The Impact of Samsung Scandal in Corporate Culture in South Korea: Is Corporate Governance Necessary?

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Abstrak


Kata-Kata Kunci: budaya korporasi, Samsung, corporate governance, chaebol, Korea Selatan

As one of the world’s poorest countries in the world 30 years ago, South Korea proved its remarkable economic development. Within three decades, South Korea’s economic development shot up and attracted international attention. The economic strength in South Korea is supported by several global corporations such as Samsung, LG, Hyundai and others. The corporations have South Korea’s “ala” power, chaebol. Chaebol itself is similar to keiretsu in Japan, which global corporations are run by families and are hereditary. As time goes by, South Korea with its corporate culture does provide many advantages for South Korea as a whole, but this condition does not last forever. Not on the decline in revenues to South Korea’s economy, but the scandal of some global corporations in South Korea, especially Samsung raises new questions, should the South Korean Corporate culture be changed in the future? This question will be answered and explained in this paper. The author will explain through the history of the Korean corporate culture that is influenced by Confucianism, Samsung’s history to become a global corporate power for South Korea as well as an analysis of corporate governance on the economic situation in South Korea.

Keywords: Corporate Culture, Samsung, Corporate Governance, Chaebol, South Korea
South Korea is one of the new emerging power in the global economy. Its power emerged 'only' since the 1960s, following the end of Korean War as a consequence of the cold war. The economic development of South Korea is highly supported by corporations in South Korea which drive the economic activities. One of the biggest corporation is Samsung, a gigantic actor in Korean technology, possesses up to 20% of South Korea gross domestic products (Borowiec & Dave 2016).

One attractive issue related to the development of global corporation in South Korea is Chaebol. Chaebol is a term refers to private corporations entirely controlled by family (Vaight 2004). The presence of Chaebol in Korean could not be overlooked since almost all global corporations in South Korea owned and managed by chaebol. Samsung is an instance of a family business which developed into a massive corporation in South Korea and had the privilege to compete with popular brands from Japan or Taiwan. South Korean chaebol has proved superiority in managing corporation. Yet, the system also has flaws, especially because the economic activity is too chaebol-centric. Vaight (2014) revealed that most common problems occurred in South Korean economic and another state with similar corporation culture is the lack of transparency from the corporation. The system ignites suspiciousness from the shareholders, especially the foreign ones. Furthermore, the issues of chaebol scandal with the government had exacerbated the corporate culture in South Korea.

Corporate Culture in South Korea: The Impact of Confucianism and The State History

Corporate culture is one of a new subject in International Relations, exploring the paradigm in managerial level in ruling a corporation, group awareness and code of conduct in operating a global corporation (Sadri & Less 2001 in Lee & Lee 2014, 34). The definition of corporate culture could be interpreted as a cognitive framework which contains values, norms, and expectations in global corporation operation (Greenberg & Baron 1997 in Lee & Lee 2014,34). From the definition above, corporate culture can be understood as circumstances whereas the corporate operates. This situation was based on several reasons such as the prevailing value, culture, and norms in the surrounding of the corporate, including the state. Corporate culture, constructed with the social condition and the need of global corporation to complete the operational process as expected at the beginning of the corporate establishment.

Geographically, South Korea is located in East Asia, shares borders with North Korea and within the same region with China and Japan. South Korea shares a similar culture with Japan and China regarding Confucianism understanding. Geographical proximity and China’s advancement in the economy which started in the 1980s directly influenced corporate mechanism in South Korea, especially due to the high number of chaebol who went to China for school. According to the history, the economic condition of South Korea progressed slowly from Japan colonialism until the resolution from President Park Chung-hee, until South Korea achieves its current economic state. During 1910-1945, South Korea was under Japan colonialism. It was forced to develop its economy in the agricultural sector (Lee & Lee 2014, 35). When the World War II ended and South Korea gained independence from Japan, big corporation was non-existent to support the economic situation in Korean peninsula. With help from the United States of America, the founder of corporation start to receive education related to the
philosophy and western thought about the creation of corporation until the beginning of the 1960s. This situation has led corporation founders to start composed industry and business in South Korea until present.

There are at least three main factors which underlined corporate culture in South Korea; (1) cultural legacy which based on Confucianism; (2) social climate that was created by President Park Chung-hee; and (3) corporate leadership from Chaebol (Cho & Yoon 2001, 72). As mentioned in the previous paragraph, the corporate culture in South Korea was highly affected by Confucianism in China. The influence is apparent from the owner or the founder of corporation create a good communication pattern with a colleague and the employee. They tend to establish a personal connection with a blood-related person, especially if they share common origin place and education (Cho & Yoon 2001, 74).

Furthermore, Confucianism thinking in South Korea in the context of the corporation provides a standard which describes ethics, morality, and mastery from an educated person who possesses the capability to run a corporation in South Korea. Therefore, it is clear that Confucianism appears in the dynamic of a corporate. The role of family, especially who has blood relations is an absolute necessity for parties who wish success in their life (Lee & Lee 2014, 37). This can be explained by family-centered business model performed by the global corporation in South Korea. The family of the corporate owner has a big value in corporate operational compared to the actual situation of the corporate. Family, especially the core family, is the policy determiner and economic relations in a global corporation. Thus, access for a person with no relation to the owner to acquire a strategic position in the corporation is highly limited. The situation is prone to friction between employees as a concern for corporate stakeholders who wish to avoid conflict between employees.

The decision-making process in global corporate in South Korea tends to be centered on the board of director, even more, power-centric than the western state. There is no top-down power distribution from the board of directors which give excessive workload to the board of director (Lee & Lee 2014, 38). This problem also occurred as the consequences of the family-centered business model, as mentioned previously. The tendency to classify the policy-making process, the task of the family will be difficult in the decision making. Not only about the prevailing ethic in the family, Confucianism influences the daily activities of the corporation. One of them is seniority. Age became one concept and context that was highly considered by the manager to give position and appreciation to the employee. Thus, a lot of young employees receive less appreciation than they supposed to, compared to what they have achieved.

One clear example is apparent in one drama series in cable TV in South Korea in 2014. The title of the show is “Misaeng” and tells the story about a high school graduate who struggled to be a conglomerate typical employee under the seniority and limitation he endured as a high school graduate (The Economist 2015). In this case, seniority occurred as the form of Korean’s society adopted by the corporation, in addition to blood relation as the determinant of a successor. Furthermore, the authority of the leader is absolute rather than according to the leader’s capability. Sometimes, due to supremacy in age and as a family member of the corporation owner, an employee in the low level do not have the proper right to question the policy that the corporate is about to undertake. However, Confucianism emphasized the importance of harmony (Cho & Yoon 2001, 73). Maintaining harmony means keeping human relation in a good manner and avoiding disappointment between each other. Corporation in South Korea
is often using the concept of harmony to highlight the effort of the company to keep a good relationship between employee and corporate elites. Unfortunately, the social situation in South Korea shifted the goals into the unintended one. Sometimes, the situation was used by the senior to suppress their junior as an expression of oppression due to the amount of workload and the unsupportive environment. This kind of images appeared frequently in Korean Drama, which then further acquiescent by Korean people.

Social climate is an important factor in the creation of corporate culture in South Korea. The willingness from the South Korean government in the 1960s to improve their economic condition and supported by a great military power had encouraged government willingness to improve their economy (Cho & Yoon 2001, 74). The ambition was executed with the obligation for all men in South Korea to join the military for less than 2 years. During the conscription, they were transformed into an individual who is prepared for combat in strengthening the South Korean economy, obedience to the employer/supervisor, and aggressive in competition. Social climate designed by the South Korean government is highly influenced by Korean people attitude and behavior to their work situation. The third factor is corporate leadership from chaebol. Most of the founders and CEOs of the corporation are members of a core family whose status in the corporation is given. Their capability is often questioned by many parties. In the case of Samsung, inheritance line is still important in deciding the next CEO. As mentioned before, centralization is an important aspect of managing corporation in South Korea. The core family is the symbol and absolute power in the decision-making process. However, instead of relying on their family name, they are originally typically a hardworking person.

Lee Byung-Chul from Samsung is one CEO who is well-known for ambition and hard work who works even harder than his employees (Cho & Yoon 2001, 76). Indeed, this lead Samsung to acquire great success since the owner and the family has a great ambition to achieve success as well.

**Samsung and South Korean Economic Condition**

When the brand of Samsung mentioned, people will refer to a country in Korean peninsula which was one of the poorest nation in the 1950s. Samsung is considered as part of “the Miracle of Han River” where the increase of Gross Domestic Product and Gross National Product of South Korea is dramatically improved from USD 84 in 1992 into USD 440 in 1996 (Choong & Jennifer 2014, 35). The story of Samsung as one conglomerate-based corporation can be described as the whole South Korean citizen are living virtually with Samsung (Estrin 2015). Not only having technology and communication corporation, Samsung also has hospital, park, even university. The term of “Republic of Samsung” has become familiar for the South Korean public. Furthermore, many politicians consider Samsung as not only a force who support a country, but it reached overpower level of the state’s power which has strongly influenced South Korea political constellation.

The influence of Samsung toward South Korean politics was clearly described in 2009 when the CEO of Samsung at the moment, Lee Kun-hee was entangled in tax evasion case. At the moment, President gave amnesty to Lee Kun-Hee that he still appointed the CEO of Samsung (Estrin 2015). Samsung had played many strategies to preserve
its power. Marriage for politic and business is an important key because Samsung inheritance is the person who has blood relations. These circumstances lead to much skeptical thinking as if the power of Samsung is above the South Korean law. The fact is, 33 % of the world smartphone market in the world belongs Samsung. Thus, South Korean economy is highly dependent on Samsung. The collapse of Samsung will lead South Korea to poverty which makes Samsung power appear to be above the national law.

The condition is not a personal opinion from Samsung, but a reality related to the economic dynamic of a nation. It was still clear how Samsung Galaxy Note 7 was failed at the market that forced Samsung to recall the product in 2016, a risky task for Samsung as a big corporation. Samsung declared their detriment based on withdrawal of product that already flooded the market and cancellation of product in making, which lost was amounted up to USD 15 billion (Borowiec & Dave 2016). Product recall in October 2016 weakened South Korea economy at the moment, as described by Dong-a Ilbo, a mass media in South Korea. The public blame corporate culture in South Korea which performed by Chaebol, but Samsung denied the rumor. Samsung expressed that the problem in Samsung Galaxy Note 7 is a technical problem, not a corporate problem. On one side, the public agreed that Samsung is responsible for the South Korean image in the international world due to its product recall in the midst of the loss endured by Samsung (Borowiec & Dace 2016). Yet, at the same time, the South Korean public was annoyed by Government who sided with Samsung in responding the failure of Samsung Galaxy Note 7. The Government supported Samsung even though public pressure that asked for reformation in Samsung direction board was intense. One South Korea Professor in Economy, Kim, stated that South Korean public will always be easy when Samsung make mistakes (Borowniec & Dave 2016).

Samsung faced another problem at the beginning of 2017. Known as one of the ‘darling’ of South Korean government, Samsung faced many accusations from prosecutor regarding President Park Geun-Hye bribery scandal (Ullah 2017). Moreover, in the beginning of 2017, Samsung CEO Lee Jae-young was arrested as a suspect for bribery and accusation related to President’s scandal. The accusation was not only about bribery but also about the flow of Samsung cash which was given to a close friend of President Park who has a factory in Jerman which assumed to be related to Samsung operational cost. The transaction was suspicious due to the tendency of money laundry activity (The Guardia 2016). The Reuters in the end of 2016 stated that prosecutor office had pay attention to many successful mergers completed by Samsung (The Reuters 2016). This situation described that Samsung politicization in a global corporation is very strong, given Samsung experience with President Park since the end of 2016 until the beginning of 2017. Many suspicions had proven, considering the good relations between President Park and Samsung Chaebol. South Korea election in 2012 is also a flashback to see the role of Samsung in South Korea political constellation on the modern era (The Reuters 2016).

**Corporate Governance: Is a closed corporate culture necessary?**

A corporation should have a proper management and could be obtained by all the parties in the corporation. One concept that could be a guideline for corporation management is the concept of corporate governance. Basically, corporate governance is an attention for the institution to corporate business allocating resources (O’Sullivan
2000 Dalam O’Sullivan 2000). All of the aspect aims to preserve financial stability as one of the most important features to maintain the operation of a global corporation (McDonough 2002). O’Sullivan added that globalization is an aspect that supports the role of corporate governance became important, especially related to financial stability. Globalisasi supports the flow of market which make demand and supply became accessible. This situation required a clear regulation. OECD (2004) stated that corporate governance is a system where corporation business managed and ruled. The regulation consists of a proper distribution regarding right and obligation for all parties in the corporation such as shareholders, commissioner, and employee. Corporate governance also had the right to the decision-making process in running the corporation (OECD 2014). Furthermore, monitoring function also become a part of corporate governance which not only to perform the assigned task, but also there is the necessity of monitoring to avoid manipulation from each party, also to guarantee employee welfare in a corporation.

There are several values underlie corporate governance; responsibility, justice, transparency, accountability, and independence (O’Sullivan 2000; Moore 2005). Responsibility is the value that should be held by the employee, including CEO and the director board. Responsibility is the aspect that guide employee to perform their function as the driving aspects of the corporation. Any activity of the employee should be in accordance with the constitution or the agreement established by the related parties in the corporation. With responsibility, corporate activities can be traced according to the established agreement. Justice is the value that highlighted the right of shareholders, even if they only have a small amount of share (Moore 2005). All shareholders should be treated equally and violation to them based on the amount of share is forbidden. The third value is transparency which considers openness as the main feature, whether from the side of corporation or shareholders.

As three main pillars in a global corporation, there should not be anything to hide in the audit process. With transparency, the public will be able to see the cash flow of a global corporate. The public trust could also be improved by implementing transparency in the corporation. Transparency also related to the accountability. Accountability stressed on how three aspects understand the activity of each other. For instance, shareholders need to understand the work of managers and the directional boards, and how commissioner advice employees. The last value is independence. The employee has the freedom to work according to their field without pressure or obstacles from other parties (O’Sullivan 2000). Independence also attempted to avoid intervention from elites to their employee, since seniority is something frequently be found in global.

One of the obstacles in applying corporate governance values to a global corporation, according to McDonough in his article, is how a global corporation considers for the director or manager who is coming from outside the inner league nor fully structurally integrated within the global corporation. This is related to the corporate governance value, one of which is self-reliance (McDonough 2002). By having directors or managers who are not directly integrated with the company, they can freely develop and perform their full role objectively. The absence of attachment will provide an opportunity for not focusing too much on the interests of family and colleagues who are directly connected with the owners of the company. This condition is then contrary to the corporate culture owned by South Korea. The power of chaebol is another side of the value of the corporate governance, especially with absolute power within the corporation. The
power of chaebol, in addition to its limited capabilities, will remain within the company if a company maintains the same corporate inheritance mechanisms continuously. Vaight (2014) reveals that Samsung, as a global corporation, is an example of a corporation with awful corporate governance. Chaebol activity is an uncontrolled activity by the board of directors, or in other terms, there is no great power for the board of directors to interfere in the activities of the family of global corporate owners. The disadvantages of the South Korean corporate culture which tend to be closed and central to the chaebol family make the inventors and shareholders difficulties carrying out their control functions to the corporation.

The dynamics of Samsung related to corporate governance values, as described above, are the opposite. Samsung’s core family, Lee, owns a 5% stake in Samsung but in fact, at the voting session, they have almost 17% of the vote in the voting (Vaight 2014). This condition alone is very detrimental to free shareholders who will directly always be subject to the founder’s core family direction. Coupled with the proximity of the South Korean government, given that Samsung is a contributor to 30% of the country’s revenues, it would be very easy for chaebol to run its illicit activities. Of course, with the smooth progress of these illicit activities will drag the Samsung into the abyss slowly. Why does it happen continuously? Culture is one of the most powerful reasons for Samsung, as well as global corporations in South Korea to maintain their chaebol system. This is what should be overhauled by the Samsung officials if they do not want to get scandal or loss in the future. Vaight (2014) reveals that to improve Samsung’s corporate governance, starting from fairness to minority shareholders. Justice does not mean to be the same, but the form of transparency of the board of directors. Shareholders, excluding the core family, also have the right to obtain an appropriate return. This can be done to avoid the tendency of suspicion from free shareholders that lead to misunderstandings and may take legal steps forward. In addition, with good governance will be in line with good innovation as well. Still remember clearly how the error occurred in the Samsung Galaxy Note 7 due to many misunderstandings at the production level? With the existence of governance, such problems can be reduced from the beginning. Clear and open governance will show where the production error occurred. Shareholder strength can be a boost when a corporation gets a trial, but when from the beginning some groups of shareholders are not given the same authority, it is actually a boomerang. With the transparency of a corporation will tend to be investor friendly. Foreign investors will find it convenient if a global corporation is not closed and centered. Samsung is already capable of becoming a giant in South Korea and the world, but the lack of foreign investors leads to the fragility that is not visible from the outside. The large number of foreign investors, who are then able to support corporate finance when there is a crisis in the country. If Samsung only relies on local investors, let alone just from the nuclear family then the risk of direct fall is even greater. Given the economic conditions in the world, no one can be sure it will continue to be stable as it did in 2008 when the United States was directly affected by the global economic crisis. This is what can be considered for Samsung’s global corporation classmate for their future program. The presence of many foreign investors can also be utilized in the expansion of overseas markets, one of the marketing strategies is quite simple but provide a large enough impact also on the distribution of products.
Conclusion

The article has discussed how corporate culture in South Korea is highly influenced by Confucianism, social climate, and corporate leadership. Through the Confucianism, corporate culture in South Korea was formed through proper decision making, relations between senior and junior and determining corporate inheritance. While in social climate, the situation in the global corporation will depend on the social system in South Korean public. Corporate leadership in the context of South Korea is highly dependent on chaebol, in which almost all decision taken is corporation centric. This condition makes corporate culture in South Korea hardly received an idea from the outside. Samsung is one of the biggest corporation in South Korea with almost 100% percentage is owned by chaebol.

The problem occurred when Samsung involved two main problems in the mid of 2016 and the beginning of 2017, the problem of Galaxy Note 7 and the scandal of South Korea President, Park Geun-Hye. The flaw of corporate governance culture in Samsung effected the corporate badly in responding the two cases. Samsung product recall was a nightmare, leave Samsung to endure the high loss. The problem with the president is the close relation between Samsung and the president, lead prosecutors suspect several Samsung directional boards which involved in many violation cases performed by the President.

Both scandals could not be avoided, but the probability can be reduced if Samsung implements corporate governance culture in a whole. This can be started from opening the stock for public and build a more open atmosphere for foreign investment, even though the effort to build such environment will reduce the role of Board of Directors in supervising the corporation. The next question addressed by the paper is the necessity of corporate governance in a corporation with lack of openness. In the case of Samsung, corporate governance is necessary for a global corporation to have accountability and credibility in the public eye, whether in local level or international level. Even though it does not necessarily have to build a new system, but reform is indeed necessary.

Aside from the in accordance with corporate governance values, Samsung keeps proving itself as the economic power if South Korea in the contemporary era. Samsung user is easy to be found in many places in the world from a diverse range of age. This shows that Samsung influence is not to be questioned. The essence of this paper is to describe the sustainability of Samsung as a global corporation in South Korea with the strong corporate culture. The author argued that the culture is not necessarily needed to be left behind. The Confucianism in corporate culture needed to be preserved with a little bit of modification. Confucianism also taught about senior and junior relation should in order with a highlight that vertical relations due to a different range of age should not put junior in an excessive amount of workload.

Through corporate governance, democratic values in the decision-making process can be set as one way to accommodate various interests from different parties. So does with social climate and corporate leadership. Culture could not simply be altered since it has been long rooted in the society. Change requires corporate inheritance to learn from the bottom can be one of the solutions of corporate governance culture, so does a team that not only involving the family but also individual who is not a member of the family but possess the capability to run the corporation. Finally, what happened in Samsung could be analyzed from 2 points of view. In one side, Samsung capability to survive and expand its market should be regarded as a successful example of South
Korea economic activity. On the other hand, problems within corporate should not be perceived as merely a constraint, but also as a challenge for the corporation to make reform without having to alter the philosophy of the corporation.

References


