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## Economic action in South Korea: An heuristic attempt

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**Economic Action in South Korea:  
An heuristic attempt**

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# **Economic Action in South Korea: An heuristic attempt**

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## **Abstract:**

This paper presents an heuristics of economic action in South Korea which is based on a qualitative study conducted on-site. It focuses on the idea of experience-near concepts - as introduced by Clifford Geertz - and is verbalised by the terms affiliation, indebtedness and mediation. The developed heuristics serve to explain the social imbeddedness of economic action in South Korea.

**Keywords:** Informal Institutions, South Korea, Intercultural Management, Economic Sociology, Qualitative Field Study, Social and Economic Networks

**JEL-Classification:** A 14, M 19, Z 13,

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## 1 Introduction

This paper is based on field research conducted in the year 2000 in the greater metropolitan area of Seoul. The survey is qualitative and includes 20 interviews with native and foreign executive managers in South Korea. Its central, underlying question was: What are the rules by which everyday life of managers and their staff takes place? The statements from the interviewees about intercultural problems in the everyday management environment provide a basis for my heuristical approach to economic action in South Korea.

Social relations play an essential role in all human action, including economic action (vgl. Granovetter 1985). To show the embeddedness of economic action in South Korea I developed an heuristical prototype of human relations in South Korean culture. This approach deals with so-called experience-near concepts (see Geertz 1977).

*An experience-near concept is ...one which an individual ... might himself naturally and effortlessly use to define what he or his fellows see, think, imagine, and so on, and which he would readily understand when similarly applied by others. An experience-distant concept is one which various types of specialists – an analyst, an experimenter, an ethnographer, even a priest or an ideologist – employ to forward their scientific, philosophical, or practical aims. “Love“ is an experience-near concept; “object cathexis“ is an experience-distant one. ... Clearly the matter is one of degree, not polar opposition: “fear“ is experience-nearer than “phobia“, and “phobia“ experience-nearer than “ego dyssyntonic“. And the difference is not ... a normative one, in the sense that one sort of concept as such is to be preferred over the other. (Clifford Geertz 1977: 481-82)*

The heuristics is formed by three such experience-near concepts: *Affiliation*, *Indebtedness* and *Mediation*. They form a basic model for a heuristical approach to the embeddedness of economic action in human relations.

Essential for such a heuristics is Max Weber's (1864–1920) assumption about the rationality of action from the agent's perspective (see WL 1988: 129). According to this, action is rational because it is directed towards an end. Action combines the means with its end, and the end endows the action with its meaning. For our purpose, we can say that if, from our perspective, Korean managers seem to be oriented more towards personally related factors of a purchase act than towards the objective or economic criteria, we will assume that they are acting rationally from their own point of view, because the agents are committed to their socially imparted norms and values and are willing to act in an understandable way within their culture. This *as-if-assumption* only has a methodological, not a material value (see Schluchter 2003: 59). It helps us to outline the heuristics of economic action in Korea, from a plausible and logical point of view when regarding the interview statements (see Schluchter 2003: 58).

With the help of the developed heuristics we will then examine some special management problems in an intercultural environment.

## 2 Affiliation<sup>1</sup>

The concept of affiliation denotes a certain form of collective, which exceeds – also in the sense of intersubjective shared acceptance – the formal membership. Affiliated individuals can be described as members of a group, but affiliation requires more than the formal membership. The term affiliation, in the sense in which it is used here, implies that the affiliated individuals are in a mutual, personal and direct relationship, which appears through interaction. A person in Korea is defined through their affiliation to certain groups.

The natural origin of human affiliation is the family. The modern role of the Korean family can be traced back to the (neo-)confucian tradition. The Korean family is a composite of various institutions. This includes the reverence for the parents, which appears as obedience of the children towards their parents, and the patriarchal hierarchy, in which the manly offspring takes the primacy. The modern Korean family still focusses on the continuation of the male family line (see Gu/Roy 1995, Dasgupta/Li 1999, KNSO Census Report 2001).

The commitment towards the family that someone is affiliated to, is gradually extended to relatives (Korean: *Hyeol Yeon*). Consanguinity formally reaches up to the eighth paternal degree and the fourth maternal degree. Blood-relationship also includes the members of a kin (Korean: *Chinjok*)<sup>2</sup>. Associations are often established for their mutual solidarity. These associations can include both rich and poor families, without imposing on the former any financial duties towards the latter.

Affiliation does not only apply to the family but also to informal groups. The two main groups besides the blood-relationship are *Hak yeon* (English: shared schooling) and *Ji yeon* (English: shared regional provenance).

*First of all, there's the family. That's the first group. Followed by the group of classmates and the group of fellow students. Then the group within the firm. And then, for sometime, there's gap. Then follows the group of people who come from the same spot. And such a group is more intensive and they also stick together a lot more.*

The *Hyeol Yeon* relationship, though widely composed, is the basis for mutual trust and for a sense of mutual solidarity, which does not exist between strangers. *Hak Yeon* requires shared schooling or shared academic education.

*Most foreigners are gone within three years which makes it very difficult to build a network. The fluctuation is too high. And to get into the Korean network is impossible. You'll never get in there. Because it has matured through college, through university. It's impossible to catch up with that experience.*

Alumni associations are established for the maintenance of friendship after graduation. They play a very important role for accessing the professional job market and the professional advancement.

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<sup>1</sup> The structure of the heuristics stems partially from the paper „Zugehörigkeit, Vermittlung und Verschuldung. Zur Ordnung wirtschaftlicher Beziehungen in Südkorea“ [Affiliation, Indebtedness and Mediation. On the Order of Economic Relations in South Korea], which was written in cooperation with Reiner Manstetten in 2002.

<sup>2</sup> The Korean kinship groups are quite large. They often embrace hundreds of thousands of individuals. Approximately 40% of all Koreans bear the family name Kim. This family name belongs to seven or eight different kinship groups (see Park 1999: 42).

*When they were looking for someone, she suggested me. We attend Yonsei University together. Same year, same major. She actually placed me in that job. We have been friends for a long time now. Yes, it was good, because now we work together.*

*I tell the management that we need such and such a person, and then they look around. We also tried consultants, but without success. A lot of things work on the Korean level and up until now the ones we have hired, have been chosen by our [Korean] executives.*

*Once you are in such a social system, you are quite secure, even if the business is not doing well, and you'd have to look for a new job. Then you'd have your friends and they'd take care of you.*

The individuals associated to a staff also see themselves as members of their department in the sense of affiliation.

*In Germany, once you leave your office, let's say at 19.00 hours, work is done, right? No more socializing and you submerge into private life. But in Korea it's common to go out with the colleagues after work.<sup>3</sup>*

*Ji yeon* is based on shared regional provenance. Every Korean region has a distinctive identity. An above-average number of individuals that count to the South Korean elite stem from the regions *Yeongnam* and *Seoul*. The founder of Samsung originates from *Yeongnam* and a lot of Samsung employees, especially in the higher positions, also (see Park 1999: 88).

Companies or departments mostly consist of employees who got to know each other at university. This forms a mutual bond between the employees of one department which vastly exceeds their loyalty to the employer. One of my German interview partners reported the consequences of the dismissal of two directors of the service department who had been found guilty of major deceit.

*I didn't have any choice but to fire the two teamheads without notice. And there I was with the situation and the two service directors weren't there. And three hours later – at that time we were 18 men – seven others, from the rest of the team, all handed in their notice. The whole service unit disappeared. Two salesmen joined them. We would have been able to make some really nice deals during July. We could have increased the revenue by 150%. And then in midstream I'd to change crew, you know? Now I know that this happened due to a commitment, a solidarity towards the senior, who in most cases were the ones who had hired them. It's their realm. It's a commitment, which follows from their culture. They said things like: "If you take them back or if you find any form of cooperation or even if you let them freelance, then they – the others – would come back."*

Another foreign CEO comes to the following conclusion:

*One still has the impression that all employees could leave within three months. If they get a better offer, the whole team leaves. Together, you know? They work hard. They are motivated for the company as long as they are in the company. But changing the employer isn't a problem. It's also normal for Europeans. But here it's different, because the whole team leaves at once.*

The blending of company matters with group matters is not an exception. It is mentioned within the statements of all my interviewees.

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<sup>3</sup> Some form of regular socialising between colleagues is not uncommon in the English or American business world, but quite unusual from the German standpoint.

*And all along my Korean colleagues are invited to weddings. And every one has to bring a money gift, an envelope. Sometimes they attend three weddings on one day. It's a system. Once you're integrated, you have to remain in it. For years they attend weddings and bring a gift, until the wedding of their own kids, where all the others attend. Now, everytime they pretend to deal with company matters and they take the money gift from the company.*

According to the statement of a lawyer such incidents, which from a western point of view are cause enough for dismissal, are trivial from a Korean perspective.

*If employees don't meet expectations or do not perform well, even if they commit business fraud, let's say for 3 Mio. Won<sup>4</sup>, it can happen, that in court they won't find that a sufficient reason for dismissal.*

Many foreign managers do not approve of the blending of group matters with business, which seems natural for Korean managers. Some try to avoid it by working against such group structures through the selection procedure of their employees.

*I try to impede the selection of new employees by employees, because it can cause uncontrollable groups within the company. You already know that connections are established at university. This leads to, I would say, life long ties, where people help each other, etc. etc. And this often exceeds the acceptable standards of an international cooperation. We certainly do not approve of that.*

*I watch out for these, let's say entanglements, which we would not approve of in our company.*

But such interferences into the group structure and the developed hierarchy are not always successful.

*I'm trying to internationalise the company. Before it was totally domestic. Local people, local investment market and local investors, local clients and local distributors. I'm trying to improve what's local and to promote local products abroad. I'm trying to sell local products abroad. Thus, breaking all walls. Logically, language is necessary for that. Not necessarily to communicate with me, but to understand foreign products. The staff must understand foreign products, they have to be able to read, because we don't get any product descriptions from Luxembourg or France in Korean. And we also have to be able to produce in English, so that we can sell abroad. Now, a certain exchange of personnel was necessary. I'm under pressure in the first place, because we need new staff. I did proceed moderately. I didn't come out with the machine-gun and shoot them all down. Well, we began to hire new people. They'd come and stay for a while and then they'd leave. The front-line of the old mates is very, very tough and the newcomers, who had foreign experience, didn't put up with anything. It took four to six weeks and they were all gone. In the beginning I put effort into gradual integration and build-up. The marketing department didn't have any english language skills. I said: „I need information about the marketing. I'm disposed to hire someone, who'll help you with the communication between you and me. I'll employ an assistant with English language skills, who can write your reports.” Our marketing staff doesn't write any reports at all. No notes about what they're doing, discussing and so on. They store everything in their heads. Once they leave, their knowledge will disappear. I want to have the things reported, and I hired someone for their disposal. But he also left shortly after. I reached the point where I was so frustrated, that I realised that this bottom-up build-up is not working, because new people are not accepted. So now I'm doing it vice versa. I'm looking for someone for a top position. Actually, the retired vice presidents' position was not to be filled again. But now I'm looking for a new vice president with foreign experience, who knows English und who will be respected by the staff. And then we'll let it drop down. Most likely a lot more people will be lost on the way. But those might be the elder not the younger ones. That sounds pretty unfair.*

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<sup>4</sup> Currently, 3 Mio. Won are roughly equivalent to 2 300 Euro.

This report shows, that group solidarity can influence or even paralyze the managements capacity to act. The reason is the extreme cohesion within the group, which is common for single departments of companies. This is because affiliation is not the result of a deliberate decision; the group is something people have always already belonged to, and something one has always found oneself in. People inadvertently grow into them during the course of life. Regional and familiar provenance as well as gender are determined by birth. From them all fundamental affiliations arise. Parents and their social environment later determine the choice of primary school. This choice predetermines the spectrum of further schooling. From the affiliation to a certain school, a certain university and a certain region almost naturally follows the integration into professional life. Life mainly takes place within the vested groups. Alumni associations play a special role because they establish the possibility of economic exchange between equal agents and because they signify lifelong affiliation. Social contacts take place within one's own groups. They form the inner circle of friendship and normally do not have more than seven to fifteen members per group. In such circles of friends, where all members are from the same generation, one ideally feels snug, at home, and such a group is just as natural as one's own family.

The feeling of familiar security requires a degree of mutual intimacy, which can only grow through the course of everyday life, a common experience shared for years. The concept of *Kibun* (englisch: sentiment, mood, affection, morale) is essential for such a degree of intimacy. The term denotes a well-balanced mutual accordance between individuals. Such a state can hardly exist between strangers. Intimacy is not a matter of chance or destiny, that suddenly binds two people together because of their congeniality, but the result of a longterm coexistence, through which – like in a family – all facets of one's character are learned. *Kibun* only evolves its matter of course through affiliation.

*If we don't know each other well, it's stressful, because I don't know how you are and what you like, and I could say something wrong and insult you. If you don't know someone you'll not talk as openly. One has to be very prudent. If you don't know a person well, it can be very strenuous. There is no trust, you know?*

*Trust is surely very, very important. That goes back to the families. And many firms are run like families. I think the word "trust" or "the life of trust" is very, very important.*

The downside is a strong preference for all that is kindred or familiar through friendship, and a strong apprehension towards all that is not. This stems partly from respect and partly from timidity. Since one is not familiar with the *Kibun* of a stranger, it can be easily vexed. At the same time one must fear that ones own *Kibun* might be perturbed and that one loses face.<sup>5</sup> From the Korean perspective relationships to foreigners are regarded as risky for the morale of both sides. That requires a particular judgement towards the feelings and the notions of the counterpart (Korean: *Nunchi*). *Nunchi* denotes subtlety, tact, discretion, susceptibility, power of observation, courtesy, mind reading, and the ability to sum up the situation, a.s.f. It denotes the ability to put oneself in someone elses thoughts and feelings, and to align own actions with them.

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<sup>5</sup> The defence against strangers affects primarily other, unknown Koraeans. Since it is considered to be impolite to look into the faces of others, most Koreans in public look through other passer-bys. Accidental physical contact is also mostly ignored and the natural distance between strangers is a lot smaller than e.g. in Germany. This refers to a mutual consensus of non-perception of the unknown.



*You'd notice that the mood is a little different and that something has happened. You can ask cautiously and then they'll say it indirectly, they'd never say it directly, but indirectly they'll let you know. Ok, I did wrong in that matter. I have to learn and next time I'll do better, right? The mood, the atmosphere is different. People are not as chatty and they withdraw a little and things like that. And once you know the people here, once you have worked with them for six years, you can tell. And you'll get a feel for it, if you are not without any feelings, right? And you might also read by their mimics.*

Not all Koreans find themselves equally capable of *Nunchi*. Due to the societal significance of mutual harmony, and the high demand for tact and the particular judgment of the individual connected with this, the social etiquette is strongly formalised. The Korean language knows four different kinds of verbal courtesy. Younger people use the first or the second courtesy form. They are not allowed to call the elderly by name and serving oneself is considered rude.

*For example, people here attend differently. Everybody serves the other and makes sure the other's glass is full. If they're finished, you'd top up the others drink. People are used to eating from one bowl and take their meat from an open fire. And you should take care that the others will also get their share. You shouldn't just gobble up.*

Affiliation is reinforced through numerous forms of everyday community contexts and reaffirmed through the forms of mutual exchange. Hence a dynamics in the relationships within the different groups emerges. One essential factor of the dynamics is expressed with the term *indebtedness*.

## **2.1 Indebtedness**

Indebtedness denotes the wordly notation of „*being obligated towards someone*“ also in the sense of „*owing something to someone, who therefore can claim a certain behavior, service or good*“. From the mutual indebtedness, and the corresponding efforts of debt-relief, evolve numerous processes within a group of affiliated persons.

Indebtedness has (i) a vertical and (ii) a horizontal aspect. Vertical indebtedness exists within hierarchial organisations, in which the social ranking is fixed. Horizontal indebtedness forms in all kinds of relationships, which are not characterised through self-evident sub- or superordination (see Park 1999: 89 and 97).

Ad (i): The most original form of vertical indebtedness arises in every family. Children are indebted towards their parents because of lifelong upbringing, education and formation. Especially for education, Korean parents have a strong willingness to pay (see Potrzeba 1998: 88f). The efforts and the relinquishments, which are taken by the parents in favour of their childrens education, can only be compensated with equivalent high performance at school (ibid.). According to the principle of seniority younger people confer their indebtedness towards their parents, up to a certain degree, on all elders they are affiliated with. In school, at university, at work etc. the younger shall follow the elder. And those in turn are paragons for younger pupils, students and colleagues through flawless conduct especially towards their elders. That hierarchial structure of indebtedness in general pervades all kinds of relationships. Ideal norms and rules of conduct are not, like in Western legal relationships, identical for all human beings, but are necessary instruments of the perceivable differentiation of status between individuals in Korea. In every day life, this can be observed by respect

demonstrated in public – e.g. through obeisance and special forms of cordiality in the form of address – and obedience towards elders and superiors. In principal, higher-ranking individuals enjoy authority. But vertical indebtedness also exists top down. The higher-ranking person, including the boss, is fully imputed for the doings and the well-being of his ancillary (see Brüch/Thomas 1995: 31).

*And the possibility to assume that I could set at nought my fathers or my parents proposition, is worse for a Korean family than to say: "Ok. You are human, you've failed, you've made a mistake and now we'll try and see how to get out of that affair."*

Ad (ii): Horizontal indebtedness can exist in groups, in which indebtedness is not mainly determined by hierarchial structures.<sup>6</sup> The traditional forms of such groups are *Kye* (english: savings club) and *Pumasi* (english: neighbourly association) (see Park 1999: 51-52)

Originally *Kye* was a kind of self-help association in villages, which was established to protect against extraordinary charges and at the same time served for the social interchange among residents. The primary economic function of *Kye*, which already emerged as a social network in the 10<sup>th</sup> century, did not develop until the *Joseon* Dynasty (1392-1910). The *Kye* provided conjointly saved money for single families when heavy financial burdens arose. Reasons for receiving such financial aid through *Kye* included weddings, funerals, ancestral rites, and other religious festivities as well as the financing of equipment and sloggers.

Today's *Kye* emerged as a form of social grouping in the cities, which also serves for the mutual financial aid. Frequently neighbours, people who stem from the same region or alumni of the same educational institution are affiliated in such a *Kye*, and the group normally meets once a month. The membership-fees are accumulated and the sum is provided in a particular order to all members. The aid is often given for weddings, funerals, ancestral rites or the purchase of furniture or cars. Most *Kye* groups consist of 20 to 40 families. The *Kye* offers the possibility for social contact on equal footing, and therefore provides the basis for horizontal structures of indebtedness.

*Pumasi* denotes the solidary neighbour association, which originally served for the informal organisation of the teamwork in the agrarian context. The members of a *Pumasi* acted according to the strict principle of reciprocity. For every contributed man-day one was entitiled to demand help to the same extent. There was no formal organisation for this. The Korean author Jeong Seong Park (1999: 52) describes *Pumasi* as follows:

*The one they work for, must provide several meals and snacks. Everybody in this position is ambitious to cater as well as possible. Nobody considers only their own advantage, not merely their own existence. The mutual help arises from simple necessity and from the sense of mutual indebtedness. In fact, one could speak of an obligatory neighbourly help with mutual reliability. Since *Pumasi* are a traditional and engrained pattern of behaviour, they do not only stand for collaborative agricultural labour, but also for various forms of neighbourly support, material as well as immaterial. In the traditional village community, the affairs of one household also concerned the whole neighbourhood. Everybody behaved like this, or at least, it was expected that one would share one's problems with one's neighbours. Help was mostly performed spontaneously and not in a calculating manner. Debts and obligations were paid and repaid, but never fully redeemed, so that someone was always bonded with someone else in an obligation. That way everybody internalised a consciousness of the cohesion and a trust in the support of the others.*

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<sup>6</sup> Despite the principal equality in such groups there might emerge minor hierarchial differences because of age differences.

*Kye* and *Pumasi* are the basic patterns according to which today's informal groups in Korean society, like e.g. alumni associations, are organised. In such groups, the companionable get-together and the sense of belonging are just as important as the constant exchange of material and immaterial benefits. The social gathering, as well as the mutual exchange of benefits, serve for the reaffirmation and consolidation of the relationships within the group. Such exchange of benefits often takes place e.g. between employees of two different companies and often on behalf of the firm.

*Whatever you'd need, business information of all kinds - I hope, that they are reliable - they drop in. Naturally, I am aware of the fact that there is no one-way here and information does flow out as well. But we don't have that much to conceal anyway, not enough to get anxious.*

These exchange processes neither imply a pronounced measurement for the definition of value, nor do they entail any form of written receipt. Nothing legally enforceable remains between the individuals involved.

*Even, for example, if I had to lend money to a friend, I'd simply lend it to him. And we are talking about large amounts, which are shoved back and forth within such groups when it is required. Yes, certainly everybody is exerted to pay it back, but it certainly can happen, that it doesn't come back. But decent people neither have to run to lawyers nor to judges, because they can resolve the matter among themselves. Only an unreasonable person needs a third party to act as an authority. When two quarrel with each other, the group expects them to slug it out among themselves and to find a compromise. And if somebody feels treated completely unfair, he won't accept the situation and the conflict will be close to irresolvable.*

The mutually indebted relationships are handled without any instance which, in the case of conflict, would arbitrate and regulate the relationship, but with ample implicitness. For the arrangement of such kinds of mutual processes of encumbrance and disencumbrance, periods are not stipulated. When, how and to what extent the existing – often unstipulated – debt is wiped off, is prevalently not determined by any of the concerned parties. As a general rule, it follows from a situation in which the other person gets into a position, which calls for help. It could, for example, happen that somebody lends money to a friend for an indefinite period, having to borrow that money from another friend or even from the bank, despite knowing that the indebted friend will never be able to redeem the debt. This constellation is not harmful as long as the creditor believes that his friend will do everything in his power to pay back the debt one day in an adequate manner, with important business information, the mediation of a contact or the like.

As in families, responsibility is part of every structure of mutual indebtedness and obligation in informal groups. Everyone who belongs to a group is responsible for the other group members and vice versa. The relationships within Korean companies are characterised through the same relationship structure. Single departments can be seen as informal groups, with a ranking from department chief down to the employee of the lowest rank, and a structure of mutual indebtedness. Therefore, the associated individuals of a company can develop a high degree of mutual responsibility.

*In Korea there is no sizable separation between privacy and business. The relationship to the employees is a lot more personal. It's a relationship of mutual trust. And they know: "I see! The*

*company does not only exist to exploit me, but to look after me, when I'm badly off, and to help me." We have given loans to many, who'd piled up debts.*

This structure of indebtedness is, in a sense, economical, since all involved clearly receive benefits and rewards in the natural course of interchange, meaning quasi blindly. At the same time the structure is completely uneconomical, because it is inextricably adherent to the personal relationship. An economic relation, which is limited to the pure benefit in kind, does not fit with this relationship pattern, in which the indebtedness invariably imbeds the person.

The identity of personal relationships with business relationships of all kinds, is not limited to the Korean economic elite. Personal relationships play a vital role in all concerns of life. The thinking in categories of relations and the „*Life of trust*” (see p. 6) is not limited to a certain social class or to any age bracket.

*I'd say here it's 100% of the society, while in the Ruhr Basin [until the 1980s, an economically strong region of Germany], it's more an elite. There you have thousands of mercaneries, who work virtuously in the corporate groups. Thus, it's only an elite which is politically connected, which has political contacts. Here, you'd have the insider relationships of the elite; and then you'd also find groupings among the very common people, - and even the very young people, who've attended the same university - which are even ordered through rankings.*

### **3 Mediation**

A society which consists of groups that practice a strict separation between affiliation and strangeness, seems very hidebound from a Western point of view. The society disintegrates into its single segments when all group outsiders are strangers. As I have shown elsewhere (see Lee-Peucker 2004: 328), it is usual in Korea to belong to several groups and to asunder them, i.e. not to conjoin them. Flexibility arises from the circumstance that fewest individuals have all their groups in common. The fact, that individuals, who meet each other in one group, also belong to different groups, allows for mediation.

If one of my group colleagues belongs to another group which includes a person who could help me, I cannot approach that person by myself without causing astonishment or even disaffirmation. I would have to ask my group colleague to establish the contact for me. Even though the interest in that mediation refers to the desired benefit rather than to the person of the other group, the difference between person and benefit is not distinctive for the Korean mindset. The one is not available without the other: through mediation the involved individuals are not conveyed into a connection limited by the exchange of goods and benefits, but into a new relationship of the above mentioned structure of affiliation and indebtedness. That is, mediation is experienced as the beginning of a personal relationship.

Mediation plays an important role for all kinds of human relationship in Korean society. For many foreign companies, the commencement of a business contact depends on the social environment of their Korean employees. Employees who dispose of numerous good relationships to managers in the Korean business community are crucial for the functioning of the daily workflow and the success of the company.

*Good contacts are important for business success, and thus are a key factors for success in marketing. I believe that, even if you'd ask all marketing managers here, they'd still say that good customer relations are the key to success. Only ... in the past one could always make a good deal with good contacts. Today one needs good contacts and a good product. Actually, you can only be*

*successful with good contacts. One has to have very good contacts, but also has to offer very competitive products and services. Well, formerly one could also sell a middle-rate product, if one had a good contact. Today, I'd say, that the required product and service quality converges to the level of the required contact quality.*

*We have a staff member here who stems from a very, very influential family. I didn't know that before. His father was a highest-ranking government officer. Well, I'd probably even get an appointment with the president through him. And I really partake advantage of him. Because in many cases you'd simply need it. Sometimes we'd have these administrative problems, which you'd not resolve in a normal way. And I resolve them that way. But this is something which I am not familiar with, not in the strong form in which they know it here.*

*Quite recently I experienced a case. We had a huge problem with spare parts. There were payment and availability problems. In short, it was not solvable. It was a knot, which they couldn't untie. We must have dabbled on with it for half a year. And then I mentioned it to that gentleman with the good contacts. And he said: "I can manage the problem within a week." And within a week he did manage it. Amazing! I don't know if that'd work in Europe. I rather believe not. And we had to manage it, because it was really pressing us. And then I was really satisfied.*

These narratives are comprehensible against the background of affiliation and indebtedness. Korean employees and their counterparts in other companies and institutions interface at any given time with two kinds of affiliation: the one to their companies, which separates them, and the one to their informal group(s), e.g. alumni association, which connects them. The companies themselves constitute affiliations which are not conceived to affiliate their members to non-staff members. But the affiliation of their employees to other affiliations, such as alumni associations, *Kye*, etc., can imbed two companies into a quasi personal community and facilitates a business or an exchange of information. In other words, business relations in Korea are mediated through personal relationships. Companies are imbedded into a structure of personal affiliation through their employees, and their mutual contractual duties are immersed into the tincture of the indebtedness within an informal group beyond legal effect.

Hence Korean and foreign companies with regional experience especially take their candidate's social contacts into account when recruiting, since they play an essential role for the company's success. A business can suffer severe losses from losing an employee with excellent contacts. Sometimes, such an employee is simply irreplaceable.

## **4 Key management problems**

In the following the developed heuristics of economic action in Korea serves to illuminate the issues „*right and contract-abiding*“, „*face-giving*“ und „*individual responsibility*“, which in the field study seemed to play an important role for Korean management.

### **4.1 Right and contract-abiding**

Business relations are personal relationships within the structure of affiliation, indebtedness and mediation. As a result, particular informal rules also have to be applied in Korea for those relationships, which, from a Western standpoint, should be merely objective, like economical relations and those regulated by public law. One of my interview partners reports a very striking example.

*One example exists in the penal area: It's viewed as good to abet a friend. That goes so far that it is also regarded positively when one hides a friend from the police. As long as the friend didn't kill someone, he will easily find a hideout in his circle of friends. No awareness of wrongdoing exists. That's just the way the whole country is organised. Since it's organised in groups. And that group thinking of course collides with the German understanding of individual case justice.*

Relationships, even those which should be objective from the Western point of view, are characterised by the structure of affiliation, indebtedness and mediation. The affiliation to friends can be more important than the affiliation to society and nation. This attitude to state and legal system is not considered to be objective from the Western perspective. This applies equally for business connections. The validity of a contract is primarily based on the basic accordance of the involved persons. A stipulated contract notes the intention of the contract partners who wish to close a business deal on a certain matter in a certain manner. But the deal itself is performed according to the rules of the indebtedness structure, which perforates their entire relationship record in the sense of mutual indebtedness and debt-relief. Thereby, it is important that indebtedness und debt-relief are never fully compensated (see Park 1999: 52). There is always some material or immaterial remainder of debt, through which the group members are convoluted with each other. According to this concept, there is no isolated contract with a single and completed process of indebtedness and debt-relief.

The nature of a contract is generally diametrically opposed to the Korean culture of relationship. It is essential for contracts, that they fix the particular benefits and the related returns for a specific deal, which is handled within a specific period of time, in order to make the actions of both partners transparent, enforceable and predictable. Contracts ideally serve to give mutual certainty in respect of one or multiple matters, by determining the behaviour of the contractual partners in a written commitment. Thereby, both sides can integrate the related benefits and costs in the calculation of their companies' success and the strategy of their course of business. In this way, every contract becomes an essential basis for operation and decision making in management.

An agreement between Korean business partners on the other hand, exceeds the time horizon of a single business contract insofar as the business relation is not understood as a purely objective relation, but as a long-term, personal relationship based on trust. Matters relating to business can change by-and-by; changes which become necessary in future need not necessarily be anticipated at the moment the contract is entered into. Such changes are not signs of unfaithfulness, but only another episode in the history of the relationship of mutual indebtedness. That is the reason why contracts in the Korean business community are in principle seen as mutable.

*If one, through whatever incident, attains a too advantageous position, any partner has the right to broach the subject again and say: we should adjust the contract.*

*Contracts in Korea are conceived as mutable. One always has to expect that contracts will be modified.*

*Koreans rather look out for compromises, for a balance, for an equilibrium. And, in fact, they're prepared to adjust to balance particular matters. There are German companies which wouldn't exist anymore if their Korean partners would've insisted on compliance with the contract during the Asian crisis. Koreans were considerate of their partner's situation. They said: "Ok, then let's change the prices a little. You won't have to deliver immediately, do it later. We'll pull it off*

*somehow.” And it worked and they’d operate on that basis. And today they’re still working together. It’s things like that, which Koreans in turn find difficult in other legal systems. Such matters do not enthral them whatsoever. They say to themselves: “In Korea we’ve always done it like this. We try to be fair to each other. And now you’re talking about infringement of a contract and things like that. Well, that’s much too radical.” And the Korean side ends up disappointed on the international stage.*

*It’s very difficult to enforce the written contract. If the mood and the mutual understanding are missing, you could fix anything in a contract, but it won’t turn out right. Your word surely counts in Korea. One’s word counts anywhere in the world, but especially Korea. And we interpret contracts in our German manner, which means we want to fix everything up to the last issue. That’s rubbish. Compliance – I’m not saying that they’re unfaithful – but there’s always something. Or something which changes.*

*And what’s written in a contract – forget about that, right? That’s of no importance to the client. Nothing but personal trust matters to them. What counts here is the relationship to the partner. Your better off not even making a contract. It’s not worth the paper its written on.*

*You know, compliance with the contract is simply an interpersonal matter. And that’s just a question of give and take. It’s can’t be, that something only happens at the expense of one partner. Instead, you’d have to find a balance. And at the moment we have partners in the Korean partner company who are willing to equalise and to account for the settlement. Well, that’s human. There’s a lot that’s human. That was one of the reasons why the business didn’t take off until we established the subsidiary here. Because it was simply too far away from a human point of view. It was operated from Singapore. That made six flying hours. Yes, and then you’d have Chinese people over there. All that added to throw a little spanner in the works here and there, I’d say.*

#### 4.1.1 Work style: „face-giving” versus productivity

The attitude to duration and to the non-caducity of relationships has implications for the Korean work style. Spontaneous eagerness to work and the prompt fulfilment of the wishes of superiors, colleagues, former classmates etc. serves to demonstrate personal estimation and the priority of personal relationships to group comrades above own, egoistic wishes, aims and the inherent necessities of a business. The immediate demonstration of unrestricted commitment for the concern of others is most important. To leave unscrutinised or uncriticised the wishes of others is considered a demonstration of trust. Thus, in public one “gives face” to the other.

*If someone from another department wants to have something translated for the communications department, he’d approach one of my ancillaries who went to school with him and he’d ask him to have it translated by noon. And my assistant would drop his work at once and he’d settle the affair, because it’s for someone of his group, who is his senior. That’s perfectly common here. In the beginning I got really annoyed, because it felt like an intrusion into my territory. Eventually I recognised that it’s totally normal here, and I live with it.*

This form of loyalty may give a negative impression of the productivity and performance of the employees when viewed from an external perspective.

*Oh, that’s absolutely typical. The impulse to act. That’s an irrepressible impulse. Yes, a Korean would instantly start to work, and half way he’d realise that he’d got off course and he’d start adjusting. Well, thinking things through is not Korean. To really think something through to the end.*

*You can observe it even in major companies, like the jaebol. Koreans don’t take the consequences into account. They only think about their first step and then say: „Oh, what am I supposed to do now?” Whether in training, education or culture, I don’t know where this attitude comes from. And it’s like this in many situations. Koreans take a step and then it doesn’t work out and they say, ok.*

*what should we do now? Instead of planning the first step and searching for alternatives in case that one doesn't seem to work. Which way should we go then etc. etc. To think through the whole chain of consequences, that's not their primary task. Of course, there are firms, which operate that way, Korean firms. But actually, it's not an attribute of Koreans – thinking the whole chain of consequences through. And it's the same with unions. They said, now we walk in with a wage demand of 40% and then we'll see what happens. And then we said no. And we didn't even continue the negotiations with them. And then they went on strike, and so we instigated the lockout. They hadn't considered, that we'd do that. And we didn't let them work, even if they'd wanted to.*

In a Korean report the matter is explained a little differently.

*When I speak to a foreigner, I frequently mention that our people are very, very emotional and not rational. Even politicians are more emotional than rational because, first and foremost, they don't want to lose face. That means they have to save face in public.*

From public appearances follows that face, in the sense of the dignity of a person, becomes visible. Therefore, face-giving implies forms of exposure. From the perspective of a German interview partner the impression is given, that there is no real sense of anonymity.

*If someone from an alumni group gets married, everybody shows up. And my Korean colleague had me invited along. And that was when I'd just arrived in Korea and I didn't know the customs. So I asked the then plant manager: "Tell me, what should I do?" He said: "Well, we always give an envelope." "What do you mean by envelope?" "Well, we put money in it." "Ah, that's great. I'll do that too. How much is it?" "Well, we put that much, but you as a president, I should think it wouldn't harm if you'd put that much." "Would that be fine? Would it be enough, really?" "Yeah, that would be quite enough. If you do that, it'll be fine." Ok, now I had my envelope prepared and I hadn't put my name on it. When I arrived at the church with my envelope, there were two tables in front of it. One was the table of my colleague's party and the other table was the competition of the in-laws. So I delivered my envelope and the first thing they did, was to write my name on it. And in the list they put down the amount. That's funny, isn't it? The whole anonymity was gone. Well, that doesn't exist really. Anonymous, such a thing doesn't exist. One has to know what's proper. For someone in my position such and such thing would be proper and you'd have to play by the rules. Mostly - at weddings – they expect money, because a wedding in Korea is really expensive.*

Mutual face-giving, besides visibility, also requires a high degree of time flexibility. Spontaneous visits, for example, should not be considered an annoyance, but be appreciated as a chance for social interaction. Hence, in business it is important to give priority to the visit of a client above all other business matters, in order to express estimation towards the client.

*In Korea it's rather a personal relationship. In Germany many things are handled more prosaic and people try to separate business and pleasure. Right? In Korea that's totally uncommon. It's harmful. It's harmful. If you wouldn't let Koreans sneak around everywhere, they'd think you've something to hide and that something isn't alright with you. Or they'd even think: "He doesn't like me." Right? "He doesn't like me." And that's often the sensation in Korea. When we had a big client in Germany, who said: Ok. I'll come and take a look at your plant. Then we'd plan the target date four weeks in advance. And when the client got there, the red carpet was rolled out, right? And everything was prepared fine and awesome. Here in Korea, the biggest client might drop in and say: "I'm in Seoul right now, can we meet?" Without notice. That's the standard here. Many clients just drop in and say: "Here I am." And "Do you have time?". You have to get used to that. Well, after six years I certainly am used to that, and then it's not a problem. You should always – when you plan your day – leave a little space in reserve and not schedule everything, right? Because something unexpected happens anyway and then you'd have to react flexible.*



To affront a client with an argument like time scarcity can have lasting negative effects on the relationship. The client will barely understand that the momentary priority of business matters is not identical with a lack of appreciation of his person, since there is no difference between business and private contexts.

#### 4.1.2 Communications: „face-giving“ versus discussion culture

In Korea, the face of a person is a public matter, which can be damaged easily through open conflicts and misunderstandings. Face-giving implies that situations which can jeopardise the face of others or one's own face, like e.g. the expression of criticism, disapproval, or even disfavour, are avoided systematically. As a result, business matters in companies which are meant to be handled according to factual criteria while the face of the person who is in charge of the matter remains secondary, frequently bring about obstacles and misunderstandings in the Korean context.

*The employees are loyal and they never object. That's a major problem. People have enormous respect for the superior. To say: "This isn't right" is impolite. Only if one repeatedly broaches the subject would they mention something.*

*And there's a problem with the interaction with Koreans: You always have to talk to them individually. There is no sense in group meetings, like in our Monday morning sessions in the past. You won't get any feedback. Any question I direct to the group remains unanswered. Categorically. Something like an open discussion doesn't exist, right? I can talk to them individually about anything and, in that case, I find out a lot. But I cannot step in front of the group as their boss and say: "Today we'll discuss this or that matter, which exceeds what each of them considers to be their daily task". Whenever you try to have a discussion which involves a valuation, a development of thoughts, or creativity, the communication does not work at all. No, I believe, that there is simply no disposition for that. Or it is not intended within the Korean system. Meaning that, nobody has learned it and therefore they're not capable of it. And even if I'd ask simple questions in such a meeting, there wouldn't be any responses.*

From the report one cannot conclude that there is no room for an open discussion beyond the danger of losing face. One in this sense face-free zone is the face-to-face communication and, within a department or a group of coequals, the get-together after work.

*Many are used to going drinking together in the evenings and then they'd have a few as well. Actually, they're not stingy at all. And that's exactly the situation when, in my view, people are totally level-headed, but no-one takes amiss if one talks about matters which, without alcohol, would never come up. And sometimes they'd really speak their mind. And the next day it'd be all forgotten. But they'd still have the criticism in mind, and accord by it. Thus accepting the criticism by doing things differently or leaving things as they were. But the message got delivered anyway. The vent provided by alcohol is generally very important to Koreans. And essentially, that makes for the kind of drinking culture that prevails here. People regularly meet up for a few drinks, because once in a while you'd have to tell each other off. Whereas they still stick to their groups. It may be that only the secretaries go out together or they only join each other up to a certain level. Those go out together and the people from the other level go out among themselves, etc. That's, I think, something which is pretty distinctive in Korea, and which is mostly maintained.*

#### 4.1.3 The problem of individual responsibility

The need to save one's own face, and the face of others, not only influences the way employees communicate with each other, but also the way decisions are made and how responsibility is assumed in a firm.

*The willingness to perceive the employee as a partner who can accept and bear responsibilities, doesn't exist.*

*Virtually nobody can say that he's been responsible for a certain problem.*

*There is some shortcoming in decision making. Individual decision making has to be enticed.*

*I certainly set many tasks which appeal to the employees' creativity. And I try to motivate the staff to suggest own modification proposals, own suggestions for improvement. I try to motivate the staff to challenge the status quo. To say whether it's alright, what we're doing, and how we're doing it, or if there isn't a better way. And naturally I try to assign them to very concrete tasks, like e.g. writing a report about this and that, or the compilation of an elaboration, or less fundamental, succinct administration stuff, like for example, writing job descriptions for all staff members. Or, let's say, to control the cost situation. Things like that. And again and again I have to realise: The creativity – either it's not existant – I dare say bluntly – or it's not expressed.*

A German, who works in a Korean firm and is responsible for international business, describes a case which illustrates the foregoing statements.

*It was a matter worth 30.000 Won<sup>7</sup>, which was decisive for closing a deal. The boss was not in. He was not available, and he has this office manager who's actually supposed to make decisions in his absence. Or rather, she should do. I said to her – to that office manager: "Please pay the 30.000 Won to that firm, otherwise I won't get the deal. "I can't make that decision.", was her answer. Then I said: "Ok, if you can't make that decision, I'll make it. Please pay the 30.000 Won, because the deal is worth several thousand." Not to close the deal because of that 30.000 – moreover we'd annoy those people. I don't have much appreciation for that. I mean the whole deal was only about 30.000 Won!*

Many of my non-Korean interview partners reported their observations on the fact that responsibilities were divided among employees because nobody wanted to assume sole responsibility for a matter.

*It's actually hard for me to grasp. I can only say that there are always too many people involved and that nobody knows exactly what's going on. And that's the problem. I can't say: You are responsible and you delegate. They'd rather work on single nuggets so that everybody does something. And in the end you'd try to get four or five aspects merged into one and they won't fit.*

According to the observations of a German manager, Koreans frequently try to bypass situations in which responsibility has to be taken and decisions have to be made by themselves.

*The subordinates approach their superior again and again, me or others, and say, "I've a problem here, what should I do?" I could offer a solution or a suggestion, of course. But I've to repress myself and say: "Did you ever talk to your colleague about it?" "No, I didn't" "Well, then you should talk to him first. What's his opinion? What does he have to say to the matter?" And sometimes you'd have to be pretty raving and say: "I don't wanna hear anything. You'll arrange it amongst yourselves. Whatever you'll figure out will be fine." That's not easy. They certainly accept that they should talk with each other. But they don't do it. That doesn't correspond with their education or their culture. But it will certainly emerge eventually. It's permanent, permanent training. Permanent reinforcement: "Did you do this, did you do that and that?"*

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<sup>7</sup> 30.000 Won are roughly equivalent to 23 Euro.

*Something they don't do is to extenuate a task. They really stick to their path, even if they realise that they're not getting anywhere. Then they'd rather ask: "What should we do?" Instead of adopting a new stance and trying to proceed from there. Then they'd be too worried about ... if they didn't follow the path precisely, they'd get in trouble. Someone would blame them and that's the worst one could do to them. Blameing a Korean. You really have to watch out not to blame.*

A mistake which can be traced back to a single person is considered to be a loss of face for the whole group, since the person did not consult with her group, to avoid the mistake on behalf of all group members. From the Western viewpoint this thoughtfulness seems excessive and is considered to stem from a lack of self-dependency. From the Korean perspective it is a matter of compliance with basic rules which are essential for the harmony of the group.

## **5 Final remarks and outlook**

The main task of this paper was to reflect empirically some of the main specifics of economic action in Korea against their cultural background. While attempting to investigate the intrinsic coherence of economic action in Korea it was my particular interest to inquire after the erspective of the agents. This made a qualitative study as a method promising to me. My empirical study was carried out with the help of participant observation and non-standardised interviews. Both methods were applied for the research on-site. Whereas the participant observation served more for the contextual approach, the non standardised interviews formed the core of the study. The evaluation, as well as the composition of the illustrations, were primarily focused on the inner cohesion of the interviews. Those passages were especially selected, where the interview partners explained their own thoughts, actions and movitations.

The heuristics of affiliation, indebtedness and mediation is the attempt to expose the inner logic of Korean relationships in the economic realm with the help of experience-near concepts, and to reflect some particular intercultural problems in daily business life on its basis. The heuristics might also provide a practical output: It can help to reduce on-site transaction costs of economic action.

Many west Europeans and Americans facing the practical implications of traditional patterns on interpersonal behavior in business and politics, share the opinion – especially because of phenomena like nepotism and corruption – that Korea should entirely abandon its traditional social order.

*But when you read in the newspaper about the scandals; a father, who grants his son shares to avoid the inheritance tax. When you see how things are manipulated. For example, when that German WZ-bank got involved with the Korean XY-Bank, the vice president of the WZ-bank was responsible for the credit business and he felt weird about Daewoo, but had never had anything to do with Daewoo before. And then he said: "Ok. They have so many subsidiaries, let's juxtapose all balance sheets and try to get an overall picture. And then he felt dizzy. He said: "They're all totally convoluted with each other. Our bank concedes a credit here and the money ends there. See? And they transfer it again, and so on. That's a huge house of cards and someone could take a card from below and ... That was quite obvious. The German banker takes a look and consequently reduces the credit amount before the big blowup. Samsung surely did a better managerial job and more prudently, but they too have cosy links and manipulations.*

To be geared to the West is necessary according to many foreign managers.

*Korea did push keenly in 1996 and 97 to be recognised as an OECD country, as a nation of international standard, and thereby pretended to actually justify such a standard. But actually, many standards weren't established. And the OECD status, or the status of a worldwide trading country which wants to be taken seriously throughout the world, needs to be open enough to give and take. But Korea is a typical export nation and only wants to give. We don't want any imports. I'd say, imports are still considerably overpriced, are basically locked out. Foreign investment is only accepted where local interests are not injured. It's still like that. The IMF crisis did absorb a considerable portion. Meaning that now many things are possible which weren't possible before. But it remains too limited. Even the IMF only scratched the surface.*

*Well, my opinion is that if the Koreans want to play in the top league, then they'll have to play by the rules. And if they're not ready to do that, they simply won't play along anymore, because one thing is certainly necessary for the European and Northamerican legal system, both of which are economically dominant, they'll insist on compliance. And I'd say that the Korean will have to move strongly into that direction as far as international businesses goes. That'll certainly have an effect within Korea. But that doesn't imply that Koreans will have to abide Western standards. They'll certainly adopt some rules. If I'd wanted to play along on international financial markets, I'd face specific rules, it's the same thing. And the big companies here are learning that certain basic economic rules cannot be overridden persistently; not even by the jaebol.*

The same interview partner also gives his assessment of the current state of the Korean economy.

*Yes, it's an entirely new sensation that companies can die out. That's a completely new sensation. And that'll certainly change the culture here. They'll have to find new rules for some areas, which will have to cope with the new situation. And I think, one can imagine the way it'll look then, because it'll be based upon the existing horizon of experiences. On the other hand, a lot of things really have to change. And people usually do not change because they want to. Changes happen only when people have to change. And it's like this throughout the world. It's not different at all in Germany. Now, if you think about the big problems in Germany, leaving aside tax reform and some other things, the Germans too only act when there is no other way out. Of course, I'd say that Koreans are not in the front line when it comes to changing things. They're mainly conservative, in most matters. But those conservatively handled matters have to be changed. That'll take it's time.*

The assessment of the Korean economy according to international standards would require that business relationships be judged on the basis of modern economic theory. From this point of view, economic action which involved individuals who did not selfishly pursue their own economic advantage but move within the daily and traditional practice of the Korean relationship culture, would easily appear as irrational or even corrupt. Accordingly, the assumption of the rational, egoistic profit maximiser of modern economics would reflect a negative image of the Korean economy. The idea of an individual who is isolated from others and makes choices solely on the basis of personal preferences and in the scope of given restrictions, is not provided in the traditional Korean mindset. From there, differences with respect of the application of rights, e.g. such as are established in a contract, or in the relationship of a company to its employees, arise. Foreign managers are readily inclined to rate the Korean economy as an underdeveloped system which is still not accomplishing the basic standards of the global economy.

This does not imply that the idea and the tendency to act without consideration of the counterpart's personality that would accord with Western cultural standards does not exist in the Korean economy. But if only that side of the Korean economy was taken into consideration, the evolving picture would be one-sided, incomplete and even misleading for foreign business partners.

Intercultural differences and conflicts, as well as the ability of economic and political agents to cope with them, efficaciously influence the actual efficiency of companies and even of economies as a whole. This is not only true for culturally afar areas, like the Asian continent, but also within the European Community.

According to Ulrich Beck (1997: 80, similarly Leggewie 2003 and Giddens 1999) there is no such thing as cultural globalisation. He claims that cultural experience, in the past as well as in the present ... never obeys the tendency of unification and standardisation. The „*dialectics of globalization*“ does not correspond with the widely spread thesis of the „*linear growing convergence of cultural contexts*“ (ibid.). Moreover, he sustains the thesis of Roland Robertson (1992), whereby globalisation at the same time signifies localisation.

*In the literal sense of the word no one can produce anything “globally”. Firms which produce and market “globally” must also develop local connections: that is, their production must be able to stand on local feet, and globally marketable symbols must be “creamed” off local cultures (which therefore continue to remain lively and distinctive). ... Coca-Cola and Sony for example describe their strategy as global “localization”. Their bosses and managers stress that the point of globalization is not to build factories everywhere in the world, but to become a part of the respective culture. “Localism” is what they call this strategy, which gains importance with the spread of globalization (Ulrich Beck 2000: 46).*

But localisation, for Beck, does not signify the „*renaissance of the local*“ (2000: 46), because local cultures of today can hardly develop in isolation from the rest of the world. Instead, the intensification of mutual dependency leads to an emphasis, defense and respecification of the local culture (ibid.). Thereby, direct contrasts to other cultures in particular do not appear, but phenomena like e.g. human rights, which in most cultures indeed are respected as universal rights, are rather interpreted very differently and according to the particular cultural context (see Beck 2000: 92).

Therefore, cross-cultural management research will unquestioningly retain its importance as a principal discipline in management research. But its future development will depend even more on the ability to conceptualise the worldwide increasing cultural diversity and complexity.

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