AN AUTOPSY OF THE SOUTH KOREAN MARKET: DYNAMICS AND CONTRADICTIONS

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ABSTRACT

The most dynamic feature of the South Korean economy in the late 20th century is the emergence of the country as a major destination for foreign investors. However, because the market has been closed to outsiders, for almost two decades, except for certain industries, Korea is as yet an unknown entity among the global business community. This acts as a deterrent to market entry. It is evident that among the economic and business literature there has been limited emphasis on the cultural and other complications such as the position and influence of the chaebol (a group of mostly family owned conglomerates in Korea) that exists for foreign businesses in the Republic of Korea. This paper attempts to crystallize some of the key cultural issues, examine their relevance and highlight some consequences of the lack of understanding of these cultural issues for the world's leading multinational corporations wishing to enter the Korean market.

INTRODUCTION

The most dynamic feature of the Korean economy since the late 20th century has been the emergence of the country as a major destination for foreign investors. Since the early 1990s, more than 1,000 foreign multinational corporations (MNCs) have established operations in fields ranging from consumer products to high-tech industries. In particular, the 1997 financial crisis has given rise to a vastly changing market environment. For the first time in modern Korean capitalism, issues like transparency, accountability and relaxed government intervention have been major themes running through the local and foreign business community.

Foreign Direct Investment (FDI) in the Republic of Korea (ROK)\(^1\), since the opening of its market to the outside, is increasing apace. It rose from a meagre US$27.4 million in 1987 to more than US$32 billion in 1996. Dramatically, the late 1990s saw the sudden emergence of Korea as a major recipient of foreign capital for both strategic and non-strategic industrial areas, ranging from consumer products (e.g., alcohol, tobacco, cosmetic, textiles, etc.) to telecommunications. Further investment de-restrictions coupled with a lower value of the currency (won), the declining status of the chaebol and the

\(^1\) The term Republic of Korea (ROK) is used interchangeably with Korea in this paper.
increased government capacity resulting from the 1997 financial crisis may make investments more attractive. In particular, Korea has attracted around US$31.5 billion between 1997 and 2001, ranking it the sixth in the Asia-Pacific region (EIU, 2002: 3). This implies that the Korean market is rapidly changing and opening to outsiders offering opportunities to maximise market benefits in Korea. However, because the Korean market has been closed to outsiders, for almost two decades, except for certain industries, Korea is as yet an unknown entity among the global business community. This acts as a deterrent to market entry.

It is widely believed that there are few success stories on the foreign side, but more unhappy experiences (Reid & Lee, 1998; EIU, 2002). Nonetheless, there is little serious analysis of the experiences of foreign companies in Korea. Clearly, success in an unfamiliar foreign market requires an in-depth understanding of the major sociopolitical and economic changes at work, in particular the mechanisms which cause the rapid growth of significant markets such as the ROK.

LITERATURE REVIEW

Much of the previous literature on foreign investments in Korea has concentrated on the business climate (Chu & MacMurray, 1993; EAAU, 1999: 99–118). The literature concerned have advanced a range of explanations, from trade policies investment trends and patterns (Holloway, Islam, Mcbeth & Moffert, 1996; White, 1996; Kum, 1996; Park & Kang, 2000; Shin, 2000), comparative analyses (Kim, 1996; Chaponniere & Lautier, 1995), general statistics on the micro and macro economy of the nation (Lee, 1996a; Ignatius, 1996; Sohn, 1996, OECD, 1998) to the corporate culture of Korean businesses (Lee, 1996b; Robinson, 1996; Halsey, 1996; Chung, Lee & Jung 1997; Reinebach, 1998) and institutional and cultural approaches (Wilkinson 1996; Song & Meek, 1998). Yet, it is evident that among the economic and business literature there has been limited emphasis on the cultural and other complications that exist for foreign businesses in Korea. Clearly, an understanding of the above issues is significant.

A recurring issue for foreign companies, as raised by 48 percent of interviewees, is the position and influence of the chaebol in the Korean economy. In terms of aggregate concentration measured by sales, the top ten chaebol accounted for 75 percent of total sales in 1995. The big four, Hyundai, Samsung, Daewoo and LG, accounted for one-third of total sales and nearly 60 percent of total Korean exports in 1995. Unfortunately, after following the exhortations of the Kim Young-Sam government to expand exports, these big chaebol now have debts of four times equity on average and excess production capacity. Therefore, the chaebol present obstacles as well as opportunities. They may hinder the entrance of foreign companies into the market as a result of their hold over distribution systems but on the other hand their size and vision may present the foreign company with great market opportunities.
METHODOLOGY

This paper is grounded on a study that is, in part, based on fieldwork performed in the ROK during 1998 and 1999. By systematically probing the experiences of foreign companies, it identifies emerging trends as well as some salient findings based on the experiences of foreign companies that have developed a business presence in the ROK. Approximately 80 personal interviews were conducted in Seoul with senior executives of foreign companies, many at the Chief Executive Officer (CEO) level and key personnel in government agencies. Interviewed companies reflected a variety of sources of ownership: British, French, German, Japanese, New Zealand, United States, etc., as did the nationality of the interviewees. Many were Koreans but the sample also repressed cultural bias as the interviewees reflected a variety of national origins.

<table>
<thead>
<tr>
<th>Nationality</th>
<th>No. of interviewees</th>
<th>Nationality</th>
<th>No. of interviewees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>6</td>
<td>German</td>
<td>6</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>Hong Kong</td>
<td>2</td>
</tr>
<tr>
<td>British</td>
<td>10</td>
<td>Japanese</td>
<td>6</td>
</tr>
<tr>
<td>Danish</td>
<td>1</td>
<td>Korean</td>
<td>29</td>
</tr>
<tr>
<td>Dutch</td>
<td>1</td>
<td>New Zealand</td>
<td>2</td>
</tr>
<tr>
<td>Egyptian</td>
<td>1</td>
<td>Swedish</td>
<td>3</td>
</tr>
<tr>
<td>French</td>
<td>3</td>
<td>USA</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country of ownership</th>
<th>No. of organizations</th>
<th>Country of ownership</th>
<th>No. of organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2</td>
<td>Korea</td>
<td>2</td>
</tr>
<tr>
<td>Austria</td>
<td>1</td>
<td>Netherlands</td>
<td>1</td>
</tr>
<tr>
<td>Denmark</td>
<td>3</td>
<td>New Zealand</td>
<td>2</td>
</tr>
<tr>
<td>EU</td>
<td>1</td>
<td>Sweden</td>
<td>3</td>
</tr>
<tr>
<td>Finland</td>
<td>1</td>
<td>Switzerland</td>
<td>1</td>
</tr>
<tr>
<td>France</td>
<td>4</td>
<td>United Kingdom</td>
<td>9</td>
</tr>
<tr>
<td>Germany</td>
<td>13</td>
<td>USA</td>
<td>28</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>5</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interviewees were invited to reflect on their experiences of the Korean market in comparison to their experiences of other international markets. In this way, they were encouraged to reveal their perceptions and learning based on their experiences with the ROK market:
The major issues impacting their businesses in Korea are as follows:

- Distinctive characteristics of the ROK market in comparison to other Asian high growth economies such as China, Hong Kong, Singapore, and Japan;
- Preoccupations and realities of the ROK market;
- Korean business culture as a barrier and opportunity in doing business;
- Koreans as consumers compared to other international markets;
- Political economy of the Korean market – opportunities and constraints; and
- Competitive climate including customer and supplier behavior.

Interviews were taped, transcribed and subsequently deconstructed. In this way, according to the principles of grounded theory, the findings and any theory would emerge from the data rather than been forced from some prior hypotheses (Bailey, 1987; Glaser & Strauss, 1967). This data was then analysed qualitatively with the NUD*IST (Non Numerical Data Indexing Search Text) software. This entailed categorising respondents' comments according to their subject matter. The program was used to arrange all comments on related issues or particular themes to be viewed together. These comments were cross-referenced with the interviews so that, it was apparent which firm and which industry the respondents were from. Issues to be examined in this study include:

- The nature of the Korean opportunity including some insights into political, competitive and obstructive factors;
- The business potential for MNCs in Korea;
- The positive attitudes that are manifest regarding the economic and business potential in the ROK; and
- The reason why the ROK is still regarded as one of the toughest territories to invest despite its outstanding economic achievement.

THE KOREAN MARKET: PERCEPTION AND REALITY

According to a survey in the 1998 *Far Eastern Economic Review* and *Asia Business Review* (*Far Eastern Economic Review* 1998), Korea was ranked as the least favorable destination among Asian countries in which to invest and afforded the second greatest level of social instability. The poll conducted in early 1998, among business leaders in ten Asian countries, marked Korea as the second highest in terms of political risk. This corroborates with the International Institute for Management Development's country competitive index (2000). The institute's 1999 report ranked Korea 38 out of 47 major countries for competitiveness. Korea ranked far behind other Asian economies like Japan at 16, Taiwan at 18, Malaysia at 27, China at 29 and Thailand at 34.
A recent survey (East Asia Analytical Unit, 1999) of 103 MNCs in Korea revealed a generalized perception of the Korean market among MNCs. The section on major impediments in doing business in Korea received the best response of all sections, with a response rate of 100%. Each participant was asked to rank eighteen items, which appeared to be difficult areas for foreign investors doing business in Korea, in order of severity (e.g. 18-most difficult, 1-least difficult). Two thirds of the respondent companies believed strong Korean nationalism, foreign exchange risks, bureaucracy and difficulty of obtaining information from government and regulatory bodies as major impediments in doing business in Korea. Other major impediments in doing business include: the chaebol’s dominance in the domestic market, Korean business culture, poor outlook for economic growth and corruption.

<table>
<thead>
<tr>
<th>Impediments</th>
<th>Major factor (%)</th>
<th>Minor factor (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Korea's strong nationalism</td>
<td>50%</td>
<td>25%</td>
</tr>
<tr>
<td>Bureaucracy and difficulty of obtaining information</td>
<td>46%</td>
<td>30%</td>
</tr>
<tr>
<td>from government and regulatory bodies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange risk</td>
<td>42%</td>
<td>34%</td>
</tr>
<tr>
<td>Korean business culture</td>
<td>37%</td>
<td>13%</td>
</tr>
<tr>
<td>Corruption</td>
<td>38%</td>
<td>17%</td>
</tr>
<tr>
<td>Regulatory controls over movement of capital (including</td>
<td>33%</td>
<td>13%</td>
</tr>
<tr>
<td>repatriation of profits)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poor outlook for economic growth, recession, post crisis</td>
<td>33%</td>
<td>13%</td>
</tr>
<tr>
<td>Anti-competitive practices in tendering</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>Poor intellectual property protection</td>
<td>30%</td>
<td>11%</td>
</tr>
<tr>
<td>Chaebol’s dominance in domestic markets</td>
<td>25%</td>
<td>21%</td>
</tr>
<tr>
<td>Lack of infrastructure</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Difficulty in obtaining finance</td>
<td>21%</td>
<td>17%</td>
</tr>
<tr>
<td>Lack of motivation among Korean employees</td>
<td>21%</td>
<td>13%</td>
</tr>
<tr>
<td>Communication (language)</td>
<td>13%</td>
<td>42%</td>
</tr>
<tr>
<td>Slowness in the reform process</td>
<td>13%</td>
<td>29%</td>
</tr>
<tr>
<td>Lack of information about potential opportunities</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Political instability</td>
<td>13%</td>
<td>13%</td>
</tr>
<tr>
<td>High company and personal taxes</td>
<td>8%</td>
<td>17%</td>
</tr>
</tbody>
</table>

*Note: Score ranked by foreign management for major factor ranges from 18 to 14 and for minor from 13 to 9.

*Source: East Asia Analytical Unit, 1999.

However, this research highlights an air of positivism, despite the reputation of the ROK as a difficult and uncompetitive market. In fact, the majority of the interviewees (75%) were bullish about their prospects in this market. Clearly there is a contrast between the Korean market reputation and MNC behavior. This is supported by data on the annual rate
of FDI (EAAU, 1999: 79–98, Michell, 1999; SERI, 2000), which demonstrates that while market conditions and the challenges of business development in the ROK may be extremely competitive, funds continue to flow in. In particular, the chaebol's desperate need for cash, which will boost mergers with and acquisitions (M&As) of Korean firms by foreign firms, and their size and vision may present foreign companies with their greatest market opportunities (Young, 1998; Moskowitz, 1998).

### TABLE 4
MOTIVES BEHIND COMPANY'S INITIAL DECISION TO INVEST IN KOREA

<table>
<thead>
<tr>
<th>Description of motives in the initial decision to invest</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already a major market and local presence important</td>
<td>66</td>
</tr>
<tr>
<td>As a part of company's globalization strategy</td>
<td>38</td>
</tr>
<tr>
<td>To explore a new market</td>
<td>16</td>
</tr>
<tr>
<td>To establish a beachhead for market expansion</td>
<td>12</td>
</tr>
<tr>
<td>Approached by Korean partner</td>
<td>4</td>
</tr>
</tbody>
</table>

*Note:* Companies were given opportunity to provide more than one motive behind their initial decision to invest in Korea. Thus, response percentages greater than 100.

*Source:* East Asia Analytical Unit, 1999.

The table above shows that 66% of the respondents cited Korea as a major market and its local presence important as a major motive in their initial decisions to invest in Korea. 38% of the companies cited their investment in Korea as part of their companies' globalization strategy. Exploring new opportunities in a foreign market was also cited as a major motive behind their decisions to invest in Korea. This table reflects the companies' general perception of the Korean market in the investment planning process. The market (47 million people) and size of the Korean economy coupled with its potential turned out to be some of the most persuasive factors in the companies' actual decisions to invest in the ROK market. Yet, there are some critical issues to be addressed.

In assessing opportunities in the ROK market the boundaries must be sufficiently broad. It is insufficient to gauge market size and be swayed by consumers' growing purchasing power. In some ways the ROK defies simplistic classification. For example, the nature of the relationship of the government to the chaebol may be beyond the experience of some analysts. Reflecting a generally held view, the CEO of one of the MNCs in Korea provided insight of his experience in Korea:

"You've got to listen, and watch what's going on first. As a market place, there are a lot of relationships here, which could be long-term based on alumni. People could come from the same school, or could have long-term supply relationships. There are a whole host of reasons why people do business here, which are not necessarily transparent."
An autopsy of the South Korean market

The above statement is general and reflects common sense to anyone with an intention to explore a foreign market. But what was found from this study is that most problems and investment conflicts are rooted in the MNCs lack of knowledge of the ROK's peculiarities with respect to its economy and culture. Indeed, common sense is the most neglected form among major foreign investors. This is why the majority of interviewees emphasized aspects of the Korean business culture, as key issues, such as the nature of the chaebol. These are the most expensive learning experiences for the sample companies.

COMPETITIVE CLIMATE

Around three-quarters of the interviewees stressed the extreme nature of the competitive environment. Although many of them had previously occupied postings in other Asian markets including Japan, they regarded Korea as singular. There are a number of distinguishing characteristics in the style of competition, for example the absence of the notion of win: win situations. Customers are often not satisfied until their supplier is "bleeding". This has implications for premium priced high quality products and service providers and tends to mediate toward commodity non-differentiated strategies that are not justified in the high cost Korean regime.

THE CHAEBOL

Despite recent changes in Korea's industrial development paradigm (Kim, 1999), the country is to a large extent a command economy and the mechanism by which economic commands are effected is the chaebol. Until very recently, the Korean government chose to favor the chaebol over most of its business affairs as a means of accelerating the national priority of fast economic growth. This tight collusion between government and business inevitably created inequality between the chaebol and small and medium-sized companies, between social classes, and between industrial sectors (Choi, 1998). It may be true that such a protection was necessary at the initial stages of economic development. However, this practice has continued over the last three decades.

These companies (chaebol) exist in a similar way to the pre Second World War zaibatsu groups in Japan, a highly centralized family controlled system. They exercised monopolistic and oligopolistic control across product lines and industries. The chaebol, like the zaibatsu are prestigious, powerful and influential and their corporate behavior largely determines the competitive climate (Yoo, 1991). Their size and government protection have enabled the chaebol to borrow at advantageous rates. They also take extended credit and thus delay payments by considerable periods through the device of issuing promissory notes to their suppliers. This has resulted in the chaebol having numerous advantages that have rendered them resistant to certain types of competitive threats. The chaebol have always been on the top of the government priority list. In turn,
the chaebol prioritized quantitative rather than qualitative growth. For example, by 1996, the total number of subsidiaries owned by the top thirty chaebol were 668 in almost every industrial sector, ranging from primarily consumer goods, automobiles, finance, machinery, electronics, engineering, construction, cosmetics to insurance and securities. Among those 668 subsidiaries, 55 were controlled by Samsung, 46 by Hyundai and 48 by LG respectively (New Industry Management Academy, 1997).

The Distribution System

The distribution system in the ROK reflects some of the characteristics peculiar to the Korean market that pose difficulties for foreign investors. As indicated above, a term frequently revisited by CEOs during interviews is the chaebol. Retail outlets in Korea are controlled by the chaebol, creating vertically integrated linkages between manufacturers and retailers. The top thirty chaebol, such as Hyundai, Daewoo, Ssangyong, LG and Samsung dominate retail sectors, ranging from cosmetics, toiletries to cars and computers. The chaebol are unwilling to sell a competitor's products on the same shelf in the same store, thus effectively locking out the foreign products. That is why it is always a big challenge for foreign companies in the ROK to compete with the chaebol.

The majority of the interviewees, particularly from consumer product industries dealing with fashion and accessories indicated difficulties in dealing with department stores. Most of their brands are sold via these outlets. But all major department stores in Korea belong to the chaebol. The Han Hwa Group owns Galleria and Samsung owns Shinsegae. A Japanese-Korean conglomerate, that has a very close relationship with the chairman of Samsung, owns Lotte. This illustrates the chaebol's influence over distribution. Stories abound of major brand owners being ejected from their department stores space concessions with only cursory notice. Thus, finding the appropriate distributor with good relationships capable of winning shelf space and retaining it, is always a big challenge and one of the key ingredients of success.

A Bridge to the Market?

Most of the MNCs in Korea are in one way or another linked to the chaebol. British Telecom (BT) can list among its major customers domestic shipping and transport companies, like the Cho Yang Shipping Co., Hyundai Merchant Marine Co. and Korea Marine Transport Co. BT has established a global network, dubbed "Concert," to attract more corporate customers. The state-run giant, Korea Telecom has recently concluded its merger with the United States based MCI. AT&T is quickly growing in the domestic market after winning an order to build Samsung's intra-group network "SASCOM" (Mail Economic Daily, 1997). The United States foremost telecom carrier has also strengthened its marketing strategy in order to access other big corporate entities, like Hyundai and LG.
In the fashion industry, many leading international brands are closely connected with the chaebol groups, which arguably dominate distribution channels in the ROK market. For example, Giorgio Armani is affiliated with Shinsegae International, Versace with Jiyeon Trading and Gucci is associated with a Top 40 chaebol group, Daesung. Marks & Spencer's franchise partner is a Daesung JV company. The establishing of a good partner relationship with the chaebol often leads to a position that helps cope with the fierce endemic competition.

Active participation of the chaebol groups in the MNCs' business indicates that the chaebol are now focusing more on businesses which are more complementary than they were in the past. It also implies that although Korean consumers and the industrial buyers alike are tough they are also pragmatic. The Koreans' quick adaptation of the idea of mass merchant discount outlets supports this view. Therefore, we argue that access to the knowledge of how foreign players and their businesses are integrated with Korean companies, especially with the chaebol, will facilitate the development of a foreign venture.

MARKET CHARACTERISTICS AND TRENDS

One of the key features in the recent development of the Korean market, particularly after the Olympic Games (1988), has been the explosion of tertiary industries, in particular those in the consumer and service sectors. Despite the economic downturn in the early 1990s and the financial crash in 1997, there has been a rapid expansion of medium industries like department stores and discounting wholesalers. This in turn has served to accelerate the influx of foreign capital, particularly since the government's full opening of its market to foreign consumer products in 1989 and partial opening of the service industries (e.g., hotel, real estate, telecommunications and financial institutions). For example, world leading telecom carriers, including BT, AT&T Co. and Global One are shoring up efforts to raise their share in the domestic telecommunications market. The domestic communications market, including system maintenance and repair, are now estimated at around 200 billion won (about US$221 million). Korea's telecommunications market has shown the fastest growth among the Asia-Pacific rim countries with an annual rate of 50 percent (Mail Economic Daily, 1997).

Some factors will explain this phenomenon. Firstly, the country's rapid industrialization and high rate of savings over the last three decades has enabled the nation to become the second largest consumer market (excluding Japan) in Asia and is worth more than US$214 billion. Secondly, the rapid nature of rising disposable income levels has boosted the growth of domestic consumption. Last, but not least, the changing attitudes of Korean consumers towards foreign-made products have become more favorable and this has played a part in internationalizing the ROK market. What then are the major changes in
Korean consumer behavior in the 1990s, with the opening of the domestic market to outsiders?

Korean Consumers: Singular or Universal?

The globalization of markets and the internationalization of brands are a late twentieth century phenomenon. A common factor across Asian markets is the ever-increasing level of buying power coupled with westernization. Associated with these shifts is the concomitant erosion of traditional cultural values. For example, the ROK like China and Japan is very much a relationship-oriented market (Trompenaars & Hampden-Turner, 1997), and yet the consumer is becoming much less traditional. Demographic-based data support this view. Almost 60% of the ROK population is under the age of 35 years. The 20–35 group accounts for more than 28% of the total population of 45 million (National Statistical Office, 1997). These young people possess high disposable income as well as a willingness to purchase readily. It is easily recognizable in eating out behavior, the patronage of trendy bars or restaurants and window-shopping. Like other countries, young people in Korea wear "Guess" jeans, smoke "Marlboro" and wear baseball hats back to front.

In particular, there are some ironies between the Korean consumer perception towards foreign products and actual consumption behavior. A culturally constructed mind-set prevails and this is reflected in consumption behavior. It is particularly evident in the arena of internationally renowned brands. For example, more than 90% of the interviewees confirmed that Koreans possess a high degree of brand consciousness and are often willing to pay more to acquire so-called "badge brands". Indeed, many interviewees agreed that the more expensive the product, the easier it is to sell. In other words, the image of expensive goods equals perception of quality in Korea.

This is also true in the luxury goods industry. Since 1992 when the Korean government opened the domestic market for foreign brands, many international brands like Louis Vuitton, Calvin Klein, Giorgio Armani, Valentino, Gucci, Chanel, have enjoyed high sales levels. Apart from the Koreans possessing strong brand-name consciousness, growing levels of purchasing power and the wider use of credit cards have also contributed to this.

An important thing to be addressed here is the importance or the impact of TV advertising on Korean consumers. The reason being that the main shoppers in Korea are women, particularly housewives since a large number does not work, although this trend is slowly changing. The cultural mind-set that women should stay at home, taking care of the family and house, is still prevalent. This means that most young women after graduation, work until they get married. At home, TV is their main entertainment. They watch a great deal of television with soap operas, talk shows and variety shows being very popular. They are the main targets for a number of consumer products. Thus, TV advertising is very powerful and critical for a firm's successful communication strategy.
Brand Consciousness: A Cultural Lag?

Korean brand conscious culture can be traced back to its cultural and historical roots. Historically and culturally, there has been a very strong emphasis on dignity and prestige in the society. Further, this kind of cultural character is often depicted in television epic dramas and historical novels. This reflects the strong hierarchical order within the family, government and society in general. In the Western world, seldom do they refer to their brothers as the "elder brother" or the "younger brother", whereas in Korea to do otherwise is unthinkable. This tradition stems from the strong influence of Confucianism. Brand-consciousness enables Koreans to differentiate the upper and lower classes and to show prestige and dignity.

This Confucius-oriented behavior applies to schools, army and every part of the social structure. Koreans always tend to put a strong emphasis on external appearances like houses, cars, and clothing. So they tend to seek out the best and the most expensive items. And interestingly, the most expensive items are usually the first to sell out.

Although some Korean products, like electronic goods from Samsung or LG are comparable with foreign products, the Korean consumer often prefers the foreign version. In recent years, despite the government's strong frugality campaign against luxury foreign products, the Koreans' strong preference for foreign goods is still prevalent. As one CEO observed, "Koreans are very proud of themselves (5000 year-old history, culture and economic success) on the one hand, but on the other, they are obsessed with previously forbidden pastures like, the so-called, sumptuous foreign goods". However, despite changes and bright prospectives of the ROK market in terms of market size and consumer affluence, there are still some other warning signals to be flagged in dealing with Korean customers and consumers, which include the chaebol and the government.

Koreans: Tougher Customers?

Unlike other Asian markets like Taiwan where one can find thousands of small to medium scale firms in manufacturing and distribution, the Korean market structure is relatively simple. This is due to the particular nature of the Korean distribution system, which is heavily dominated by a small number of chaebol groups. This situation, of course, provides challenges and opportunities.

One of the challenges, is the toughness of Korean customers especially in negotiating with foreign companies. While this toughness in negotiations is universal, the unanimous understanding among the interviewed MNCs is that Korean customers are the toughest in the Asia-Pacific Region. Korean customers in general are price/cost-sensitive and demanding. The toughest challenge for foreign players in dealing with the chaebol groups is rooted in their lack of appreciation of product value, especially in terms of an extended product that may include warranties and other extras. In almost every negotiation, the
priority is price rather than product value. In particular, it is always difficult to sell a value-added product at the lowest price. Despite its increasing awareness of the so-called globalization in the 1990s, there is still suspicion and a lack of openness towards foreigners and foreign companies.

This implies that in leading a company in the right direction in the ROK, it is necessary to focus on certain key issues. One obvious requirement is to be a low-cost producer or a low-cost seller. Since price is so important, if a company can't achieve low-cost sales, supported by low-cost production, it will encounter difficulties. Alternatively the recent success of network marketing companies in Korea such as Amway, Nu-Skin and Sunrider supports this line of argument by demonstrating the value of side stepping the need to negotiate with powerful distributors. Amway now claims 30% of the toothpaste market share in Korea without putting products on retailers' shelves. Moreover, when Nu-Skin first ventured into Korea, 75,000 people applied to be distributors. Equally important, establishing and maintaining a good relationship with the chaebol is one of the key elements in leading a successful venture. One of the interviewed CEOs provides a view in this respect, "as far as suppliers are concerned, connections and contacts are very important. And if you have to put categories for quality, price and relationship, the relationship is 50% of the deal. After that is price, followed by quality".

CONCLUSIONS

Despite the fact that the Korean market is as singular as Korea's economic and political development over the last three decades there is a paucity of usable information in the public domain of foreign company experience in the Korean market. For example, there is no other place like Korea, where the economy is influenced and controlled by the chaebol. As discussed in this paper, the chaebol's big hand over almost every business and distribution system, is not comparable with any other economy. This is a significant aspect of the Korean market. Recognition or disregard of this highly invisible area often acts as an important barometer for the firm's fate in a foreign operation; an issue sometimes neglected in the Korean market entry analysis.

This paper has offered a much-needed contribution to Korean related literature, which is heavy on generalizations and myths but light on case-based analysis. Throughout this paper, qualitative insights have been provided into how specific political, cultural and institutional relations affect foreign investment behavior in Korea. Not surprisingly, a majority of interviewees cited that most multinational conflicts and related issues are found in the company's ignorance of the impact of the dynamic nature of Korean capitalism on multinational businesses. It is clear that this fusion between political economic analysis and qualitative research delivers a more effective understanding of the overall process of developing a foreign business presence in the Korean market.
REFERENCES


An autopsy of the South Korean market


ENDNOTES