

THE SUCCESS FACTOR OF FOREIGN DIRECT INVESTMENT:
THE CASE OF YUHAN KIMBERLY

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Company Overview

Yuhan Kimberly Limited (Yuhan Kimberly) was founded in 1970 through a joint investment from Kimberly Clark Corp. and Yuhan Corp. Kimberly owns 70%, and Yuhan owns the rest. Yuhan Kimberly's revenue reached 396 billion won, with profit of 12 billion won, in 1997. Currently, 1,700 workers are employed. The main products of Yuhan Kimberly are diapers, waste paper, and sanitary napkins, which are produced at three factories.

Environment-Friendly and Solid Financial Structure

Even though Yuhan Kimberly was established by foreign capital, it was able to localize successfully in Korea. Now, it plays important role in the paper manufacturing

industry in Korea. Generally, paper manufacturers are recognized as environment-destructive companies because they are utilizing trees as their raw material. On the contrary, Yuhan Kimberly is regarded as one of the most environment-protective companies in Korea. Yuhan Kimberly made great efforts to improve productivity, and currently all products are produced at the lowest possible cost. Employees are voluntarily participating in enhancing the working process and in upgrading their job skills.

Yuhan Kimberly has never posted a deficit since its establishment. According to recent financial statements, the ratio of operating income to net sales has been 2%~5%p higher than the industry average for years. In 1997, the total amount of capital was 120 billion won, while liabilities were 254 billion won for a debt ratio of 210%, which is far lower than the average ratio of the other companies, 360%. In addition, other financial ratios such as liquidity ratios and activity ratios, are also much better

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<Table> Major Financial Data of Yuhan Kimberly

	1993	1994	1995	1996	1997	(billion won) average
sales	239.2	268.1	321.5	344.7	395.9	
operating income	29.1	31.4	33.5	42.2	48.3	
ordinary income	16.2	15.2	16.5	25.0	21.5	
net income	7.9	8.3	10.6	14.4	12.5	
sales growth rate(%)	14.7	12.1	19.9	7.2	14.8	13.7
operating income to net sales(%)	12.1	11.7	10.4	12.2	12.2	11.7

than other companies’.

The Key Success Factors

“By simplifying the organizational structure, Yuhan Kimberly was able to avoid undesirable decision-making jams.”

“The key points of Yuhan Kimberly’s training program are that it emphasizes raising employees’ loyalty and develops flexible thinking rather than focusing on a mere transfer of knowledge.”

Yuhan Kimberly has succeeded by focusing on the “basics” rather than pursuing “greedy” actions. Yuhan Kimberly has tried to emphasize raising profitability instead of enlarging sales or the mere size of the company. With this principle and four major strategic actions mentioned below, Yuhan Kimberly has been able to develop and sustain its competitive advantages.

First, through various promotion activities, Yuhan Kimberly was able to develop a positive image. It maintained an image rebuilding program for the purpose of not only reducing local people’s negative pre-conception toward foreign capital, but also developing a new distinctive competence in an industry where there is normally little possibility of quality differentiation. In particular, the “Uri Kangsan Puruke Puruke (making our country green)” campaign which started in 1984 gave customers and the general public a solid belief that Yuhan Kimberly is a good protector of environment.

Second, through successful localization, Yuhan Kimberly was able to become a real ‘Korean’ company. All employees including the president are Koreans, and profits are reinvested in Korea. Furthermore, their products were developed and changed in accordance with Korean customers’ behavior patterns. Market analysts were positioned in each product division to identify the changing customer needs.

Third, by simplifying the organizational structure, Yuhan Kimberly was able to avoid undesirable decision-making jams. Their slim and flat structure shortened the decision making chain by two or three steps. The post managers are in charge of most proposals except for very important matters which are taken care of

by division managers. The president only cares about exceptionally important problems such as over-budgeting investment or something contrary to the corporate goal. He usually spends most of his time predicting changes in business conditions and designing the long-term strategies of the firm. MBO (management by objects) was also very helpful for reducing unnecessary meetings and intervention from the parent company.

Fourth, through effective training programs, Yuhan Kimberly was able to enhance its profitability. In the belief that education and training are the energy for sustained growth, emphasis was placed on employee training (300 hours for one employee a year). By introducing OJT (on the job training) they could successfully transfer knowledge accumulated by senior employees to other employees; through liberal arts courses, they were able to develop employees’ initiative spirits. The key points of Yuhan Kimberly’s training program are that it emphasizes raising employees’ loyalty and develops flexible thinking rather than focusing on a mere transfer of knowledge.

As mentioned above, Yuhan Kimberly has made an outstanding performance through various promotion activities, localization, organizational restructuring, and an effective training program. Most of its products maintain the largest market shares in Korean market.

In the 21st century, Yuhan Kimberly will try to stabilize its footing in Korea and become the largest paper-manufacturer in Asia. Toward this end, it is expected to use more aggressive marketing strategies aiming for the Asian market. Also, Yuhan Kimberly is trying to diversify its customers; in order to expand its market basis, it is essential to introduce products for industrial uses as well as traditional consumer goods. **VIP**