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Vision-driven strategy the Korean way

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South Korean companies have for years been among the fastest growing in the world. The results of this can also be seen in Finland: STX purchased the major Finnish shipyards some years ago, and more recently Samsung has passed Nokia in the mobile phone market. Kia and Hyundai cars have rapidly risen to become leading brands, seriously challenging the Japanese automotive manufacturers. Hyundai is now also making its inroads to the European wind power market by first getting a foothold in Finland.

To understand how Korean companies drive their growth, Reddal traveled to this rapidly developing country and visited multiple companies in October 2011. The objective was to understand how Korean management thinks about strategy and how they translate their ambition into execution. We also wanted to compare the Korean approach to that used by Western companies to see whether there are any significant differences.

A rapidly growing economy

South Korea has for decades been one of the fastest growing economies in the world. During most of the 80s and 90s South Korea's GDP growth rate was 2-3x that of Finland's. Although in the 00s the difference has gotten smaller, South Korea has still managed to maintain a clear lead, also through the last years. This may be somewhat surprising given the Koreans' propensity to high financial leverage, which makes them vulnerable for financial crises.

Despite high exposure to debt, South Korea has clearly beaten Finland in the 2008-2010 crisis years according to the World Bank.

The two countries are in many respects very different. While Finland has managed a social policy that avoids excessive capital concentration, South Korea has pushed the dials very much in the opposite direction. Capital concentration and strong lead families are the norm, and their connection to the government very tight. Income ratios between the highest and lowest earners also differ markedly between the two countries. Yet there are also similarities. Strong owner-families have not completely disappeared from Finland, as witnessed by companies such as Kemira and Kone. Both countries have strong industrial footholds in machinery manufacturing and telecom. Granted, in telecom Finland now seems to be losing its edge, partially due to the strong onslaught of Korean companies such as Samsung. Similarly, in shipbuilding Koreans have achieved world dominance, while Finland has lost its position. Korean STX now runs the major Finnish shipyards in Helsinki, Turku and Rauma.

The starting point: State a compelling vision and set ambitious targets

Traveling across South Korea and visiting both large and small companies, we had ample opportunity to study the Korean approach to strategy. What becomes evident immediately, both when talking to executives as well as employees of Korean companies, is the emphasis on a bold vision for future prosperity. This applies both to politics as well as business: when the Koreans elect their President, one of the first tasks of the new leader is to present a five year plan for the nation, outlining how the country will drive its growth and development. The large chaebols (conglomerates) then adapt to this plan, securing that their activities are aligned with the nation’s ambition. The Chairman of a major company often details the vision in a new year’s letter to the employees, outlining the key areas and activities the company needs to focus on. When a big revision is due, the new vision is published in a big celebratory event and widely shared across the group. This whole approach contrasts sharply with Finnish companies, where vision and mission statements certainly do exist, but where their role is often reduced to impersonal marketing slogans. In Korean companies, the vision is bold, linked to the leaders and taken seriously. When people look for jobs, a key consideration is the credibility of a company’s vision and its implications for long term prosperity.

In Korean companies the vision not only defines key focus areas, it also sets some very ambitious growth targets. Often these targets are on the order of 4-5x current revenue within the next ten years. It does not seem to matter if current revenue is 1B€, 10B€ or 100B€, the factor 4-5x seems to be quite universal, indicating an insatiable hunger for growth. Setting the target high seems typical for the Koreans, and it is also reflected in the incentive systems companies use. Expectations to exceed the (already ambitious) targets are the norm; just reaching 100% is not enough. The difference to Finnish major companies is quite clear, as their growth targets usually are more moderate with factors around 2x growth within ten years. More importantly, Finnish companies seem to stop around 10B€ revenue, with only a handful companies having ever crossed this barrier.

The high ambition of Korean companies may partly be driven by their intense internal rivalry.

In almost every sector the large Korean chaebols are competing fiercely against each other. The competition continues further back in the value chain as suppliers often link to specific chaebols quite tightly. New companies appear rapidly, so that ultra-competition appears even in new business areas. Often the sources for new companies are the chaebol networks themselves, which spawn SME companies to serve the larger conglomerate. Again, the Finnish economy is quite different – major companies rarely compete in any significant degree with each other. Rather they have evolved into leadership within their own focus area (which unfortunately in many cases is quite narrow). In addition, the Finnish major companies are regrettably passive in new venture creation.

Implementation secured by detailed execution plans and incentives

As described above, the Korean strategy process evolves along the steps of defining the vision (publicly signed off by the Chairman), setting very ambitious overall targets, disseminating the targets for the units and aligning incentive systems with targets. This seems to be followed by quite detailed execution planning (sometimes in the form of very specific action lists that are followed up rigorously at monthly intervals). Interestingly enough, while the process seeks to look at long-term growth, the execution plans and incentive systems ensure managers cannot relax in their day-to-day operation. Also, while on the corporate level growth can be driven by major acquisitions with substantial leverage components, operative management on the business unit level must often demonstrate self-funded growth (similar to the typical mantra of “profitable growth”, or “kannattava kasvu” often heard in Finnish companies).

Hierarchy and democracy mixed

The Korean strategy process reflects the paternalistic culture of the nation, where respect for the elder runs high. The leader is considered responsible for his employees, like a father is responsible for his family. Contrast this with the strategy process of many Finnish major companies, where leadership teams debate strategy and potential actions, and where employee “buy-in” is required before execution can commence. This often results in a sluggish process, which at times focuses on areas less relevant. While there certainly are many benefits of dialogue and debate in the strategy process, sometimes lack of vision and strong leadership can cause the entire process to fail.

It should be emphasized that while Korean culture from the outside appears very hierarchical, there in fact exists a considerable amount of debate within the company. Leaders listen to their subordinates and often ask for their opinions. Yet, once the decision time comes, the leader steps up and takes his role fully. In this respect successful Korean companies seem to have been able to combine strong leadership and vision with a democratic process that involves front line staff, thus securing the execution of agreed tasks. This approach is perhaps not very surprising, given South Korea’s history and especially its on-going military engagement with North Korea. There are certainly militaristic elements in the Korean way of conducting strategy and execution, and the active involvement of front line staff to gather the best possible intelligence to a given problem fits in this picture quite well.

Finnish companies display some similarities to the non-hierarchical debate described above. However, given the lack of strong vision and ambition, it seems Finnish companies cannot leverage this capability fully.

Comprehensive analysis versus business insight

One apparent flaw in the Korean strategy process is the reduced emphasis on extensive strategic analyses, at least when comparing to the Western style of detailed analysis at the start of most strategy efforts. However, it may also be that the emphasis on a top-down vision allows Korean companies to focus their analytical efforts on those areas that matter most. For certain, they seem to put considerable emphasis on financial analyses of the practical implications of executing the strategy. At the same time, a caveat in the Western process is that extensive analysis up front may lead to “analysis-paralysis”, leaving behind very little conclusions and focus and even less innovative thinking. In this respect, developing a long term vision and storyline up front and using that to focus the strategy process may be the more effective approach. A top-down approach requires senior management to leverage their business acumen from the start, and then having their ideas tested by more detailed analyses. It also gives more room for innovation and novel approaches.

Entrepreneurship is a key component in the overall approach

The strategy process by itself is probably not the key when comparing the growth of Korean companies with their Finnish and Western counterparts. An interesting aspect of even very large Korean companies is that senior management team members can at times be very entrepreneurial, encouraging the establishment and building of new business units, and giving these units time to build their position. This combined with an often quite keen understanding of the business dynamics and active internal debate across hierarchical layers, provides a fertile management culture for growth. A related aspect of the Korean management culture is fast decision making. While the emphasis for long-term vision certainly dominates, rapid changes, opportunistic plays and intuitive decision-making are quite frequent. Again, similarly to their ability to balance hierarchy with informal discussion, the Koreans seem to balance long and short term actions in order to maximize growth.

Learnings from the Korean vision-driven approach could help Western companies grow

Korean companies clearly emphasize strong leadership and long-term vision much more than their Finnish and Western counterparts. Koreans manage to do this without sacrificing internal debate and analytics, or becoming sluggish in their decision-making. Due to a culture of intense rivalry, Korean companies come across more growth hungry and less risk-averse, often employing a very high degree of leverage (ratios of 90% are quite common). Korean culture includes a heavy dose of entrepreneurial attitude and quick decisions when opportunities arise, supporting a continuous aggressive search for growth in current and new markets. This attitude differs markedly from the more cautious and analytical approach of many major Finnish corporations, and so do the results – Korean companies are posting impressive growth numbers while the Finnish economy is somewhat stagnated. For sure the

Korean companies also have their challenges; the surrounding countries are increasingly challenging Korea, and within the country opposition to the high income differentials and preferential treatment of the large chaebols is increasing. In addition, the Koreans are quite nationalistic, at times depending too much on Korean staff, thus making it difficult for them to benefit from the global talent pool.

Finns cannot directly copy the Korean model, nor will Finland's economic structure lend itself to the Korean highly leveraged approach. Korea has a larger domestic market, and it is also a nation at war. On the other hand, just like their Finnish counterparts, major Korean corporations derive a majority of their revenue from exports. There are many areas where Finnish and Western management teams can learn from the Koreans, in particular when it comes to a solid long-term vision, a healthy appetite for growth, strong performance culture, and entrepreneurial attitude. Capturing these lessons could be quite valuable to secure growth and future prosperity!

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