**Transforming Korean Business?: Foreign Acquisition, Governance and Management after the 1997 Asian Crisis**

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***Abstract***: The surge in cross-border acquisitions of Korean businesses, following the 1997 Asian Crisis, raised strong debates about the strategic motivations of foreign investors and the failings of selling firms. This article assesses their impact on the governance, management, and competitiveness of the resulting joint ventures and newly-formed enterprises. Contrary to local perceptions, ‘fire-sales’ and financial opportunism had not motivated foreign buyers, which sought to transform their acquisitions. Nor does government pressure to reform or poor liquidity fully explain the strategies of their Korean counterparts. Through case studies, the article provides insights into the long-term development of governance and management in Korean business.

***Keywords***: South Korea, corporate governance, international M&A, business groups, management systems, cross-border capability transfer

**Introduction: Ownership and Governance in Korea after 1997**

The government and domestic opinion joined the International Monetary Fund in placing blame for the 1997 Asian Crisis and its impact with the *chaebols*, the business groups that dominated the South Korean economy. In this interpretation, the ownership and governance of these *chaebols*, and their affinity for foreign finance, high debts and unrelated diversification explained the economic difficulties facing the country. The government imposed, as a result, governance reforms on indigenous large-scale firms, yet there exists little research on their long-term effects. Moreover, one important component of its change programme was the loosening of inward FDI controls, which allowed foreign acquisitions of Korean businesses. Multinationals joint ventures and wholly-owned enterprises would, it was assumed, lead to the transfer of international best-practice management, and act as a source of competition and change. We know little about the *chaebol* subsidiaries whose ownership was transferred to foreign multinationals, and the extent to which they transformed their management practices and core competences. This article explores a number of former *chaebol* affiliates, and analyses the neglected strategic motivations of both the seller and the acquirer. These goals provide insights into the Asian Crisis, and for repercussions on long-term organizational change. We ask to what extent governance, management and capabilities changed in foreign-owned multinational subsidiaries after 1997, and if they differed fundamentally in the short and long-term from Korean-controlled firms.

**Literature Review: Managerial Transformation and Inward Investment**

Known as Korea Inc., the nexus of state, banks and *chaebol* business groups oversaw South Korea’s industrialization from the 1960s onwards (Jeong, 2004; Rohwer, 1995; Shin & Chang, 2003). While the state set development objectives, it relied heavily on the *chaebols*. Korea’s economic success was grounded on indigenous ownership and control. Political and financial networks, as a result, strongly shaped the strategies of the *chaebol*, and the governance, organization and capabilities of affiliate companies (Chang, 2006; Chang, 2009; Kim, 1997; Amsden, 1989; Gerschenkron, 1962; Haggard, 1990; Kohli, 2004; Wade, 2003). To promote industrialization and the growth of large-scale businesses, the government agreed preferential policy loans, favourable tax rates, and subsidies for the *chaebols*, and introduced protectionism, controlled prices, the licensing of imported technologies, and export goals for preferred firms (Cho, 1994; Chen, 1995). It allocated the greatest share of financial resources to the largest *chaebols,* for whom sales growth and market share were higher strategic objectives than profitability. The top twenty groups accounted for 7.1 per cent of GDP in 1973, and 14 per cent by 1978 (Jones, 1987; Song, 1990). The five largest became responsible for 34.8 per cent of manufacturing by 1995, and 45 per cent by 1999, and they were characterized by high levels of diversification through rapid and opportunistic growth (Euh & Rhee, 2007; Kang, 1989; Lee & Yoo, 1987; Rhee, 1994). Investments, frequently in unrelated sectors, were not based on thorough risk assessments or profit projections. Circular shareholdings connected the *chaebol* affiliates, and owner-chairmen and their families could control the group with minimal equity. Debts to international lenders, via banks, fuelled the growth of the *chaebols*, notably in the 1990s (Thurbon & Weiss, 2006). Between 1990 and 1998, borrowing by the largest thirty rose by 341 per cent. Their average debt-to-equity ratio reached 524 per cent in 1997, the year in which Korea’s external debt amounted to US$167bn or 31.4 per cent of GDP (Jeong, 2004).

The Asian Crisis of 1997 converted a once-admired business system into the subject of international and domestic criticism. Commercial and merchant banks in Korea encountered liquidity problems, and the won went into freefall (Park & Choi, 2004). The Hanbo, Sammi, Jinro, Kia, Haitai and New-Core groups all declared bankruptcy. In December 1997, Korea received a US$58 billion bailout loan from the International Monetary Fund (IMF) on the condition that it agreed to a wide-ranging restructure programme (Hwang, 2007). Furthermore, President-elect Kim Dae Jung decided to make the *chaebols* the main target of reform, citing their strategic and organizational weaknesses (*Maeil*, 23 February 1998). Cross-border mergers and acquisitions bringing best global practice in business governance and management would be the main policy instrument. While public opinion was highly critical of the *chaebols*, it perceived M&A as a foreign invasion and as a fire-sale. While especially suspicious of hedge funds, it opposed all inward investors as purely motivated by asset stripping, high returns, and short-term profits (Park, 2003; Stoever, 2005; Interview #10, #16, #27). Such ‘invaders’ would not, it followed, invest in the organization and capabilities of their acquisitions, and could not fulfil the government’s reform agenda (Zhan & Ozawa, 2001). With the chaebols being reluctant to reform, and to reduce their grip on the Korean economy, the government imposed targets: the *chaebols* had to reduce debt-to-equity ratios to 200 per cent by 1999, and implement over US$25bn of divestments, including profitable core businesses, by 2000 (Yoon and Kim, 1998).

Critics of the Korean business system pointed to the debts of the *chaebols* and crony capitalism as structural deficiencies (Corsetti *et al*., 1999; Fischer, 1998; Goldstein, 1998; Hahm & Mishkin, 2000). Other voices argued that profit-orientation and the risk calculations associated with market mechanisms could not have achieved rapid industrialization, and that the developmental state model and the government-bank-industry nexus explained Korea’s economic achievements. What differentiated 1997 from similar crises in 1970s and 1980s was highly volatile international financial markets creating a self-fulfilling panic. The origins of the Crisis lay not with state activism or the nexus of government banks and *chaebols*, but with the decontrol of cross-border capital movements and the banking sector (Feldstein, 1998; Chang, 1998; Chang *et al*., 1998; Kalinowski, 2008; Crotty and Lee, 2005; Zheng, 2010). Deregulation had begun in the early 1980s, but the pursuit of *segyehwa*, mixing globalization and Anglo-American management practices, by President Kim Young Sam’s government during 1993-98 was a turning-point (Seo, 2003; Pirie, 2006; Kirk, 2000; Amsden, 1994). The *chaebols* had been allowed to obtain shareholdings in national and regional commercial banks formerly owned by the state, Although these banks were the main source of *chaebol* finance and expansion, the governance implications received little scrutiny (Fields, 1995). Large-scale business also invested in ‘non-bank financial institutions’, the second largest provider of finance, and the regulation of NBFIs was weaker than in the case of the banks. By 1997, the total debt held by the largest thirty *chaebols* was 133,776 billion won, split 55.2 and 42.8 per cent between commercial banks and NBFIs. Short-term low-interest international loans, used to finance long-term *chaebol* investments, increased the risk to the system. The shock when it occurred in 1997 exposed a vulnerable financial structure (Amess & Demetriades, 2010).

Prompted by the IMF, the Kim Dae Jung administration set a high price for bailing out bankrupt banks and businesses, and sought to loosen the grip of the *chaebols* on the economy (Cherry, 2003, 2007; Kalinowski, 2008; Lee, 2001; Lee & Lee, 2008; Yu & Choi, 1999; Yu & Lee, 2000). In their place, it envisaged ‘minimum’ state intervention, a private capital market committed to prioritising risk assessments and profitability, shorter-term commercial goals, Anglo-American corporate governance, and inward foreign investment (Jun *et al.,* 2010; Jeong, 2004; Shin & Chang, 2003). The government more clearly codified the accountability and obligations of *chaebol* owners, and stipulated greater protection for minority and independent shareholders. It tightened rules on cross-subsidy between business group affiliates. In addition, it liberalized international mergers and acquisitions and inward FDI (Shin & Chang, 2003). Under IMF pressure, in January 1998, President Kim imposed the Five-Point Accord on the five largest *chaebols*, namely Hyundai, Samsung, Daewoo, LG, and SK, and obliged them to focus around three to five core businesses. Uncompetitive affiliates of one group, moreover, would merge with competitive counterparts from another group. The remaining top thirty largest *chaebols* agreed, one month later, to similar restructuring proposals (*Maeil,* 13 Jan 1998, 24 Dec 1998, 12 Jan 1999; Emery, 2001; Samsung Economic Research Institute, 1998). Inward FDI would replenish foreign currency reserves, and, through M&As, reduce the debt-to-equity ratios of the *chaebols* (Kim & Lee, 2007)*.* By driving corporate restructuring and efficiency improvements, it would over the long-term economic growth over (Korea Institute for Industrial Economics and Trade, 2001). The threat of hostile acquisition, it was hoped, would impose market discipline on the family-owned *chaebol*, and intensify competition (Chang, 2003; Cherry, 2007; Emery, 2001; Lee *et al.,* 1998; Thurbon & Weiss, 2006). The Korean government passed the Foreign Investment Promotion Act in November 1998, and set ambitious goals of US$20 billion of inward FDI and joining the world’s top ten recipients by 2002 (Cherry, 2007; Lee *et al.,* 2004; Thurbon & Weiss, 2006). By 1999, total IFDI reached US$15.5 billion, with 33 per cent of the sum committed to M&As (*Maeil*, 20 Feb 2007).

One description of Korean firms in 1997 views them as disadvantaged by exceptional international circumstances, and, subsequently, as unduly pressured by the IMF and their own government into fire-sales of benefit to foreign asset-strippers. Yet we know that some acquired businesses encountered liquidity and capital shortages before the Asian Crisis, and lacked core competencies for long-term competitiveness. Samsung’s hypermarket and automobile subsidiaries, Homeplus and Samsung Motor Industries, were examples, as struggling recently-founded firms. In these cases, the Crisis cannot by itself explain the strategic decision of the *chaebols* to divest. The existence of commercial difficulties influenced the priorities of post-acquisition restructuring, and counters the emphasis on unwanted fire-sales. Acquirers bought their new subsidiaries cognisant of the managerial challenges, and aware of which resources and capabilities they needed to transfer and strengthen their investments. Some multinationals had a track-record in international expansion and experience of transforming local enterprises. They sought cross-border synergies that might benefit their operations both in Korea and worldwide (Zhan and Ozawa, 2001). For others, acquisitions offered rapid entry into Korea’s domestic market, or added prominent Korean exporters to their global production chains. Multinationals focused, too, on buying technology and know-how, and, here, capability transfers could potentially be from the subsidiary to the parent or two-way. Nonetheless, the popular Korean view that foreign acquisitions consistently led to the loss or denuding of key industrial assets was unfounded. Multinational subsidiaries did become less risk-adverse and more focused on profitability and financial outcomes over corporate objectives such as growth, a trend regarded with suspicion by local employees (Yu, 2000). A corollary was performance-related pay and, potentially, greater job insecurity. The new multinational owners curbed top-down, hierarchical and personal management and decision-making in favour of flatter organizations, inter-departmental coordination, and more collective procedures (Interview #16). This article investigates the implications and the effectiveness of these changes to the management of Korean business, and provides cases and insights into the multinational subsidiaries created as a result of the 1997 Crisis.

**Methodology and Research Questions**

Research was principally based on a series of semi-structured interviews with the business executives of leading *chaebol* affiliates acquired by foreign multinationals as a result of the 1997 Asian Crisis. Open-ended questions enabled full exploration of relevant interacting factors, including acquirer motivation, *chaebol* strategic objectives, the resources and capabilities of the parent firm and the subsidiary, and changes in governance and managerial decision-making. Supplemented by company documents, and business newspaper and industry reports, the interviews enabled the in-depth longitudinal analysis of relevant firms, and the semi-structured approach additionally allowed the comparison of businesses and the major factors shaping the outcomes of foreign ownership. With the chosen methodology, the context of the case firms as well as internal developments were explored, and industry and product market characteristics were considered alongside the changing national and international background. Each selected case was shaped by the heterogeneous, constantly changing contexts, such as economic conditions, their competitive situation in specific markets, and the different strategies, resources, and capabilities of the firm. Case selection measured the consequences of cross-border acquisitions across various industries, improving the generalisability of the research findings. A total of 48 interviews were conducted, of which 36 are cited in this article.

 Using the data provided, the research addressed a number of questions:

* Firstly, to what extent did acquisition by a foreign multinational as a result of the 1997 Asian Crisis transform the governance and management of *chaebol* affiliates, and which factors determined the outcomes?
* Secondly, were changes in governance and management within foreign-owned multinational subsidiaries fundamentally different to developments in Korean-controlled *chaebol* affiliates?
* Thirdly, following the change to foreign ownership, did the capabilities and long-term competitiveness of the acquired *chaebol* affiliates increase or diminish?
* Thirdly, were changes in governance, management, and capabilities within foreign-owned multinational subsidiaries fundamentally different to developments in Korean-controlled *chaebol* affiliates?

**Foreign Acquisitions and Strategic Motivations**

In the crisis period after 1997, the overriding motive of the *chaebols* was to improve liquidity and to cut debt-to-equity ratios. Some of the businesses sold were profitable, and so provided support for claims of fire-sales. But, given the aim of refocusing and reducing debt, they were regarded as non-strategic by the divesting group: examples, between 1998-2000, included Samsung Electronics, which sold its power device company to Fairchild Semiconductor International; LG Chemicals, which passed its carbon black operation to Degussa; and LG Building Systems, which created a joint venture with Otis Elevator (*Korea Economic Daily*, 19 Nov 1998). Fairchild Korea Semiconductor and Korea Carbon Black (KCB) were fully-owned multinational subsidiaries at the outset, and Otis Elevator Korea adopted the same ownership and governance arrangements after a short period. Samsung Electronics, in 2002, sold its non-core controller division to Rockwell Automation.

Severe financial difficulties also brought about the sale of core businesses. Samsung, for example, sold its Homeplus hypermarkets and other retailers, which it had intended to develop into a core business. The group affiliate and trading company, Samsung Corporation, had founded Homeplus in 1994. The acquirer was Tesco, the British multinational, which initially preferred a joint venture. It proved able to transfer financial, managerial, organisational, and operational resources clearly required by Homeplus, which was controlled by the newly-incorporated Samsung Tesco. Samsung Motors Incorporated (SMI) was the second of the group’s new ventures in the 1990s, and Korea’s most prominent example of governance and business failure. With its global strategic partner Nissan, Renault purchased SMI, which was so obviously short of key technological, managerial and operational capabilities. Samsung’s chairman, Lee Kun Hee, had wanted to establish automobile production as core to his *chaebol*, but the haemorrhaging of cash by the new venture became unsustainable. It was the first company in the history of Samsung Group to apply for court receivership. Entry into automobile production was a strategic mistake, following a decision made by the chairman to satisfy his personal obsession for cars (Interview #23). The first vehicle, launched at the outbreak of the Crisis, brought collapsing consumer confidence (Interview #35; Lee and Lee, 2007). In 2000, Renault Samsung Motors (RSM) was formed as a joint venture, 70.1 per cent owned by Renault, 19.9 per cent by Samsung, and 10 per cent by 17 creditor banks (Renault, *Annual Report*, 2001; RSM, internal finance document, November 2005). In 2006, Renault increased its holdings in RSM to 80.1 per cent (RSM, *Financial Report*, 2006).

While Homeplus and SMI’s difficulties predated 1997, the Asian Crisis did undermine Korean firms with established competitive advantages. By the end of 1998, Lafarge had purchased the plasterboard businesses of Dongbu Hannong Chemical and Byucksan Corporation, founding Lafarge Gypsum Korea Co. Ltd (*Maeil*, 20, 25 Sept 2000, 29 May 2002; 30 June 2005). Interbrew, in September 1998, bought the majority of Oriental Brewing, with its huge 73 per cent of the Korean beer market, and created a joint venture. The seller, the highly diverse Doosan Group, had been implementing a restructuring programme since 1995 in response to liquidity problems, and, as a result, had sold business to or created joint ventures with Nestle, 3M, Kodak, Seagram, and Coca Cola. During the Asian Crisis, Doosan was consequently financially stronger than most *chaebols*, and, with the sale of Oriental Brewery, it embarked on a series of new but more focused acquisitions. During 1998, it reorganized its remaining 23 affiliates into four companies (*Maeil Business*, 7 Apr 2009; *Korea Economic Daily*, 30 Oct 2002, 29 March 2005; Interview #2, #23).

Rapid entry and growth were primary long-term objectives for Tesco, Renault, Otis, Interbrew, and Lafarge. Fairchild and Degussa gained the access they needed to the existing large customers of divesting firms, while Interbrew, Lafarge, and Renault set out to buy local distribution networks, as well as manufacturing facilities. Samsung Tesco’s Homeplus, RSM, Oriental Brewery and Otis Korea were originally joint ventures, assuaging local perceptions of asset-stripping, and allowing acquirers to learn more effectively about their new subsidiaries and customers. Over time, they all moved towards full foreign ownership. Most of the multinationals purchasing Korean businesses after 1997 had experience of international acquisitions. They were, therefore, continuing with their global expansion drive, and, consequently, sought further synergies across their cross-border operations (Interview #2, #22, #23, #36).

**Governance and Managerial Decision-Making**

Within the *chaebols*, the affiliate CEO personally made operational decisions, while the group chairman, usually from the founding family, decided group-wide strategic issues. Decision-making was top-down and based on personal authority, and formal consultation procedures were not prominent. Through complex shareholding arrangements, the chairman and the founding family exercised decision-making powers significantly greater than their ownership stakes across the group (Interview #36; *Financial Times*, 22 April 2008). With the Asian Crisis being attributed in part to Korean corporate governance failures, the case firms had to address pressing organizational issues around top-down personal decision-making. The consequences were creating greater coordination and more collectively-inclined processes, establishing an emphasis on financial performance, and transforming the embedded attitudes and practices of employees (Interview #22).

At RSM, formal organizational structures remained largely unchanged, as was the pattern at Otis Elevator and KCB. But all three firms introduced management committees to oversee the subsidiary president or CEO, and inculcated more collectively-inclined practices. Within each *chaebol* affiliate, the performance of the president and directors was typically associated with their ability to implement the policies of the group owner-chairman. The owners and managers of the Samsung Group, in establishing SMI, had ignored the automotive experts they had employed directly from rivals. Given projected returns, their specialists had strongly opposed the levels of investment, and the scale of the Busan factory and its production facilities. The chairman’s wish to build the ‘best’ car meant that Samsung bought the highest standard of equipment and components possible. There was also the question of ‘face’: how the new venture was perceived was important, and this attitude led to high expenditure on plant, arguably to the detriment of the product (Interview #3, #26).

Top management at Samsung and SMI lacked the knowledge and experience a competitive automaker needed. One manager explained how he was simply expected to follow the decisions of the group’s top management, despite his relatively senior position. To transform its new subsidiary, Renault sent over 30 expatriates, who included the CEO, CFO, the heads of R&D and Design, and various specialist managers in procurement, engineering, and manufacturing. As a result, it enhanced local capabilities, ensured greater cross-border coordination and synergies with global operations, and facilitated the production, development and launch of vehicles. Renault introduced an executive committee in which consultations and discussions on all key issues occurred once a week between the leaders of business functions. While all Korean companies have an executive meeting, the cross-functional activity is highlighted at RSM (Interview #23). Without such a committee system, there was a danger that executives would compete against each other for the attention of a new foreign CEO. Renault’s emphasis on consultation and coordination between different business functions led to the emergence of other committees at the lower levels of hierarchy (Interview #2, #18, #23). The new decision-making system is rooted in the Renault’s business concept of ‘organisation with no wall’. In a multinational including Renault, Nissan and RSM, the group requires effective decision-making processes that ‘persuade’ everyone to move in the same direction (Interview #18, #23). The new system had other benefits: it was effective in building consensus throughout the organisation, and motivating employees. In other words, employees, regardless of business function, could accept and work for organisational goals. Previously, it was possible for each function or individual to pursue their own objectives (Interview, #18).

At Otis Elevator, the management committee required agreement among department heads, included technical input, and sought consensus throughout the subsidiary, in the hope of reaching sound outcomes (Interview, #9, #29, #35, #36). But managers expressed their belief that the business suffered commercially from a lack of local decision-making authority. Obtaining approval from the Asian regional headquarters on a wide range of issues caused frustration. The powers of the president, it was argued, became notably limited, affecting negotiations and decisions on bids for large installation projects. An expatriate CFO, who would be promoted to president in 2008, helped to safeguard performance targets, but increased the scope for unfamiliar internal disagreements (Interview #7, #8). Interestingly, managers at KCB reported that the tradition of speedy decision-making continued, largely due to a foreign CEO who understood Korean management and, furthermore, effectively handled relations between the subsidiary and the Degussa headquarters (Interview #7). All the acquired businesses adopted similar management committee systems, and, in most cases, transformed internal organization by introducing functional departments.

Tesco retained its Korean CEO, which led to instances of arbitrary and top-down outcomes, but the appointment of expatriates and the formalization of decision-making instigated a process of change. Initially, Tesco appointed expatriates to head three of the six newly-created divisions, and it transferred some 30 specialists from its headquarters to lead business functions deemed to lack know-how, including Finance & Strategy, Property Management, Customer Insight, Operations, and Commercial Grocery or procurement. The marketing director was a local, as no expatriate could have adequate understanding of the Korean hypermarket industry (Interview, #1, #13, #19, #28; ‘Our Talent - Homeplus People’, Samsung Tesco, internal HR document, May 2006). Tesco introduced a flatter organisational structure based on specialised functional units, and its ‘Work Level System’ reduced hierarchy levels from 11 to 6 in the interests of faster decision-making. A management committee coordinated between different functions (Interview, #14, #28). The CEO chaired the committee, composed of department heads, usually a Vice-President. With the emphasis on cooperation and agreement, the VPs were given wide decision-making powers, in contrast to the complete authority of the CEO or President found in more traditional Korean management. Samsung Tesco, in addition, initiated committee meetings below the VP grade, so that specialists from different functional departments could share ideas and implement policies. Korean-style decision-making, being top-down and swift, risked inadequate technical input and low levels of consensus. At Samsung Tesco, expansion planning and the opening of new stores improved, as former unstructured discussions and lack of experience had led to each outlet taking 2-3 years to open. Samsung Tesco submitted investment proposals, prepared by both the Marketing and Finance Departments, to the parent multinational for approval. The proposal required a high degree of cross-functional coordination. Alongside market and competitor analysis, return on investment (ROI) and net present value (NPV) calculations determined final approval. The subsidiary’s business focus, as a result, shifted to profitability and efficiency improvements (Interview #2, #11, #14, #19). The subsidiary opened 71 hypermarkets and 232 express stores between 2000 to 2010 (Interview #14). It would, by 2005, purchase two major supermarket chains in order to expand within a saturated market and in regions where it had little coverage (*Korea Herald*, 21Jan 2005; Tesco, *Annual Report*, 2006). The directors of Samsung Tesco directors adopted the ‘Tesco way’, the three principles of decision-making being ‘better for customer, simpler for staff, and cheaper for the company’ (Interview, #1, #4).

Fairchild Korea Semiconductor and Rockwell Samsung Automation created clearly defined functional organisations, based around manufacturing, sales, product, finance, or administration, and appointed a head to each unit. Departmental leads formed a management committee chaired by the subsidiary president or CEO (FSI, *Annual Report*, 2011; Interview, #35). The new organisational structures radically changed internal procedures, and introduced open policy arguments and disputes quite untypical in Korean firms. At both businesses, managers commented how processes became slower and more complex. Critically, they also came to be more deliberative, getting inputs from each department and enhancing coordination over decisions and plans (Interview #9, #29, #35, #36). Managers at Fairchild Korea believed that the authority and decisiveness of Samsung’s chairman had brought first mover advantages and, to a large extent, explained the *chaebol*’s success in semiconductors. With huge investment on a continuous basis, and with products having a very short life cycle, the economic environment had favoured bold fast decisions (*Korea Economic Daily*, 11 Dec 2005). FAIRCHILD KOREA vice-presidents, as heads of department, had enhanced authority, which, in turn, reduced the powers that a president would normally exercise within Korean firms. Their three year appointments heightened concerns about short-termism, and communication problems with expatriates and the parent headquarters were noted. FAIRCHILD KOREA employed an expatriate CFO, who ensured that the multinational parent’s financial targets were met. As at Otis Korea, with authority passing both upwards to the multinational parent and downwards to the vice-presidents, the decision-making authority of the president at Fairchild Korea and Rockwell Samsung in Korea appeared comparatively constrained. In the latter case, furthermore, the regional or main multinational headquarters made all major strategic decisions (Interview, #7, #8, #10). Interbrew and Lafarge, too, transformed their acquired businesses by introducing functional departments, capped by a coordinating management committee. Oriental Brewery retained a Korean CEO, who could have the knowledge needed of its key domestic consumer market, but it did import two departmental heads. Lafarge, by contrast, sent an expatriate CEO. Interbrew established five functional departments at Oriental Brewery, covering human resources, finance, production, sales, and marketing. A VP, with increased decision-making authority, headed each department and sat on the subsidiary’s management committee. Most VPs at Oriental Brewery did not understand why agreement and consultation with other departments were necessary. They argued that their colleagues did not have the information to understand other functions. VPs would confront each other to avoid their department being blamed for failure, and opted for low risk outcomes. They would consequently pass on difficult decisions to the Interbrew headquarters, a process that slowed speed of action (Interview #12, #23, #33). Eventually, Interbrew began appointing expatriate CEOs to Oriental Brewery for short periods of two to three years, an approach viewed as increasing the emphasis on financial performance and short-termism (Interview #6).

Most of the case firms experienced initial integration problems. As the post-acquisition transformation at Oriental Brewery and Lafarge Korea was limited, the majority of their employees were receptive to the changes introduced, but viewed the ‘foreign’ emphasis on profitability over expansion with suspicion. At Lafarge Korea, existing employees in general found it difficult to accept the move away from the established management system towards one founded on individual performance. They preferred promotion based on length of service and life-time job security. Integrating four groups - expatriates from Lafarge, personnel from former rival firms Dongbu and Byucksan, and those recruited after acquisition - aggravated the human resource difficulties. Rockwell Samsung mitigated resistance through training, cross-functional operations, and integration programmes (Interview #2, #5, #22, #23, #30, #36).

**Resource and Capability Transfers**

Resource and capability transfers to the subsidiary generally necessitated the appointment and higher use of expatriate executives with the requisite skills and experience, and these managers brought the capacity to coordinate effectively with the parent firm on a range of issues. Strong local capabilities or significant domestic sales led to greater reliance on indigenous or existing managers with core product, production or marketing knowledge. Samsung’s Homeplus was a strategic opportunity for Tesco to establish itself in Korea’s highly competitive hyper- and supermarket industries. The British retailer had identified its prospective subsidiary’s organizational weaknesses, and perceived the business as well-suited to receiving its internationally recognised know-how. Therefore, to fulfil its strategic objectives in Korea, Tesco sent specialists to embed capabilities in property management, finance, and operations, but, as we have noted, it appointed an indigenous marketing director who understood Korean retailing and local consumers. Homeplus had been short of expertise in property management and store expansion, with the result that it had operated inefficiently and grown the business slowly. Tesco prioritized the strengthening of this function, introducing its personnel and tested systems, and instigating training schemes, sometimes on-the-job in Thailand or the UK. It followed a similar approach to supply chain management, market analysis, customer insight surveys, and stock management. The Customer Insight Unit facilitated discussions with the parent firm, and spearheaded the conversion of Samsung Tesco into a customer-centred business. The Supply Chain Management (SCM) Unit would improve stock management at every store. The Customer Plan and Family Card schemes were copies of Tesco’s Clubcard loyalty scheme, and the data it provided assisted the formulation and implementation of policies. The UK marketing department regularly provided advice to Samsung Tesco (*Maeil*, 12 July 2001; Interview #21, #28). Overall, the multinational followed the approach it had successfully adopted in Thailand, one of gradual integration and ‘glocalisation’. Given differences in retailing, consumer preferences, and Samsung Tesco’s corporate culture, it introduced its global standards selectively, recognizing where necessary essential local strengths and skills, but setting the strategic direction in Korea and globally (Interview #2, #14, #19; Suh and Howard, 2009).

 Given that SMI had only one vehicle at the time of acquisition, Renault’s priority was to build a strong portfolio of models. To do so, it owned the financial resources, engineering and management know-how and operational expertise required at RSM, and it addressed the other key issue of human resources and enhanced training schemes (Interview #2, #18). Renault and particularly Nissan transferred their most advanced automotive technologies and production methods. Employees underwent on-the-job training at both Renault and Nissan’s headquarters and at their R&D centres, and, likewise, engineers from the French and Japanese companies visited RSM. The subsidiary’s R&D function was substantially strengthened, with staff numbers growing from 400 in 2000 to 1,260 by 2010. The Busan factory, having been equipped by Nissan, fitted fortuitously into Renault-Nissan systems, and quickly achieved cross-border operational synergies (Freyssenet, 2003; Renault, press release, 13 June 2000). Further capital investment was not forthcoming, due to Samsung’s overinvestment and substantial spare production capacity. Employee numbers increased from 2,000 in 2000 to 5,500 in 2011 in line with output. As well as manufacturing for the Korean market, the subsidiary exported through Renault-Nissan’s global distribution network. As a member of the Renault-Nissan alliance, RSM could buy the most advanced vehicle technology from Renault and Nissan at cost prices, and joint international procurement brought efficiencies (Interview #23). Profits were reinvested in the business, funding vehicle development, R&D, and the Renault Samsung Technical Center (RSTC) at Giehung (Renault, press release, 24 Nov 2005; Interview #2, #3, #16, #23).

Interbrew wanted, undoubtedly, to change the main strategic aim of Oriental Brewery from expanding sales through heavy debt-financed marketing expenditure toowards short-term profitability. It restrained budget increases, cut costs and especially marketing expenditure, and focused on efficiency targets such as labour costs per unit or return on assets. The Doosan Group sold its affiliate to off-load a loss-making business, and to reduce debt burdens. Oriental Brewery, nonetheless, owned brands with wide popular appeal in Korea, and produced beers of high quality. Interbrew had no need to invest in plant or manufacturing skills, and retained the existing training structures. Marketing, founded on local conditions, remained with indigenous managers at the subsidiary. With Koreans showing little interest in Interbrew brands, procurement was the only cross-border synergy of substance (Interview #6, #12, #23, #31, #32, #34). As one manager reported, Interbrew did not transform Oriental Brewery on the lines witnessed at Samsung Tesco or RSM (Interview #12). As had Interbrew, Lafarge had bought from debt-laden Korean businesses, and immediately imposed financial controls, tight budgets, and profit targets. Similarly, because the subsidiary’s products had a high reputation, and Korean managers oversaw local customer networks, matters of product, production and marketing remained unchanged (Interview #5, #12, #33).

The Asian Crisis enabled Degussa to establish a presence in Korea, and to gain established access to local buyers. As at RSM, CBK exported goods produced in Korea through Degussa’s global distribution network. Transfer of technological know-how was limited, as the subsidiary was well-regarded in this core competence. Reflecting the cases of Interbrew and Lafarge, Degussa largely maintained organizational practices, including training systems. On the other hand, it introduced global standards in IT, finance and foreign currency, risk management, environmental standards, and social responsibility (Interview, #7). Otis Korea began by expanding the maintenance unit and gaining a greater share of Korea’s elevator service market. However, to do so, it sold off production facilities and laid off workers in the unprofitable manufacturing division in Korea. Otis did introduce global standards in finance, safety, and ethics. But, as with Interbrew, Lafarge, and Degussa, it retained the majority of the subsidiary’s systems and practices. To cut production costs, Otis Korea began to produce more at its factory in Dalian, China, than in Korea (Interview #8).

Fairchild had been attracted to Korea’s large semiconductor market, and it acquired access to Samsung’s distribution and customer network. It hoped that the subsidiary’s acknowledged technological leadership would create a more diversified and advance product portfolio. In the event, these capabilities led to production being relocated to Korea, and the parent firm transferred made small contribution to capability levels at FAIRCHILD KOREA. Fairchild invest substantially in capital projects, but a combination of poor planning and deteriorating market conditions led to major losses (Interview #17, #29). Rockwell was equally attracted by the existence of major customers in Korea, and by operational synergies. Domestic sales rose notably, and exports from the subsidiary improved impressively by a factor of ten between 2002 to 2005. With both parent and subsidiary having distinctive technological capabilities, transfers occurred in both directions through personnel exchange, rotation, and training programmes (Interview #10, #36).

**Discussion**

Before the 1997 Crisis, the *chaebols* routinely pursued debt-driven growth and market share with inadequate attention to risk-assessment and profitability. The owning families and the appointed chairmen exercised control of these influential business groups significantly greater than their equity, and could transfer value from minority shareholders. With the encouragement of the IMF, the Korean government saw inward FDI and acquisition by foreign multinationals as tools for reducing the debts and the scale of the *chaebols*, and believed that international best practice could transform the governance, management and competitive capabilities of both acquired firms and the wider economy. These plans supported the refocusing of the highly-diversified conglomerates that dominated the economy, and programmes to improve corporate transparency and the rights of minority shareholders. To align managerial objectives with the need for sustainability and profitability, and to enhance shareholder value, businesses acknowledged the need for performance based pay, moving away from seniority-based pay and bonuses.

Undoubtedly, the 1997 Crisis transformed Korean businesses, moving structures and decision-making from an orientation founded on hierarchy, top-down personal authority, a functional focus, rapid growth, and seniority pay and bonuses, which were all associated with a domestic management style. Evidence detects a general shift towards more horizontal and consultative processes, profitability, performance-based decision-making, and professionalism, all connected with international standards and practices (Rowley and Park, 2009: 54-62, 125-6). To what extent, therefore, did acquisition by a foreign multinational contribute to the transformation of the governance and management of *chaebol* affiliates? Which factors, international or domestic, determined the outcomes? While each case inevitably shows variations, we can see a clear pattern in the imposition of profit and performance targets that determined investment and operations, as a result of a change in ownership and control. In many cases, the appointment of an expatriate CEO or CFO reinforced the redirection of strategic objectives. Nonetheless, internal debates on the advantages of quick decision-making, risk-taking and long-termism versus short-term profitability and financial sustainability continued. A Bank of Korea report investigated the financial performance of over one hundredmajority or fully foreign-owned manufacturing firms, and concluded they were on average more profitable than domestically-controlled firms (Kim and Kim, 2008).

Some of the cases witnessed organizational and departmental restructuring, with Samsung Tesco being the most prominent example. Technological leadership, competitive capabilities, and profitability levels largely determined differences in the level of post-acquisition reorganization. On this point, RSM was an exception, because its organization and operational systems, far from being extant and established, needed to be created. The introduction of management committees and interdepartmental coordination in all the multinational subsidiaries studies indicated a strong commitment to horizontal procedures and to the curtailment of top-down personal management. The greater authority of department heads and Vice-Presidents and the control exercised by the parent multinational diminished, bar exceptional circumstances, the role of the CEO or President. Forced to accept horizontal coordination, and interference in their own function or department, subsidiary Vice-Presidents often felt uncomfortable with the change towards consultative procedures, and no doubt attachment to traditional Korean management generally held back acceptance of international practices. The management committee and other coordinating bodies did facilitate technical input, and supported professional processes over the more familiar authoritarian and personal style. Training schemes were introduced or enhanced to improve human resource competence and to increase greater understanding of the multinational’s management systems, particularly where cross-borders synergies or capability transfers were paramount.

Were changes in governance and management within foreign-owned multinational subsidiaries fundamentally different to developments in Korean-controlled *chaebol* affiliates? All of the changes in governance and decision-making within multinational subsidiaries located in South Korea had parallels in businesses that remained indigenously owned, mostly because they resulted out of the Crisis and financial necessity. They show the impact of internationalization and global standards on Korea during this period. But they emphasize, too, the importance of ownership on governance, because the case evidence suggests that managerial change in multinational subsidiaries proved comparatively more extensive, deeper and durable.

Lastly, following the change to foreign ownership, did the capabilities and long-term competitiveness of the acquired *chaebol* affiliates increase or diminish? The Korean government enabled inward FDI and international M&A on the grounds it would boost the performance of acquired subsidiaries, and, by example, transform the economy more widely. The case evidence strongly counters public fears that foreign multinationals came after 1997 as opportunistic exploiters of fire-sales and as financially-orientated asset strippers. Wholly-owned subsidiaries in Korea proved better able, when strategically motivated, at transferring resources and capabilities than in identified examples of international joint ventures (Park, Giroud and Glaister, 2009). But the extent the multinationals invested in their subsidiaries or transferred resources and capabilities varied significantly. Where subsidiaries were bought for their technological leadership, or for their existing domestic and export competitiveness, the transfer of resources and capabilities was more limited. The cases of Fairchild Korea and Rockwell Samsung indicate how capability transfers from subsidiary to parent were important. There is, furthermore, a shortage of evidence to prove that the example of multinational subsidiaries incentivized change in Korean-controlled rivals. The cases underscore the point about ownership and especially international ownership having detectable determinant consequences for governance.

The effects of outside directors on Korean-controlled firms have been debated, and sceptics have highlighted *chaebol* affiliates for low levels of reform compared to privatized or non-*chaebol* firms (Kim and Kim, 2008). But this block to change was not relevant in the case of foreign-owned subsidiaries. The established owners of business groups, moreover, increased circulatory share ownership as a means of maintaining control, and prosecutions revealed notorious breaches of transparency and accountability. With the cap on foreign investment in any firm lifted in 1997, inward FDI rose from 1.1 trn won to 11 trn by 2002 (Rowley and Park, 2009: 125). The LG chaebol is cited as a model reform example, due to its decision to form an accountable holding-company in 2003, and for splitting into two focused groups in 2005. Holding companies joined foreign-subsidiaries as potential take-over targets, and both categories posed questions about government policy. Korean business assets became vulnerable to international hedge and wealth funds, which, unlike our multinational cases, correctly or incorrectly, did have reputations as financially-orientated asset strippers. Degussa was acquired by Evonik in 2006, and, mainly for strategic reasons connected to its UK home economy, Tesco divested from Korea in 2015. Hedge funds bought and restructured Interbrew along with AnheuserBusch during 2009. All were a cause of uncertainty within their host country operations (Coe, Lee and Wood, 2017). On the other hand, hostile take-overs in Korea have been relatively rare, a fact that challenges claims of incentivizing governance and managerial reform (Kim and Kim, 2008; Rowley and Park, 34-5, 106, 140-6).

**Implications**

*Theoretical Implications*

The cases raise issues about the corporate strategic objectives of inward FDI, and formative influences on the control and management of multinational subsidiaries. Cross-border integration, capability transfer, and the appointment of expatriates strongly enforced the aims of profitability, management and investment processes, and formal decision-making procedures. Full ownership of the subsidiary, at the outset or following acquisition, gave the investing multinational the necessary leverage to implement change. Each case had unique circumstances, yet the need to transfer capabilities to the subsidiary, reliance on expatriate managers, and degrees of cross-border integration were all influential. Reliance on indigenous managers, who needed some freedom of operation to deal with clients and consumers, decreased the need. This localization trend was exampled by Lafarge Korea and Otis Korea, and specifically within sales and marketing at the greatly-changed Homeplus under Samsung Tesco. Nonetheless, we can also detect isomorphic regulatory and institutional pressures in the wake of the 1997 Crisis in improving profitability, increasing transparency, and implementing new governance rules in Korean business generally.

*Practical Implications*

The article raises questions about government policy towards international M&A, governance rules, and enhanced managerial and competitive capabilities. While inward FDI and international M&A undoubtedly helped reduce the debt, scale and industry diversity of leading *chaebols*, evidence on the transfer of best global practice is mixed. Integration within Renault-Nissan’s global operations and access to its resources undoubtedly transformed Samsung’s failing automobile division to identifiable beneficial effect. Tesco had the retailing expertise and international experience to contribute significantly to the Homeplus brand. But its forced withdrawal from Korea, after many years of operation, posed questions about how host country governments might reassess the value of each inward investment and ownership change to fulfil the public good. The issue was reflected in Evonik’s takeover of Degussa and KCB, and, most controversially, by the dissolution of Interbrew and control over Oriental Brewery. Otis Korea and Lafarge Korea were successful enterprises that gave foreign multinationals access to clients, and international resource and capability transfer are less apparent. Technology and knowledge exchange between Fairchild and Rockwell parent and subsidiary firms was two-way, and it was also mutually, if not equally, beneficial. We can see improvements in decision-making, professional management, technical input, long-term planning and profitability within our multinational subsidiaries cases, but scant evidence that their example changed *chaebol* governance more widely. With their ownership less transformed than privatized enterprises or multinational subsidiaries, and more able than non-group firms to resist greater regulatory pressure, *chaebol* affiliates retained many important elements of traditional Korean management.

**Limitations**

The cases provided are diverse in terms of industry, and comparisons enable greater analytical depth and scope. Although international M&A was intended to spearhead wider change, we explore only a limited number of cases. Further research on foreign owned subsidiaries in Korea would be useful. Moreover, we need to know more about the mechanics of asset and knowledge transfers, and how, over the long term, new resources and capabilities were integrated and systemized alongside existing systems in pursuit of sustainable differentiated competitive advantage. Alternatively, it would be interesting to investigate where such processes failed to improve or led to decreasing competitive advantage. The results could supply insights into the consequences of differing ownership and governance. Hopefully, also, they might generate a clearer debate about the seizing of rapid growth and first mover advantage under guided state development and personal management, and if greater profitability, lower debt leverage and greater shareholder power provided equally successful alternative corporate goals.

**Conclusion**

Detailed analysis of the multinational acquirers of *chaebol* affiliates after 1997 demonstrates that they had had long-term strategic motivations, contrary to the widely-held view of financial opportunism and ‘fire sales’. Businesses with complementary resources and capabilities were the primary target, and multinationals invested in and transferred advanced resources and capabilities to their subsidiaries. Chaebols divested core businesses to avoid the group-wide bankruptcy or, if over-diversified, to facilitate their refocusing. While the *chaebols* came under government pressure, they also had their own strategic reasons for divesting. The policy objectives of transforming acquired *chaebol* affiliates, and drawing investment and knowledge transfer to Korea through international M&A were achieved in the years immediately following 1997. But the transformation proved limited to these cases, and less extensive changes to governance and management elsewhere had a range of other causes. Moreover, foreign ownership did over time create public concern over acquisitions, and raised later debates about asset stripping and the control of vital commercial assets.

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