

# The Strategic Decision-making and Its Impact on Corporate Performance in Korean Trading Conglomerates

한국 무역기업집단의 전략적 의사결정과 기업성과

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## Abstract

In the process of managing organization, the strategic decision-making and corporate performance are not independent, but they are interdependent each other. In most Korean firms, decision-making power and authority are concentrated on the higher echelons of managerial hierarchies. Examining big five trading conglomerates in Korea, this present paper investigates the relationship between strategic decision-making and a corporate performance. Although a number of review studies on Korean management have been developed over the years, there have been less works designed with decision-making in mind. In order to achieve research objectives, this paper predicted some hypotheses, and the major findings include: 1) the influence of Korea's long-standing Confucian tradition and culture dominated across organizations, there have not been significant changes in decision-making process within big five trading firms; 2) top executives' excessive involvement in decision-making process does not hinder corporate performance. This result implies that the decision power is still tended to be centralized in the hands of the top management. 3) However, the power of Board of Directors in decision-making has become increasingly important; and 4) decision makers do not tend to misuse or abuse their political position and power for their own interests.

Key Words : Corporate Culture, Corporate Performance, Korean Trading Conglomerate, Organizational Change, Power and Politics, Strategic Decision-making, Strategic Management

## I. Introduction

Decision-making is a fundamental activity of strategic management in any organization, and, therefore, managers must make decisions which significantly affect their organizations (Martinsons and Davison, 2007). In the process of implementing strategic management, a firm may rely heavily for its success on its decision-making processes. Although a firm has a specific type of strategy, a competitive organizational structure and an amicable business environment, its irrational and incoherent decision-making may impede the accomplishing of its managerial goals. As a result, a firm's successful implementation of strategic management is intimately associated with its decision-making.

Most Korean firms have unique decision-making cultures which are quite different from those of Western countries. The influence of hierarchical system in Korea impacts on management behaviors, such as business strategies, organizational structure, human resource management (HRM) and decision-making (Rowley and Bae, 2003). Previous literatures suggested that decision-making in Korean firms is, typically, highly centralized in the hands of the top management. Decisions, in particular, relates to financial issues is always centralized to and tightly controlled by top management in most Korean organizations (Kahal, 2005). However, there is no visible resistance to this decision-making system, because of the Confucian ethical system, which entails paternalism, loyalty and respect for elders and seniors (Chung, Lee and Jung, 1997).

Big trading conglomerates in Korea such as Samsung Corporation, Daewoo International, Hyundai Corporation have rapidly developed until the mid-1990s with their traditional management system. But, since the national economic crisis in 1997, there has been general consensus that the Korean businesses can hardly be restored to international competitiveness unless they were reformed. Since then, under the government-led restructuring plan, substantial organizational change in its depth and extent was occurred in terms of corporate governance, decision-making, corporate culture, HRM and organizational structure.

With this in mind, this paper attempts to analyze the linkage between strategic decision-making and corporate performance within big five trading companies in Korea. More specifically, it examines the relationship between their corporate performance and 1) top management's excessive involvement, 2) the delegation of decision power, 3) decision-maker's dependency on power and politics, 4) decision-making culture, and 5) Board of Directors' (BODs) involvement in decision-making process,

respectively.

The structure of the rest of this paper is as follows. Firstly, the next section reviews background of this current study with some relevant studies on Korean firms. Secondly, research hypotheses to be derived based on literature survey. Thirdly, research methods used in the current study and the results follow. Finally, this paper presents some conclusions and discussion.

## II. Research Backgrounds

During Korea's rapid economic growth period, big five trading conglomerates: Samsung Corporation, Daewoo International, Hyundai Corporation, Lotte Corporation and Hyosung Corporation (all of them are one of the main affiliated firms in *Chaebol* groups) progressed rapidly in scale with their strong corporate cultures. For instance, seven major trading firms have recorded an astonishing export growth rate average of over 40% during the national economic growth period. By 1982, their share accounted for more than 48% of Korea's total exports, and this situation continued until the early 1990s (The Handbook of Korean General Trading Companies, 2005).

However, business volumes conducted by them were starting to gradually decrease from the mid-1990s due to the change of macro environment (e. g. liberalization of world commerce, Korea's national financial crisis, etc.) and micro environment (e. g. organizational problems, high competition among existing rivals, etc.). Of many reason of business downturn, their short-sighted executive decisions based on limited financial and strategic analysis led companies to the brink of bankruptcy with mounting debts (Shim and Steers, 2001). Under this circumstance, they are in need of corporate restructuring by considering change of their present management system, especially in terms of decision-making process.

A number of studies relating to Korean big trading firms, called General Trading Companies (GTCs) had been developed up until about 10 years ago. Many criticisms, however, for their future business have been raised by academicians due to the fast changing business environment surrounding them, the reduction of the government support, and the strengthen of small-and medium-sized enterprises' core capabilities for direct export. But, such criticism were based on the rather limited factors, for example, their poor financial performance. In other words, most previous works have been undertaken

to examine other aspects of them by focusing on their financial performance, history and development, and major business activities or functions, while there have been no significant studies from a more developed managerial viewpoint.

If we approach with more wider perspective, the group of big trading firms provide us plenty of research topics in terms of their strategic management, corporate governance, cross share holding, decision-making process, corporate culture, HRM, etc. As they are still playing a significant role in national economic development by representing Korea's trading industries, it can be said that this present study is not restricted only into the big five conglomerates, but represents all of the Korean organizations associated with international trade and business. Moreover, unlike previous literatures, this paper is uniquely distinctive because it approaches with new managerial perspectives encompassing decision-making system, organizational change, and strategic management.

After national economic turmoil, studies on organizational changes within Korean firms received much attention. Since then, there has been a growth of publications about Korean management in the past decades (Kim, 2010; Kim and Bae, 2005; Kwun and Cho, 2001; Park, 2002; Pucik and Lim, 2001; Rowley and Bae, 2004). To take a closer look at some examples of review articles in organizational change in Korean firms, Pucik and Lim (2001) reviewed the transformation of HRM in Samsung. Kwun and Cho (2001) investigated the change process of Korea Telecom (KT) by examining the sources and facilitators of change and inertial forces. They also examined the change in HRM. Park (2002) approached with corporate culture change perspective in Korean firms. Rowley and Bae (2004) examined the reconfiguration process (e. g. corporate culture, people, HRM, structure, etc.) of big business in Korea. Kim and Bae (2005) examined the workplace innovation and HRM change within LG Electronics and Samsung SDI.

<Table 1> Selected Recent Studies on Management Change in Korean Firms

Author	Study areas covered						
	HRM	Corporate Culture	Structure	Leadership	Workplace Innovation	Organization Inertia	Decision-making
Pucik and Lim (2001)	V						X
Kwun and Cho (2001)	V					V	X
Park (2002)		V					X

Rowley and Bae (2004)	V	V	V				x
Kim and Bae (2005)	V				V		x
Kim (2010)				V		V	x

Source : Developed for this study

Despite many recent researches to examine changes in management system within Korean firms, there is less work specifically designed with decision-making change viewpoint. This paper, therefore, is worth exploring a new sphere both in academically and empirically by approaching with decision-making change perspective.

### III. Literature Review and Hypotheses

#### 1. Top Executive’s Excessive Involvement and Corporate Performance

Previous studies have been conducted to analyze the relationship between centralization (or decentralization) of decision power and a firm performance, and three distinct views are evident. First, Hage (1965) argued that centralization increased production, efficiency and formalization because the centralized organization tended to very quickly develop a formalized procedure for passing messages. Second, Mintzberg (1979), conversely, stressed that decentralization can stimulate employees’ motivation. The organization can attract and retain its staff and utilize their initiative if it gives them considerable power to make decisions. A similar argument was suggested by Miller (1988) that top executives may be too remote from a situation or too untrained to make the critical judgement for tasks that arise in functional-level. Third, according to Kim (2000) who carried out a study of 47 listed Korean companies, decentralization is positively associated with the increase of employee satisfaction and commitment, but it inversely influences the firm’s profitability. Tata and Prasad (2004) conducted further study of the relationship between two types of decentralization (i. e. macro-level decentralization and micro-level decentralization) and job effectiveness in team-self-management companies. They found that teams with high levels of self-management are more effective in

organizations where the authority to make decisions in task performance (i. e. micro-level decentralization) is distributed. However, the effectiveness is not influenced by the extent to which the authority to make decisions in policies and procedures (i. e. macro-level decentralization) is concentrated in a few hands.

Regardless of aforesaid three views, it is a general understanding that decision-making in Korean firms is highly centralized in the hands of the top management, because many of them are still run by the owners or their families of the firm. Previous studies support this argument. As decision-making power is concentrated in the top management in most Korean firms, subordinates are usually reluctant to express their opinions (Chen, 2004). In addition, Hofstede's survey (1983) of the five major dimensions of culture found that Korea was one of the countries with the highest power distance between superiors and their subordinates. This implies that the decision-making power is not distributed enough to down-level members, but is centralized to a few upper-level superiors. Lee's (1999) study analyzing the decision-making of Korean firm's investment in the UK also found that top executives were involved the most and they retained an absolute power during the process of decision-making for the project.

Although top-down decision-making culture is still dominant across Korean organizations, many recent studies on Korean management, however, suggest that there have been slight or significant changes in overall management system since national economic crisis. By supporting these arguments, hypothesis 1 assumes that there have also been some changes in top executives' attitude in decision-making (i. e. they do not excessively involve in decision-making process).

*[H 1] Top executives' excessive involvement in decision-making process will hinder a corporate performance.*

## 2. Delegation of Decision Power and Corporate Performance

As an organization becomes more diverse and bigger, there is a great likelihood that it will need to consider its structure. In particular, more complex forms of organizational structure may be necessary because the center becomes increasingly isolated from the place where decisions are needed and can best be made (Jun, 2010). It, therefore, is necessary to obtain ideas and opinions from all members

rather than to take from few people. In this context, Japanese organization is a good example. Though Korea and Japan adjoin geographically, historical tradition and its people's ways of thinking, values, norms and behavior are quite different. Unlike Korean firms, the feature of Japanese firms' decision-making culture is consensus-style and bottom-up decision-making. The management system features a decentralized internal information structure which facilitates horizontal communication between functional units, whereby teams are able to resolve problems autonomously without the involvement of higher managerial levels (Debroux, 2003).

Govindarajan (1988) argued that high decentralization is an appropriate response to increased uncertainty. Although centralization is possible at low levels of uncertainty because the information processed does not overburden the organization's hierarchy, there will be need for more information as a task environment becomes more uncertain. As uncertainty increases, serious delays develop between the upward transmission of information about the new situation and a downward response to that information. An effective way to deal with such a situation is to move the level of decision-making to where information exists rather than to bring it upward in the hierarchy. Wickman (2008), on the other hand, suggests that an organization needs to maintain a hybrid strategy that embraces both centralization and decentralization in order to be effective in today's global business environment. Based on the above sets of arguments, the following hypothesis is formulated.

*[H 2] The delegation of decision power to the down-level (i. e. decentralization) will stimulate a firm performance.*

### **3. Power/Politics and Corporate Performance**

In organizational behavior theory, it is generally accepted that any decision-making process influenced by power and politics is non-ethical, but should be made on the basis of acceptable boundaries of rationality. However, to speak realistically, power significantly affects organizational behavior in ways which, though not visible, can change or shift organizational decisions. Pfeffer (1992) asserted that it is essentially important to understand the decision-making process from a power perspective because most decisions in organizations are not ideally made on the basis of rationality. March and Simon (1958) claimed that politics is one of the organizational reactions to conflicting

objectives. When there is inter-group disagreement on goals and bargaining is not used, inter-group conflict is resolved through politics.

When discussing power and politics in organizational decision-making, it is important to identify the source of power. Power usually comes from formal authority, rules and regulations, control of scarce resources, ability to cope with uncertainty, knowledge and information (Varman and Bhatnagar, 1999). According to Cohen and Bradford (2002), power also comes from both position and personal skills. In particular, expertise has always been a source of power, and it will become even more important in organizations where power is widely dispersed. Moreover, decision makers' reputation, which derives from their character, abilities, collaboration and performance on the job, along with the ability to learn, becomes ever more important. This leads a following hypothesis.

*[H 3] Decision makers' high dependency on power and politics will obstruct a corporate performance.*

#### 4. Corporate Culture and Corporate Performance

The decision-making process varies depending on the culture, and corporate culture also influences the organization's decision-making. The characteristics of a Korean firm's traditional culture are Confucianism, hierarchy, familism and collectivism. According to Hofstede (1983), most Oriental countries, including Korea tend to have a large power distance with low individualism, while Western countries tend to take up small power distance and high individualism. He further stressed that Korea is one of the strongest collectivist country in the world.

Since the financial crisis, many Korean businesses have initiated a corporate transformation. Korean businesses have broadly achieved spectacular growth since the 1960s and in the process they have developed strong corporate cultures. However, as Park (2002) argued, the strong corporate culture which once led companies to grow quickly has become a source of new problems. Transforming an organization by a new culture and making the changes in employee values, attitude, behaviour and management style necessary for high performance is relatively difficult and time-consuming. This argument was supported by Bae, Rowley and Sohn (2002). They argued that the Korean economy needs transformation in many areas including leadership, corporate culture, organizational structure and



HRM. But Korean firms' efforts to change their culture, for example, have not brought desirable outcomes because of the gaps between the new paradigms and traditional notions. Although Korean firms' efforts to change the corporate culture were not successful, they have increasingly recognized that they must transform corporate cultures to maintain growth in the rapidly changing business environment. Based on this, the following prediction is derived.

*[H 4] The change in corporate culture from the traditional norms (e. g. high power distance and hierarchy) will stimulate a firm performance.*

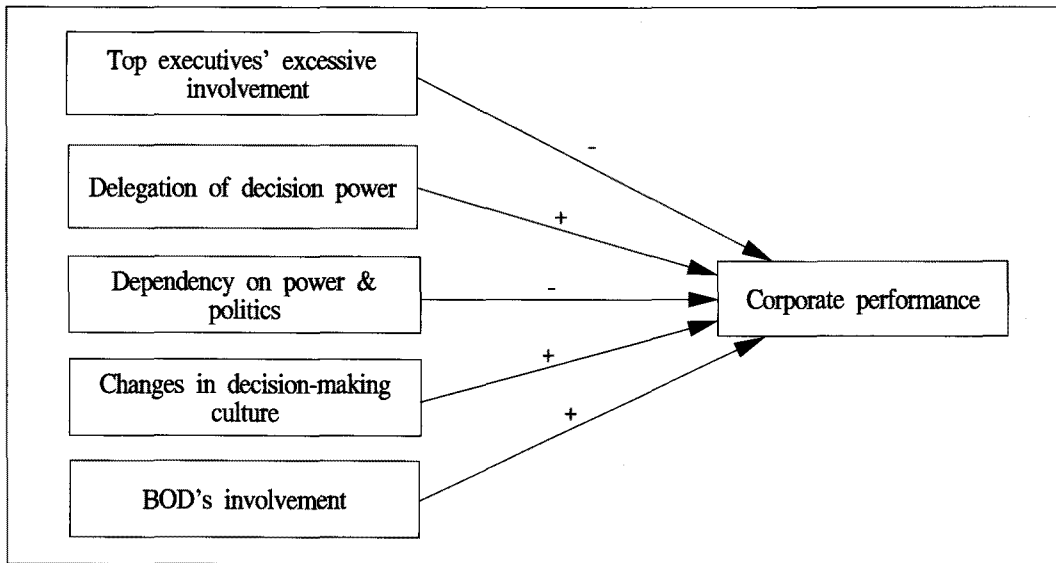
## 5. BOD's Active Involvement and Corporate Performance

The financial crisis fundamentally changed Korea's economic structure (i. e. macro-level change) as well as management style (i. e. micro-level change). The main responses to the financial crisis were two: one was the government sector's response and the other was the corporate sector's one. Regarding the government sector, it has tried to implement the International Monetary Fund (IMF) program. The monetary policy recommended by the IMF was to find a total solution for all foreign liquidity, debt and credit problems. As regards the corporate sector, firms have been trying to reduce corporate debt, use transparent accounting, improve standards in corporate governance and decentralize the decision-making power by increasing the role of the BODs. In order to strengthen the role of the BODs, the Korean government amended a regulation that all listed firms must assign outsider directors. Consequently, the consolidating of the BODs' power was expected to restrict the centralization of decision-making power to a few top executives.

Lee's (1999) empirical study supports this change in Korean firms' decision-making processes: although the top-down decision-making system is still dominant across Korean firms, there have been a few signs of change in the decision-making since the financial crisis through increasing the role of the BODs.

*[H 5] BOD's active involvement in decision-making process will inspire a corporate performance.*

Putting all hypotheses together, the following research model can be illustrated.



[Figure 1] Research Model

## IV. Research Methods

### 1. Sample

With regard to the sample selection, a judgment or purposive method <sup>1)</sup> was used. The sample of this study is restricted to manager-level personnel in big five trading companies: Samsung Corporation, Hyundai Corporation, Daewoo International, Lotte Corporation and Hyosung Corporation. The employees who have less than 10-year working experiences at their current employment were excluded in order to increase data representation and consistency. To obtain high-quality data, this study selected manager-level persons as key informants because they should be knowledgeable about overall issues occurring within their firms, such as business strategy, organizational behavior, decision-making process, and a firm's performance.

1) In judgment sampling, the researcher selects the sample on the basis of a judgment about the appropriate characteristics required of the sample member. The samples selected are believed to represent the population of interest (Churchill and Brown, 2004).

## 2. Data Collection

The method of data collection for this study is a mailed questionnaire survey undertaken between June and July 2011. The authors sent questionnaires to the 88 persons along with a personal letter explaining the purpose of the study and assuring the confidentiality of the responses. Before distributing questionnaires, the author contacted to one representative manager in each firm by telephone, and checked how many manager-level employees are working at this moment, and how many may participate in the survey. Based on this preliminary surveying, questionnaires were finally distributed to each firm as follows: Samsung Corporation (15), Hyundai Corporation (21), Daewoo International (21), Lotte Corporation (21), and Hyosung Corporation (10). Although the sample size looks smaller, this study is worthy of notice because of the challenging attempt to gather primary data from key persons in Korea's leading trading houses. Moreover, the data of this study is highly representative as all informants took part in the survey have been working over 10 years in their current companies.

Of the 88 persons who received questionnaires, 76 (86.36%) responded. When questionnaires were collected, the job position was divided into three groups: manager (31.6%), middle manager (32.9%) and senior manager (35.5%). The period of working years was divided into three groups: those with 10-15 years (42.1%), 15-20 years (42.1%), and over 20 years (15.8%). Finally, the job duty was five groups: strategy planning (14.5%), marketing and sales (64.5%), finance and accounting (10.5%), procurement (9.2%), and others (1.3%), respectively.

## 3. The Formation of Questionnaire

The questionnaire is divided into seven sections. In the questionnaire design, the authors followed the typical nine procedures of developing questionnaires offered by Churchill and Brown (2004)<sup>2)</sup>. A five-point Likert scale ranging from 'strongly agree' to 'strongly disagree' was used to measure each section of the variables. With respect to the question items, all items were developed by the authors based on the theoretical backgrounds of the existing relevant literatures.

Section one is designed to examine the tendency of decision-making within big five trading companies at this moment, and to what extent top executives involve in organizational decision-making

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2) For details of nine steps of questionnaire development, see Churchill, G. A. and T. J. Brown, "Basic Marketing Research", 5<sup>th</sup> Edition, Thomson, South-Western, 2004, pp. 282-309.

process. To measure this, three items: the existence of top-down decision-making culture, the degree of top management's involvement, and top management's involvement in functional-level tasks, were used based on previous theoretical literatures (Chen, 2004; Hofstede, 1983; Lee, 1999). Section two and three were developed to measure the degree of delegation of decision power to down-level (Govindarajan, 1988; Jun, 2010), and the degree of decision-maker's dependency on power and politics (Pfeffer, 1992), respectively. Section four and five measured the change of decision-making culture from traditional norms by using power distance and hierarchy (Bae, Rowley, and Sohn, 2002; Hofstede, 1983), and the degree of BOD's involvement (Lee, 1999), respectively. Section six measures a corporate performance: this section aims to ask whether a firm performance met or satisfied their expectations (Olson, Slater, and Hult, 2005). To measure these, it used typical financial indicators such as sales amounts, profitability and market share. A firm performance was evaluated with the each respondent's subjective judgement, not with the financial statements such as income statement by the authors. The last section is designed to gather demographic information such as respondent's job position, job duty and working years at their present companies.

## V. Analysis and Results

### 1. Descriptive Statistics and Validity Test

The table below shows the value of Mean and Standard Deviation. The value of the Mean ranges from 1.64 to 3.61, and the value of Standard Deviation range from 0.60 to 1.21. In order to check how a test procedure accurately measures what it was designed to measure, the validity analysis was undertaken. This study used a Factor Analysis to test a Construct Validity, and adopted a Principal Component Analysis with Varimax Rotation.

<Table 2> The Result of Descriptive Statistics and Factor Analysis

1) Decision-making Process

Category	Items	N	Mean	S.D.	Factor				
					1	2	3	4	5
Top executives' excessive involvement	1. Top executives, in general, excessively involve in decision-making process.	76	2.91	1.18	<b>.90</b>	-.04	.23	-.19	.02
	2. The culture of top-down decision-making is still dominant across organization.	76	2.74	1.12	<b>.80</b>	.01	.42	-.12	-.10
	3. Top executives involve even in functional-level decision-making.	76	3.17	1.21	<b>.84</b>	-.08	.27	-.13	-.08
Delegation of decision power	4. The culture of the delegation of decision power to down-level has been formed.	76	2.95	0.86	-.17	.13	-.02	<b>.86</b>	.11
	5. The ratio of accepting middle-level managers' opinion has increased.	76	2.95	0.76	-.07	.14	-.08	<b>.78</b>	.41
	6. The culture of common consensus in decision-making process has been formed.	76	3.01	0.77	-.20	.07	-.14	<b>.75</b>	.32
Dependency on power & politics	7. Decision makers tend to use their power in decision-making process.	76	3.57	0.98	.47	-.02	<b>.80</b>	-.07	-.08
	8. Decision makers tend to use their political position in decision-making process.	76	3.61	0.96	.39	.03	<b>.86</b>	-.01	-.12
	9. Decision makers tend to be interested in their personal interests rather than organization's common goals.	76	3.53	1.08	.17	-.20	<b>.82</b>	-.12	.09
Changes in decision-making culture	10. The power distance has decreased in decision-making process.	76	2.96	0.66	-.03	.24	.01	.10	<b>.84</b>
	11. The culture of hierarchy has decreased in decision-making process.	76	3.11	0.75	-.05	.21	-.03	.33	<b>.79</b>
	12. There have been overall cultural changes in decision-making from traditional ones.	76	2.93	0.78	-.08	.13	-.06	.43	<b>.76</b>
BOD's involvement	13. The power of BOD's has increased as compared to the past.	76	2.96	0.73	-.07	<b>.89</b>	.00	.02	.20
	14. The ratio of accepting BOD's opinion has increased.	76	2.99	0.68	.00	<b>.89</b>	-.08	.11	.15
	15. The hostility towards BOD's active involvement in decision-making has decreased.	76	2.99	0.60	-.03	<b>.80</b>	-.09	.18	.16
Eigen value					5.65	3.22	1.75	0.91	0.78
Variance explained (%)					37.6	21.4	11.6	6.09	5.24
Cum. (%)					37.6	59.1	70.8	76.9	82.1

## 2) Corporate Performance

Category	Items	N	Mean	S.D.	Factor
					1
Corporate Performance	1. The turnover of our company has increased.	76	1.64	0.74	.88
	2. The profitability of our company has increased.	76	1.88	0.81	.87
	3. The market share of our company has increased.	76	2.29	0.78	.77
Eigen value					2.15
Variance explained (%)					71.69
Cum. (%)					71.69

## 2. Reliability Test

By calculating Cronbach's  $\alpha$ , the reliability test was undertaken in order to check internal consistency among items measured. According to the result, Cronbach's  $\alpha$  is over 0.8, which denotes that internal consistency among items is significantly high.

〈Table 3〉 The Reliability Test

	Top executives' excessive involvement	Delegation of decision power	Dependency on power & politics	Changes in decision-making culture	BOD's involvement	Corporate performance
Cronbach's $\alpha$	0.914	0.855	0.884	0.856	0.875	0.800

## 3. Test of Hypotheses

This study used regression analysis to test hypotheses, and found that the regression model is statistically significant as the value of Coefficient of Determination ( $R^2$ ) is 0.198 (19.8%).

Hypothesis 1 predicted that top executives' excessive involvement in decision-making process will hinder a firm performance. Contrary to our prediction, but consistent with our general understanding, the result shows that top executives' excessive involvement does not hamper management performance

(p value = 0.062,  $p > 0.05$ ). Therefore, hypothesis 1 does not receive support in statistically.

Hypothesis 2 is designed to examine the relationship between the delegation of decision power and a firm performance. According to the result, the p value is 0.352 ( $p > 0.05$ ), which means that there is no statistical significance between the variables. Hypothesis 2, therefore, does not receive support.

Hypothesis 3 anticipated that decision makers' high dependency on power and politics will disturb a corporate performance. The result shows that there is a significant statistical correlation between the variables (p value = 0.014,  $p < 0.05$ ). Hypothesis 3 is fully accepted.

Hypothesis 4 is about the change in decision-making culture and its impact on a corporate performance. According to the result, hypothesis 4 does not receive support because the p value is 0.338 ( $p > 0.05$ ).

Hypothesis 5 is related to BOD's active involvement in decision-making process and a firm performance. There is a significant statistical correlation between the variables (p value = 0.023,  $p < 0.05$ ). Hypothesis 5, therefore, receives full support.

In addition, independent variable 1, 2, 4, and 5 positively affect corporate performance as the value of regression coefficient ( $\beta$ ) are 0.203, 0.100, 0.103, and 0.249, respectively, while independent variable 3 inversely affects firm performance as the value of  $\beta$  is -0.271.

<Table 4> The Result of Regression Analysis

Independent variables	Regression coefficient ( $\beta$ )	Std. error	t value	p value
(constant)	.000	.106	.000	1.000
1. Top executives' excessive involvement	.203	.107	1.900	.062
2. Delegation of decision-power	.100	.107	.938	.352
3. Dependency on power and politics	-.271	.107	-2.531	.014
4. Changes in decision-making culture	.103	.107	.965	.338
5. BOD's involvement	.249	.107	2.327	.023
Model summary	R <sup>2</sup>	Adjusted R <sup>2</sup>	F value	p value
	.198	.140	3.449	.008

Dependent variable : Corporate performance

Significant at  $p < 0.05$

## VI. Conclusion

### 1. Findings and Discussion

In order to investigate the linkage between the strategic decision-making and corporate performance within Korean big trading conglomerates, this paper examined substantial literatures and analyzed primary data through empirical survey. According to the results, some of the hypotheses are accepted or some of them do not receive statistical support. As a result, some conclusions and further discussion may be derived as follows.

First, on this basis of recent review studies on Korean firm's management changes, this research assumed that there would have been some changes in decision-making process within big five trading companies in terms of top management's attitude, the delegation of decision power, and decision-making culture. Based on this, some relevant hypotheses (i. e. hypotheses 1, 2 and 4) were formulated. However, contrary to our anticipation, the result shows: 1) top executives' excessive involvement in decision-making does not hinder management performance 2) the respondents of the survey do not feel that the delegation of decision power to the down-level promotes a firm's management performance; and 3) the change of decision-making culture from traditional norms does not stimulate a performance.

These results imply that there have not been notable changes in decision-making culture in Korean big organizations, whereas it seems that decision-making power is still tended to be centralized in the hands of the top management as in the past. In particular, it needs to pay close attention to the fact that top executives' excessive involvement does not hamper corporate performance. During the period of national financial crisis, many *Chaebols* including Daewoo Group became bankrupt because of top management's short-sighted decision based on limited information (Shim and Steers, 2001), their failure of strategic analysis, and unfeasible business diversification as octopuses spread out their many tentacles in search of food. In case of Daewoo Group, for instance, there have been considerable changes in corporate governance due to the Group's insolvency caused by top management's irrational decision-making. As a result, Daewoo Corporation - one of the main affiliated firms within the Group - reformed under the new name of Daewoo International by a spin-off program in 2000.

As given above, in spite of an obvious evidence that top management's extreme intervention in



businesses inversely influence on corporate performance, why do the respondents of this present survey still feel that top executives' excessive involvement does not hamper corporate performance? This may be because of a long-standing traditional and cultural reasons dominated across the society and organizations. As is well known, Korea's is a profoundly Confucian culture. The influence of Confucius is still felt today, and this also impacts on business activity as on every area of behavior, values and ways of thinking. Such widespread traditional practices may influence social decisions, including management decisions in business firms. In other words, by the influence of Confucian culture such as hierarchy within organization, top-down decision culture, paternalism (Rowley and Bae, 2003), and military culture (Cho and Yoon, 2001), it seems that the employees in big five firms unconsciously accept top executives' intervention in overall decision-making processes as a matter of course without consideration of firm performance.

With a variety of business activities such as trading intermediation, financing, information gathering, warehousing and logistics, new resource development and organizing huge projects, big five trading conglomerates have been playing crucial roles in national economic growth. Taking various risks associated with the aforesaid businesses into consideration, top management's strategic and rational decision-making within big five is crucial in order to achieve their managerial goals. Although there have been overall movements in corporate culture changes in Korean firms, changes within organization by a new culture and system is relatively difficult because of wide gaps between the old and the new paradigms and traditions (Bae, Rowley, and Sohn, 2002). As park (2002) argued that the cultural transformation of organizations is closely linked with corporate strategy, other business innovation activities and the business environment, the cultural change within big five trading firms may depend on their efforts to better reconcile the environment with their strategy and culture.

Second, the degree of decision makers' dependency on power and politics within organization seems lower as we anticipated. As Korea is one of the collectivist countries with low individualism (Hofstede, 1983), and most Korean business people regard organizations as their first priority, and put emphasis on collective equality (Rowley and Bae, 2004), decision makers in big five firms do not tend to misuse or abuse their political position or power for their own interests, such as promotion.

Third, one of the notable findings of this study is that the power of BODs' in decision-making has become increasingly important. This finding supports Lee's (1999) study, which found that since the financial crisis there have been subtle signs of change in decision-making within Korean firms by

increasing the role of the BODs. Since 1997, many people agree that the national economic crisis stems from structural problems within *Chaebols*, such as the centralized decision-making power, and, consequently, there has been growing pressure to reform large conglomerates in Korea. In this regard, the Korean government has undertaken several reform measures, such as the introduction of the outside director system. Furthermore, in order to decentralize the decision-making, the Korean government needs to activate the role of the BOD and to seek diverse ways to grant the BOD the right to control management as a top decision-making body.

## 2. Limitation and Future Research

There have been some limitations during this study and the following topics are recommended for future research.

First, an empirical survey with the executive-level within Korean trading conglomerates is recommended. This present study dealt only with manager-level employees as major informants. Although the sample of this current study has an enough representation, further research, including surveys of top management, is recommended to obtain more profound result.

Second, of the many issues in organizations, some are related to the BODs or the labor union which play an important role in organizational management. However, the survey in this study was of office workers only, and it asked them to express their feelings on the BODs' involvement in decision-making process. It will be significant if future research is undertaken including the members of the BODs or labor unions themselves.

Notwithstanding the limitations, this study introduces management and organizational scholars to decision-making issues within Korea's big organization and motivates them to think about further researches in this field.

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## 국문초록

### 한국 무역기업집단의 전략적 의사결정과 기업성과

전인우\* · 박종돈 \*\*

기업경영에 있어 전략적 의사결정과 기업성과는 독립적이지 않고 상호 밀접한 관계가 있다. 본 연구는 한국 5대 무역기업집단 (Big Five Trading Conglomerates)의 전략적 의사결정과 기업성과간의 상관관계를 실증적으로 고찰 하였다. 비록 외환위기 이후 한국기업체들의 전반적 경영변화에 대한 많은 연구가 있었지만 전략적 의사결정을 주제로 한 주목할 만한 연구는 없었다.

연구결과 첫째, 한국 5대 무역기업집단의 의사결정 과정에는, 예전과 비교 해 봤을 때, 주목할 만한 변화가 없었다. 둘째, 의사결정과정에서 최고경영진의 과도한 개입은 기업성과를 방해 하지 않는 것으로 나타났다. 이를 바탕으로 볼 때 한국 무역기업집단 내에서 의사결정권한이 지금도 일부 최고경영진에 집중되어 있음을 시사하며, 이는 조직 전반에 걸쳐 내재된 오랜 유교적 전통과 문화 때문인 것으로 판단된다. 셋째, 그러나 의사결정과정에 있어 이사회와 권한이 점점 더 중요해짐을 알 수 있었다. 마지막으로, 의사결정권자들은 자신들의 정치적 위치나 권력을 개인적 목적을 위해 오용 및 남용하지 않는 것으로 나타났다.

주제어 : 기업문화, 기업성과, 한국무역기업집단, 조직변화, 권력과 정치, 전략적 의사결정, 전략경영

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