The Daewoo Group Organization Essay, Research Paper

MSA 650: Organizational Theory

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DAEWOO GROUP ORGANIZATION

FACTS:

Woo-Chong Kim founded the Daewoo Group in 1967. It became one of the Big Four chaebol in South Korea. Daewoo is an industrial and multi-faceted service conglomerate. Daewoo was prominent in expanding its global market through joint ventures all over the world.

During the 1960s, after the downfall of the Syngman Rhee government, the new government intervened to promote growth and development in the country. They increased access to resources, promoted exports, financed industrialization, and provided protection from competition. In exchange for a company’s loyalty, the government granted favorable treatment to the chaebol.

In the beginning, the Korean government instigated a series of five-year plans where chaebol were forced to achieve a number of basic objectives. Daewoo did not become a major player until the second five-year plan. Daewoo began trading and benefited from government-sponsored cheap loans by borrowing based on potential export profits. The company initially concentrated on labor- intensive clothing and textile industries that provided high profit margins. The most significant resource in this plan was the South Koreans large workforce.

The third and fourth phase of the five-year plan occurred from 1973 to 1981. During this period, the country’s labor force was in high demand. Competitions from other countries begin eroding Korea’s competitive edge. The government responded to this change by concentrating its effort on mechanical and electrical engineering, shipbuilding, petrochemicals, construction, and home base defense initiatives. During this period, Daewoo achieved its general trading company status and anger aroused from competing nations due strict controls.

At the end of this period, Government policy forced Daewoo into shipbuilding. Kim was reluctant to enter this type of industry because he felt that there were other chaebol better suited to handle the heavy engineering project. Nevertheless, Kim soon saw Daewoo earn a reputation for producing competitively priced ships and oilrigs.

During the next decade, the Korean government became more liberal in their economic efforts. Small private companies were encouraged, protectionist imports were loosened, and the government stopped practicing positive discrimination. These moves were designed to encourage free market trade and to force the chaebol to be more aggressive abroad. Daewoo responded to the challenge by establishing a number of joint ventures with U.S. and European companies. They expanded exports of machine tools, defense products, aerospace interests, and semiconductor design and manufacturing. After a gradual learning curve, they begin to build civilian helicopters and airplanes, which were priced considerably cheaper than those produced by their U.S. counterparts. They expanded their efforts in the motor industry and was ranked as the seventh highest car exporter and the sixth largest car manufacturer in the world. Daewoo had excellent experience at turning around faltering companies in Korea.

ISSUES:

There were many issues discussed in this case across the years of growth, but I will focus on the major issues in this case. Those issues are as follows:

1. Government Interventions: Government policy served as a double edge sworn, it protected the chaebol, providing them with massive subsidies, unlimited cheap credit, and protection against foreign competition. However, the price for these services was total loyalty to the government. Chaebol were forced to take over industries against their will. The government was constantly involved in their businesses and stifled their creativity.

2. Labor Market: Traditional work ethics that helped Korea reach economic prosperity has been threatened as workers have begun increasingly violent protest against years of long hours and low pay. Daewoo shipbuilding suffered heavy loses due to workers demand for pay raises.

3. Operating in a Global Economy: International demands for free trade is forcing the Korean government to open its market. The chaebol will lose its protectionist import controls. Most recently, the North American Free Trade Agreement and the European Economic Community imposed trade limitations.

4. Product Quality from Korea: Korean products were considered cheap quality. Companies are trying to improve that image.

5. By the 1990s, Daewoo Group was heavily leveraged, major markets were stagnant, expenditures on R&D were increasing, labor unrest continued, and government policy adds to their worries.

6. Kim was most recently charged with allegedly paying campaign contributions to former president Roh Tae Woo government in exchange for a large government contract to build a submarine base.

SOLUTIONS:

Daewoo Group president was an excellent entrepreneur. He led the company’s growth from an 18,000 initial capital value to $25 billion in annual sales. Some of the solutions he employed to counter problems identified in his company are as follows:

1. He used organizational politics to work with the government. He understood that to gain power, resources, and growth, he needed the protection of the government.

2. Daewoo Group was excellent at turning around faltering companies due to a well-managed, highly centralized organizational structure. Under Kim’s vision, he developed a unique culture in his chaebol known as the Daewoo Spirit. This spirit consists of a commitment to creativity, challenge, and sacrifice. Kim believed in co-prosperity whereby the company provides value to employees, customers, suppliers, partners, and the country as a whole.

3. Daewoo enlarged its capital supply sources by diversifying its method of securing funds, including leasing and deferred payments. They raise funds successfully overseas for large foreign investment projects.

4. Daewoo established a number of joint ventures with U.S. and European companies. Under the vision 2000 campaign, Daewoo established joint-venture production facilities, invested in foreign facilities, established sales and local subsidiaries, and localized component production and other operations. This campaign is aimed at strengthening Daewoo ‘s international competitiveness.

5. After two workers committed suicide, Kim developed a unique program to mend management-labor relations. Manager and company presidents were required to work on the assembly line, and assembly line workers could be promoted to management level. This policy is aimed at improving the management-labor relations as well as help managers understand the difficulties and problems on the assembly line.

6. Daewoo increased their R&D expenditure to be more internationally competitive. To boost this effort, Daewoo established a technology R&D team called the Institute for Advanced Engineering. This team used three strategies in technical development: competitiveness, managerial system development, and the use of technology network.

RECOMMENDATIONS:

Because of the problems associated with developing a profitable industry in Korea, organizational politics with the government is the best strategy to follow. Not to conduct business with the government is certain death such as the fate of the Kukje Group. Korea is not a world pool of opportunities, like in America. People have to adapt to the governments rules to be successful.

In Daewoo Groups situation, I would not have done anything different. Bonding with the government was a requirement. Establishing joint ventures in the global market is a survival strategy to remain competitive. Diversifying finances to make money grow is an investment strategy use by all businesses in the industry. Last, I would train my managers and workers to promote understanding just like Kim. He showed his staff and families that he cared about them. The only thing I would have done different was to increase wages and improve work condition if government policies allowed.