

# KOREAN COMPANIES ' MANAGEMENT STRATEGY IN 2002

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Korea 's economic slump is continuing and export industries have been hit hard. There are even concerns that Korea might face a new economic crisis like the 1997 IMF crisis. In response to the uncertain situation, Korean companies are implementing a wide range of management strategy reforms. These measures include austerity policies and emergency management systems, efforts to improve company basics, as well as strategies to find opportunity within the crisis. This article examines the characteristics of Korea 's economy, changes in management conditions, and the management strategies and goals of Korean companies for the coming year.

## Uncertainty continues

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Due to overall economic stagnation as well as the war against terrorism, low overall growth in the world economy is expected to continue. The advanced countries are forecast to face more stagnation due the contracted consumption and investment sentiment in light of possible terrorism in the US and the ongoing war on terrorism. Meanwhile, developing countries (with the exception of China) are experiencing slower growth due to the slump in the advanced countries and a continuing downturn in the world IT industry.

If the US war against terrorism drags into the long-term, it will probably delay recovery of the world economy, which went into a downturn in 2001. According to IMF forecasts, the world economy will grow by around 2% in 2001 as well as in

Table 1. Projected Economic Growth Rates

	1998	1999	2000	2001(E)	2002(E)
World	2.8	3.6	4.7	2.4	2.4
US	4.3	4.1	4.1	1.1	0.7
Japan	-1.1	0.8	1.5	-0.9	-1.3
EU	2.7	2.7	3.4	1.7	1.4
China	7.8	7.1	8.0	7.5	7.1

Source: IMF, World Economic Outlook, September 2001.

2002. This is about half of the 4.7% growth rate seen in 2000.

The Korean economy is expected to slowly recover after the third quarter of 2002. If the external and internal conditions for a recovery are satisfied, the economy may begin to recover in the second half. However, because of factors such as low export prices, a steep recovery is not expected, and GNI per capita is not expected to reach the levels seen in 2000.

Domestic industries are expected to see continued stagnation in the first half of 2002, followed by a slow recovery. Factors in recovery include how much longer the war on terrorism will continue, Korea's policy stance on interest rates, and the effectiveness of policies in stimulating domestic demand.

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### Strategic response

First, domestic companies need to prepare or maintain their emergency management systems. The ongoing US war on terrorism has delayed recovery of the world economy, which is expected to grow by around 1% in the first half of 2002 and 3% in the second half. Companies need to pursue austerity and total risk management to deal with the market risk.

Companies will also have to focus on profits due to tight financial conditions. These include the difficulty in bond renewal (971.2 billion in bonds were repaid in September), as well as the increasing polarization of the financial market. Companies should re-evaluate their businesses and select key areas in which to concentrate their investment in order to cut costs and raise profitability.

Another issue for Korean companies is introduction of advanced management know-how. If companies are to find new business opportunities after the second half of 2002 ahead of their competitors, they need to innovate their management systems.

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**Table 2. Determining Factors for Economy in 2002**

	External	Domestic
<b>Real Factors</b>	<ul style="list-style-type: none"> <li>– Conditions in advanced economies</li> <li>– Condition of IT industry in the US</li> <li>– Conditions in emerging markets</li> <li>– Prices of oil and raw materials</li> </ul>	<ul style="list-style-type: none"> <li>– Export performance</li> <li>– Effectiveness of economic stimulus policies</li> <li>– Trends of private consumption and facility investment</li> <li>– Extent of government deregulation</li> </ul>
<b>Financial Factors</b>	<ul style="list-style-type: none"> <li>– Stability of international financial markets</li> </ul>	<ul style="list-style-type: none"> <li>– Recovery of financial intermediary function</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>– Length and targets of US war on terrorism</li> </ul>	<ul style="list-style-type: none"> <li>– Gains from World Cup</li> <li>– National elections</li> </ul>

This could be through the improvement of core technology to react to market demands, the strategic formation of networks with leading foreign companies, and the introduction of a creative management style that emphasizes the proactive use of knowledge and creativity.

To prepare for the continued slump in the first half of 2002, companies should focus on several objectives. First, steady sales performance should be pursued by strengthening business functions, preventing the defection of the existing customer base, and avoiding mere external growth without profits. Considering the continued economic slump in the first half of 2002, sales growth targets should be set slightly above those of the first half of 2001.

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Decisive cost-cutting should also be on the agenda. Efficient personnel management is one avenue of cost reduction, which could include wage freezes, introduction of a performance-based compensation system, and the introduction of a retirement management system. In addition, fixed costs should be converted into variable costs by outsourcing peripheral tasks. Cost competitiveness should be gained through target cost management systems and zero-base budget management.

To achieve adequate profitability in order to maintain company survival, profit-based management systems should be used to emphasize stability. Here, adequate profitability refers to return on equity (ROE) or economic value-added (EVA) rather than simple net profitability. This value should be set above the industry average.

### Long-term adjustment

*In the second half of 2002, sales are expected to expand 20% from the first half, resulting in a 10% sales increase in 2002 from the previous year.*

For the longer term, after the expected recovery in the second half of 2002, companies should expand sales by introducing new products in a timely manner. Companies should release their new products when new demand arises from the economic recovery, and aggressive marketing strategies such as expansion into new markets should be used to increase sales. In the second half of 2002, sales are expected to expand 20% from the first half, resulting in a 10% sales increase in 2002 from the previous year.

Profitability should be increased by raising product value-added and rationalizing management activities. Product value-added should be raised in the second half of 2002, and profitability should be improved through measures such as rationalizing R&D and streamlining the organization. Profitability should be gauged in ROE or EVA terms.

Finally, companies should reorganize themselves into value-creating entities. This can be done through innovating the management system to continually create new value. Core technology should be strengthened by acquiring top-rate talent, or through strategic alliances, M&As, and A&D (acquire and develop) with leading companies. The long-term goal should be to introduce advanced management practices such as creation of an open network along the company's value chain with competitive companies in related and unrelated industries, and establishment of a knowledge creation cycle that allows the smooth application, improvement, and addition of knowledge. **VIP**