreign competition?
- Can Korean managers develop and execute effective business plans based on the best of all known scenarios? Can they also consider external issues as a means to double-check their preferred plan of action and to develop contingency planning?

**A possible set of solutions:** If the above observations are largely correct, there is a need to upgrade professional business skills through critical and creative thinking training. Simply hiring Koreans who have studied and experienced business abroad may not adequately address this challenge. That invaluable experience is often wasted when Koreans return home. Most of returning Koreans are forced by senior management to conform to traditional business and thinking processes.

In the future, young college graduates may need some kind of re-education in critical thinking when they cross the critical bridge between their university and business lives. This business skills training program should provide specialized, experience-based training that stresses individual, creative, analytical thinking that is channeled into critical processes to help future managers and leaders to assess and evaluate operational options and strategies

But before attempting, the senior management needs to be on fully supportive of this kind of training. So as a first step, executive training would be needed, followed by middle management training. This form of management training would be required for ongoing operational understanding and appreciation of this new mode of thinking.

Training should be done by a mature, world class faculty – possibly recruited from the US or Europe, possessing international experience, ideally matched up with local trainers who understand Korean education systems and managerial thinking processes. Training

development should be developed in concert with senior management. The program needs to have its own autonomy integrity, based primarily on global thinking and competition -- and away from the natural organizational trends generated by in-group thinking

**A Six Point Development Program for Global Business Leaders** is what we specifically recommend to address the above concerns. It consists of the following modules:

1. World Class Analytical Thinking and Creative Problem Solving
2. Global Strategic Planning and Effective Implementation
3. Disciplined International Negotiation for Agreements and Results
4. Building and Maintaining Strong Global Customer & Employee Relationships
5. Optimizing Efficiency through Strong Multinational Team Leadership
6. Communicating Effectively in All Directions – At Home and Abroad

**Conclusion:** Daily Korea's executives are reassessing international competitive pressures. These pressures are certain only to increase on both domestic and global markets.

The old saw of the last century was to "think globally and act locally." But increasingly this shrinking globalized world is forcing everyone to "think globally and compete locally everywhere." Preferred work patterns and mindsets need to be regularly assessed to consider whether they are helping or hindering organizational competitiveness, both abroad and now even at home. This paper ultimately is advocating professional business skills training that focus on critical and creative thinking.

Executives when pondering whether and/or how much of this kind of training is really needed, they may ask themselves the following questions:

- Does our company's decision-making adequately address expected – and unanticipated – challenges?
- What are the real costs – not just the reported expenses – of our planning and implementation efforts in situations when we have to frequently react to unforeseen events?
- Do our products, sales strategies and personnel seem to be in sync – or out of sync – with the rest of the global market?
- Are we spending too much of our resources fighting head to head with developing countries' companies when we should be more effectively competing in developed country markets with new products and professional services?

Should the executive find dissatisfactory answers to the above questions, obviously something needs to be done. Training is not the complete solution, of course. But without internationally competitive thinking employees, it will be increasingly difficult for many corporations to effectively compete worldwide.