

THE UNIVERSITY OF HULL

**Localisation:
A Case Study of Korean Companies in the UK**

Being a Thesis Submitted for the Degree of PhD

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by

Hyun-Young Byun BA (Chung-Ang), MA (Chung-Ang), MA

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Contents:

	Acknowledgements	ii
	List of Figures	vii
	List of Tables	viii
	List of Acronyms	x
	Preface	xii
1.	Localisation: the Purpose and Scope of the Thesis	xiv
2.	Contribution to Knowledge	xiv
3.	Methodology	xvii
4.	Ontology and Epistemology	xxii
5.	Structure of the Thesis	xxii
	Chapter 1: Introduction to Korean Business Methods	
1.1.	Introduction	1
1.2.	The Korean Business Environment	1
1.3.	<i>Chaebol</i>	5
1.4.	General Trading Companies	10
1.5.	Localisation	11
	1.5.1. Introduction to Localisation	11
	1.5.2. Japanese Localisation in the UK	17
	1.5.3. Means of Investigating Localisation	23
1.6.	Korean Business in the UK	24
	1.6.1. Introduction to Korean Business in the UK	24
	1.6.2. Korean Companies in the UK	27
	1.6.3. Goods Supplied	30
	1.6.4. The Nature of the Company's Business	31
	1.6.5. Personnel Involved	33
	1.6.5.1. Respondents	33
	1.6.5.2. Buying and Supplying Centres	35
	1.6.5.3. Working in the Foreign Country	35
	1.6.5.4. Responsibilities of the Overseas Office	37
1.7.	Conclusion to Chapter 1	38
	Chapter 2. The Development of a Korean Marketing Strategy	
2.1.	Introduction	39
2.2.	Factors Underlying a Korean Marketing Strategy	41
	2.2.1. National Resources	41
	2.2.2. The International Environment	45
	2.2.3. The Example and Role of the Japanese	52
	2.2.4. Government Policy	54
2.3.	Implications of External Factors for Korean Marketing Strategy in the UK	66
2.4.	Korean Marketing Strategy	70
	2.4.1. Implications of Korean Business Methods and Strategy for the Marketing Strategy and Tactics of <i>Chaebol</i> in the UK	70
	2.4.2. Strategy	72
	2.4.3. Korean Business and Models of International Strategy	75
2.5.	Conclusion to Chapter 2	78

	Chapter 3: Approaches to Marketing: A Literature Review	
3.1.	Introduction	79
3.2.	Markets	79
	3.2.1. Industrial Markets and Marketing	79
	3.2.2. Industrial Markets for Industrial or Organisational Customers	81
	3.2.3. Industrial Markets for Consumer Goods Resale	82
3.3.	Approaches to Marketing	84
	3.3.1. Macroeconomic Approaches	86
	3.3.2. Micro-Economics Based Approaches	88
	3.3.2.1. Finance, Risk and Diversification	89
	3.3.2.2. Transaction-Cost Analysis	90
	3.3.2.3. The Uppsala Model	94
	3.3.3. Behavioural Approaches	96
	3.3.3.1. The Political-Economy Approach	96
	3.3.3.2. Cognitive-Based Approaches	98
	3.3.4. The Resources and Capabilities Approach	100
3.4.	Summary of Approaches to Marketing	102
	 Chapter 4: The Interaction Approach and Korean Marketing Strategy	
4.1.	Introduction	105
4.2.	The Interaction Approach	106
	4.2.1. Aspects of the Interaction Approach	106
	4.2.2. Strategic Advantages of Using the Interaction Approach	112
	4.2.3. Practical Difficulties of the Interaction Approach	115
4.3.	Evaluation of Potential Buyers and Suppliers	116
4.4.	Buyer-Supplier Relationships	123
4.5.	Application of the Interaction Approach to Buyer-Supplier Relationships	127
	4.5.1. Buying and Supplying Centres	129
	4.5.2. Buyer Behaviour and the Interaction Approach.	133
	4.5.3. Interpersonal Interaction	135
	4.5.4. Organisational Interaction.	136
	4.5.4.1. Intra-Organisational Interaction	136
	4.5.4.2. Inter-Organisational Interaction	137
	4.5.4.3. Environmental Interaction	140
	4.5.4.4. Atmospheric Interaction	142
4.6.	Conclusion to Chapter 4	143
	 Chapter 5: The Network Approach and Korean Marketing Strategy	
5.1.	Introduction	144
5.2.	The Network Approach	145
	5.2.1. Aspects of the Network Approach	145
	5.2.2. Strategic Advantages of Using the Network Approach	147
	5.2.3. Practical Difficulties of the Network Approach	149
5.3.	Application of the Network Approach to Marketing Strategies	151
	5.3.1. Barriers to Entry	152
	5.3.2. Market Entry Mode	155
	5.3.3. Market Segmentation	160
	5.3.4. Market Positioning	165
	5.3.5. Network Positioning in the Foreign Market	170
	5.3.6. Marketing Information Systems	178
5.4.	Conclusion to Chapter 5	184

	Chapter 6. Interaction and Relationships	
6.1.	Introduction to the Empirical Research	188
6.2.	Summary of the Research Hypotheses	193
6.3.	Selection of Partners	196
	6.3.1. Selection Criteria	196
	6.3.1.1. The Selection of Suppliers	198
	6.3.1.2. The Selection of Buyers / Resellers	201
	6.3.1.3. The Relative Importance of Tangible and Intangible Factors	205
	6.3.2. Long Term Relationships and Selection Criteria	205
	6.3.2.1. Does a Long Term Relationship Affect Selection Criteria?	205
	6.3.2.2. Does the Definition of a Long Term Relationship Impact upon Selection Criteria?	211
	6.3.2.3. Does the Desire for a Long Term Relationship Impact upon Intangible Selection Criteria?	213
	6.3.2.4. Definition of a Long Term Relationship	216
	6.3.3. Personal Relationships	217
	6.3.3.1. The Impact of the Performance of Personal Relationships upon Intangible Factors	218
	6.3.3.2. The Importance of Personal Relationships in Business	219
6.4.	Relationships	223
	6.4.1. Qualitative Overview of Relationships	224
	6.4.1.1. The Importance of Interactive Relationships	224
	6.4.1.2. The Structure of Relationships	225
	6.4.2. The Nature of Relationships	227
	6.4.2.1. Lengths of Business Relationships	227
	6.4.2.2. Lengths of Personal Relationships	229
	6.4.2.3. New and Discontinued Relationships	230
	6.4.2.4. The Stability of Markets	233
	6.4.2.5. Maintenance of Relationships	234
	6.4.2.6. Satisfaction Provided by Current Relationships	238
	6.4.2.7. Buyers' Opinions of Korean Companies	244
	6.4.3. Interaction and Cultural Differences	245
	6.4.3.1. The Importance Placed on Personal Relationships	245
	6.4.3.2. Misunderstandings	248
	6.4.3.3. Relationships with Other Partners	250
6.5.	Conclusion to Chapter 6	251
	Chapter 7. Networks and Marketing Strategy	
7.1.	Introduction	254
7.2.	Qualitative Overview of Marketing Strategy	255
	7.2.1. Localisation	255
	7.2.2. Segmentation	257
	7.2.3. Positioning	257
7.3.	Market Positioning	258
	7.3.1. Positioning within Channel Relationships	258
	7.3.2. Market Positioning at the Beginning of the Relationship	259
	7.3.3. Cognitive Positioning	264
7.4.	Marketing Information Networks	267
	7.4.1. Qualitative Overview of Marketing Information Networks	267
	7.4.1.1. The Value of Information	267
	7.4.1.2. The Use of Misinformation and Disinformation	269
	7.4.1.3. Brokers and Other Intermediaries	269

7.4.1.4.	Possible Sources of Information	270
7.4.2.	The Nature of Marketing Information Networks	271
7.4.2.1.	Methodology for Detecting Marketing Information Networks	271
7.4.2.2.	Methods of Searching for Partners	272
7.4.2.3.	Mode of First Contact	273
7.4.2.4.	Information Sources Consulted in Searching for Partners	276
7.4.2.5.	Information Sources Consulted	280
7.4.2.6.	Do Personal Relationships Affect the Use of Information Sources?	283
7.4.2.7.	Marketing Information Networks and Competitive Advantages	284
7.4.2.8.	Differences between Buyer / Reseller and Supplier Marketing Information Networks	287
7.4.2.9.	Information Exchanged with Other Korean Companies	292
7.5.	Conclusion to Chapter 7	293
7.6.	Conclusion to the Empirical Research	294
7.6.1.	Foreword	294
7.6.2.	Research Limitations	295
7.6.3.	Research Method	295
7.6.4.	Interpretation of the Results	295
	8. General Conclusion	
8.1.	Localisation	299
8.2.	Korean and Japanese Patterns of Localisation	301
8.3.	Structure of the Thesis	302
8.4.	Themes Explored	303
8.5.	Further Research Possibilities	307
	Appendices	
Appendix 1:	Bibliography	309
Appendix 2:	Detailed Results of ANOVA Tests	334
Appendix 3:	Questionnaires Used for the Quantitative Research	355
Appendix 4:	Letter Included with the Research Instruments	370

List of Figures

Figure 1.	<i>Taxonomy of the ROK Government</i>	62
Figure 2.	<i>Role of the Korean Government in Mitigating Environmental Effects on Chaebol</i>	66
Figure 3	<i>Action of the Pivot Model</i>	113
Figure 4.	<i>Hierarchical, Structural and Cognitive Positioning</i>	167
Figure 5	<i>Factors Important to Buyers in Choosing a Supplier by Tangible and Intangible Factors</i>	199
Figure 6	<i>Factors Important in Choosing a Supplier by Buyer Type</i>	200
Figure 7	<i>Selection Criteria Important to Suppliers by Tangible and Intangible Factors</i>	202
Figure 8	<i>Factors Important in Choosing a Buyer by Supplier Type</i>	203
Figure 9	<i>Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria for Industrial Buyers</i>	207
Figure 10	<i>Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria for Consumer Goods Resellers</i>	208
Figure 11	<i>Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial / Consumer Goods Suppliers)</i>	209
Figure 12	<i>Preferences for Long Term Relationships</i>	214
Figure 13	<i>Definition of a Long Term Relationship</i>	217
Figure 14	<i>The Importance of Personal Relationships in Business</i>	220
Figure 15	<i>Lengths of Business Relationship between Buyers and Suppliers</i>	228
Figure 16	<i>Lengths of Personal Relationship between Buyers and Suppliers</i>	230
Figure 17	<i>Number of New Relationships by Buyers and Suppliers</i>	231
Figure 18	<i>The Number of Discontinued Business Relationships</i>	233
Figure 19	<i>Reasons for Retaining Suppliers</i>	235
Figure 20	<i>Reasons for Retaining Buyers / Resellers</i>	237
Figure 21	<i>Performance of Past and Present Aspects of Business Relationships for Buyers</i>	240
Figure 22	<i>Performance of Past and Present Aspects of Business Relationships for Suppliers</i>	240
Figure 23	<i>Definition of the Importance of Buyers / Suppliers</i>	259
Figure 24	<i>Image in the Market</i>	260
Figure 25	<i>Summary of Importance and Image by Buyers and Suppliers</i>	262
Figure 26	<i>Image in the Market: Cognitive Positioning</i>	265
Figure 27	<i>Methods of Finding Potential Partners</i>	273
Figure 28	<i>Mode of First Contact</i>	274
Figure 29	<i>Information Sources Consulted: Buyers</i>	278
Figure 30	<i>Information Sources Consulted: Suppliers</i>	278
Figure 31	<i>Information Sources Consulted by Buyer Type</i>	279
Figure 32	<i>Information Sources Consulted by Supplier Type</i>	280
Figure 33	<i>Possible Sources of Information for Buyers</i>	282
Figure 34	<i>Possible Sources of Information for Suppliers</i>	282

List of Tables

Table 1	<i>Turnover and Proportion of Business Devoted to Exporting: Samsung Shipbuilding and Heavy Industries Co. Ltd.</i>	29
Table 2	<i>Products Received by UK Buyers / Resellers from Korean Suppliers</i>	31
Table 3	<i>Products Supplied by Korean Suppliers</i>	31
Table 4	<i>Nature of Respondents' Business</i>	32
Table 5	<i>Respondents' Position in the Company</i>	34
Table 6	<i>Key Personnel Involved in Selecting and Dealing with Partners</i>	35
Table 7	<i>Factors Important to Buyers in Choosing a Supplier by Tangible and Intangible Factors</i>	198
Table 8	<i>Factors Important in Choosing a Supplier by Buyer Type</i>	200
Table 9	<i>Factors Important to Suppliers in Choosing a Buyer by Tangible and Intangible Factors</i>	201
Table 10	<i>Factors Important in Choosing a Buyer by Supplier Type</i>	202
Table 11	<i>Factors Important in Choosing a Supplier by Buyer Type</i>	204
Table 12	<i>Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial Buyers / Consumer Goods Resellers)</i>	207
Table 13	<i>Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial / Consumer Goods Suppliers)</i>	208
Table 14	<i>Preferences for Long Term Relationships in Buyers and Suppliers</i>	214
Table 15	<i>Tendencies towards Long Term Relationships by Buyer Type</i>	215
Table 16	<i>Definition of a Long Term Relationship</i>	216
Table 17	<i>Definition of a Long Term Relationship by Buyer Type</i>	217
Table 18	<i>The Importance of Personal Relationships in Business</i>	220
Table 19	<i>Length of Business Relationship between Buyers and Suppliers</i>	228
Table 20	<i>Length of Business Relationship by Buyer Type</i>	228
Table 21	<i>Length of Personal Relationship between Buyers and Suppliers</i>	229
Table 22	<i>Comparative Lengths of Personal Relationships by Buyer Type</i>	229
Table 23	<i>The Number of New Relationships by Buyers and Suppliers</i>	231
Table 24	<i>The Number of Discontinued Business Relationships</i>	232
Table 25	<i>The Number of New and Discontinued Relationships by Buyer / Reseller and Supplier Type</i>	234
Table 26	<i>Reasons for Retaining Suppliers</i>	235
Table 27	<i>Reasons for Retaining Buyers / Resellers</i>	237
Table 28	<i>Value of Past and Present Aspects of the Business Relationship</i>	239
Table 29	<i>Comparison between Performance of Suppliers At First and Now Perceived by Buyers / Resellers</i>	242

Table 30	<i>Comparison between Performance of Buyers / Resellers At First and Now Perceived by Suppliers</i>	242
Table 31	<i>Aspects of Differences in Attitude between Korean and UK Companies</i>	246
Table 32	<i>Business Difficulties</i>	248
Table 33	<i>Difficulties with Partners</i>	249
Table 34	<i>Problematic Relationships</i>	250
Table 35	<i>Definition of the Importance of Buyers / Suppliers</i>	258
Table 36	<i>Image in the Market</i>	260
Table 37	<i>Performance of Promotional Support by Buyer Type</i>	262
Table 38	<i>Image in the Market Place: Cognitive Positioning</i>	264
Table 39	<i>Image of Overall Reputation by Buyer Type</i>	265
Table 40	<i>Methods of Finding Potential Partners</i>	272
Table 41	<i>Mode of First Contact</i>	273
Table 42	<i>Mode of First Contact by Buyer Type</i>	273
Table 43	<i>Searching for Suppliers and Being Sought by Suppliers by Buyer / Reseller Type</i>	275
Table 44	<i>Searching for Buyers / Resellers and Being Sought by Buyers / Resellers by Supplier Type</i>	275
Table 45	<i>Information Sources Consulted</i>	277
Table 46	<i>Information Sources Consulted by Buyer Type</i>	277
Table 47	<i>Information Sources Consulted by Supplier Type</i>	279
Table 48	<i>Possible Sources of Information</i>	281
Table 49	<i>Possible Sources of Information by Buyer Type</i>	283
Table 50	<i>Company Colleagues as an Information Source by Buyer Type.</i>	283
Table 51	<i>Use of Information Sources by Buyer / Reseller and Supplier Type</i>	288
Table 52	<i>Consultation of Information Sources when Searching Generally and for Korean Companies by Buyer / Reseller Type</i>	290
Table 53	<i>Consultation of Information Sources when Searching Generally and for UK Companies by Supplier Type</i>	290
Table 54	<i>Information Exchanged with Other Korean Suppliers</i>	292

List of Acronyms

Korean Companies Described in the Text:

Industrial Organisational Markets:

Hyundai Precision & Industries Branch Office- containers; (HPI (UK))

Hyundai MIPO - ship building services; (HMIPO (UK))

Hyundai Heavy Industries - ship building; (HHI (UK))

Sunkyong Co. Branch Office (Textiles Division) - textiles; (SK Co. (UK))

Samsung Shipbuilding and Heavy Industries Co., Ltd. Branch Office. (SHI (UK)).

Industrial Organisational and Consumer Goods Resellers Markets:

Lucky-Goldstar International (UK) Ltd. - (LGI (UK) Ltd.)

(Logix Division) - computers;

(Textiles Division) - textiles;

Goldstar (UK) Sales Ltd. - (GS (UK) Ltd.)

Samsung Electronics (UK) Ltd. - (SSE (UK) Ltd.)

Samsung Electronic Components (SECO) (UK) Ltd. - Vortec and Samtron; (SECO (UK) Ltd.)

Samsung (UK) Ltd. - (SS (UK) Ltd.)

(Garments Division) - garments;

(Shoes Division) - shoes;

Ssangyong (UK) Co., Ltd. - satellite receivers, steel and chemicals; (SY (UK) Ltd.)

Ssangyong Co., Prism Computers (Trigem) - computers; (SY TRI (UK) Ltd.)

Daewoo (UK) Ltd.- (DW (UK) Ltd.)

Sunkyong (Europe) Ltd. - (SK (Europe) Ltd.)

Sunkyong Co. Branch Office (Garments and Textiles Division) - (SK (UK))

Hyundai Co. - (HD (UK) Ltd.)

Hyundai Electronics Industries Co., Ltd. Branch Office - electrical consumer goods; (HDE (UK))

Kumho (UK) Ltd. - (KH (UK) Ltd.)

Hyosung (UK) Ltd. - (HS (UK) Ltd.)

Other Acronyms:

CEO:	chief executive officer;
DPRK:	Democratic People's Republic of Korea (North Korea);
DSS:	decision support system;
EC:	European Community;
ERM:	Exchange Rate Mechanism;
GATT:	General Agreement on Trade and Tariffs;
GTC:	General Trading Company;
JIT:	just-in-time (<i>kanban</i> system);
KAIST:	Korean Advanced Institute for Science and Technology;
KOTRA:	Korean Trade Association;
LDC:	lesser developed country;
MCA:	multiple classification analysis;
MNE:	multi-national enterprise;
NHS:	National Health Service;
NIC:	newly industrialised country;
NIE:	newly industrialised economy;
OEM:	original equipment manufacturer;
PC:	personal computer;
PRC:	People's Republic of China;
ROK:	Republic of Korea (South Korea);
SEM:	Single European Market;
SME:	small or medium sized enterprise;
SMS:	strategic marketing segmentation;
S-O-R:	stimulus-organism-reaction;
UN:	United Nations.

Preface

This research aims to find ways to enhance understanding of how Korean companies in the UK can improve their market positions through localisation.^a Although the Korean economy has experienced tremendous growth in recent years, which has been led by its success in exporting, it is far from certain that this growth can continue. This is because of economic problems such as the appreciation of the *won*, rising labour and other costs, labour disputes and other forms of social disorder, the difficulties in ensuring the transfer of technology and the reaction of some Western countries to Korean exporting success. The Korean companies - or *chaebol*^b - which have been active in exporting have generally aimed for low cost leadership, which has been possible because of low labour costs in Korea and because of government assistance. This has been combined with OEM; that is, "international sub-contracting"^c for other companies which use their own brand names in marketing.

However, as costs have started to increase, Korean goods and services have become less competitive compared to those from countries such as Thailand, the Philippines and China, where labour costs are substantially lower.^d The international contractors have, therefore, looked elsewhere. Consequently, *chaebol* have begun to try to compete in terms of quality or value-added. Unfortunately, they are disadvantaged in this by problems in acquiring modern technology and marketing skills, partly because of their reliance on the OEM route. Furthermore, they cannot yet enjoy the reputation that some Japanese, American and European competitors have. As a result, Korean goods occupy an uncomfortable middle ground position.

^a Kotler writes of positioning as follows: "Positioning is the act of designing the company's image and value offer so that the segment's customers understand and appreciate what the company stands for in relation to its competitors. The positioning task consists of three steps: identifying possible competitive advantages to exploit, selecting the right ones and effectively signalling to the market the firm's chosen position." Kotler, Philip, *Marketing Management: Analysis, Planning, Implementation and Control*, 6th Edition (Englewood Cliffs, N.J.: Prentice-Hall International, 1986), pp.315-6. In other words, positioning is directly related to practical steps by which the possibilities for business success may be enhanced. It is, therefore, of considerable importance to *chaebol*.

^b The Korean word used for groups of companies such as those relevant to this thesis is *chaebol*. However, this word also has negative connotations and, consequently, will be translated as "group" or "conglomerate."

^c See Lee, Mushin and Byoung-ho Son, "Korean Strategies for Export Markets," *Long Range Planning*, Vol.26, No.6 (November / December, 1993), pp.99-106.

^d Damon Darlin, in 1994, for example, quotes monthly labour costs as averaging \$1200 in the ROK, \$150 in the DPRK and \$50 in Vietnam. Darlin, Damon, "Unifying Korea," *Forbes* (September 12th, 1994), pp.178-80.

It is clear, therefore, that Korean companies need to discover whether there are positions and strategies which would be more advantageous to them. They also need to know how to achieve those better positions and strategies. This is the motivation of my research and this thesis focusses upon understanding how the strategy of localisation might be used as a means of developing more advantageous market positions.

When thinking about and analysing Korean businesses, it became clear to me that their main, distinctive advantages lay in two areas:

1. their desire and ability in creating close and long-term relationships with their business partners and
2. the structure of the business groups, in which many different types of companies in many different industrial sectors are joined together. If these groups could pool their resources efficiently, they should be able to produce high-quality goods and services, with all the necessary after-sales service and support, at comparatively low costs.

When I began to assess the ways in which these advantages could best be harnessed, it became clear that the traditional perspectives of marketing did not really take account of them. Therefore, it was necessary to study other approaches to marketing. These included studies of and theories about interaction, networks, alliances and relationships and this study appeared to confirm that these approaches are more appropriate to Korean business methods. However, the approaches are fairly new and a number of conceptual difficulties are attached to them. These new approaches also require the collection of different types of information to support an analysis of the strategies that might improve the position of Korean companies. When I was designing my research, I was careful to collect information that would be the assessment and design of strategies based upon both the standard approaches and the more recent approaches.

In writing the thesis, I have found that both the traditional theories and the newer ones are useful in different ways and, so, my thesis is based upon a synthesis of different ideas.

1. Localisation: the Purpose and Scope of the Thesis

Localisation is the process by which organisations try to become recognised as local in different countries or regions. It is a process which is central to Korean business strategy. However, that does not mean it has always been conducted successfully. This is partly because Korean companies have not had a very long history of transacting business in foreign countries. In addition, it is a process which incurs costs. Many of these costs result from employees' salaries and these continue to rise steeply in Korean companies. There is a tension, therefore, between pursuing localisation and keeping control of costs. This tension is intensified by the fact that localisation works best when localising offices are able to take decisions and deploy resources on the basis of local knowledge, which is in direct conflict with the desire of top *chaebol* management to retain control at the central and highest levels.

Most *chaebol*, in common with firms from many other countries, try to achieve localisation through employing local staff and inputs. That is, in the UK they will use UK staff and source production from UK supplier companies. However, since most *chaebol* were, at the time of the research, which was between 1989-92, operating through facilities which had limited resources, their scope for effective localisation was limited in physical terms. That is, since they were not usually involved in manufacturing in the UK, there was only limited scope for using UK inputs, workers or other resources. Instead, localisation is manifested in creating relationships with customers (e.g. buyers and resellers) which are strong and committed. Naturally, the capacity to achieve this is limited by the type of market and the type of customer involved.

This thesis examines the extent to which this form of localisation has taken place, the scope for further localisation and how effective it may be. To achieve this, it is necessary to investigate a wide range of aspects of the marketing strategy which constitute localisation.

2. Contribution to Knowledge

This thesis is concerned with the marketing strategies of *chaebol* in the UK. Its purpose is to analyse various strategies and identify those which will facilitate their localisation.

However, in a work of this nature, there is scope for discussion of many different areas. Some of those areas have not been thoroughly investigated previously. Consequently, investigation of these areas represents a contribution to knowledge. Particular areas of contribution to knowledge are described below:

1. The localisation process is examined in the light of Korean companies entering the UK.

Traditional approaches to localisation or internationalisation tend to model it as a linear process of increasing commitment. However, a linear model is not necessarily the case for Korean companies. Alternative models are presented and investigated in the search for a more appropriate paradigm.

2. Not all marketing approaches are equally useful in describing Korean business.

Certain newer approaches to marketing are more useful for describing Korean business and for analysing their marketing strategies. There is a discussion of which of these - and why - are more relevant in the next chapter. It is shown that the interaction and network approaches offer the greatest analytical power and, therefore, they are used more than other approaches.

3. Relationships between Korean suppliers and UK buyers in industrial markets are investigated.

In investigating international relationships between Korean and UK companies, the thesis has been influenced by the following issues:

(i). The diversity of markets is an important feature of the conditions in which Korean companies work in the UK. For this reason, it was decided to conduct a survey that was comprehensive in scope rather than provide a smaller number of detailed case studies. The thesis will, therefore, provide lessons at a relatively high level of abstraction, which will need to be adapted to specific circumstances if they are to be used by independent companies;

(ii). The nature of international business is such that for many UK buyers, the fact that the supplier is a Korean company will have little impact upon them since, in the case of consumer goods resellers markets, they sometimes do not deal with any Korean personnel;

(iii). It is felt that the principal determinants of international business are economic in nature and that, while cultural differences and other intangible factors will certainly play a role in business, these should not be singled out for special treatment since they are in reality part of a much greater and inseparable whole.

The thesis covers cultural differences. It also provides a broader picture of environmental and atmospheric interaction. Atmospheric interaction covers both the emotional superstructure in which Korean individuals and organisations conduct business with their UK counterparts and, also, the controlling economic dimension. This is partly determined by the environment in which both operate. It is very influential in determining historic cultural differences.

4. The possibility of marketing information networks is explored and evaluated.

Korean companies in the UK are members of diverse business groups and they communicate both intra-organisationally and inter-organisationally with each other. Communication appears to be happening more regularly because of:

- the improvement in IT and in intelligent buildings;
- Korean business groups have begun to appreciate the enormous potential that access to resources of information possessed by the members of the group realises.

There will be an attempt to construct a conceptual basis upon which marketing information networks might work, as well as a mapping of the extent to which marketing information networks exist currently among Korean suppliers and, indeed, UK buyers.

5. The relative importance of tangible and intangible attributes are investigated in relation to selection criteria.

Traditional approaches to marketing and purchasing stress tangible criteria (e.g. price and prompt delivery) as being crucial in determining the establishment and maintenance of business relationships, while newer approaches tend to advocate the importance of intangible criteria (e.g. quality of relationships). Preliminary research suggested that both types are important to Korean suppliers and their buyers. This subject is explored with a view to determining which criteria, if any, are perceived to be important by businesspeople

and whether it is, therefore, possible to offer marketing mixes of the desired criteria in appropriate proportions.

6. Market positioning is a process which constitutes a number of different criteria. These have not been fully explicated by either traditional or more recent approaches to marketing and purchasing.

The concept of positioning is vital to market entry decisions. However, a review of the literature indicates that positioning has not been considered in respect of all possible factors. This thesis looks to define positioning by means of structure, hierarchy and cognition.

7. The interaction and network approaches to industrial marketing generally consider only industrial goods. This thesis explores the implications of extending this approach to consumer goods resellers and suppliers.

One issue surrounding the examination of new approaches is that they have not yet been thoroughly conceptualised and tested. In the present thesis, the theoretical basis includes approaches such as the interaction and network approaches. As a result of using these in combination with more standard approaches, these approaches are applied to new areas - consumer goods resellers markets.

3. Methodology

Research was divided into the qualitative and the quantitative.

Qualitative research involved personnel at 25 companies throughout the UK and was conducted personally. Interviews were in either English or Korean as appropriate. Some respondents provided a series of interviews, each on different aspects of their business. This method was considered particularly suitable because so much of the data required related to personal relationships. This type of primary data, which is often considered to be of little value to those who hold it, can only satisfactorily be elicited in a face to face setting.

The information gathered during qualitative research, together with that provided by the literature, was used as the basis for designing the questionnaire used for the quantitative

research. Where the information gathered has conflicted with that suggested by the literature, the qualitative research has been given precedence. For example, the factors nominated as being important in choosing a buyer or supplier may appear to be unusual. However, these criteria were all mentioned frequently by respondents. More significant was the shaping of the agenda of issues which was used for both qualitative and quantitative forms of research. This agenda was one dedicated to issues surrounding localisation, its progress and the best means of studying it. Since localisation can only occur once relationships with local players have been established, it is also necessary to study those relationships. Consequently, questions relating to the selection of buyers or suppliers were included, together with those on areas such as the use of information sources, which were intended to provide information on the extent to which localisation had taken place or was feasible in the future.

Owing to the wide geographical spread of possible respondents, it was decided that a postal survey would be most appropriate. Sample design was based upon Korean information sources. All companies that had had commercial involvement with Korean companies were approached. This led to over 350 questionnaires in total. 217 questionnaires were subsequently returned, which constituted a response rate of 62%.

In considering the research results, the following points should be borne in mind:

1. Research was conducted between 1989 and 1992. A pilot version of the questionnaire was issued to a sample of 50 companies in Autumn of 1991; the questionnaire was subsequently amended in the light of this, although no major modifications were required.
2. The total number of questionnaires returned was 217. Of these, 196 were completed by industrial buyers and 21 by suppliers. However, not all of the questionnaires were usable: some were incomplete and some appeared to have been inconsistently or erratically completed. The small number of suppliers interviewed means that statistical tests indicate that results are significant less frequently than they might be. However, the sample represents a large proportion of the population of suppliers available for interview.^e

^e The Korean Board of Trade document, "A List of the Association for Korean Businessmen in the UK," (1989) describes 25 trading and manufacturing companies and 7 shipbuilding and heavy industry companies. Generally, 10% is considered an acceptably high level of penetration and, in the case of large

3. The number of respondents for any particular question is represented by "n." Where a range of values is given for n, this means that more than one variable is being considered.

4. Statistical tests of significance have been conducted using mostly chi squared tests of significance and One-Way ANOVA. Additional techniques employed include Paired T-Tests and bivariate correlations.

5. The scales used are generally of the type:

Very Important	Fairly Important	Average	Not Very Important	Not Important
5	4	3	2	1

The numbering system has been reversed from the original questionnaire,^f i.e., what was 5 is now 1. This has been done to allow average scores to be calculated such that the higher the score, the better the performance.

6. Owing to the process of rounding, percentage totals do not always total 100.0 exactly.

7. As will be seen, respondents tend to think and speak in practical terms and, consequently, interpretation has been required to express the practical in the terms of the academic.^g

The level of significance that has been chosen is 5%; that is, there is less than a 5% probability that the results produced have arisen from a chance distribution. The 5% level was chosen because this is the most commonly used in academic research of this type. This level of significance is also suggested as appropriate by Norušis,^h although Tull and Hawkins opt for the less rigorous level of 0.10 (or 10%).ⁱ This choice of a standard level of significance is partly conditioned by the sample size. Experience shows that a level above 5% tends to yield too many significant results for the findings to be convincing. On the other hand, with a total usable sample of less than 200 and, in many cases, much smaller

datasets, this can fall to 1-2½%. In the current case, much more than 50% of all suppliers were interviewed.

^f The questionnaires themselves are included in their entirety as Appendix 3.

^g Perhaps more importantly, the information presented in this chapter is derived from the opinions and memories of the actors involved and, hence, certain statements may be open to question and there may even be factual errors since independent confirmation was not always possible.

^h Marija J. Norušis, SPSS for Windows: Base System User's Guide, Release 6.0 (Chicago, Illinois, 1993), pp. 270-3.

ⁱ Donald S. Tull and Del I. Hawkins, Marketing Research: Measurement and Method (New York: MacMillan Publishing Co., 1993), p. 644.

sub-groups, a significance level of less than 5% means that analysis can become a dispiriting affair. There is no definitively correct level of significance to choose and the one selected for this thesis has a judgmental element. In order for the conclusions reached here to have a higher level of academic rigor, tests of normalcy have been conducted (using the Lilliefors test)^j and for variance (by calculating the Levene statistic). However, attention will not be drawn to these tests in this section unless they substantially affect the interpretation of results; the details of results are fully included in the appropriate appendix.

Bonferroni multiple classification analysis has been conducted upon the same calculations for which ANOVA has similarly been used. The Bonferroni procedure can potentially highlight two aspects of a significant ANOVA result, as follows:

- (i) It indicates which subgroups differ from each other significantly (for example, the group answering a question "1" might differ significantly from the groups answering "4" or "5" when analysed in terms of another variable);
- (ii) It indicates both the extent and the direction in which subgroups differ significantly from each other (for example, the groups may be arranged numerically according to their means. However, the pattern is not always clear-cut).

However, the Bonferroni technique does not always show a significant result every time that ANOVA indicates a significant result and there are occasions when Bonferroni produces a significant result when the basic ANOVA does not.

Hypotheses will be dealt with as they become appropriate to the more general exploration of the research results. Each hypothesis is stated in null form and, then, the variables that are used to assess this are described. In those cases where the individual test may be used to disprove the null hypothesis, the relevant statistics will be quoted.^k

^j In fact, it is almost impossible to find a dataset in real life that is exactly normally distributed. Norušis (*op.cit.*) suggests that attention should also be paid to the degree to which the data vary from the precise normal distribution in order to estimate whether any departures are meaningful. The Lilliefors Tests conducted for this thesis do not indicate that any of the major variables upon which the following hypotheses are constructed need be wholly excluded from analysis.

^k Generally, these will be F statistics which are ratios of between group and within group means. The higher the F statistic, the more significant is the result. An exact observed level of significance will also be provided where this is relevant. It may also be observed that missing values have generally been excluded on an analysis-by-analysis basis; that is, a case with one value missing for whatever reason from a battery of attitudinal scales will be excluded from only one of a series of tests involving that battery. This method has been chosen partly on a pragmatic basis in that it has not been possible to achieve very large original sample

The research described in this thesis does not cover all Korean companies in the UK, nor does it consider all the possible means of business they may undertake. However, it is felt that the penetration of the total population achieved by the sample enables recommendations to be made about that population with some confidence.

The thesis considers companies which have localised in the UK and which are hoping to become localised. It is possible that there are specific conditions local to the UK which render this process atypical for Korean localisation elsewhere. In order to be sure that the results may be applied generally, therefore, it would probably be necessary to investigate other overseas markets.

Companies have generally been considered in the light of one type of activity (e.g. importing) or in dealing in one type of market (e.g. industrial organisational or consumer goods reseller). However, certain companies do not fit so neatly into these categories and it may be helpful to investigate them more thoroughly in terms of the quantitative research.

The postal survey is also a method which is open to criticism. Grounds for such criticism include the difficulties inherent in ensuring a balanced and appropriate sample, the comparative simplicity of the terms which must be used in framing the questions, the difficulties in ensuring that the optimum decision maker is the respondent and the inability to probe for further details when interesting responses are offered. It would be possible to investigate whether problems have been created by using the postal approach by repeating the research under the same conditions apart from a difference of method.

More generally, it is felt that only by examining all aspects of what is a complex and time consuming process can localisation be fully understood. However, studying this process in the detail which would be required would prove an impossible task. Nevertheless, it is felt that the totality of the experience is a vital component. Instead of restricting the scope of the thesis, therefore, it was decided to examine the whole of the undertaking in as much detail as is possible, running the risk that some details might be missed rather than misunderstanding the lesson that the overall procedure can teach.

sizes in all cases and, also, on a more statistical basis in that there is no evidence of any systematic non-response in terms of the variables being tested.

4. Ontology and Epistemology

This thesis and the research it describes is deliberately locked into the positivist paradigm. Other paradigms receive no explicit consideration. Although this might inspire criticism, it is felt that the positivist approach has a great deal still to offer, especially in terms of the topics covered here. Indeed, the majority of the issues addressed have only inadequately been examined by standard empirical means. In any case, alternative paradigms have to date received little attention in Korean thought and to attempt to address them properly here would necessitate a work approximately three times the length of the present work.

5. Structure of the Thesis

The thesis may be divided into three main sections. The first, which consists of chapters 1 and 2, is concerned with the way Koreans conduct business and the marketing strategies they tend to adopt. The second section, which is covered in chapters 3 to 5, is concerned with the way in which localisation has been investigated. That is, it outlines a number of different marketing theories and indicates that none of them is individually an entirely satisfactory means of describing Korean methods and marketing strategy. Two of the newer theories, the interaction and network approaches, are treated in greater detail since they are shown to be vital components of the synthesis of marketing theories which appears to be the most suitable for describing Korean methods.

The third section, which comprises chapters 6 and 7, describes the empirical research itself. It shows the extent to which *chaebol* have achieved localisation in the UK and it provides evidence for ways that they can improve their marketing strategies.

Chapter 1: Introduction to Korean Business Methods

1.1. Introduction

This chapter provides a general background knowledge of Korean business methods and activities in the UK. It opens by describing the Korean business environment. Next, there will be a discussion of the background and nature of the firms which mostly undertake Korean business: the *chaebol* and their general trading companies. This discussion will be set into context by a brief evaluation of the nature of international business and some of the key concepts involved in it. After having described these matters generally, there will then be an analysis of the actual companies present in the UK, their size and industrial sector. This has been derived partly from empirical work conducted for this research and partly from a literature review.

1.2. The Korean Business Environment.

Korea rose to international prominence through export led development programmes led by the authoritarian Presidents Park Chung-hui¹ and Chun Doo-hwan.² Development on a major scale was required because of the devastation caused to the country by the Japanese colonisation of 1910-45, the fighting of the Second World War and the Korean War of 1950-53. This left the peninsula divided into a capitalist, Western leaning South³ and a communist North which contained the bulk of industry and resources.⁴ Consequently, Korea had to build an economy from a very low base. This was successfully achieved through:

- acquiring foreign loans and grants, primarily from Japan and the USA;⁵

¹ President Park ruled from 1962 until his assassination in 1971.

² President Chun's administration ran from 1971 until 1984.

³ The southern half, which is South Korea or, more accurately, the Republic of Korea, will be referred to as simply Korea in this thesis.

⁴ During the period of colonisation, the Japanese had concentrated most heavy industry in the north, leaving the south as a comparatively backward agricultural region. The division of the peninsula, which remains to the present day, continues to be a tremendous hardship to the Korean people, both because up to 10 million Koreans are separated from members of their family and because of the previously heterogeneous and harmonious society that had previously united all Koreans.

⁵ Korea has always ensured prompt repayment of all loans.

- implementing a series of centrally planned five year economic programmes focussing on development of the infrastructure and the export drive⁶ and
- the entrepreneurialism of individual Koreans who built companies from small beginnings into large *chaebol* or conglomerates.

As Chapter 2 will describe in greater detail, this process has been possible because of the support of the government. The success is clear since average annual growth exceeded 8% between 1962 and 1986.⁷ During this time, Korea became the world's twelfth largest trading country.⁸ Most of this trade was undertaken by the *chaebol*: the 10 largest contributed over 76% of GNP.⁹ This situation has brought its own difficulties:

"... as the country has few natural resources¹⁰ and a weak base of small and medium industries, it is not well positioned to meet the trend in international product demands towards diverse models in small quantities. The governmental supportive measures to accelerate exports are also triggering foreign opposition against Korean imports, while distorting local marketing and distribution."¹¹

Recently, the government of the first civilian president, Kim Young-Sam, who was elected in 1992, has attempted repeatedly to curb *chaebol* power. This has been provoked by indications that certain *chaebol* intended to increase their influence in politics.¹²

The Korean government has always been aware that its influence cannot overcome changes in the international environment.¹³ Since the country relies so heavily on exports, such events as the oil crises of the 1970s and recession in the USA are very damaging to the economy. The government has tried to avoid these problems by trade diplomacy:

⁶ Originally, economic planning was driven by the need to achieve import substitution, since Korea was unable to produce a wide range of everyday goods.

⁷ The Economic Planning Board, Major Statistics of the Korean Economy (Seoul: The Economic Planning Board, 1987).

⁸ "South Korea Stands Alone: A Survey," *The Economist*, May 21st, 1988.

⁹ Business Korea Yearbook, 1991/2, p.III-1.

¹⁰ Korea is primarily a mountainous region, surrounded by the sea. Hence, she has traditional strengths in shipbuilding and fishing. The reserves of coal and iron in the North have been unavailable to the South since ideological differences have meant there has been almost no inter-Korean trade.

¹¹ *Korea Trade and Business*, Vol.7, No.10 (October, 1989), p.12.

¹² Chung Ju-yung, head of the Hyundai Corporation, stood in the Presidential elections of 1992, receiving substantial support in his home area and prompting fears that the country would be run for the benefit of large businesses. Subsequently, Chung was imprisoned for corruption: he had himself claimed to have provided enormous funds for the administration of President Park.

¹³ This is a traditional theme in Korean history. The proverb "When whales fight, shrimps suffer," reflects Korea's experience with her much larger neighbours who have for hundreds of years fought to assert control over the peninsula.

"Korea will pursue active trade diplomacy ... to mitigate growing protectionism overseas. At the same times, region-by-region trade diplomacy programmes will be mapped out as part of the strategies to promote trade relations with various countries in different regions."¹⁴

Trade diplomacy aims to create links which reduce Korea's dependency upon thriving international trade. It is an alliance of political and economic goals. Trade diplomacy has resulted in the creation of trading links between Korea and various European states, the Middle East, Africa and Oceania. It was also important in normalising relations with Japan¹⁵ and entering the Vietnam War on the American side, both of which helped unlock further sources of aid and transfer payments.¹⁶ The 1988 Seoul Olympic Games occurred during President Roh Tae-woo's *nordpolitik*¹⁷ and helped to create new partnerships with the Soviet Union, the People's Republic of China and the communist countries of Eastern Europe. However, the economic successes achieved have brought their own problems. For example, after many years of hardship and self-sacrifice, Koreans are now looking for rewards such as higher wages and better working conditions.¹⁸ These problems are compounded by high interest rates and labour costs, steady appreciation of the *won* and the use of tariffs and other trade barriers by countries importing Korean goods.

The Korean government has tried to offset retaliatory trade practices by opening up Korean markets through import liberalisation.¹⁹ This means that Korea now imposes both

¹⁴ *Korea Trade and Business*, Vol.8, No.2 (February, 1990), p.10.

¹⁵ This was despite considerable violent protest from many Koreans who felt that the Japanese had shown little or no remorse or recompense for the atrocities inflicted on the Korean people during the colonisation period; this feeling remains and relations with the Japanese are still not wholly friendly for a number of reasons.

¹⁶ Korea undertook some trade with both these nations and the states of Europe, as well as elsewhere, before these events occurred.

¹⁷ Northern policy. This was intended to promote better relations with the DPRK (North Korea) by improving relations with the DPRK's allies, including the Soviet Union and the People's Republic of China. Previously, the communist world had refused to recognise South Korea and the rest of the world had effectively refused to recognise North Korea. While some limited improvement in relations between the two Koreas was achieved, the main effect of this policy has been to drive the North further into self-imposed isolationism.

¹⁸ The administration of President Park, in particular, which was the main driving force behind Korean modernisation, was always willing to sacrifice employment rights, civil liberties and environmental concerns in order to encourage, for example, foreign owned companies to invest in Korea.

¹⁹ This has a substantial formed part of the government's strategy to attract foreign investment. The other main strands of the strategy are: (i) addressing the inadequacies of Korean infrastructure; (ii) staving off the apparent threat of inflation; (iii) reducing tiresome bureaucracy. See Ahn, Mi-Young, "South Korea: Surviving Out in the Open," *Asian Business*, Vol.30, No.6 (June, 1994), pp.26-31.

fewer and lesser tariffs and other barriers on imported goods²⁰ and has levels comparable with any other developed country in the world. Similarly, the recently concluded Uruguay round of the GATT talks has prompted Korea to allow the importing of foreign rice²¹ (albeit in a limited fashion), despite considerable protests from farmers. Given Korea's trading ability, such decisions have tended to increase rather than decrease Korea's overall balance of trade. Even so, this requires constant forward planning:

"... developing countries will further secure technological superiority in such capital / technological-intensive industries as automobiles, electric goods, electronics, steel and machinery. They are particularly expected to attain a considerable level of technology in such high-tech areas as semi-conductors, optical communications and medical equipment ... late-coming industrial companies will keep the comparative superiority in such areas as labour-intensive light industries and some assembly industries like shipbuilding."²²

For this to occur, Korea must ensure the presence of youthful, dynamic organisations competing in areas of specialisation and investing in research and development to create sustainable competitive advantage.²³ Historically, foreign organisations investing in Korea have been reluctant to permit the transfer of technology. Meanwhile, most *chaebol* have been content to trade in labour-intensive markets where they had price leadership. Now that price advantage is being eroded, Korea is vulnerable to the emergence of other newly-industrialising economies (NIEs). However, an understanding that *chaebol* must produce and market goods that people actually want to buy is finally increasing. Previously, many *chaebol* simply produced whatever was convenient and then shipped goods overseas hoping someone would buy them. Now, *chaebol* have started to search for profitable markets where sustainable competitive advantage is possible.

²⁰ Kim, Chung-soo, Perspectives on Euro-Korean Economic Relations (Seoul: Korea Institute for Economics and Technology, 1985), pp.20-27.

²¹ This was finally allowed in December, 1993.

²² *Korea Trade and Business*, Vol.7, No.10 (October, 1989), p.11.

²³ Youn-Suk Kim has argued that industrialisation and exporting must be managed in the context of world trade patterns. The search for competitive advantage should similarly operate in this context. See Kim, Youn-Suk, "Korea's Export-Managed Industrialisation and Its Lessons," *Human Systems Management*, Vol.9, No.3 (1990), pp.173-185.

1.3. *Chaebol*

In Korea, the free trade economic system is dominated by the *chaebol* or business group. They resemble the more well known *zaibatsu* of Japan, although *zaibatsu* have been considerably modified by American influence.²⁴ *Chaebol* are large and, now, frequently multinational companies which were founded mostly in the aftermath of the WWII and liberation from the Japanese. The groups were developed from single companies trading in one particular sector, as for example the names of Korea Explosives and the Cheil Sugar company indicate. These companies were family owned and commanded a tremendous degree of loyalty from their workforces. The massive reconstruction of the country and economy in the 1950s and 1960s offered many opportunities for entrepreneurs to enable their companies to grow rapidly.

The *chaebol* that prospered were able to diversify into a wide range of different industries through, essentially, acquiring firms in other sectors.²⁵ *Chaebol* are also fiercely competitive and try to drive competitors out of business. This has led to an unbalanced structure with few independent small or medium-sized companies. Consequently, Korean business is much more suited to dealing with buyers interested in large volumes than with niche operators.

The *chaebol* remain strictly within the control of the original families, although in some cases sons have now taken over from fathers. Stories abound of the great personal sacrifices made by the original entrepreneurs in attempting to set up and expand their empires. These sacrifices inspire the leaders to expect similar loyalty from their workers; this loyalty has, by and large, been willingly given. Until recently, Koreans remained

²⁴ "*Chaebol* and *zaibatsu* share some important features, such as their family-oriented ownership, centralised decision-making, highly diversified business areas and authoritarian management style. However, Korea's *chaebol* are more like Japan's *zaibatsu* of the prewar period, not the current *zaibatsu* which were changed greatly by the US military after World War II. Japan's *zaibatsu* had to undergo a painful dissolution process after the war with their family-oriented ownership replaced by a widely dispersed ownership. *Zaibatsu* currently enjoy a clear separation between ownership and management, unlike *chaebol* which still see no distinction between the two." Business Korea Yearbook (1992), *op.cit.*, p.III-1.

²⁵ Joong-woo Lee notes that *chaebol* managers remain notable for their willingness to take risks, both in terms of investing in new markets and in their general approach to developing their businesses. Lee, Joong-woo, Swedish Firms Entering the Korean Market: Position Development in Distant Industrial Networks, Ph.D. Dissertation (Uppsala: Uppsala University, Department of Business Studies, 1991), pp.104-109.

underpaid in comparison to their rivals in other countries, especially since their Koreans' devotion to education has meant they are generally more skilled and educated than their competitors. The historically low wage levels are largely because of the insistence on the development of the country required by Presidents Park and Chun. Nevertheless, *chaebol* have often been in conflict with the government of the country and some, for example Kukje, have effectively been closed down by official order. However, others have managed quite successfully to resist government attacks, for example trying to cause executive power over *chaebol* to be spread more widely. Consequently, the *chaebol* that have spearheaded the exporting success of Korea are tightly controlled by a small number of individuals using an autocratic style that reflects that of government. Whenever Koreans come into contact with businesspersons from other countries, therefore, as they now frequently do, their behaviour is largely governed by the constraining factors placed upon them by their philosophy, culture, educational system and rules of employment.

However, the *chaebol* themselves are now coming to understand the advantages of a more autonomous structure, adopting corporate missions such as developing:

".... a corporate philosophy based on successful human interaction within the company, good customer relations and mutually beneficial partnerships around the globe."²⁶

This evolution has become necessary because of government attempts to curb their power, partly on the grounds that corrupt practices have been alleged and partly because the very size of these organisations means that it is difficult for small or medium sized organisations to survive in opposition to them or, even, to get access to bank loans and credit. However, *chaebol* do recognise their social obligations and have set up societies dealing with welfare of employees and society more generally.²⁷ So, some of the profits accruing from the self-sacrifice of the Korean people, which enabled the growth of the *chaebol*, can be repaid to them.

²⁶ The Goldstar Group, The Will to be No.1 in the Field of Consumer and Industrial Electronics (1989).

²⁷ For example, Chung Ju-yung, in 1977, gave half his holdings in Hyundai Engineering and Construction Co. Ltd. to ASAN, the largest philanthropic society in Korea. Similarly, the Lucky Goldstar Group maintains the Yonam Foundation, the Lucky Goldstar Sports Co. Ltd. and other organisations.

Chaebol aim to be global in scope or, at least, multinational. Unfortunately, these terms are rarely defined accurately. For example, there is no entirely satisfactory definition of the difference between a multinational company and a company that may undertake some international activities. However, there is some agreement that a multinational company must operate a level of investment or production in one or more foreign countries and to have adopted or at least aspired towards a global approach. This is described by Rugman *et al.* in the following way:

"The difference between a domestic corporation and the MNE [multinational enterprise] is that the latter operates across national boundaries. More specifically, the MNE produces abroad as well as at home Foreign production is defined to include the production of physical goods and foreign investment in such sectors as finance, insurance, construction, transportation, communication and retail trade."²⁸

Walsh, meanwhile, considers that a multinational company requires:

"... a manufacturing investment (or service operation) in at least one foreign country ... [and has] ... adopted a global outlook, making its production, marketing and other decisions in the light of the options open to it anywhere in the world."²⁹

Definitions like these include subjective measures, since it is very difficult to assess whether or not companies have global perspectives. Similarly, there is disagreement in terms of the physical requirements that a multinational company must provide. A number of different formulae have been proposed to separate the truly multinational company from the others. Such formulae generally include an arbitrary criterion somewhere in the process, e.g. investment or production in one or more foreign countries or derivation of 25% or more of total revenue from foreign enterprises.³⁰

These definitions need to be adapted to some degree to take account of the *chaebol* involved in this research. *Chaebol* generally control a large number of different individual

²⁸ Rugman, Alan M., Donald J. Lecraw and Laurence D. Booth, International Business: Firm and Environment (Singapore: McGraw-Hill International Editions, 1986), p.7.

²⁹ Walsh, L.S., International Marketing (London: Pitman Publishing, 1978), pp. 6-7.

³⁰ See, for example, Bruck, Nicholas and Francis Lees, "Foreign Investment, Capital Controls and the Balance of Payments," *The Bulletin*, Nos. 48-9 (New York University: Graduate School of Business Administration, Institute of Finance, 1968), Dunning, John H., "The Determinants of International Production," *Oxford Economic Papers*, No.25 (November, 1973), pp.289-336 or Hood, Neil and Stephen Young, The Economics of Multinational Enterprise (London: Longman, 1979).

companies across many different industrial sectors. A typical *chaebol* might include (but not be limited to) a GTC, an electrical and electronics company, a chemicals company, a shipbuilding company, a textiles and garments company and a foodstuffs company. The Hyundai Group, for example, lists 29 major member companies, as well as a number of other organisations, while other groups such as Samsung and Sunkyong are of similar or larger size. As Chapter 2 will show, *chaebol* have generally followed each other in entering every new sector that the government has allowed them to enter. The rigid control of the environment by the government has helped to cause the very similar structure of virtually all *chaebol*.

When trying to appreciate the nature of *chaebol* and comparing them with western organisations, it is helpful to use Bartlett and Ghoshal's model of three dominant corporate structures,³¹ each of which was developed from distinctive historical conditions. These are:

- the decentralised federation. This was derived from pre-war European Empires and featured semi-autonomous national (or regional) units. Since these units had local power, they were able to respond to events quickly and appropriately;
- the second model is the post-war American hegemonic model of the co-ordinated federation. In this, power is equally spread throughout all the units, including the centre. Its competitiveness is derived from the transfer of knowledge to and from all units;
- finally, the rise of Japanese corporations led to the concept of the centralised hub. In this, decentralised units are controlled from the centre and the basis of competition is global (or regional) efficiency. *Chaebol* aspire to this condition.

Ultimately, it is considered, the future of the international enterprise is to be found in the integrated network, which combines the best features of the three preceding models.³² It is clear that *chaebol* are generally at the centralised hub stage and are aiming at being transnational corporations. Indeed, Choi and Wright report Samsung's major strategy as being, in addition to attaining international orientation and decentralisation of decision

³¹ See Bartlett, Christopher A. and Sumantra Ghoshal, Managing Across Borders: The Transnational Solution (Harvard Business School Press: Boston, 1989).

³² *ibid.* This may also be known of course as the transnational corporation.

making, to become market leader in every field of business entered.³³ This is a common theme amongst *chaebol*. Their leaders are nowadays interested in enhancing their technological and expertise bases to acquire competitive, firm-specific advantages to offset the loss of their location-specific advantages.³⁴ That is, since labour costs are higher for all Korean firms, each one is trying to improve the quality of its products. This helps to explain why *chaebol* are trying to take part in UK markets. They have the following aims:

- to assist in technology transfer;³⁵
- to exploit resources not otherwise available (including information and knowledge).

One example of this is the Korean banks opening offices in London. They are reported to have the following motivations in becoming internationalised:

- falling profits in the domestic market;
- saturation of the domestic market;
- ambitious desire to challenge international banks in London;
- to gain access to the London market and, hence, international markets;
- to decrease domestic exposure;
- to research overseas markets;
- to pursue growth opportunities in new types of instruments.³⁶

There are, therefore, multiple motivations for Korean companies to localise in UK markets. Among the instruments most commonly used by *chaebol* to satisfy these motivations are the GTCs. These are certainly vital in the case of the present research. The GTCs will be described next.

³³ Choi, Chong-Ju and Nigel Wright, How to Achieve Business Success in Korea: Where Confucius Wears a Three Piece Suit (The MacMillan Press Ltd.: Basingstoke, 1994), p.64.

³⁴ There seems to be a danger of over-emphasising the degree to which countries are able significantly to change the trade dynamics affecting them and, particularly, exporting what was once imported. See Gagnon, Joseph E. and Andrew K. Rose, "Dynamic Persistence of Industry Trade Balances: How Pervasive is the Product Cycle?" *Oxford Economic Papers*, Vol.47, No.2 (April, 1995), pp.229-248.

³⁵ As happened in the case of the Silicon Valley.

³⁶ Crowe, Charles, "Korea Opportunities," *Euromoney* (February, 1995), pp.100-1.

1.4. General Trading Companies

One of the principal instruments of a *chaebol* is its trading company. It acts in some ways as the trading window through which *chaebol* deal with the environment. Based on the model of Japanese *sogosha*, the Korean government introduced the designation for a number of organisations between 1975 and 1978.³⁷ The purpose of this was further to spur exports. The exact requirements according to which firms can be designated GTCs have been flexible. Currently, the guidelines have been reduced simply to achieving a minimum of 2% of the country's total exports. Designation as a GTC entails a substantial number of tax benefits and other advantages. Consequently, *chaebol* are keen to ensure their trading companies are accredited as GTCs.

During 1988-1991, there were 9 General Trading Companies (GTCs) accounting for 28% of Korea's total trade and contributing 19% of the GNP. However, their influence has been declining, for the following reasons:

- it is becoming easier for Korean organisations to deal directly with foreign companies;
- exporting depended so heavily upon intra-company products and the government is now trying to restrict *chaebol* to their core areas of business;³⁸
- the export drive has itself been awarded a lower priority since 1987 when Korea finally recorded a balance of payments surplus.³⁹

Partly as a result, GTCs have attempted to move away from dealing in traditional Korean products such as garments, textiles and consumer goods and have moved towards high-technology products and research, as well as re-assessing their role and purpose. The Sunkyong group, for example, considers the principal functions of a GTC to be financing,

³⁷ Business Korea, *Yearbook, 1990-1991*, p.652.

³⁸ Samsung, for example, has recently announced plans for reducing the number of companies in the group from 50 to 24, by 1998. See Nakarmi, Laxmi, "Samsung: A Tight Ship Gets Tighter," *Business Week International* (November 28th, 1994), p.21. It is possible that Samsung is abiding by such strictures partly to encourage the government to allow and enable it to enter the car business.

³⁹ It is often forgotten that the ROK has suffered from considerable trade deficits, especially with Japan and, also, has had to cope with the repayment of very large loans from, in particular, the USA.

information, organising and resource development as well as trading. Frequently, internationalisation enters into this discussion.

There are many areas in which industry and government share common interests. For example, the government has tried to encourage higher value-added products and differentiation of product types because of the decline in price competitiveness. One of the best ways to achieve this has been through the enhanced provision of quality or after-sales service. Since GTCs are members of large *chaebol*,⁴⁰ they can market the goods produced by any other group member or goods produced by companies which are not part of the group. However, foreign buyers may not always realise that they are dealing with a company which is generalist rather than specific. That is, they may not realise that their partners have little to do with manufacturing the products. Buyers expect their partners to provide individual service and specialist knowledge. The GTCs, therefore, will frequently be requested by buyers to improve service and quality. They have a vital role in improving the competitiveness of Korean goods.⁴¹

Having described the nature and role of GTCs, it is now possible to investigate how they have been active in the UK.

1.5. Localisation

1.5.1. Introduction to Localisation

When a firm internationalises, it does business as a foreign firm. This can lead to great success. However, it is inevitable that people prefer to do business with their compatriots.

⁴⁰ Hyundai lists 25 major group companies, including the GTC, ranging from Hyundai Engineering and Construction Co. Ltd. to Hyundai Elevator Co. Ltd. to Hyundai Marine and Fire Insurance Co. Ltd., while the smaller Kumho *chaebol*, meanwhile, maintains 7 group member companies, including the GTC Kumho Corporation, 22 overseas branch offices (including 5 overseas affiliate corporations) and 2 Foundations for the Betterment of Society.

⁴¹ Lee Kun-Hee, son of Samsung's founder, is reported as saying: "We have to compete in the world in terms of quality - and quality alone." See Laxmi (1994), *op.cit.*, p.21.

This is not necessarily xenophobic.⁴² There may be good reasons for preferring to buy same country products, for example:

- same country products may be more familiar to consumers and have built up brand loyalty among them;
- foreign country products may be liable to tariffs making them more expensive. In any case, they may be expensive because of extra transportation and distribution costs;
- foreign country products may not have exactly the same technical specifications as same country products. In any case, the cost of technical modifications may again make foreign country products more expensive.

Inevitably, therefore, the foreign producer will want to find ways to make their products appear to be locally produced. In some cases, especially where the company aims to promote as part of its overall marketing, it will want the company itself to appear to be a local company. This might be to increase sales, to counteract negative publicity or enhance positive publicity or, else, to avoid trade friction. This latter was thought to be especially important to Koreans during the time of the research because of the implications of the 1992 Single European Market (SEM) agreement.⁴³ The process by which this is attempted is called localisation. It is particularly important to Koreans, who use the term "*hyun jee hwa*" to describe it. However, it is also important to companies from other countries. For example, UK companies will localise in the USA or in Europe quite naturally. It is really because the Far East and the Western world appear to be so distant from each other that localisation is considered such an important subject.

⁴² Of course there are patriotic elements in supporting home country industry. These feelings may be mobilised by governments to stem imports. For example, many Koreans think that smoking foreign cigarettes is treacherous. See: Schwarz, Doug, "Drags to Riches: Western Cigarette Giants Battle State-Run Monopolies for Market Share," *Far Eastern Economic Review*, Vol.147, No.13 (March 29th, 1990), pp.62-8.

⁴³ See, for example, Hansen, Henrik, "Implications for Korea: EC Internal Market," *Business Korea*, Vol.10, No.8 (February, 1993), pp.20-21.

Localisation means, therefore, causing the foreign company and its goods to appear to be local companies and goods. It is usually attempted by:⁴⁴

- employing host nation staff and managers. Local people are more aware of local business methods, who the major players are and how to achieve the best deals than foreign nationals are. It can take foreign nationals many years to gain this level of market knowledge. However, there is a danger that host country nationals will lack loyalty to the localising company. This issue is often resolved by employing foreign nationals who have been resident in the host country for a number of years and have many connections there;
- employing host nation methods of production, marketing and advertising. Although cultural differences mean that different production methods can be of crucial importance (e.g. in the case of slaughtering meat), less noticeable areas such as promotional support to retailers or credit terms offered to distributors can also be important in determining the success of a product. This is again an area where market knowledge is vital;
- customising products to match host nation specifications. International marketing history is littered with examples of products that failed because they were unsuitable for a particular market. These range from names which translate as offensive words to problems with the size of kitchen appliances. Where new products are being devised, it can be vital that some research input comes from the host country. Being able to secure this was one of the most powerful reasons to tempt Honda into its alliance with Rover;
- undertaking production in the host country. Actually making things in the host country tends to be more popular than making things elsewhere and simply

⁴⁴ Some organisations, especially Japanese ones, tend to have apparently formalised approaches to this procedure. For example, Parter reports the following: "Matsushita President Akio Tanii describes his company's globalisation policy this way: "First, the company strengthens R&D, production and sales in a particular country or region. Then it increases technological exchange and begins to buy parts and materials locally. Later, it would link that Matsushita entity with its other group companies. Finally, we would encourage mutual exchange on a worldwide basis." In other words, the company aims to take advantage of its global nature" (p.28) and "For Nissan, there is a distinct process of localisation. Kume says, "The first of these four stages is to increase local production and create new jobs; second, we raise the local content through expanded use of locally sourced parts and components; the third stage is to localise research and development; the fourth stage involves the localisation of management functions - and the decision-making process." (p.133). See Parter, Alan S., Going Local: How Global Companies Become Market Insiders (EIU: London, 1993).

selling them in the host country. The fact that host country nationals have helped to make the goods and are seen to benefit from their sale means that problems with patriotism can be avoided. However, this is not necessarily the case when host country workers are perceived to be exploited;

- devolving responsibility and decision-making power to the operation in the host country. Staff in the host country may be expected to be more conversant with the issues facing the country and to be able to respond more quickly and flexibly to them. When decisions have to be referred to head office, the delays involved can be considerable. When Head Office insists on making all decisions, the risk of mistakes being made can be high;
- employing similar performance characteristics to those employed in the host nation. *Chaebol* have a great desire for market share.⁴⁵ In the domestic arena, this can be subsidised by profits made in other sectors. This approach is clearly inappropriate to UK markets, especially since these are mostly mature and have many competitors;⁴⁶

At the same time, the reason why the company has become internationalised in the first place is because its goods have some competitive advantage over locally produced goods or, at least, that they can compete with them. Localisation is, therefore, a process which aims to reduce the added cost of doing business in the foreign country. This added cost will vary considerably depending on the market sector and type involved. In high volume, low sophistication consumer markets, goods are closer to being commodities.

⁴⁵ Whitley argues that this is common to Oriental organisations (or at least non-Western corporations) and particularly Japanese organisations. This is because of specialisation within business groups which means that performance can be more easily measured according to criteria such as output or market share. By contrast, western organisations are involved much more with the management of portfolios of dissimilar businesses which require a common form of measurement. This common form is usually expressed in financial terms. See Whitley, Richard, Business Systems in East Asia: Firms, Markets and Societies (Sage Publications: London, 1992). An additional explanation or, at least, contributory factor, is that of accounting style. Nobes shows that Korean commercial law is based on Japanese systems that were implemented in the colonisation period. Japanese accountancy has, for example, no concept of net present value and, generally, fewer applications of financial measurement of success. Nobes, Christopher, "Accounting for Differences in the Far East: Are They Inscrutable?" *Management Accounting*, Vol.72, No.9 (October, 1994), p.36.

⁴⁶ This is discussed with reference to Japanese companies in Kidd, John B., "Globalisation through Localisation: Reflections on the Japanese Production Subsidiaries in the United Kingdom," in Hellmut Schütte, ed., The Global Competitiveness of the Asian Firm (Basingstoke: Macmillan Press Ltd, 1994), pp.265-286.

Consequently, price is likely to be the decisive factor. Korean goods have historically been of this type, as indeed Japanese goods used to be, as well as Taiwanese and, more recently, those from China and Thailand.⁴⁷ Goods competing in this way must, therefore, be able to offer a considerable competitive advantage in terms of price. Furthermore, macroeconomic conditions of international trade - levels of tariffs, exchange rates and so on - can directly affect demand for those goods because they directly affect their cost. However, goods with higher levels of complexity suffer a little less from these fluctuations because price is less likely to be the dominant factor in choosing a supplier. The factors that will be relatively more important might be technical and after sales support or the presence of more particular skills. These factors will still be affected by localisation: that is, companies which have successfully localised will be able to compete more effectively in these areas than companies which have not localised. For example, technical support for computer goods demands that buyers and suppliers speak the same language.

It will be shown in Chapter 2 that Korean *chaebol* are moving away from goods low in cost and complexity to those higher in both ways. Since these markets are not so price-sensitive, therefore, Korean companies can afford to expend more resources on ensuring that the right level of localisation takes place.

Localisation can be an expensive process. Especially when, as used to be the case, Korean companies were attempting to compete in terms of price, they would not want to incur additional cost. Areas where costs could arise include the following:

- adaptation of customs and manufacturing processes to meet local standards, especially where these have been used to deter foreign competition;

⁴⁷ See, for example, Clark, Gordon L., "The End of an Era: Asian NIEs in the Global Economy," *Growth and Change*, Vol.25, No.4 (Autumn, 1994), pp.487-508.

- devolving executive power to local offices requires that decision-making be supported by appropriate information gathering and associated activities. These all require the expenditure of resources;
- purchasing overseas facilities or otherwise acquiring means of production in the foreign country can be expensive. Especially in the short term, it is cheaper simply to export goods that have been produced in the home country.

However, in many cases host nation governments will be eager to attract inward investment and will offer incentives for companies to localise. The advantages to the host country include the following:

- localising companies can offer employment to host nation workers. This can also spread to support industries. For example, the localisation of Nissan and other Japanese car companies in the UK has boosted component manufacturers, catering and support industries;
- the localising company provides reserves of foreign currency;
- the localising company may be using technology or manufacturing or management processes in advance of those prevalent in the host country.⁴⁸

In order to attract inward investment, governments might provide incentives. These can include:

- freedom from labour regulations and environmental constraints;
- exemption from some taxes and reduction of the effects of others;
- provision of some factors of production (e.g. land and capital) at preferential rates. This may be particularly relevant to regions which are less well developed;
- provision of governmental institutions and assistance in enabling foreign companies interested in localisation in achieving it. This might take the form

⁴⁸ The localising company may not wish to permit the transfer of technology. This is true of Japanese localisation in Korea and has proved a cause of contention between the countries for many years.

of helping to find suitable partners for joint ventures, support for host country companies searching for partners and smoothing relations at diplomatic levels.

This kind of support can come from institutions which are not the host country government. These might include, in the UK, institutions related to the European Union.⁴⁹ Since these institutions frequently have a role in social welfare, the incentives they provide may be slanted towards encouraging localisation in comparatively underdeveloped areas. One implication of this is that localising companies are often encouraged to invest in greenfield sites, where they can impose their own practices without fighting against a tradition of different, historical methods.

Korean companies resemble Japanese companies in some ways and have tended to follow their approach to localisation in foreign countries. To study how Korean companies should approach localisation, therefore, it is helpful to study Japanese localisation.

1.5.2. Japanese Localisation in the UK.

The impact of Japanese localisation in the UK has been so great that it is easy to forget how recent it has been. Dunning, writing in 1986, for example, comments that:

"Compared to that of affiliates of other foreign companies, Japanese participation in UK manufacturing industry is still minute. In 1981, the sales of Japanese affiliates were only 0.4% of all foreign-owned affiliates in the UK and 0.08% of all manufacturing firms. The corresponding figures for gross value added are 0.431% and 0.06%; and for employment 0.52% and 0.05%. since 1981, the share of Japanese involvement has risen but, even in 1983, Japanese affiliates accounted for probably not more than £1 of every £1,000 of manufacturing sales produced in the UK."⁵⁰

⁴⁹ This was the European Community and the European Economic Community during the period of the research.

⁵⁰ Dunning, John H., Japanese Participation in British Industry (Croom Helm: Beckenham, Kent, 1986), p.29.

Since then, of course, the involvement has risen considerably. However, it is still true that the influence of the Japanese in the UK is out of proportion with the level of investment. For example, investment by French or German companies has not prompted the investigation of French or German management techniques such as there has been for Japanese management techniques. Of course, this is also because of the general level of success of the Japanese economy.

Given that Japanese companies have commenced internationalisation and have decided to look towards Europe, they must still decide which country in which to invest.⁵¹ The reasons for choosing the UK include the following:⁵²

- the use of the English language. Owing largely to American influence, English has become the dominant international language. This is reflected in business practice. Japanese, like Koreans, commonly learn English as a second language. Naturally, they will prefer to localise in a country in which they have some language ability;⁵³
- political stability. The UK has a long tradition of parliamentary democracy and comparative moderacy in the ruling parties. Although this is far from unique in western Europe, it is firmly embedded in the UK;
- a consistent policy towards foreign investment. Related to the preceding point, successive UK governments have maintained a fairly constant attitude towards foreign investment, supported by well-established institutions such as the civil service;⁵⁴

⁵¹ Although in conversation Japanese and indeed Korean businesspeople still often find it hard to distinguish between Western European countries, this is not a trivial decision. Detlev *et al*, for example, demonstrate that country choice can be influential in determining whether Japanese subsidiaries are financially successful or not. See Nitsch, Detlev, Paul Beamish and Shige Makino, "Characteristics and Performance of Japanese Foreign Direct Investment in Europe," *European Management Journal*, Vol.13, No.3 (September, 1995), pp.276-285.

⁵² This section owes a great deal to Fitzpatrick Associates, East Asian Investment in the UK and Republic of Ireland, Special Report No.2064 (EIU: London, 1991).

⁵³ Understanding a common language can reduce psychic distance and increase market knowledge. These factors are crucial in determining the success of localisation.

⁵⁴ Consistent policy and stable institutions are essential elements in gaining market knowledge and reducing risk. Whether these elements are not in place, otherwise attractive opportunities become rather less enticing, as *chaebol* have concluded about the former USSR. See, for example, Sohn, Jie-Ae, "Elusive Gold Mine," *Business Korea*, Vol.12, No.3 (September, 1994), p.41.

- competitive labour costs and relatively stable industrial relations. The Conservative government of the day aimed to destroy trade union power and to promote the UK as a low wage economy. Localising companies find this attractive since generally the labour costs in their own countries have risen because of economic success and so they look to relocate production facilities to less developed countries. Furthermore, owing to high levels of unemployment and the destruction of protection for trade unionists, the number of strikes in the UK was reduced. This climate is attractive for Japanese companies to acquire facilities in the UK where they can impose labour and trade union regulations familiar to them;
- sizeable domestic market. The level of demand in the UK is quite high and helps to justify the expense of localisation. It also offsets the added cost of exporting from the UK to other European countries;
- membership of the European Community (EC) (as it then was). Once a presence has been established in one member company, business transactions may be much more conveniently conducted in the other member countries. This was seen as particularly important in the approach to the Single European Market (SEM) in 1992 and the fear that companies from states outside the EC would find it extremely difficult to trade there competitively;
- land link via the Channel Tunnel. Although this has only recently opened, the prospect of comparatively cheap transportation between the UK and mainland Europe has helped to negate a possible deterrent effect.

Although grant aid is also available to localising companies, this is generally not important to large companies.

The Japanese firms that localise in the UK tend to have previously sold to the UK through exporting and, probably, through their own sales outlets.⁵⁵ The type of investment has been predominantly in greenfield sites and concentrated in a few particular industries. In 1991, at the time of the research for this thesis, the four dominant sectors for investment

⁵⁵ Dunning (1986), *op.cit.*, p.31.

were electrical equipment (86 cases), chemicals and related industries (75 cases), general machinery and equipment (65 cases) and electronic parts and components (53 cases).⁵⁶ The average number of employees was 346, with an average of fewer than 5 directors. 87% of companies have only one plant and more than 50% are 100% wholly owned.⁵⁷ The preference for 100% ownership enables global management goals to be pursued. Acquisition and entry into existing distribution networks, pursuing intensive R&D and advertising tend to be the principal means of expanding market share in local markets.⁵⁸

However, average figures tend to hide the diversity of operational forms and investment. They also tend to support the inaccurate stereotype that Japanese companies are very similar to each other. In reality, many Japanese companies have been in the forefront of creating and establishing new corporate forms. For example, Honda entered into an alliance with the British car manufacturer Rover as long ago as 1978. This alliance began as a licensing agreement and has evolved into a multi-dimensional relationship featuring the exchange of shares and joint development and production.⁵⁹ This form of alliance involves multiple contacts over many years and at many different levels. The relationship between the two partners has proved itself sufficiently strong to resist the annoyance caused to Honda when the other partner, British Aerospace, sold 80% of its stake to BMW, a competitor. Long-term relationships such as this can prove very difficult to disentangle.

Other Japanese companies have adopted different forms or have avoided localisation altogether. For example, Mitsui, a very large organisation which dates back to the Shogunate times of 1603, aims to derive benefits from not being seen as local. Instead, its

⁵⁶ Fitzpatrick Associates (1991), *op.cit.*

⁵⁷ *ibid.* Figures from JETRO.

⁵⁸ Atwong, Catherine T., Irene L. Lange and Khalid M. Dubas, "An Analysis of Japanese Direct Investments in the US," *American Business Review*, Vol.13, No.2 (June, 1995), pp.41-6.

⁵⁹ See Faulkner, David, *International Strategic Alliances: Co-Operating to Compete* (McGraw Hill Book Co. Europe: Maidenhead, 1995), pp.146-158.

representatives often see themselves as emissaries of Japan. They also claim to be global rather than local players, although Japanese above all.⁶⁰ This is consistent with the Japanese idea of the global corporation, created by means of the integrated network. Other Japanese companies claim to strive for globalisation through localisation. For example, the Nissan car company is reported to have aimed at globalisation through its production facilities in the USA. This featured a four phase process:

1. exporting completed goods from Japan to the USA;
2. local production and sourcing of goods in the USA;
3. localisation of R&D in the USA;
4. localisation of management in the USA.⁶¹

This process still has some way to go in the UK. The Japanese tend to regard the support of top management as being crucial in determining the success or failure of a business venture. One very obvious way of registering such support is, of course, to ensure that the top management is actually located in the same place as the venture. It is noticeable that Nissan's plan features the localisation of management as the final step. This suggests that the localised office or subsidiary is not regarded as an equal partner in the venture.⁶²

It is interesting to compare this process with the Programme for International Co-operation proposed by Mitsubishi Motors. This has five stages and again features localisation as a tool for securing globalisation:

1. enhanced localisation in overseas facilities;

⁶⁰ See Parter, Alan S., Going Local: How Global Companies Become Market Insiders (EIU: London, 1993), pp.89-94.

⁶¹ Kusumi, Kenshow, "Mutual Co-Operative Relationship between Japan and the US," *Japan 21st*, Vol.40, No.3 (March, 1995), pp.29-30.

⁶² Alternatively, it suggests a poor plan. Poor plans are not unknown in Japanese companies. For example, Hitachi's involvement in China is reported to be problematic even after 14 years because executives have failed to establish a definite direction when rivals have all established wholly owned export processing ventures, which minimise risk from turbulence in the Chinese environment while maximising the advantages of the low labour costs that obtain there. "Japan's Contrarian Approach," *Business China*, Vol.21, No.9 (May 1st, 1995), pp.4-5.

2. increasing imports;
3. more overseas procurement;
4. providing overseas support for the development process;
5. sales support in the domestic market for goods produced overseas.⁶³

In this case, it is clear, globalisation is a means of supporting the domestic corporation and its ventures. This highlights the inexact ways that businesspeople tend to use terms and phrases. It also highlights the fact that Japanese localisation, the same as localisation from any other countries, has little to do with philanthropic feelings towards host nations.⁶⁴ Concern has certainly been expressed that some Japanese companies are too concerned with their own affairs than with the interests of the host country. There are many reasons to suppose that the interests of MNEs do not coincide with those of nation-states.⁶⁵ It is clear that such large organisations can dispose of considerable resources and can wield, therefore, considerable amounts of power. This can be deployed with respect to suppliers and to host governments.

As discussed elsewhere, the Japanese model of internationalisation and localisation provides a comparison of only limited value. Nevertheless, it is still true that the Japanese

⁶³ "International Co-Operation Programmes," *Japan 21st*, Vol.39, No.6 (June, 1994), pp.88-92.

⁶⁴ An explanation of some of the political-economic factors driving Japanese investment, in this case in South-East Asia, may be found in Yoshihara, Kunio, "Determinants of Japanese Investment in South-East Asia," *International Social Service Journal*, Vol.30, No.2 (1978), pp.363-376.

⁶⁵ See, for example, Mirza, Hafiz, Peter J. Buckley and John R. Sparkes, "New Multinationals for Old? The Political Economy of Japanese Internationalisation," in Peter J. Buckley, ed., *Studies in International Business* (Macmillan Press Ltd: Basingstoke, 1992), pp.149-60. It is certainly true that MNEs do not necessarily pursue the aims of their original own governments. For example, by transferring production to other lower wage cost countries, possibly in South East Asia or South America, Japanese MNEs are effectively exporting jobs. By becoming a truly global company, furthermore, the returns on investment will not necessarily return to Japan. This also depends on the extent to which governments can harness (or control) the efforts of firms to their own ends (as discussed elsewhere, Korean governments have managed to achieve this). For example, there has been discussion that the activities of Japanese *zaibatsu* will effectively produce new trade zones with quasi-governmental force. See, for example, Watanabe, Toshio, "The Asian Localised Economic Zones and the Future of China," *Japan Close-Up*, No.5 (September, 1992), pp.26-31.

example is very influential. Particular areas of similarity with the Korean example include the following:

- concentration on a few industry sectors;
- sudden rapid expansion of investment;⁶⁶
- investment in many areas of the country;⁶⁷
- aspiration towards technological innovation and quality leadership.

Young Moo Kwon, an executive with the Samsung *chaebol*, writes that the factors relevant in making localisation decisions include educational standards, level of technology, the environment, infrastructure, restrictions on labour laws, labour costs, language and the nature of the social system.⁶⁸ These factors will affect not only costs of production in the foreign country but also the likely standard and style of living of expatriated staff living there. It would be very difficult to calculate and compare these factors across different countries with any real precision. Instead, judgemental and subjective opinions become important. Management's role is, therefore, very important. This is a very good reason for studying localisation. It is also a very important tool for those wishing to study the progress of localisation.

1.5.3. Means of Investigating Localisation

This thesis intends to investigate the nature and extent of Korean localisation in the UK, as part of the attempt to improve marketing strategy. Localisation will be investigated by the empirical research. As the previous section suggested, the degree to which

⁶⁶ Outwards direct foreign investment (DFI) from Japan between 1984-9 was three times that of the preceding 33 years combined; for Korea, the annual increase in DFI between 1985 to 1989 was greater than 230%. In comparison, Taiwanese outward investment rose from \$57m in 1986 to \$931m in 1989. Fitzpatrick Associates (1991), *op.cit.*

⁶⁷ Kidd (1994), *op.cit.*

⁶⁸ Millward, Tom, "Samsung's Corporate Wanderer," *Corporate Location* (January / February, 1994), pp.28-9.

management - and management functions such as decision-making and control over budgets - has been delegated to the overseas country is a very important means of determining whether what has really been taking place has been genuine localisation or simply rhetoric. Tracking the migration of management functions has been attempted by investigating the following:

- nature and format of offices and subsidiaries in the UK;
- extent of executive power delegated to local offices;
- level of control maintained over the local office;
- the degree to which Korean business methods are suitable to the UK or have been modified to be more suitable.

It will be shown that most *chaebol* have progressed a little way along the road to localisation. A much longer path remains to be travelled. However, an evaluation of the progress that has been made so far is possible and this is presented next.

1.6. Korean Business in the UK.

1.6.1. Introduction to Korean Business in the UK.

Most Korean business in the UK at the time of the research took the form of a branch or subsidiary office. That is, it was somewhere between exporting and foreign investment. Foreign direct investment is one of three principal methods by which organisations can undertake business in a foreign country.⁶⁹ Many writers consider it to be the final stage of a linear process of increasing commitment to internationalisation. Consequently, it represents the greatest expenditure of resources by the internationalising company and of the most varied nature.⁷⁰ The risks of the loss of this investment, therefore, increase in

⁶⁹ Although it is generally recognised that there are three principal areas, Kotler for one suggests that five types of entry mode are relevant to the internationalising firm: indirect exporting, direct exporting, licensing, joint ventures and direct investment. However, the two forms of exporting are essentially one method while joint ventures may be just as helpfully classified as a subset of direct investment. Kotler (1986), *op.cit.*, pp.389-393.

⁷⁰ Rugman *et al*, note that direct investment may be differentiated from portfolio investment in that it implies a measure of control over the equity purchased. That is, it is not just financial investment in, for example, foreign bonds or interest bearing assets. Rugman *et al.* (1986), *op.cit.*, p.8.

severity and this is one reason why direct investment is not as popular as it once was. Globerman, for example, notes that the:

"...factors that may be shifting the emphasis of firms away from the direct investment mode to the licensing mode [include] the intensified political risks and economic uncertainties of overseas capital investments in plant and equipment and the shifting emphasis in certain firms from production to marketing and R&D functions."⁷¹

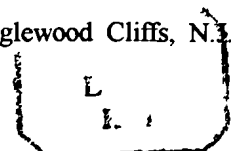
However, direct investment can take many forms and one method of reducing risk of loss of investment is to modify the scope and nature of the investment. In any case, the direct investment employed by Korean companies is generally of a different type to that usually described by writers on marketing and purchasing. Korean companies may either be manufacturing companies or trading companies and they may set up in the UK in one of three basic ways.

Most Korean manufacturing companies in both the consumer and industrial sectors sell their products through their group trading companies, which form mainly UK limited companies (although a few will form branch offices). Manufacturing companies set up different forms of organization in the UK, as follows:

The first type may be known as a branch office, regional office, liaison office or representative office. These offices exist mainly in the industrial products sectors and their main purpose is to provide liaison and co-ordination between the Korean mother company and the UK buyer. The difference in names primarily reflects difference in status. However, all perform the same basic functions.

The second type is the limited or sales limited company. These exist mostly in the consumer goods sector and they are subsidiaries of member companies of Korean business groups. These companies are officially UK companies and, consequently, they are able to conduct business with UK or other buyers / resellers. The goods that they sell are manufactured by the sister company by which they were established.

⁷¹ Globerman, Steven, Fundamentals of International Business Management (Englewood Cliffs, N.J.: Prentice-Hall, 1986), p.48.



Thirdly, at the time at which this research was undertaken, one Korean company had set up as a manufacturing company in the UK. This company manufactures in the UK to serve both the British and EC markets, while remaining a member of the business group. However, this company may find itself effectively in competition with other member companies of the same group which sell similar goods from different sources.

Many writers in the field of international channels of distribution have considered the process to be incremental, being composed of definite stages or processes.⁷² The nature of those stages might consist of such factors as resource availability, knowledge development, degree of control or risk management. It is certainly tempting to view the process in that way, since it is less flattering to think of strategy as being emergent⁷³ rather than pre-determined or that increasing commitment is a sign of failure rather than success.⁷⁴ However, empirical studies have suggested that this is not necessarily the case,⁷⁵ with attempts to portray the course of events as such really the product of rationalisation rather than rationality.⁷⁶ As will be discussed in Chapter 2, foreign direct investment for Korean companies is not a linear process describing increasing levels of commitment and investment. Instead, the decision rests upon environmental criteria. For example, trading or manufacturing companies may choose branch or liaison offices owing to the limited number of buyers in an overseas country. Consequently, any additional investment would be wasted. Similarly, should individual sectors require additional investment, for example because of the possibility of a large number of buyers or because

⁷² See for example: Johanson, J. and F. Wiedersheim-Paul, "The Internationalisation of the Firm: Four Swedish Cases," *Journal of Management Studies*, Vol.12, No.3 (October, 1975); Luostarinen, R., "The Internationalisation of the Firm" (Acta Academic Oeconomica Helsingiensis, Helsinki, 1979); Larimo, J., "The Foreign Direct Manufacturing Investment Behaviour of Finnish Companies," *paper presented at the 11th European International Business Association Conference* (Glasgow, December 15th-17th, 1985) or Welch, Lawrence S. and Reijo Luostarinen, "Internationalisation: Evolution of a Concept," *Journal of General Management*, Vol.14, No.2 (Winter 1988), pp.34-55.

⁷³ See: Mintzberg, H., "Patterns in Strategy Formation," *Management Science*, 24 (1978), pp.934-949, among many other papers.

⁷⁴ See Staw, B.M., "The Escalation of Commitment to a Course of Action," *Academy of Management Review*, Vol.6, No.4 (October, 1981), pp.577-587.

⁷⁵ See, for example, Hedlund, G. and A. Kverneland, "Are Establishments and Growth Strategies for Foreign Markets Changing?" *paper presented at the 9th European International Business Association Conference* (Oslo, December 18th-20th, 1983) and Bureau of Industry Economics, Australian Direct Investment Abroad (Australian Government Publishing Service: Canberra, 1984).

⁷⁶ Starbuck, William H., "Acting First and Thinking Later," in Johannes H. Pennings and Associates, Organisational Strategy and Change (Jossey-Bass Publications: San Francisco, 1985), pp.336-372.

a brand name needs to be more widely promoted in order to compete effectively, then this might result in the institution of a sales limited company.

1.6.2. Korean Companies in the UK

Korean companies have entered UK markets in a wide range of different industrial sectors. This includes ship building and repair, containers, personal computers, clothing and footwear. As described above, the companies can take a number of different forms.

All eight GTCs belonging to the Samsung, Hyundai, Daewoo, Lucky-Goldstar, Ssangyong, Hyosung, Sunkyong and Kumho groups have subsidiaries in London. The GTCs which have set up limited companies are:

- Daewoo (UK) Ltd.
- Hyosung (UK) Ltd.
- Hyundai Corporation (UK) Ltd.
- Kumho (UK) Ltd.
- Lucky-Goldstar International (UK) Ltd.
- Samsung (UK) Ltd.
- Ssangyong (UK) Co. Ltd.
- Sunkyong (Europe) Ltd.

These companies buy, sell, import and export any goods they choose. Often, they act as the trading arm or window of the *chaebol* of which they are members. These GTCs may have separate divisions or departments to deal with goods of different types; for example, textiles, electrical and electronic goods, chemicals and so on, each of which is produced by a different member of the business group (or by an independent company). However, these trading companies may also have developed relationships with small and medium sized manufacturing companies, enabling them to market the manufacturers' brands as their own, particularly in the OEM sector. An example of this is the trading company of the Ssangyong group which operates its own Prism Computers, dedicated to PCs and peripherals.

In the industrial sector, conglomerate members may have set up branch or liaison offices in the UK. Examples of group member companies which operate such offices include:

- Hyundai Electronics Industries Co. Ltd.
- Hyundai Engine and Machinery Co. Ltd.
- Hyundai Heavy Industries Co. Ltd.
- Hyundai MIPO Dockyard Co. Ltd.⁷⁷
- Hyundai Precision and Industries.
- Samsung Shipbuilding and Heavy Industries Co. Ltd.

The supply of consumer goods generally requires a larger presence in overseas markets since there is likely to be a greater number of retailers, resellers and organisations to whom they may sell. Manufacturers in the consumer goods sector might set up a sales limited company if they felt it would help sell their goods. Examples of consumer goods manufacturers which have set up sales limited companies in the UK include:

- Goldstar (UK) Sales Ltd.
- Samsung Electronics (UK) Ltd.

Another way *chaebol* may be organised in the UK is as manufacturing companies. One example of this is Samsung Electronics Manufacturing (UK) Ltd.

There are other Korean companies in the UK, for example those owned or managed by Korean residents in this country. However, they are not appropriate for this research.

Korean suppliers in the UK tend to fall into one of two main organisational groups, depending upon the nature of their customers. Companies involved with industrial organisational markets generally maintain small liaison or branch offices, since:

- only a few staff are required to service the small number of customers;

⁷⁷ This company provides ship repair services rather than products. Generally, only companies supplying products have been investigated. The description of companies in this section is derived from the qualitative research. There were other Korean companies in the UK at the time of the research.

- it is impractical to maintain stock-holding or warehousing facilities in Europe for large items like ships or containers.

Although small in number, personnel tend to be relatively senior in rank, since the sales made are each likely to be important and perhaps of a specialised or highly technical nature. For example, an approximate breakdown of Samsung Shipbuilding and Heavy Industries Co. Ltd.'s turnover as compared to the proportion of overall business that was due to exporting shows the following:

<i>Year</i>	<i>Turnover (100,000,000 won)⁷⁸</i>	<i>%age of business arising from export</i>
1987	1,000	80%
1988	1,100	20%
1989	1,500	90%

Table 1. Turnover and Proportion of Business Devoted to Exporting: Samsung Shipbuilding and Heavy Industries Co. Ltd.

These figures demonstrate that although turnover showed steady growth, the proportion of business resulting from exporting varied considerably. The company must be flexible, therefore, in devoting resources to production for domestic or export markets.

By contrast, companies involved in consumer reseller markets generally maintain larger operations in the UK, with more staff dealing with more customers. Individual sales to customers are of comparatively lower value; that is, lower profit per unit sold. Products and services in this market are usually of a more homogeneous and less complicated nature. However, it is not always possible to classify companies into one of these categories, since:

- supplier companies are often parts of operations that are also involved in purchasing;
- many companies have various independent divisions and departments all engaged in their own activities.

This has led to confusion concerning the status of some supplier companies. This can be seen in the different types and amounts of responsibility granted to overseas offices (as

⁷⁸ The Economist Intelligence Unit reports that the exchange rate for the *won* varied, from 1988 to 1992, from 671.5 to 780.6 to the \$US. See the Country Report, No.1, 1993, p.3. These figures owe something to the memory of respondents and so may not tally with figures derived from other sources.

described below). Some feel for the type of companies that have responded to the survey may be gleaned from the following firm details provided:

- 42% of buyers were members of a larger group while, as has been described previously, all suppliers were members of *chaebol*;
- 92% of supplier companies and 63% of buyers / resellers had been established since 1951; that is, since the Korean War period;
- all supplier organisations in the UK had been established since 1971, which makes them relative newcomers to UK markets;
- according to SIC, approximately 40% of the total sample of buyers / resellers are small employers (25 or fewer employees), 40% medium sized employers (26 - 200 employees) and the remaining 20% large employers (more than 200 employees). All supplier Headquarters companies would be classified as large companies, while half of the Korean companies in the UK would be small employers and half medium sized employers;
- in 1990, one third of buyers / resellers had turnover of less than £1,000,000, another third had turnover of between £1-10,000,000 and the remaining third had turnover in excess of £10,000,000. All supplier Headquarters had turnover in excess of £50,000,000 annually while all supplier companies in the UK had turnover greater than £10,000,000 annually. However, questions on turnover received very poor response. Consequently, it is not possible to make very helpful judgments here.

1.6.3. Goods Supplied

Respondents were invited to state the nature of the goods with which their offices dealt. This is shown in Tables 2 and 3 below. The dominant sectors for buyers were computers and electrical consumer goods. These sectors contain many different product types. Often, differences between products are of a highly technical manner. This reflects the market situation accurately and should be borne in mind when considering the slightly unusual nature of the sample. It may also be relevant when considering problems related to product quality and after sales service, since these products are more susceptible to such problems.

<i>Buyers (%)</i>	<i>Total</i>	<i>industrial buyers</i>	<i>consumer product resellers</i>
Computers	40.3	64.1	11.1
Electrical consumer goods	22.4	0	50.0
Garments	10.0	0	22.2
Tape	8.1	14.6	0
Footwear	6.8	0	15.3
Textiles	5.6	10.1	0
Ship repair etc	3.7	6.7	0
Excavators	1.9	3.4	0
Cameras	0.6	0	1.4
Containers	0.6	1.1	0

n = 161⁷⁹

Table 2. Products Received by UK Buyers / Resellers from Korean Suppliers.

<i>Suppliers (%)</i>	<i>Total</i>	<i>industrial suppliers</i>	<i>consumer product suppliers</i>
Containers	23.5	44.4	0
Electrical consumer goods	23.5	0	50.0
Ship repairs	11.8	22.2	0
Tape	5.9	11.1	0
Cameras	5.9	0	12.5
Computers	5.9	0	12.5
Footwear	5.9	0	12.5
Garments	5.9	0	12.5
Heavy industrial engineering	5.9	11.1	0
Steel products	5.9	11.1	0

n = 17

Table 3: Products Supplied by Korean Suppliers.

1.6.4. The Nature of the Company's Business

Respondents were also asked the nature of their own company's business. This was in the form of an open question and, as a result, many of the responses that were given were vague or ambiguous. Future researchers might consider obtaining this information through a series of precoded options (perhaps SIC code) or else showing the type of core activity organization (e.g. public sector body, service industry, retail etc).⁸⁰ The results of this question are set out in Table 4 below.

⁷⁹ Some respondents specified two or more types of goods. In these cases, the more important product type is included here.

⁸⁰ At the same time, the complexity of the number of possible activities that may be undertaken by Korean supplier companies should be borne in mind.

Buyers / resellers are involved in a wider range of business types than suppliers are. This suggests that sometimes suppliers deal in goods which do not reflect the buyers' core business.

<i>Buyers (%)</i>	<i>Total</i>	<i>industrial buyers</i>	<i>consumer product resellers</i>
Clothing / textiles	22.0	10.7	36.1
Consumer sales	17.0	0	37.5
Computer software etc	13.8	12.8	15.3
Audio Visual products	8.8	15.2	1.4
Shipping	3.8	6.9	0
Accountants / finance	3.1	4.6	1.4
Engineer contractors	2.5	4.6	0
Local government	2.5	4.6	0
Mail order	2.5	0	5.6
Construction	1.9	3.4	0
Education	1.9	3.4	0
Health	1.9	3.4	0
Publishing / press	1.9	3.4	0
Estate agents / surveyors	1.3	2.3	0
Machine design / production	1.3	2.3	0
Marketing / management consultants	1.3	2.3	0
Printers	1.3	2.3	0
Telecom products	1.3	1.1	1.4
Timber	1.3	2.3	0
Vehicle dealer	1.3	2.3	0
Computerised doors	0.6	1.1	0
Construction machinery	0.6	1.1	0
Equipment management	0.6	1.1	0
Instrument importers	0.6	0	1.4
Opera productions	0.6	1.1	0
Packaging	0.6	1.1	0
Paper making	0.6	1.1	0
Pharmaceuticals	0.6	1.1	0
Police	0.6	1.1	0
Power generation	0.6	1.1	0
Recruitment	0.6	1.1	0
Steel stockholder	0.6	1.1	0
<i>Suppliers</i>	<i>Total</i>	<i>industrial suppliers</i>	<i>consumer product suppliers</i>
General trading	28.6	0	50.0
Shipping	21.4	33.3	0
Consumer electronic goods	14.3	0	37.5
Industrial machinery	14.3	33.3	0
Computers	7.1	0	12.5
Import / distribution	7.1	16.7	0
Steel / chemicals	7.1	16.7	0

n = 194

Table 4. Nature of Respondents' Business.

A number of buyers are local government bodies. These can be large organisations purchasing wide ranges of goods and services. Consequently, they represent potentially very important customers for *chaebol*. However, since they rarely deal in areas which are the core activities of public sector bodies, *chaebol* are less important to these buyers than vice versa. Generally, therefore, buyers / resellers would have more power than suppliers in these situations.

1.6.5. Personnel Involved

An attempt was made to discover which personnel were involved in selecting and dealing with partners and, also, the level or rank of respondents who had completed questionnaires. The motivation for these questions was:

- to determine whether respondents had comparable seniority to those involved in selecting and dealing with partners. If respondents had that seniority, this lends credibility to their answers more generally, since they will be more likely to participate in decision-making processes as an equal;
- to assess the extent to which the personnel who choose partners are the same as those who actually deal with them.

As described in previous sections, tracking the extent of senior personnel and management in the local office can help determine the true level of localisation of that office. Although far from infallible, it is possible to gain some useful impressions of seniority of management in terms of length of service and titles.⁸¹

The section begins with an analysis of the respondents themselves.

1.6.5.1. Respondents

When asked to define their own position, respondents indicated a wide range of different departments and functions. This is shown in Table 5 below:

⁸¹ Titles are particularly important in Korean business since they supply vital information about relative seniority (and hence language to be employed) as well as determining whom it is appropriate for individuals in different organisations to speak.

<i>Buyers (%)</i>	<i>Total</i>	<i>industrial buyers</i>	<i>consumer product resellers</i>
Managing Director / owner	44.0	37.9	51.4
Sales / finance	15.7	12.6	19.4
Technical director	13.8	23.0	2.8
Other	26.5	26.5	26.4
<i>Suppliers</i>	<i>Total</i>	<i>industrial suppliers</i>	<i>consumer product suppliers</i>
General / divisional manager	53.3	85.7	25.0
Marketing manager	26.7	14.3	37.5
Other	20.1	0	37.5

n = 174

Table 5. Respondents' Position in the Company.

In the majority of cases, therefore, a significant decision-maker has answered the questionnaire. This indicates that opinions are likely to have been given from a position of authority and merit attention: on the other hand, there is a danger that the respondent lacks the detailed knowledge associated with closer familiarity with operations.

More than 40% of respondents who were buyers and over 80% of respondents who were suppliers had been with their companies for more than 10 years. They would be expected, therefore, to have excellent knowledge of their markets and, in the case of suppliers, a good understanding of localisation. This length of service tends to add credence to the results of the survey and it appears to correspond with the idea that localisation has been genuinely taking place, since the management involved would surely expect to make decisions of some importance after such a length of time. The Korean personnel interviewed for the qualitative research tended to have been employed by their companies between 6 - 10 years; this length of time implies a level of seniority at which personnel might work overseas. Korean respondents tended to have worked in other overseas offices, perhaps in subordinate positions and, now, had assumed responsibility for the subsidiary or, at least, a division of it. This again suggests that the localisation process has been progressing under the leadership of those who are capable of undertaking it competently.

1.6.5.2. Buying and Supplying Centres.

Respondents were asked who was involved in selecting partners⁸² and who was involved in actually dealing with them. The results are summarised in the following table:

%	<i>Buyers</i>		<i>Suppliers</i>	
	Selecting	Dealing	Selecting	Dealing
Managing Director / Chairman / owner	28.3	27.1	25.0	21.4
Sales / marketing / commercial	26.1	28.0	60.0	57.1
Technical	18.1	18.3	0	14.3
Product manager / works / department	13.7	10.6	0	0
Other	13.8	16.0	15.0	7.1

n = 226

Table 6. Key Personnel Involved in Selecting and Dealing with Partners.

Many different departments might be involved in selecting a partner. The most frequently cited were the managing director, sales or marketing department and technical staff. Further analysis showed that technical staff were more common for industrial buyers and suppliers, while more sales / marketing / commercial staff were involved with consumer product markets. Results indicate that similar individuals were involved in both choosing suppliers and in dealing with those suppliers once a contract had been negotiated. Respondents report that the personnel involved in choosing and dealing with suppliers are of a similar level of seniority. This indicates the value of respondents' opinions.

1.6.5.3. Working in the Foreign Country

Respondents interviewed were on either three or five year tours of duty. There was a consensus that five years was preferable for the company but three years for the individual. The five year stay was considered preferable because in his⁸³ first year abroad:

"... the employee in the foreign country is puzzled, in his second year he is acclimatising to the business methods required and it is only in the third year and subsequently that he is able to work to the standard required of him."

⁸² This was an open question which allowed for multiple responses, hence the large figure for n.

⁸³ Very few women are employed in positions of seniority by Korean business groups and, although this situation may slowly change in the future, none were available for interview for this research. Unfortunately, there is considerable bias against women in the workplace, which is common throughout Oriental countries, as in most countries. See, for example, Bello, Walden and Stephanie Rosenfeld, *Dragons in Distress: Asia's Miracle Economies in Crisis* (London: Penguin Books Ltd., 1992) or Monk-Turner, Elizabeth and Charlie G. Turner, "South Korean Labour Market Discrimination against Women: Estimating Its Cost," *American Journal of Economics and Sociology*, Vol.53, No.4 (October, 1994), pp.433-442.

Unless an employee works abroad for at least five years, the investment by the mother company will not be matched by the return. However, companies will not attempt to keep employees in post abroad for longer than five years because of experiences in the USA, in particular, where company personnel became eligible for permanent visas. Using personal contacts, they have set up in business in direct competition to the mother company.

From a personal perspective, three problems were evident:

- the education of children;⁸⁴
- career progression. As overseas offices had only recently been established, employees had to spend disproportionate amounts of time on "trivial matters," were removed from the heart of the mother company and had only limited networks of relationships in the foreign office.⁸⁵
- the employee "has to spend more time with his wife because she cannot speak English."

Another respondent who expressed reservations about living and working in a foreign country felt that this was partly because of the pace of change in Korea. This meant that every time he visited it took some time to adjust to new conditions. Frequent visits did mean that he was able to keep in touch with events at the mother company. However, his friends and colleagues of a similar rank, being closer to the centre, were being promoted much more swiftly. Perhaps worst of all, he felt, was when the mother company did not understand the UK position and forced him to use strategies he knew would be unsuccessful. However, it was observed that an employee working in the UK has the advantages of experience in a foreign office which is "vital in securing a senior management position in the mother company," as well as cultural, leisure and technological benefits. In addition, the slower pace of life caused "less stress."⁸⁶

⁸⁴ It may be noted that Korean education is fiercely competitive and requires the ability to remember vast amounts of knowledge at the expense of self-expression and creativity.

⁸⁵ Partly as a result of the cultural heritage of the country, Korean companies are dominated to a considerable extent by the management of personal relationships and it is certainly true that success in a career is dependent upon securing and maintaining appropriate and close relations with others, both senior and junior.

⁸⁶ A study of Japanese expatriates in Britain suggested that while they felt considerable levels of stress, this was probably no more than they would feel as members of a high-pressure Japanese organisation. This would appear to be synonymous with the situation of Koreans in the UK. See Nicholson, Nigel and Ayako Imaizumi, "The Adjustment of Japanese Expatriates to Living and Working in Britain," *British Journal of Management*, Vol.4 (June, 1993), pp.119-34.

1.6.5.4. Responsibilities of the Overseas Office

The amount of time and resources invested in the foreign country was not reflected in the amount of responsibility allowed to the overseas office. The number of staff and the length of time they had been in the UK did not seem to affect the level of responsibility they were allowed. In some cases, the reason for providing extra resources seemed to be so that the local office could spend more time dealing with the mother company. One Korean respondent observed that:

"99% of the work involved in running this company is directly related to the mother company."

Whether or not a subsidiary has responsibility depends on whether it can make decisions without having to consult or defer to the Head Office in Korea. This varies so much, even within individual companies, that it is almost impossible to make definite judgments. However, success for the localising office can affect the amount of responsibility granted. In consumer resellers markets, for example, increases in turnover might inspire the creation of stock-holding or warehousing facilities. However, building warehouses requires large investments. It is not feasible to build a small part of a warehouse just because turnover improves slightly. Therefore, there tend to be sudden, dramatic increases in responsibility and resources rather than gradual ones.⁸⁷

An alternative method has been adopted by the Sunkyong Group, with its innovative "sub-president" system. Following a Japanese model, this system divides corporations into smaller, self-managing divisions which effectively compete with each other and are required to be efficient and show a profit individually. Personnel are rewarded depending on the success of the divisions in which they work. This is intended to promote teamwork and responsibility in a context in which it can be more directly managed. The system is manifested in the overseas organization in such areas as purchasing. This can be one of the more difficult decision making areas for local managers. Purchasing is determined by

⁸⁷ It should be borne in mind that evidence suggests that the length of time necessary for learning and adaptation to global markets is increasing in many manufacturing industries, due to the increasing complexity of technology, the degree of diversity in markets and the managerial and marketing capabilities required. See Jacobsson, Staffan, "The Length of the Infant Industry Period: Evidence from the Engineering Industry in South Korea," *World Development*, Vol.21, No.3 (March, 1993), pp.407-419.

the local president with the support of the Corporation's Investment Deliberation Committee. The Committee tries to avoid being an obstruction to local initiative. Instead, it aims to provide a mechanism by which the transition from autocratic centralism to localised decentralism can be effectively achieved. Decentralisation can be handled, according to one respondent, in the following way:

- "(i) Relocate production bases in order to maximise price competitiveness;
- (ii) Enhance the image of Korean goods by promotion and through improvements to quality; and
- (iii) Locate goods for importing from communist and previously communist countries which are now available."

Generally, companies have adopted different methods for allocating responsibilities and roles to overseas divisions and offices. These tend not to follow a linear process of increasing commitment.⁸⁸

1.7. Conclusion to Chapter 1

This chapter has provided an introduction to the nature of Korean business and to Korean companies in the UK investigated for this research. It has been shown that the remarkable levels of growth in the Korean economy have been driven by the *chaebol* and their GTCs. The government has been very active in directly stimulating this growth. The majority of the larger *chaebol* are now active in the UK. They have adopted a number of slightly different formats for doing business in the country. However, there are also similarities. Generally, the suppliers seem rather less well established than the buyers / resellers with whom they want to deal. This will not help Korean companies to establish good positions in power relationships. The next chapter describes Korean marketing strategy, both internationally and in the UK more specifically.

⁸⁸ This issue is discussed in more detail in the following chapters.

Chapter 2. The Development of a Korean Marketing Strategy

2.1. Introduction

The previous chapter provided a basic introduction to Korean business methods and Korean companies in the UK. The chapter showed what Korean companies did and a little about how they did it. The reasons why companies employed particular strategies will be the subject of this chapter, since it is impossible to appreciate Korean marketing strategy without understanding the factors that have shaped it. The main factors are: national resources, including culture; the role of the government; the influence of Japan; the international environment and the Korean business system. Although these factors will be dealt with individually below, they should not be considered in isolation from each other. Instead, they form an integrated or organic whole. That is, if one factor changes, then all the other factors will change as well. For example, a change in the structure of government, such as the democratisation of the country, has meant that industrial policy can no longer be decided by Presidential *fiat*. This means that the administrative system of businesses and of the government bureaucracy had to become linked directly to parliament. This has reduced one of the traditional strengths of the *chaebol*, which is their ability to react rapidly to environmental change. The relationship between government and business has also changed. Previously, the President would have been able personally to come to agreements with *chaebol* to act in ways helpful to government policy, e.g. Hyundai was persuaded to enter the shipbuilding business in 1973 as part of strategic government planning since Japanese shipbuilding companies were becoming swamped with orders and had to quote long delivery times for contracts. Although this still continues,⁸⁹ it is rather more likely that the government will pursue policies that will bring them into conflict with the *chaebol*.⁹⁰

⁸⁹ For example, the Ministry of Trade and Industry recently persuaded POSCO to expand its Kwangyang site so that it will become the world's largest steel producer. "Posco Expands," *Far Eastern Economic Review* (June 8th, 1995), p.57. In fact, this was against the wishes of the Hyundai group, which had planned an integrated mill of its own. It is significant that the government did not wish the *chaebol* of Chung-Ju Yung to hold such a strategically important position. "Hyundai Group Seeks to Build Integrated Steel Mill," *Business Korea*, Vol.12, No.1 (July, 1994), p.23.

⁹⁰ See, for example, Crane, Geoff and Russ Arensman, "Does Korea, Inc Need a New Boss?" *Electronic Business*, Vol.17, No.23 (December 9th, 1991), pp.48-54 or "Tax Office Investigates Hyundai: Government Retaliation?" *Business Korea*, Vol.9, No.5 (November, 1991), pp.14-15.

In fact, it will become clear that *chaebol* have had little opportunity to formulate their own strategy. Instead, they have had to react to the events that affect them. In other words, their strategies are "emergent" rather than "deliberate" in nature.⁹¹ The *chaebol* have not, therefore, enacted their environment⁹² but have operated in an environment essentially created by others.⁹³ This, as Mintzberg and McHugh illustrate, does not necessarily constitute bad strategy, if the structure of the organisation matches the strategy which it is intended to undertake.⁹⁴ However, the conditions which mean that it has been effective (i.e. the union between government and business and the ability to react if not instantaneously then at least very quickly) have now been irrevocably altered. Hence, new forms of strategy and strategy-making will be required to meet the challenges of the future.

Each of these factors which will now be considered is important. However, it is government policy which has, at least until recently, proved to be the integrative dimension which has kept them together. Subsequently, the connection between the shaping and enactment of government policy and the marketing strategy of Korean *chaebol* will be explored.⁹⁵ It will be shown that there are direct links which have determined the ways that Korean *chaebol* have operated and which affect such factors as their structure, the markets in which they deal and the ways they conduct business. This analysis is vital in showing that different perspectives on marketing may be more appropriate for viewing Korean strategy than those generally considered.

⁹¹ For a discussion of these forms of strategy, see, for example: Mintzberg, H., "Patterns in Strategy Formation," *Management Science*, Vol.24 (1978), pp.934-949; Mintzberg, H., "Strategy Making in Three Modes," *California Management Review*, Vol.16, No.2 (1973), pp.44-53 and Chaffee, E., "Three Models of Strategy," *Academy of Management Review*, Vol.10 (1985), pp.89-98.

⁹² See Weick, K.E. (1969), *The Social Psychology of Organising*, 2nd Edition (Reading, Massachusetts: Addison-Wesley Publishing Company) and Linda Smircich, "Implications for Management Theory," in Linda L. Putnam and Michael E. Pacanowsky, eds., *Communication and Organisations: An Interpretive Approach* (Sage Publications: Beverly Hills, 1983), pp.221-242.

⁹³ This contradicts what McKenna, for example, believes to be the best path to the future. See McKenna, R., "Marketing is Everything," *Harvard Business Review*, Vol.69 (January-February, 1991), pp.66-79. Really, the idea that any but the most influential organisations are able substantially to affect their environment has little basis in empirical research.

⁹⁴ Mintzberg, Henry and Alexandra McHugh, "Strategy Formation in an Adhocracy," *Administrative Science Quarterly*, Vol. 30, No.2 (1985), pp.160-197.

⁹⁵ Smaller or independent companies will not explicitly be considered since none were significantly involved in the UK at the time of the research. For an interesting discussion of the strategy of smaller companies, see Kim Young-Bae and Choi Young-Rok, "Strategic Types and Performances of Small Firms in Korea," *International Small Business Journal*, Vol.13, No.1 (October-December, 1994), pp.13-25.

2.2. Factors Underlying a Korean Marketing Strategy

2.2.1. National Resources

Although the Korean peninsula is reasonably blessed with resources such as iron and coal, most of them are concentrated in the north of the peninsula, in the area which is now North Korea. Furthermore, in the period of Japanese colonisation, from 1910-45, industry was deliberately situated in the north, in order to be near to those resources. The south was supposed to be kept almost wholly agricultural in nature, becoming a breadbasket to satisfy Japan and its colonies.⁹⁶ The devastation of the Second World War and the Korean Civil War of 1950-3 ensured that virtually no industry - or even building - was left intact. Consequently, the rebuilding and regeneration after these wars started from a base of almost nothing. The main resources the people had were themselves. Koreans are renowned as hard-working and with an exceptional regard for the value of education. These natural inclinations are supported by Buddhist and Confucian beliefs, which stress the importance of the family, respect for elders and harmony amongst people. However, this is not the same as the consensual and obedient nature of Japanese society. Instead, Koreans are generally assertive and passionate. Once their loyalty is won, therefore, it will remain fiercely in place. Generally, loyalty is given to an individual more than an organisation. Hence, unlike in Japan, employees tend to be more loyal to a manager than to the company.⁹⁷ This relationship works both ways in that the senior person is expected to cultivate and provide for the junior members to at least the same extent that the juniors provide respect and loyalty to the senior. These factors may be said

⁹⁶ This view has been challenged by, for example, Atul Kohli, who argues that Japanese colonialism reinvented the Korean state as a powerful, authoritarian entity fully in control of all classes in society and capable of ensuring that production-oriented alliances were instituted and maintained. This sort of argument will be familiar to certain types of UK reader. It ignores many vital facts. (See Kohli, Atul, "Where Do High Growth Political Economies Come From? The Japanese Lineage of Korea's 'Developmental State,'" *World Development*, Vol.22, No.9 (September, 1994), pp.1269-93.) One of the models proposed to explain the supposed pre-eminence of Japan is the "Flying Geese" model. As Hobday shows, this model fails to take account of the diversity of paths to development of the various Asian NIEs. Hobday, Mike, "Innovation in East Asia: Diversity and Development," *Technovation*, Vol.15, No.2 (March, 1995), pp.55-63. In any case, the mountainous South Korean soil is not ideal for agriculture and it has been estimated that only about 20% is useable in this way.

⁹⁷ Choi and Wright (1994), *op.cit.*. However, Koreans are very loyal to institutions, such as the government or, previously, the monarchy.

to constitute the socio-cultural environment, which consists of those ways in which people from one country or culture tend to differ from others. Culture itself has been defined as:

"... the interactive aggregate of common characteristics that influence a human group's response to its environment."⁹⁸

From a more limited marketing perspective, Hutt and Speh⁹⁹ observe that:

"Culture can be thought of as methods of coping with the environment that are shared by people as members of society and that are passed on from one generation to another."

A consequence of both these definitions is that the cultures of different groups of peoples will vary. This may be because of differences in the environment (e.g. climate, presence of minerals or topography) or isolation from each other which provokes different evolutionary forms. Frequently, the human groups whose culture varies divide into individual states or nations. Naturally, the extent of the differences between groups will vary according to which cultures are being compared, e.g. differences between people from Korea and China are much less than between people from Korea and the UK. The recent growth of global media and information sources has acted to help create an international language or culture which has lessened the apparent differences between people by emphasising similarities. For example, American cultural icons are recognised virtually worldwide - by young people especially - and this helps to spread awareness of certain American values and aspirations.

Important elements of the socio-cultural environment include language, common history, perceptions of and attitudes towards time, traditions and customs.¹⁰⁰ Clearly, countries and cultures are not isolated from each other. Some if not all characteristics will be shared with neighbouring or otherwise connected cultures; other characteristics will be shared with other cultures. Examples of this would include Korea, China and Japan.

⁹⁸ Hofstede, Geert, Culture's Consequences: International Differences in Work-Related Values (Beverly Hills, Cal.: Sage Publications, 1980), p.19.

⁹⁹ Hutt, Michael D. and Thomas W. Speh, Business Marketing Management: A Strategic View of Industrial and Organisational Markets (Chicago: The Dryden Press, 1985), p.104.

¹⁰⁰ See, for example, Usunier, Jean-Claude, "The Role of Trust in the Marketing of Projects: An Intercultural Approach," Proceedings of the 6th I.M.P. Conference, pp.1036-1056 and Graham, John L. and Yoshihiro Sano, Smart Bargaining: Doing Business with the Japanese (Cambridge, Mass.: Ballinger, 1984).

These countries use shared linguistic characters. Koreans use Chinese characters for greater precision on occasions, as do Japanese. Much of the history of these three countries is intertwined. For example, there are many links in the religion of Buddhism and philosophy. Each country overlaps with the other in many socio-cultural factors, yet each is clearly unique. Indeed, Korea is one of the most self-contained and homogeneous cultures in the world,¹⁰¹ with her people considering themselves to be, generally, uncomplaining survivors in a harsh world and strongly nationalistic.¹⁰² The character of Koreans, although possessing certain features which are similar to people from Japan and China, is quite distinct from each of these, as well as everyone else. Business organisations also possess both similar and distinctive features.

As well as there being inter cultural overlaps, so are there intra cultural overlaps. These can take two forms:¹⁰³

- (i) The presence of sub-cultures within the overall culture; e.g. teenagers, members of a religious sect;
- (ii) The presence of sub-cultures which are mirrored in another country, e.g. ethnic Koreans living in Japan since the colonisation of Korea.

There are, therefore, no wholly homogeneous cultures, since each contains a diversity of groupings and characteristics shared by other cultures and countries. However, the marketer / purchaser can still discover shared characteristics which are helpful in international business.¹⁰⁴ Indeed, certain influential figures have suggested that assuming that nations and groups of people have different cultural values which must be respected as individual is in itself an imposition resulting from the perceiver's own expectations. Levitt¹⁰⁵ observes that the common belief that cultural groups must be differentiated in

¹⁰¹ Fairbank, John K., Edwin O. Reischauer and Albert M. Craig, East Asia, Tradition and Transformation (Boston: Houghton Mifflin Company, 1973).

¹⁰² Suh, Ji-moon, ed., The Rainy Spell and Other Korean Stories (London: Onyx Press Ltd., 1983).

¹⁰³ Albaumb, Gerald, Jesper Strandkov, Edwin Duerr and Laurence Dowd, International Marketing and Export Management (Reading, Massachusetts: Addison-Wesley Publishing Company, 1989), pp.312-19.

¹⁰⁴ The majority of industrial goods and services are, fundamentally, quite free from culture-specific references. For example, "Purchasing agents are primarily interested in quality, company reputation and price. These characteristics are for the most part independent of cultural differences." Kim, W. Chan and R.A. Mauborgne, "Cross-Cultural Strategies," *Journal of Business Strategy*, Vol.7 (Spring, 1987), pp. 28-35.

¹⁰⁵ Levitt, Theodore, "The Globalisation of Markets," *Harvard Business Review*, Vol.61 (May / June, 1983), pp.92-102.

terms of appropriate marketing requirements is inaccurate and is based on too narrow a view of the facts. With only a suitable regard for what is required in different countries, he believes, the majority of individuals will be quite happy to be accommodated by internationally standardised goods and services.¹⁰⁶ While this may be true insofar as it suggests that cultural diversity does not provide an insurmountable barrier, such an attitude suggests the danger of self-referential bias.¹⁰⁷ A method of circumventing this was devised by Lee,¹⁰⁸ with the Self-Reference Criterion, which proposes a method by which possibly invalid value judgements may be eliminated from decisions involving international marketing.

The connection between the Korean character and marketing strategy has been described by Cazal,¹⁰⁹ who argues that cultural factors, which are adapted properly to the external world, can act as a driving force for competitiveness in international business. This is primarily through the desire for harmony and for maintaining appropriate relationships with superiors and inferiors. The skills required to achieve this, which Koreans practise regularly, are also used in such areas as establishing control over subordinates and in maintaining business relationships with partners.

The research for this thesis included free text questions for respondents to comment on cultural differences perceived to exist between UK and Korean companies, in addition to the qualitative research conducted prior to the quantitative fieldwork. Having given some thought to issues relating to national resources, therefore, it is now time to consider the international environment more generally.

¹⁰⁶ "...companies must learn to operate as if the world were one large market - ignoring superficial regional and national differences." *ibid.* Some of the arguments opposed to standardisation are summarised in Albaum *et al.* (1989), *op.cit.*, pp.224-231.

¹⁰⁷ That is, making judgements about other cultures using assumptions which may only be valid for the home culture.

¹⁰⁸ Lee, J.A., "Cultural Analysis in Overseas Operations," *Harvard Business Review* (March-April, 1966), pp. 106-114.

¹⁰⁹ Cazal, Didier, "Ethics and Global Competitiveness: Confucianism in Korean Companies," in Schütte, ed., *op.cit.*, pp.22-32.

2.2.2. The International Environment

Organisations do not exist in a vacuum but in an external context. This external context is generally called the environment.¹¹⁰ Many factors constitute the environment. It changes constantly but not always with the turbulence that some attribute to it.¹¹¹ Some aspects of the environment will be under the marketer's / purchaser's control; others will not. Some factors will be transient; others will be permanent. Some factors will be very important; others will be trivial. These will change over time.

Webster and Wind¹¹² identify six environmental forces which can impact upon organisations: cultural; economic; legal; physical; political and technological. These factors affect society as a whole, not just business organisations. Nevertheless, the effects of environmental change can have profound and far-reaching effects on organisations. For example, environmental concerns may lead to legislation to change the average fuel consumption of motor vehicles but this will also affect the methods and materials of manufacture of virtually every part of motor vehicles, hence leading to major threats and opportunities for suppliers. This will in turn stimulate further changes since the environment is both organic and dynamic. Spekman and Stern¹¹³ have shown that at times of such environmental uncertainty or change such as took place in Britain during the period of research, the role of information gatherers or processors becomes vital. This is to reduce uncertainty, which is a form of risk to which firms will be averse.¹¹⁴ Individuals involved in information gathering are more likely to be boundary spanners. Firms can, therefore, enter into relationships to reduce uncertainty, since relationships provide information.

¹¹⁰ The understanding that organisations exist and within and interact with the environment was perhaps formulated properly for the first time by Lawrence and Lorsch. See, for example, Lawrence, P.R. and J.W. Lorsch, Organisation and Environment (Harvard Press: Boston, 1967).

¹¹¹ Woodward, S.N., "The Myth of Turbulence," *Futures* (August, 1982), pp.266-279.

¹¹² Webster, Frederick E., Jr. and Yoram Wind, Organisational Buying Behaviour (Englewood Cliffs, N.J.: Prentice-Hall, 1972), pp. 28-37.

¹¹³ Spekman, Robert E. and Louis W. Stern, "Environmental Uncertainty and Buying Group Structure: An Empirical Investigation," *Journal of Marketing*, Vol. 43 (Spring, 1979), pp.54-64.

¹¹⁴ Thompson, for example, observes that all organisations wish to reduce uncertainty. This idea becomes important in terms of approaches such as transaction-cost analysis. See Thompson, James D., Organisations in Action (New York: McGraw-Hill, 1967).

One of the dangers of the traditional approaches to marketing, particularly as it applies to Korean companies, is that it tends to assume that information flows will be constant, if not necessarily perfect, while company personnel will make decisions on wholly rational grounds and on the basis of that information. However, practical experience (and the qualitative research) indicate that this is not the case. The situation as it actually exists is summarised by Porac *et al*:¹¹⁵

"...beliefs are reinforced by a mutual enactment process in which the technical choices of firms constrain the flow of information back to decision-makers, thereby limiting their vision of the marketplace to that which has already been determined by existing beliefs."

In other words, reaction to a changing environment may be expected to be according to the thought processes engrained in business personnel. The dangers inherent in this include the fact that managers may simply be wrong and, also, when the environment behaves in an unpredictable or unexpected way, that decision-makers will react to it according to a series of beliefs which do not apply under the new circumstances. As a result, opportunities may be missed and threats allowed to become transformed into real dangers. It would of course be wrong to characterise all managers in this way. However, international marketing tends to require new modes of thought from both sides.

As relative newcomers to the UK market, Korean companies have both advantages and disadvantages in attempting to deal with environmental change. The advantages include the fact that as newcomers the companies will not yet have organised their systems and structure rigidly and, therefore, should be able to adjust without major expenditure of resources. However, Korean companies will be at a disadvantage in that they will still be learning methods of conducting business in the UK and may still be uncertain how best to proceed even without having to cope with environmental change.

The international marketing environment offers a more complex situation than that affecting a single country's environment. This is because all of the factors that can affect the environment are relevant to each individual country and, also, because there will be

¹¹⁵ Porac, Joseph F., Howard Thomas and Charles Baden-Fuller, "Competitive Groups as Cognitive Communities: The Case of Scottish Knitwear Manufacturers," *Journal of Management Studies*, Vol. 26 (1989), pp. 397-416.

interaction between individual nations or organisations. Clearly, therefore, a large number of variables exist which may conceivably affect the international environment and it would be impractical even to attempt to list them all, let alone to try to evaluate the potential impact of each. Globerman¹¹⁶ suggests that, from a practical point of view, these factors may be categorised according to whether or not they materially affect either the cost or demand functions appertaining to the international company and its goods and services. In a similar way, political risk can be shown to be factored into an economic equation. Consequently, if analysts believe there is a 20% chance that an environmental change in a particular country might result in the loss of invested money (for example through war or the forcible nationalisation of privately owned assets), then this can be balanced against an expected 80% gain on investments which can, in turn, be weighed against the potential benefits of doing business elsewhere.

Such forms of analysis would also distinguish between macrorisks and microrisks: the former affects all industry in a country; the latter only industries in a particular sector or segment. Conceiving of the international environment in this way requires long term thinking and a global approach and, given the general nature of *chaebol* looking for business in the UK, may therefore be suitable.

One of the primary influences on the international marketing environment is economics. Reeder *et al.*¹¹⁷ point out that the two principal factors in this regard are exchange rates and the balance of trade. That exchange rates are almost impossible to control may be seen from recent developments in the Exchange Rate Mechanism (ERM) linking Western European countries in the EEC. The market forces acting upon the ERM were too great for governments to control, despite the expenditure of considerable sums of money.

Currencies have generally tended to float relatively freely over the past two decades. Where governments have attempted to enforce fixed exchange rates, black market exchanges have flourished to the detriment of government revenues. Where exchange rates are not fixed, marketers / purchasers must be constantly alert to the effects that this

¹¹⁶ Globerman (1986), *op.cit.*, pp. 87-112.

¹¹⁷ Reeder, Robert R., Edward G. Brierty and Betty H. Reeder, Industrial Marketing: Analysis, Planning and Control (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1987), pp. 488-490.

can have on the international environment. If the exchange rate alters so that, for example, the Korean exporter's goods / services become cheaper, then the Korean exporter might consider raising prices or attempting to expand the UK market share. If the Korean exporter's goods / services become more expensive, then the Korean exporter might consider reducing prices, changing the level of foreign inputs to products or relocating production units abroad. Naturally, these decisions will be made with reference to the amount of time it will be necessary to undertake such actions. Furthermore, such events can have far-reaching and often unpredictable consequences. For example, success in exporting has affected Korea since this has inspired an increased standard of living, greater expectations and more expensive labour costs. Now Korean and Japanese companies relocate to Malaysia or Sri Lanka, among other countries.¹¹⁸

The balance of trade experienced by a country is affected by relative exchange rates. This can have serious consequences. A country which suffers a trade deficit (for example the UK) has comparatively less foreign currency available to buy foreign goods / services. Conditions for foreign exporters, therefore, are liable to become worse, especially if a government seeks to alter the situation by devaluation or restricting imports of consumer goods. In response to this, Korean companies set up in the UK as sales limited companies, which also allows free movement of goods / services throughout the European Union.

Albaum *et al.*¹¹⁹ indicate that factors in the international environment may be usefully divided between the socio-cultural and the political-legal. The next sections will discuss these areas with specific reference to Korean companies in the UK.

Although socio-cultural factors may be common across borders, the political and legal environment of a country is essentially unique to itself. There may be common ground between neighbours or those who share history (e.g. Korea and Japan, the USA and Canada) or else caused by joint membership of an economic organisation, yet at the level

¹¹⁸ It was recently reported that the proportion of Japanese production that has moved overseas or will move overseas will rise to 21.6% in 1997 from 16.1% in 1993. Sender, Henny, "Nippon's Choice," *Far Eastern Economic Review* (June 8th, 1995), pp.38-40.

¹¹⁹ Albaum *et al.* (1989), pp. 60-78.

of detail at which international marketers / purchasers operate, each country's political and legal framework exhibits vital differences.¹²⁰

The political environment relevant to Korean companies in the UK is not likely to present a very high possibility of risks. Kobrin¹²¹ identifies the principal areas in which political risks are likely to occur as including civil disorder, war, labour disruptions, expropriation, contract cancellation and price controls. Most of these risks are unlikely to happen in the UK. Consequently, Korean companies need concern themselves only with a basic scanning of the political environment. However, some models of risk are relevant to the UK. Brouthers,¹²² for example, considers an all-inclusive risk model which takes account of any environmental variation. Environmental turbulence will have a greater effect when control over subsidiaries is looser; i.e. in situations of greater market knowledge. Organisations which are risk-averse,¹²³ will ensure greater control over subsidiaries where risk is possible.

Albaum *et al.*¹²⁴ observe that the relevant parts of the political and legal environment are essentially government influences. These may in turn be divided into those activities which promote international marketing / purchasing, those which impede it and those which are in direct competition with it. It is clear from what has been said that this is true for *chaebol*. The ROK enfolds *chaebol*, so any environmental change is transmitted to firms by the government. The methods by which the ROK government has sought to influence organisations are discussed elsewhere.

Major factors in the international environment during the period of major economic growth have included the following:

- reconstruction through foreign aid. Large amounts of financial assistance were provided by the USA and, to lesser extents, other members of the UN and Japan, in order to help rebuild the Korean economy. Much of this

¹²⁰ This contradicts Levitt's idea of the globalisation of goods and services. See Levitt (1983), *op.cit.*

¹²¹ Kobrin, Stephen J., Managing Political Risk Assessment (Berkeley: University of California Press, 1982), p.118.

¹²² Brouthers, Keith D., "The Influence of International Risk on Entry Mode Strategy in the Computer Software Industry," *Management International Review*, Vol.35, No.1 (1st Quarter, 1995), pp.7-28.

¹²³ Hofstede (1980), *op.cit.*

¹²⁴ Albaum *et al.* (1989), *op.cit.*, pp.60-78.

regeneration was able to take place on greenfield sites,¹²⁵ not only in terms of geography but also in terms of personnel management, sector choice and business methods. At the same time, the flow of financial aid was essentially controlled by the government.¹²⁶ Together, these factors provided considerable capability to the Government to enact industrial planning centrally;¹²⁷

- as an ally of the USA and the capitalist world, Korea was isolated from friendly neighbours, particularly on mainland Asia. The strong anti-communism of successive Presidents meant that formal trade with communist neighbours was impossible. These communist neighbours were also the closest to Korea not only geographically but also in terms of such factors as culture, religion and even family relationships.¹²⁸ Natural patterns of trade were thereby disrupted¹²⁹ and it was not until the diplomatic offensives of President Roh Tae Woo that these linkages could start to be re-established in any formal way;¹³⁰
- alliance with the USA and occupation of a strategic position in Asia has provided opportunities and stimulus for growth. Most notably, Korea allied herself with the USA in the Vietnam War, providing troops and trucks and undertaking a number of construction contracts. Whereas the brutality of the Korean troops earned the enmity of a number of Asian states,¹³¹ the transfer payments from the Americans, as well as the proof of friendship when others wavered, was economically rather more important. It was as a result of the Vietnam War that the internationalisation of Korean *chaebol* was able to begin, largely in construction sectors;
- although the alliance with the USA has not always been without friction, nevertheless US troops have continued to be stationed in the country. This is

¹²⁵ Fitzpatrick Associates, East Asian Investment in the UK and the Republic of Ireland, Special Report No.2064 (EIU: London, 1991).

¹²⁶ Control of the banks was also important in this, which is described below.

¹²⁷ It has been argued that South Korea represents one of the success stories of the IMF., which was a major instrument in the reconstruction of the country. The funds provided by the IMF acted as a catalyst in attracting foreign capital which facilitated repayment of debts. "IMF / World Bank Meetings: New Challenges," *Business Korea*, Vol.9, No.5 (November, 1991), pp.35-9.

¹²⁸ For example, it is believed that some 2 million ethnic Koreans live in China, with perhaps 800,000 in the Yanbian Korean Autonomous State of Jilin Province. See Watanabe (1992), *op.cit.* There are also substantial numbers of Koreans in Japan, a significant proportion of whom have traditionally supported the policies of North Korea. A further 20,000 have remained on Russian-controlled Sakhalin Island since the end of WWII, where they have faced constant discrimination. See Lilley, Jeffrey, "Song of Exile," *Far Eastern Economic Review*, Vol.157, No.35 (September 1st, 1994), pp.31-2.

¹²⁹ Liang, Neng, "The Paradox of Export-Oriented Import Protection: Reassessing South Korea's Trade Policy," *The International Executive*, Vol.37, No.1 (January-February, 1995), pp.35-60.

¹³⁰ Some measure of informal trade was evident during this period, although at a low level.

¹³¹ Kahng, Anthony, "Will South Korea be Another Vietnam?" in Yung-hwan Jo, ed., US Foreign Policy in Asia: An Appraisal (Santa Barbara, California: ABC - Clio, 1976), p.243.

despite the fact that various US Presidents have sought at various times to reduce substantially the level of US commitment in the country. Proposals by Presidents Nixon and Carter have been particularly influential in this regard. One of the main economic results of this has been that the Korean government has sought to take on an increasing portion of the burden of defence spending necessary to match that of North Korea. The demilitarised zone (DMZ) between the two countries remains one of the most heavily militarised areas in the world. The level of defence spending, although proportionately much lower than that of the North,¹³² has substantially subtracted from the government's ability to influence exports and economic growth generally;

- the Oil Crisis of the early 1970s, together with other forms of world recession, affected Korea particularly adversely. There are two reasons for this: firstly, Korea is obliged to import virtually all her own sources of power and, therefore, suffers disproportionately when prices increase; secondly, being so dependent upon exports for growth, downturns in world trade are again especially damaging to the Korean economy;
- growing calls for the opening of the Korean domestic market, often led by those in the USA, coincided with protectionism in some parts of the Western world and claims of Korean "dumping" of goods. At the same time, President Roh Tae Woo launched various diplomatic offensives. These had two aims. Firstly, to increase the country's standing in the world community and hence support in talks concerning reunification with the North. Secondly, to encourage the North to participate usefully in talks by enlisting support from her long-standing allies in China and Russia.¹³³ This process was facilitated to some extent by the fall of communism in the former Soviet Union and the effective withdrawal of support (i.e. subsidy) for her ally in Pyongyang.¹³⁴ These factors have all contributed to the opening of Korean domestic markets to a level comparable with those of all other developed countries.¹³⁵

¹³² A Comparative Study of the South and North Korean Economies (Seoul: National Unification Board, 1986). More recent reports suggested that North Korea would be unable to sustain any kind of protracted war. This is because of poor economic conditions, which are seen in, for example, the lack of fuel and supplies for military forces. "North Korea Believed Too Poor To Fight," *Nikkei Weekly* (November 9th, 1992), p.24.

¹³³ This had the side effect of opening these markets to Korea to some extent. One particular example is the Tumen Valley River Project, at the conjunction of the borders of Russia, China and North Korea. See Bearman, Stanley, ed., Strategic Survey, 1992-3 (London: International Institute of Strategic Surveys, 1993) and "Tumen River Project: Still Talking," *Business China*, Vol.20, No.17 (August 22nd, 1994), pp.6-7.

¹³⁴ See, for example, Robinson, Thomas W., "Domestic and International Trends in Asian Security: Implications for American Defence Policy," *The Korean Journal of Defence Analysis*, Vol. 4, No.1 (Summer 1992), p.140 and Joachim Glaubitz, "The Soviet Union and the Korean Peninsula," *Aussen Politik*, Vol. 43, No.1 (1992), p.85. Pyongyang is the capital city of North Korea.

¹³⁵ OECD Economic Surveys 1993-4: Korea (OCDE: Paris, 1994).

It is clear that all these factors have been influential in shaping strategy. Perhaps most crucial has been the membership of a western alliance with the UN, USA and Japan. The comparison between South and North Korea shows just how important international trade is in promoting the economic and social health and welfare of the people of a country. Since Korea was ideologically aligned with the west, she was able to follow the example of the Japanese in economics. This is described next.

2.2.3. The Example and Role of the Japanese

Korea's principal trading partner has long been Japan¹³⁶ and the two countries have influenced each other considerably throughout history. Owing at least partly to the colonisation of Korea, Japanese modernisation was able to begin earlier than in Korea and, inevitably it has provided something of a model for Korea to follow. However, it is both easy and erroneous to assume that Korea has simply followed the Japanese model and that her level of success is merely dependent upon the extent to which she is able to follow that model. Reasons why this is include the following:¹³⁷

- Since Japanese growth occurred first, US and European countries are aware of the threats to their own markets arising from the Asian NIEs. This is especially true because those countries tended to disregard what the Japanese were doing, considering it inconsequential¹³⁸ and that world growth could continue indefinitely;
- the success of Japan and the initiation of success by the Asian NIEs has inspired worldwide awareness of the benefits of targetting growth through exports. It is, therefore, rather more difficult to compete;
- Japanese success has also been influential in inspiring the desire for protectionism in the West, which is combined with calls for Korea (and elsewhere) to reduce the levels of protection of her own markets;
- access to foreign technology is also far more limited than it was for the Japanese.¹³⁹ This is partly because of foreign investors are now rather more

¹³⁶ See, for example, Kim, Hong Nack, "Japanese-South Korean Relations in the Post-Vietnam Era," *Asian Survey*, Vol.16, No.10 (October 1976), pp.981-995 and Hahn Bae-ho, "Korean-Japanese Relations in the 1970s," *Asian Survey*, Vol.20, No.11 (November 1980), pp.1087-1097.

¹³⁷ The following argument owes much to Manasian, David, "How Korea Came Good," *Management Today* (February, 1985), pp.76-9.

¹³⁸ This is perhaps most immediately obvious in the case of motor cycles.

¹³⁹ Tank, Andrew, "Korea's Japanese Jinx," *Management Today* (April, 1987), pp.88-93.

wary of the dangers of creating new competitors by permitting technology transfer¹⁴⁰ and partly because most of the relevant technology is resident in Japan. This is partly a result of the long-term interaction between the countries, which has meant that as much as 40% of the value of Korean goods is actually transferred to Japan. Not only does this provide a significant disincentive to Japan to prevent technology transfer, if reason were needed, it also has an effect in America, where investment in Korea is regarded less favourably by some if the principal external beneficiaries are the Japanese.¹⁴¹

There have been arguments that, nevertheless, Korean *chaebol* have only been successful because they have not only followed the Japanese model but have in fact been wholly locked into the Japanese internationalisation process.¹⁴² This argument undervalues both the factors outlined above and some other important differences between Korean and Japanese business methods. These include the following:

- *chaebol* have been very active in OEM channels. This is an approach that has not been followed by Japanese companies.¹⁴³ This has led to a much lower level of awareness of which goods have been produced in Korea. This is not entirely bad since Korean goods have not been associated with poor quality low-cost goods, which is the reputation that, for example, Japanese and Taiwanese goods have certainly had;
- Japanese companies have attempted to build up recognition of their brand names and corporate image. This has not been attempted by *chaebol*, apart from in the domestic Korean market, until very recently;¹⁴⁴
- Japanese companies have not been used as the tools of government policy in the same way that Korean *chaebol* have. Where *zaibatsu* have been able to create and enact strategies of their own - partly because they have not been using OEM -

Rhee *et al* propose three reasons for why looking to Japan is better than relying on the West for the transfer of technology: similar factor endowments; Japan's tremendous ability to tailor imported technology to factor endowments; the contemporaneous argument that Japanese factor prices are rising, allowing Korea, through geographical proximity to take over in those markets. See Rhee, Yung Whee, Bruce Ross-Larsen and Garry Pursell: Korea's Competitive Edge: Managing the Entry into World Markets (Baltimore, Maryland: the Johns Hopkins University Press, 1984).

¹⁴⁰ Nakarmi, Laxmi, William J. Holstein, Farah Nayeri and Karen Lowry Miller, "High-Stakes Victory or Runaway Train," *Business Week International*, (December 12th, 1994), pp.48-50.

¹⁴¹ Tank (1987), *op.cit.*

¹⁴² See, for example, Bloom, Martin D.H., "Globalisation and the Korean Electronics Industry: A Chandlerian Perspective," in Hellmut Schütte, ed. (1994), *op.cit.*, pp.137-149.

¹⁴³ Lee, Mushin and Byoung-ho Son, "Korean Strategies for Export Markets," *Long Range Planning*, Vol.26, No.6 (November-December, 1993), pp.99-106.

¹⁴⁴ Wee, Chow-Hou, "National Branding Strategies and Economic Development: Implications for NIEs and LDCs," *The International Executive*, Vol.36, No.2 (March / April, 1994), pp.119-146.

chaebol have reacted to external events and their strategy has emerged from their reaction to events;

- the difference in the degree of localisation in the UK between *zaibatsu* and *chaebol* is so great that they may as well be operating in different markets. Japanese companies are greatly more involved in direct investment, horizontal differentiation and sustaining relationships with power on their side than *chaebol* can hope to achieve. This is not just the effect of time but also reflects changes in the environment as well as structural differences in the localising firms of the two countries. For example, the availability of suitable concerns for acquisition (and their cost) will vary over time, while changes in exchange rates (as has affected both Japan and Korea) can dramatically alter the viability of foreign investment. However, perhaps more significant are the findings of Nitsch *et al*, who wrote that Japanese manufacturing subsidiaries entering the UK were concentrated in industries which intersected the strengths of UK and Japanese businesses. This is apparently to take advantage of the strengths and services which can be provided by local organisations: i.e., local sourcing is comparatively cheaper because advanced providers are already present.¹⁴⁵ This is not the case for the traditional strengths of the Korean economy and such synergies are, therefore, unavailable.

There are certainly points of great similarity between Japanese and Korean companies in the ways they have sought to do business in the UK. However, while the Japanese have provided role models, it is unrealistic to compare them with *chaebol* directly. The international business environment has progressed since the widespread emergence of Japanese companies in Europe. A more important means of shaping Korean marketing strategy has been the role of the Korean government. This will be described in further detail below.

2.2.4. Government Policy

The ROK was born in the aftermath of such destruction that traditional efficiencies leading to the creation of national comparative advantage were drastically rearranged. The southern half of the peninsula offered little prospects for wealth through normal means. Dong-Sung Cho writes¹⁴⁶ that there were three principal routes to wealth during the immediate post-war years:

¹⁴⁵ Nitsch *et al.* (1995), *op.cit.*

¹⁴⁶ See Cho, Dong-Sung, "From Subsidiser to Regulator - The Changing Role of Korean Government," *Long Range Planning*, Vol.25, No.6 (December, 1992), pp.48-55.

- purchase of properties which had been seized and then abandoned by the Japanese. Such properties were often sold by the government at low prices;
- smuggling from Macao or Hong Kong, an activity which exceeded in volume the amount of legal importing;
- taking advantage of governmental import quota schemes. In these, certain businesses were permitted to import goods, utilising a special exchange rate which was as much as two or three times the official exchange rate,¹⁴⁷ as long as these imported goods were not finished products. This led to licensed importers determining that their major source of profit was in the exchange rate differential. Hence, they tended to import such items as flour and sugar, which were then minimally processed prior to being sold, with as much as 90% of the value of the product being derived from its cost as a raw material.

It is clear that these routes to wealth inspired some unpopularity and, certainly, it is true that there is some residual resentment of those who became rich in this period. Circumstances conspired to send to prison a number of business leaders, who were later to become leaders of major *chaebol*, on the basis of having accumulated wealth through illegal means. It is also hardly surprising that there is still a degree of resentment towards some *chaebol* leaders whose wealth originally derives from that period. These include the so-called "robber barons."¹⁴⁸

However, it is also true that the sale of properties was necessary to ensure revenue and that the licensing of imports was to protect domestic markets. In other words, the government was enacting a long-term strategy for the growth of the country. The principal means taken was that of export promotion, coupled with import protection.

Import protection is generally disregarded since it is thought to channel resources into inefficient industries, thereby helping to increase the cost of factors of production. It is also likely to have a deleterious impact of international relations. However, Liang Neng has recently argued that import protection not only had positive effects on the economies

¹⁴⁷ See Lee, Jae-Hee, "Capital Accumulation and the Role of the Government," in Dae-Keun Lee and Woon-Young Chung, eds., Korean Capitalism (Kachi Publishing Co., 1984), p.199, cited in Cho, Dong-Sung (1992), *ibid*.

¹⁴⁸ See McDermott, Michael and Stephen Young, South Korea's Industry: New Directions in World Markets (EIU: London, 1989).

of the NICs but was a vital part of the success story.¹⁴⁹ Three factors are relevant in this analysis:

- (i) the domestic market can be important in providing the volume necessary in achieving scale and learning economies for competitive advantage;
- (ii) stimulates infant exporters by restricting those industries which would benefit from imports and
- (iii) countries rely for advantage on their possession of skills and expertise. In time, resources are allocated efficiently to support industries based on those skills. However, these industries cannot offer long term advantages to more developed countries.¹⁵⁰ So, import protection forces the allocation of resources to be rearranged.

It is certainly true that in the ROK and in the other Asian NICs, as well as Japan, that exporting has been successfully achieved in sectors which did not previously exist in those countries. Examples of this include Korean cars and electronic consumer goods. The success witnessed in these industries would have been much less likely to have been achieved without the time, investment and encouragement that was provided. This may be seen in the case of the car industry, which was initiated by the government's creation of the Kia company in 1974, which was subsequently sold to the private sector. The company had the target of localising 95% of car production and assembly within seven years, which was assisted by the imposition of 151% tariffs on imported goods.¹⁵¹ Having achieved its internal aims, Kia was then free to export to the rest of the world, having created an industry of sufficient efficiency to compete with other countries.¹⁵²

¹⁴⁹ See Liang (1995), *op.cit.*

¹⁵⁰ Theories of multinational enterprise suggest that if a country has those advantages to an extent which can constitute genuine competitive advantage internationally, then an MNE is likely to be better able to exploit it. Introductions to these areas may be found in, for example, Rugman *et al.* (1986), *op.cit.*, Buckley, Peter J. and Mark Casson, eds., Multinational Enterprises in the World Economy: Essays in Honour of John Dunning (Aldershot, Hants: Edward Elgar Publishing Ltd., 1992) and Dunning, John H., The Globalisation of Business: The Challenge of the 1990s (London and New York: Routledge, 1993).

¹⁵¹ See Liang (1995), *op.cit.*, pp.35-60.

¹⁵² A more recent example may be found in the case of venture capitalism, although the lack of managerial capability in the country has meant that, to date, methods have been too conservative and profits somewhat unsatisfactory. See Rah, Joongdoug, Kyungjin Jung and Jinjoo Lee, "Validation of the

Consequently, there is some evidence to suggest that import protection can have positive effects. It also indicates the effects of long-term strategic planning by the ROK government. The other part of the policy, the promotion of exports, was achieved through such measures as the following:

- the provision of tax exemptions for exporting businesses;
- the institution of organisations such as the Korean Trade Association (KOTRA) and the Korean Advanced Institute of Science and Technology (KAIST);
- the introduction of General Trading Companies;
- measures to prevent imports.

Essentially, the government has sought where possible to introduce an integrated package of measures to support specific industrial sectors one at a time. This is a method which has been termed by McDermott and Young as the "laser beam" strategy.¹⁵³ Having achieved a specified level of success in particular sectors, the government will then move its sights to other important sectors. This has not simply been a case of following Japan. Although there are very many similarities between the progress of the two countries and there is little doubt that ROK governments would copy the Japanese phenomenon more closely if they could, a number of factors have mitigated against this. These have included the following:

- western economies are aware of the threat posed by the emergence of Asian economies and will take steps to prevent further growth;¹⁵⁴
- technology transfer has been very problematic, partly because of the above and partly because of the reluctance of the Japanese, by far the ROK's biggest trading partner, to co-operate;

Venture Evaluation Model in Korea," *Journal of Business Venturing*, Vol.9, No.6 (November, 1994), pp.509-524.

¹⁵³ See McDermott and Young (1989), *op.cit.*

¹⁵⁴ This equates to the power of moving first in a game theory context, which can be of significant importance. See, for example, Davis, Morton D., *Game Theory: A Non-Technical Introduction* (Basic Books, Inc.: New York, 1970) and Dixit, Avinash and Barry Nalebuff, *Thinking Strategically* (W.W. Norton and Co.: New York, 1991).

- the period of Japanese growth was a time when it was believed that growth could continue indefinitely;
- advances in international trade and understanding have meant that the location of manufacturing facilities in low cost countries have very rapidly undercut the Korean strategy of price leadership.¹⁵⁵
- the structure of Japanese corporations is fundamentally different from *chaebol*. Japanese corporations employ delegation of authority, consensus management and many advanced production techniques which are not available to *chaebol*. The similarity of organisational structure in a country, which is emphasised in Korea by the dominant role of the state, can cause problems for firms trying to operate in foreign societies.¹⁵⁶ This affects *chaebol* to a greater extent than, for example, Japanese *kaisha*, owing to the rigid authoritarian style and centralised control of the business group.

These factors have all acted to hamper attempts by ROK enterprises to achieve success by emulating the Japanese model.¹⁵⁷ The effect of the prevention of technology transfer has been particularly severe. The preponderance of Korean industrial machinery is still derived from Japan and the reasons why the Japanese would not wish to transfer technology to Korea, apart from politics, are very clear. However, the ROK has been able to use her strategic position profitably. One example of this is offering possibilities for developing the infrastructure. This is true of the Seoul-Pusan-Ulsan railway line.¹⁵⁸ The skill of the Korean negotiators and the attractiveness of the project to the potential contractors was such that a very large number of concessions were achieved, including, vitally, the transfer of technology. Whereas the French managers of the victorious GEC-

¹⁵⁵ See, for example, Darlin, Damon, "Unifying Korea," *Forbes* (September 12th, 1994), pp.178-80, who reports wages in the ROK to average \$1200 per month, as compared to \$150 in North Korea, \$100 in China and \$50 in Vietnam.

¹⁵⁶ See Whitley, Richard D., "East Asian Enterprise Structures and the Comparative Analysis of Forms of Business Organisation," *Organisation Studies*, Vol.11, No.1 (1990), pp.47-74.

¹⁵⁷ However, some commentators persist in assuming that following the Japanese model is a simple route to success. There is evidence that the growth of South East Asian economies has led (western) scholars to make similar assumptions of cross-country similarity. Gibney, Frank, "Hot Economies and Changing Politics," *International Business*, Vol.7, No.9 (September, 1994), pp.66-70.

¹⁵⁸ Nakarmi, Laxmi, William J. Holstein, Farah Nayeri and Karen Lowry Miller, "High-Stakes Victory or Runaway Train," *Business Week International*, (December 12th, 1994), pp.48-50.

Alstom consortium felt that the Koreans would be unable to innovate from the technology available, the Koreans felt that their thorough digestion of the technology employed in building the railroad would soon lead to a new competitor in the sector. This would be especially true in the potentially lucrative markets of east and south-east Asia which are likely to require comparatively low-technology solutions.

However, the story of the economy of the ROK has not been one of total success. Especially in recent years, since the mid 1980s, three factors have caused the previous formula of stimulated growth to be tempered. These have been: a resurgence of economic and social problems; calls for democratisation of the country and the launching of a diplomatic offensive to achieve various political goals. These will be dealt with separately:

(i) Economic and social problems

The problems that have affected the Korean economy have included:¹⁵⁹

- the rapid appreciation of the *won*;
- inflation;¹⁶⁰
- resurgence of problems with trade deficits.¹⁶¹
- social disorder;
- labour and pay disputes;¹⁶²
- inclement changes in the global macro-environment, such as widespread recession and fluctuations in oil prices owing to events in the Middle East;
- protectionism in the western world;

¹⁵⁹ A discussion of these issues as they existed at the time of the research is provided in: "International Developments: OECD Trade and Current Balances," *OECD Economic Outlook*, No.47 (June, 1990), pp.30-46.

¹⁶⁰ This seems likely to be a long-term problem in the Korean economy. See, for example, "Government Struggles to Hold Down Inflation," *Business Korea*, Vol.12, No.3 (September, 1994), pp.37-38.

¹⁶¹ Ridging, John, "Foreign Investors Turn Their Backs on S. Korea," *Financial Times* (January, 25th, 1991).

¹⁶² See, for example, Byington, Lisa M., "The Effects of the Korean Labour Movement on the Economy of the Republic of Korea and on US Investment in the Republic of Korea," *George Washington Journal of International Law and Economics*, Vol.24, No.1 (1990), pp.149-193.

Many of these problems have been provoked by the ROK's own success. They also mark the transition of the country, which is as yet far from complete, from an authoritarian, paternalistic autocracy to a more pluralistic, outward looking and modern society. It is also possible to see that, having achieved success through the use of *chaebol* and ensured that they have achieved sufficient strength and power to survive, the ROK government now no longer needs to support them and, indeed, can begin to relax some of the strictures on labour laws and the disregard of the effects on the environment which did so much to enable them to gain their strength. This is clearly linked with democratisation, as will be explained below.

(ii) The Call for Democracy

It would be something of an over-simplification to say that all Koreans were united in a national call for democracy. Nevertheless, it gradually became clear during the course of the 1980s that the need to change was becoming unavoidable. This need was composed of both internal and external, diplomatic pressures. Consequently, in 1988, the year of the Seoul Olympics and the entry of Korea into international consciousness, the first free elections were held, leading to the inauguration of President Roh Tae-woo, who owed much of his position to the influence of his mentor, the previous autocratic President Chun Doo-hwan, who retired to a monastery. Democratisation, which continues to be forced through institutions such as the judiciary, police and in education, has offered opportunities for *chaebol* to emerge from the shadow of governmental tools to seek executive power for themselves. This has been seen most eloquently in the case of Chung Ju-yung, leader of the Hyundai *chaebol*, who stood in the 1992 elections and who subsequently received a prison sentence for corruption.¹⁶³ In other words, Korean politicians have continued to try to maintain their authority over business and, as will be seen below, to continue to try to use business to further political aims. To what extent *chaebol* are influential in shaping political agenda is not of course fully established.

¹⁶³ However, the government continues to issue mixed messages. For example, Kim Woo-Choong, Chairman of Daewoo and Choi Won-Suk, Chairman of the Dong-Ah Construction Company were both indicted on charges of bribery in August, 1994. However, this was handled in such a way as to make it evident that those involved were highly unlikely to suffer any ill effects of the investigation. See "Forgotten and Forgiven?" *Business Korea*, Vol.12, No.3 (September, 1994), p.17.

(iii) The Diplomatic Offensive

The election of President Roh saw the initiation of *nordpolitik*, which sought to achieve security on the peninsula through improving international relations, both with long-term allies such as China and the then USSR and, also, throughout the international community at large. In seeking to achieve this, *chaebol* have again been the willing tools of government policy. The policy of using chaebol to improve diplomatic relations really started with the support that the ROK gave to the USA in the prosecution of the Vietnam War, with all the opportunities that provided. Subsequently, Korean businesses have been active throughout the world, perhaps most noticeably in construction projects in the Middle East. In addition, the Daewoo tire factory in Sudan has been instrumental in improving relations between the two countries, as has also happened through Sampoong in El Salvador.¹⁶⁴ Korea's relations with Egypt began with the opening of a consulate in 1961. Trade has grown subsequently such that Korea is Egypt's third most important trade partner. The balance of trade is relatively even. Egypt buys technology from Korea and Korea imports mostly oil from Egypt. The political and trading links are important for both countries; for example, both have wanted allies in UN debates over recent years.¹⁶⁵ Daewoo has also been instrumental in initiating investment in Eastern Europe, where previously Asian companies had been almost non-existent.¹⁶⁶

Diplomatic efforts have helped to establish new trade patterns and areas which may act as alternative sources of power and influence in the political system of East Asia.¹⁶⁷ This form of diplomacy has required flexibility and the ability to respond to changes in the environment. Its strength has been in its ability to adapt with speed to changes in the environment and, indeed, in enacting its own environment. Dong-Sung Cho maps the

¹⁶⁴ Kumar, Krishna and Kee Young Kim, "The Korean Manufacturing Multinationals," *Journal of International Business Studies*, Vol.15, No.1 (Spring - Summer, 1984), pp.45-61. Similar policies have long been employed by the Japanese. Yoshihara (1978), *op.cit.*

¹⁶⁵ "Korea, Egypt: Formal Ties," *Business Korea*, Vol.9, No.5 (November, 1991), p.69.

¹⁶⁶ "Eastern Europe: Company and Industry," *Crossborder Monitor*, Vol.3, No.7 (February 22nd, 1995), p.5.

¹⁶⁷ Watanabe (1992), *op.cit.*

progress of the Korean government in terms of the dimensions of the degree of regulation and subsidy provided.¹⁶⁸ This provides the following taxonomy:

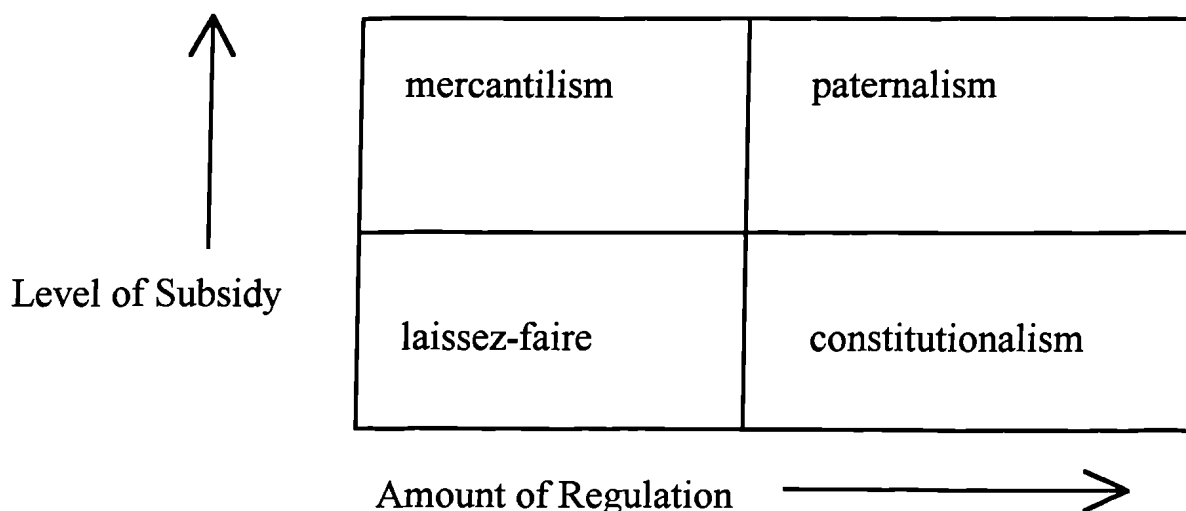


Figure 1. Taxonomy of the ROK Government

He divides the history of the ROK into 4 periods and concludes that the government progressed from being laissez-faire, to mercantilist, to paternalist and will, in due course, move further towards the constitutionalist mode. During the main periods of Korean economic expansion, therefore, which coincided with the administrations of Presidents Park and Chun, the government provided high levels of subsidies. With the coming of democracy and the rise of different diplomatic goals, the government increasingly saw the need to control the *chaebol* and this coincided with the decline in the level of subsidies. More generally, the rise of government as regulator has been in step with the growth in understanding of resource-based marketing and of the difficulties inherent in attempting to ensure sustainable growth.

In conclusion, therefore, successive ROK governments have adopted highly centralised and planned methods of attempting to regenerate the Korean economy. This has featured measures designed to stimulate both export promotion and protection from imports. More recently, the government has moved away from its role as subsidiser of business and towards a regulatory role, both because pressure has been placed on the government to open the economy to the outside and because the government has looked to other instruments with which to accomplish its goals. Having described the nature of goals and

¹⁶⁸ Dong-Sung Cho (1992), *op.cit.*

policies pursued by the ROK government, it is now possible to evaluate the tools by which they have achieved so many of those goals, the *chaebol*.

The government of South Korea has been generally authoritarian in nature since the country's birth in 1945. As mentioned above, this has been traditional on Korean society. However, authoritarian does not mean tyranny. Successive Presidents worked hard to ensure that major actors in the country were bound together in a harmonious whole and working towards the same ends.¹⁶⁹ These actors have included the heads of *chaebol*, education, banks and local government. A number of reasons contributed to the ability to achieve this:

- governmental structure: in a non-pluralist society, the President's was the only voice that really mattered. Hence, deals could be struck with *chaebol* leaders and others through Presidential fiat in the sure knowledge that they would be honoured promptly;
- institutional mechanisms are matched with governmental aims.¹⁷⁰ The Korean bureaucracy was designed to satisfy the needs of the government, i.e. the President, with as much executive power as was required.¹⁷¹ This extended from major shareholding positions in banks, together with the ability to appoint managers,¹⁷² to freedom from environmental controls for inwardly investing foreign firms to suppression of trade unions and civil disturbance by riot police if necessary;¹⁷³
- public recognition of acts in support of government policy. These included such measures as citations, medals and monetary awards. These measures are

¹⁶⁹ Rhee *et al.* (1984), *op.cit.*

¹⁷⁰ Whitley comments as follows: "...the type of internationalisation that occurs and its extent follow from the nature, cohesion and relative strength of national and international institutions, just as configurations of firms and markets within national boundaries reflect the characteristics of national political, financial, labour and culture systems." Whitley, R.D., "Societies, Firms and Markets: the Social Structuring of Business Systems," in R.D. Whitley, ed., European Business Systems: Firms and Markets in Their National Contexts (London: Sage, 1992). Democratisation has not fully ended this association. For example, President Kim Young-Sam recently introduced a dramatic restructuring of governmental methods and structures to pursue his vision of globalisation. Lee, Byung-Jong, "'Sydney Vision' Comes into Focus," *Business Korea*, Vol.12, No.6 (December, 1994), pp.17-20.

¹⁷¹ The story of Korean government is not one of relentless efficiency. The lack of a balanced infrastructure undercuts much planning and practice. Another area of difficulty is the tax system, which is so full of holes that those who pay large amounts of tax are generally considered foolish. Sang, Lee Phil, "Korea's Tax Trap," *Far Eastern Economic Review*, Vol.157, No.50 (December, 15th, 1994), p.28.

¹⁷² Rhee (1984), *op.cit.*

¹⁷³ See, for example, Kim, Hong Nack, "Japanese - South Korean Relations in the 1980s," in Eun Ho Lee and Yong Soon Kim, eds., Adversary Politics in East Asia: A Reassessment (Seoul: Seoul Computer Press, 1986), pp.183-206.

very important for Koreans, who prize public commendation in its own right as well as for the respect, honour and economic benefits which they can bring;

- strict and sequential control of industrial sectors. Until the late 1980s, a time of growing democratisation, industrial policy was strictly controlled such that *chaebol* could only operate in certain sectors at any one time. In fact, government was operating within the confines of limited national resources, which could only support expansion one step at a time. Porter¹⁷⁴ inherently criticises the Korean economy for not possessing good positions in a sufficiently large number of important areas. This misses the point that it is only through government-corporate action that Korea has any positions at all, owing to the paucity of natural resources.

Successive administrations used these factors in determining industrial strategy for the country. This strategy may be divided into two areas: macro and micro. Macro-strategy was concerned with such areas as the promotion of exports and the protection from imports. Micro strategy (or tactics) was concerned with ensuring that conditions within the country were right for enacting the macro strategy. That is, with ensuring that *chaebol* were encouraged to act in the required ways and that governmental bureaucracy was sufficiently flexible and responsive to deal with the sometimes chaotic conditions inspired by a Presidential decree.

Having described the major causes of strategy, it is now necessary to describe the means by which government policies have been enacted: i.e. it will describe the government's tactics. It is important to bear in mind that these different types of tactics are used in combination with each other, with each modifying and enhancing the effectiveness of the other.

During the period of most rapid economic growth through export promotion, President Park set the precedent of regular monthly meetings with the purpose of monitoring and boosting the exporting effort. This provided a forum for industrial leaders, including heads of *chaebol*, leading governmental figures, ministers and bureaucrats. Owing to the

¹⁷⁴ Porter, Michael E, The Competitive Advantage of Nations (London: The Macmillan Press Ltd., 1990), pp.465-474.

amount of power that had been gathered by the presidential office, the President was able to respond to many issues instantly and make binding decisions on the spot. The advantages of such meetings were:

- all stakeholders could see that there was congruence of goals: i.e. everyone was working towards the same goals. This led to a feeling of harmony which is always important to Koreans;
- progress was public and relatively good or bad performance would be openly discussed amongst peers, which had a considerable impact upon the level of respect available to the participants,¹⁷⁵ which is again an important feature;
- medals and similar tokens of honour could be issued to those whose progress had been satisfactory. These tokens are important to Koreans, not just in themselves but also because of the fringe economic benefits that they can provide;
- targets can be set in a realistic way which all participants would strive to achieve. Since target setting and progress towards reaching them all took place in public, those involved were encouraged to pitch targets high - but not unrealistically high;
- both formal and informal channels of interaction are available to participants. The degree of informal communication that takes place between those who attend a meeting before, after and even during has become well documented.¹⁷⁶

Additional means of controlling the economic environment has included the control of banks, exchange rates and other macroeconomic factors. This has included some quite innovative approaches in, for example, the creation of internal letters of credit. These were important in enabling smaller companies to become involved in the chain of production leading to exports, without requiring them to have access to foreign capital or substantial bank loans. The control of the banks has meant that flow of funds have been available to underline government policy. For *chaebol* or any other company to take part in international trade - or even large scale domestic trade - it had to follow government

¹⁷⁵ Cazal (1994), *op.cit.*

¹⁷⁶ An example of this is provided by Dalton, Melville, "Formal and Informal Organisation," in Amitai Etzioni, ed., Readings on Modern Organisations (Prentice-Hall Inc.: Englewood Cliffs, New Jersey, 1969).

policy to a considerable extent. One of the very largest *chaebol*, Kukje, was effectively closed down by government order. There are reports that this was because it failed to provide sufficient donations to the government.

Having discussed the nature of government policy and some of the means by which it has been undertaken, it is now possible to draw together some of the implications that these factors have had for Korean marketing strategy in the UK.

2.3. Implications of External Factors for Korean Marketing Strategy in the UK.

It is apparent from what has been said above that Korean marketing strategy will have been shaped to a considerable extent by a number of external factors. These include the international environment, natural endowment of resources and the model of the Japanese. However, these factors have not had a direct impact upon *chaebol*, since they have all been modified by the integrative nature of governmental policy. The following diagram, illustrates the point:

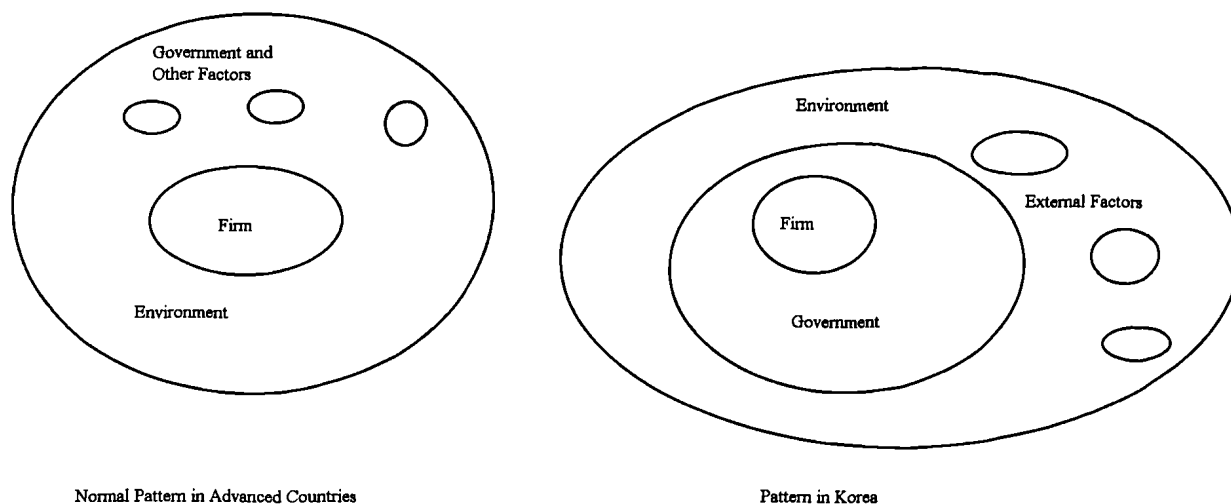


Figure 2. Role of the Korean Government in Mitigating Environmental Effects on Chaebol.

The consequence of this is that the marketing strategies of Korean companies, such as they are, have not exclusively arisen in response to customers and their requirements. Instead, strategy has been developed through the relationship with the government of Korea. This has helped to inspire the following features of marketing strategy:

- as Whee *et al.* observe, successful export promotion needs effective infrastructure and communications but it does not necessarily need a substantial selling effort.¹⁷⁷ Hence, Koreans are accustomed to their buyers

¹⁷⁷ Rhee *et al.* (1984), *op.cit.* This may of course no longer be true. Their paper contains a version of the previous diagram.

coming to search for them. The government has been instrumental in providing accommodation and conference facilities, as well as the communications needed to organise deals. Although it is of course difficult to determine exactly who made the first or the telling contact, it would appear that *chaebol* have devoted comparatively few resources to marketing and have consequently been unable to cultivate experience in the field;

- in the same way that the responsibility is often on the buyer to initiate the deal, so too has it often been left to the buyer to institute measures such as quality control and monitoring of production. At the same time, buyers have taken the lead in requiring adaptations of processes and products. This has partly been related to the nature of markets involved, which have often required large, complicated and customer-specific products such as ships and construction and, partly, because of the nature of buyers. These are frequently other companies in the same business group or else the *sogo shosha* of Japanese conglomerates. These companies will clearly have their own reasons for desiring modifications to products;
- the sequential approach to tackling industrial sectors, with the choice based on governmental decision rather than from natural extension of comparative advantage or exploitation of natural resources, has exacerbated the lack of marketing skills and experience and the difficulties with the transfer of technology.¹⁷⁸ These effects have combined with the natural resources of Korea, which have been cheap labour and little else, to ensure that the majority of Korean products have been designed to compete in terms of price rather than value-added or any other attribute. As costs increased in line with the economic success enjoyed by the country, the price competitiveness strategy became impossible to sustain and there has been little to take its place in the short term;¹⁷⁹
- owing to the structure of *chaebol* and other buyers, together with the comparatively low level of technology possible, Korean companies have frequently operated as OEM. That is, manufacturers have provided goods to

¹⁷⁸ This approach has also meant that a number of approaches to international business and to the internationalisation of *chaebol* have been effectively undermined. These include such approaches as those derived from finance theory, such as risk management or diversification. For risk management, see Kobrin (1982), *op.cit.* and Brouthers (1995), *op.cit.* For a discussion of diversification, two of the very many useful sources are Hirsch, Seev and Baruch Lev, "Sales Stabilisation through Export Diversification," *The Review of Economics and Statistics*, 53 (August, 1971), pp.270-279 and Ingersoll, Jonathan E., Jr., Theory of Financial Decision Making (Rowman and Littlefold: Totowa, New Jersey, 1987).

¹⁷⁹ This trend has continued. The 1994 World Competitiveness Report shows that Korea was ranked only 24th of 41 countries investigated. This was attributed to closed markets, reluctance to enter into joint ventures with foreigners and sluggish foreign investment. See Kang Sang-Yun, "Korea's International Competitiveness plunges," *Business Korea*, Vol.12, No.4 (October, 1994), pp.26-42.

resellers who have sold them under their own or a different brand name. This is a strategy that is commonly found in LDCs, in that goods are marketed under a brand name that has already been established in the consumer's mind and that can be promoted therefore with greater efficiency.¹⁸⁰ However, *chaebol* have sought to increase awareness of their own names, although this development has lagged behind that of Japan. Examples of brand promotion include the use of baggage trolleys at airports in the UK, which are used by Samsung for purposes of corporate image. The aim is to create a monolithic image for the promotion of corporate culture, the promotion of a brand name which is meaningful in the minds of consumers and conveys consistency of quality, which leads to greater sales if attributes from a successful product may be imputed to another bearing the same name.¹⁸¹ Promotion can also reduce the impact of negative impressions associated with a name;¹⁸²

- as described previously, the nature of Korean culture is such that harmony is prized. This is often reflected in the desire that Korean businesspeople have in establishing and maintaining harmonious business relationships. These relationships should be based on appropriate levels of respect between juniors and seniors. This can cause friction if the power dependency relationship is not congruous with the relative status of the people who are maintaining it;
- *chaebol*, are the only Korean companies familiar with international trade. Since they are large and powerful conglomerates, they are respected in domestic business. They also expect to be respected in international arenas and believe this will be reflected in power relationships in international channels. This can be an unrealistic expectation when dealing with organisations which have little knowledge of *chaebol* or reason to respect them;
- the problems with the transfer of technology and the comparative lack of value-added in Korean products has retarded the creation of after-sales service and technical support for goods and services;

¹⁸⁰ See, for example, Chu, Wujin and Woosik Chu, "Signalling Quality by Selling through a Reputable Retailer: an Example of Renting the Reputation of Another Agent," *Marketing Science*, Vol. 13, No.2 (Spring, 1994), pp.177-189.

¹⁸¹ Wee, Chow-Hou, "National Branding Strategies and Economic Development: Implications for NIEs and LDCs," *The International Executive*, Vol.36, No.2 (March / April, 1994), pp.119-146. Wee observes that this method has not been tried to the same extent in Western companies where it is thought that greater individualism inherent in society demands more differentiation of product attributes, including brand names.

¹⁸² See, for example, Smith, Dawn, "Seoul Expansion," *Marketing Computers*, Vol.13, No.12 (December, 1993), p.32.

- the heritage of use of the OEM route has meant that *chaebol* have generally used very little advertising in support of their products;¹⁸³
- the sequential opening of market sectors by the Korean government has contributed to the desire of *chaebol* to achieve market share; i.e. dominance over their rivals. This has contributed to the way that *chaebol* view success.

In order to achieve both strategy and tactics, the government has taken an increasingly active role in determining planning and implementation. As previously described, this might be a move from the laissez-faire role to the mercantilist role. In other words, partly because of growing economic power, the government was able to increase its level of subsidies during the periods of greatest relative expansion, the 1960s and 1970s. However, for the same reason the *chaebol*, which had enabled the government to wield that power, were also growing in power and internationalisation. Consequently, the government needed to assert its power over the *chaebol* to a greater extent than was previously necessary. Hence, it moved from the mercantilist to the paternalist role. Subsequently, the government was unable to sustain the level of subsidy, while finding the need for regulation to increase. The reasons why subsidies could not be maintained include the following:

- the policy of tackling industrial sectors sequentially, to a limit provided by the level of resources and infrastructure available to support them, was abandoned in the scramble to enter heavy industries in the 1980s. The mistakes that were made involved such high levels of investment that they could not simply be ignored or the resources redeployed, as had happened previously;
- the international environment, coupled with the government's own diplomatic initiatives, required that Korea's domestic markets be opened to free trade to a much greater extent.¹⁸⁴ Hence, the advantages and revenue that accrued from protecting import markets began to dissipate;

¹⁸³ There are some suggestions that this is now changing. Daewoo, for example, is reported to have planned a three year advertising budget of £20million to accompany the launch of its cars in the UK. Benady, Alex, "Daewoo Lists Ad Trio for £20m UK Assault," *Marketing* (August 4th, 1994). One of the advertisements was nominated for the 1995 ITV Award for Marketing in the durables category. "Daewoo Cars," *Marketing Week*, Vol.17, No.44 (February 3rd, 1995), p.50. The Korean advertising industry generally have been rather more buoyant in recent years, growing at more than 20% on a year-on-year basis. "Ad Spending Surges on Strong Consumer Demand," *Business Korea*, Vol.12, No.1 (July, 1994), pp.41-2.

¹⁸⁴ OECD (1994), *op.cit.*

- the democratisation of the country meant that society has increasingly become pluralised. *Chaebol* leaders have therefore started to try to become involved in government rather than continuing to act in harmony with it.

Each of these factors is likely to become more rather than less important in the future. Consequently, as Cho observes,¹⁸⁵ the government will probably move further towards the constitutionalist role than it already has done.¹⁸⁶

2.4. Korean Marketing Strategy

2.4.1. Implications of Korean Business Methods and Strategy for the Marketing Strategy and Tactics of *Chaebol* in the UK.

The chapter has described the background and development of Korean business methods overseas. These methods have the following implications for marketing strategy in the UK:

- *chaebol* are not accustomed to selling or marketing; they have waited for buyers to come to them;
- not only have *chaebol* waited for sellers to approach them, they have expected buyers frequently to specify changes and adaptations to products and processes;
- Korean culture places great emphasis on harmony and on respect both to and from those who merit respect. Ensuring that this is achieved requires that relationships be conducted through social interaction, which act as the integrative force which binds individuals and organisations together in the business system;
- the comparative weakness of Korean goods and brands has led to the importance of the OEM sector. This has allowed *chaebol* to gain market knowledge, the transfer of technology, the acquisition of some limited marketing expertise and the establishment of some channels of distribution.

¹⁸⁵ Cho (1992), *op.cit.*

¹⁸⁶ For example, it has been reported that the Bank of Korea has been granted rather more independence than it used to have. See "A Balance of Power," *Corporate Finance*, Foreign Exchange Yearbook (October, 1994), p.132. Spina, meanwhile, observes that the ROK government has been lifting the burden of hundreds of regulations. This has been beneficial in enabling firms to allocate resources according to business criteria rather than governmental decree, to reduce flattery and bribery and to boost foreign investment. See Spina, Marion Paul Jr., "Korea's Changing Ways of Doing Business," *East Asian Executive Reports*, Vol.16, No.9 (September, 15th, 1994), p.7.

This has been effective in achieving some market share without bearing all the costs that might otherwise be necessary. It is, therefore, evidence of long-term thinking. It has yet to be seen whether *chaebol* and their GTCs can achieve similar goals under their own brand names;

- the sequential approach to industrial sectors, in combination with general governmental control of business strategy, has meant that *chaebol* have often lacked the know-how and organisational culture necessary to provide after-sales service and quality control to the extent sometimes demanded. This is also manifested in the lack of complementary products;
- the previous and now outmoded concentration on price competitiveness has meant that Korean goods tend to lack technological sophistication or, generally, value-added. Recent efforts to change this had yet fully to make themselves felt at the time of the research;
- market share is more important to Koreans than short-term profitability. This promotes long-term thinking. Koreans feel that market share is best achieved by establishing long-term relationships with important actors in distribution channels;
- little emphasis has been placed upon the need for advertising in foreign markets. The advertising that has taken place has often focussed upon the promotion of the corporate name, rather than on specific products;
- *chaebol* tend to set realistic targets and strive to attain them; these targets tend to be defined in terms of market share;
- many of the export sectors involved in the UK have traditionally had small numbers of large, committed buyers. This situation would be expected to be replicated in the international market.¹⁸⁷

The result of these implications may be seen in the tactics employed in the UK. and the present research. This will be evident from the responses to the questions described subsequently. These included:

- an examination of selection criteria;

¹⁸⁷ Ghoshal has found evidence of organisational isomorphism in Korean *chaebol*; that is, the *chaebol* tend to copy organisational structures adopted by other, successful Korean firms. This happens to a much greater extent than may be found in firms from other countries. Whether this is a result of deliberate mimicking of success or governmental control of the markets in which *chaebol* have been allowed to compete is unknown. See Ghoshal, Sumantra, "Environmental Scanning in Korean Firms: Organisational Isomorphism in Action," *Journal of International Business Studies* (Spring, 1988), pp.69-86.

- evaluation of which partner initiated the relationship;
- relative power that each actor wields within channel relationships;
- positioning;
- the market entry mode decision and the interaction between channels colleagues;
- interaction between buyers and suppliers in relationships.

A further issue is related more to the structure of *chaebol*. It is the issue of marketing information networks. The principal issues explored centre on whether *chaebol* constitute the network model which is described more fully in following chapters.

2.4.2. Strategy

There are many ways of approaching strategy. These approaches concern a number of different disciplines, including economics, social and behavioural sciences. Porter explains strategy as being the exploitation of advantages possessed by a firm, which allow them to compete in imperfect markets more effectively than their competitors.¹⁸⁸ There are two types of advantage. Firstly, there are the comparative advantages which countries or regions have because of the resources, technologies and competencies found there. Secondly, each individual firm has its own unique combination of these factors. The first type of advantage, location-specific factors, may be termed comparative advantage; the second, firm-specific factors, may be known as competitive advantage. As Kogut explains, it is in the interaction between these two sets of factors that strategy is born.¹⁸⁹

In determining the industrial sector in which to operate, firms will consider the diamond of factors which shapes the attractiveness of that industry. This diamond is composed of barriers to entry, the actions of buyers and suppliers, threat of substitutes and the positioning of traditional intra-industry rivals.¹⁹⁰ At the same time, the firm will wish to analyse its own structure and component parts in terms of the value chain. This analysis is

¹⁸⁸ Porter, Michael E., "How Competitive Forces Shape Strategy," *Harvard Business Review* (March-April, 1979), pp.137-145.

¹⁸⁹ See Kogut, Bruce, "Designing Global Strategies: Comparative and Competitive Value-Added Chains," *Sloan Management Review*, Vol.26, No.4 (Summer, 1985), pp.15-28.

¹⁹⁰ Porter, Michael E., *Competitive Strategy* (New York: Macmillan Publishing Co., 1980), pp.34-46.

intended to indicate which of the many activities in which the firm participates provides profit through adding value and which do not and may, therefore, be sensibly disintegrated. Porter's¹⁹¹ depiction of generic strategies features essentially doing things cheaper or doing them differently. The NICs are generally considered to have achieved success.

It is clear, therefore, that analysis of this sort is based primarily on an economics based paradigm and that decisions are - or at least should be - made on the basis of rational, financial criteria. The role of management, consequently, is primarily to ensure that this analysis is undertaken appropriately and that the firm is proceeding along the lines indicated. One of the principal difficulties with this is that it runs the risk of leading actors to assume that the environment is stable or, at least, that there is little that they can do other than respond to its vicissitudes. However, the work of Weick¹⁹² and Smircich,¹⁹³ from an organisational perspective, together with such articles as McKenna¹⁹⁴ from a marketing perspective, suggest that it is possible to create the environment or, at least, to enact it. In other words, the environment directly affects and is directly affected by the organisations within it. Hence, an organisation may realistically look to alter the environment to its own ends. An example of this may be found in the case of new technology or other innovation.

In order both to enact the environment and to affect it in a pro-active manner, organisations must achieve two sorts of harmony, a concept which is close to Korean hearts. Not only should there be harmony within the organisation, which may be measured in terms of goal congruence,¹⁹⁵ there should also be alignment of the firm's strategy with the environment within which it is operating. Clearly, this may be required on a number of different levels within the organisation. Achieving the dual nature of

¹⁹¹ *ibid.*

¹⁹² See, for example, Weick (1969), *op.cit.*

¹⁹³ See, for example, Smircich (1983), *op.cit.*

¹⁹⁴ McKenna (1991), *op.cit.*

¹⁹⁵ Wilkins, Alan and William G. Ouchi, "Efficient Cultures: Exploring the Relationship between Culture and Organisational Performance," *Administrative Science Quarterly*, 28 (September, 1983), pp.468-481. This provides one way of achieving this through socialisation. For a discussion of the need to match managerial style to the type of organisation involved, see Etzioni, Amitai, Modern Organisations (Prentice-Hall: Englewood Cliffs, New Jersey, 1964).

harmony necessitates much more substantial and qualitative roles for managers. The managerial function includes management of innovation and flexibility, together with information gathering and resource allocation. Fundamentally, the manager is required to ensure that organisation is structurally suited to undertaking the strategy required. Just as top management needs to ensure that all management acts in accordance with these goals, so too should individual managers ensure their departments and employees similarly strive for the same goals. This argues for social and behavioural skills of, often, quite a high level.

Underlying this discussion of strategy has been the notion of intentionality. That is, to what extent is strategy a process of long-term planning involving definite and envisaged goals or a question of responding to events in a pragmatic and imperfect way. In other words, is strategy a deliberate or an emergent process?¹⁹⁶ Simon wrote in 1957 that people act according to "bounded rationality," since it was impossible for the human brain, sophisticated though it is, to find the time or ability to process all the data that may be relevant to a decision.¹⁹⁷ This is clear when it is remembered that information, which may be defined as data which affect non-trivial decisions in non-trivial ways, always has a cost. Inevitably, therefore, where there are cost implications, there will be informational asymmetries.¹⁹⁸ Hence, decisions made according to the full rational design in the Bayesian tradition can never realistically be made. As Lindblom observed, the "mind flees" from such a wealth of information.¹⁹⁹ Williamson's notion of transaction-cost analysis rests upon such notions of bounded rationality and information impactedness.²⁰⁰ Indeed, it is hardly controversial anymore to state that the idea has become integrated into most forms of marketing or business analysis.

¹⁹⁶ See, for example, Mintzberg (1978), *op.cit.*

¹⁹⁷ Simon, Herbert A., Administrative Behaviour, 2nd. edition (MacMillan: New York, 1957).

¹⁹⁸ Edwards, J., "Recent Developments in the Theory of Corporate Finance," *Oxford Review of Economic Policy*, Vol.3 (1986), pp.1-12.

¹⁹⁹ Lindblom, C.E., "The Science of Muddling Through," *Public Administration Review*, Vol.19 (1959), pp.79-88.

²⁰⁰ Williamson, Oliver E., Markets and Hierarchies: Analysis and Antitrust Implications - A Study in the Economics of Internal Organisation (Free Press and Collier MacMillan: New York, 1975).

The outcome of this is enhanced understanding of the constraints under which business operates and the fact that it is often driven by events and crises.²⁰¹ As Mintzberg and McHugh have shown, emergent strategy can be more flexible, appropriate, creative and imaginative than deliberate strategy.²⁰² *Ad hoc* decisions, therefore, need not be considered inferior to pre-planned strategy, so long as there is congruence with the environment and with the organisational structure.

It is no longer very startling to include behavioural factors in models of decision-making processes in international trade. Indeed, many studies have shown that it is the commitment and ability of executives which are influential in determining success in exporting.²⁰³ At the same time, understanding of organisations has converged on the concept of the dominant coalition as controlling the purpose and direction of the organisation. This too is a form of bounded rationality since it has been developed from compromise and pragmatism. Indeed, as Lindblom found some time ago, it is better to do something, even anything in response to a problem than nothing.²⁰⁴ It is in this sense that the shift in understanding has affected strategy.

Having considered some of the more important features of strategy, therefore, it is now possible to examine the Korean way of business in the light of that strategy. This is with a view to determining the extent to which current understanding of strategy matches the Korean experience.

2.4.3. Korean Business and Models of International Strategy

The previous section has shown that the structure of organisations is crucial in determining the nature and success of strategies which can be employed. Consequently,

²⁰¹ See, for example, Gowler, D. and K. Legge, "The Meaning of Management or the Management of Meaning," in M. J. Earl, ed., *Perspectives on Management: A Multidisciplinary Analysis* (Oxford: OUP, 1983) and Hales, C., "What Do Managers Do? A Critical Review of the Evidence," *Journal of Management Studies*, Vol.23, No.1 (1986), pp.88-115.

²⁰² It is true that organisational structure needs to be attuned to the environment for this to happen. See, for example, Mintzberg and McHugh (1985), *op.cit.*

²⁰³ Examples of this would include: Cunningham, M.T. and R.I. Spigel, "A Study in Successful Exporting," *British Journal of Marketing*, Vol.5 (Spring, 1971), pp.2-12. Bilkey, W.J., "Variables Associated with Export Profitability," *Journal of International Business Studies*, Vol.13 (Autumn, 1982), pp.39-55.

²⁰⁴ Lindblom (1959), *op.cit.*

one useful approach to looking to understand international strategy is to consider the forms of structure which organisations might adopt. A sensible typology of organisational structures has been provided by Bartlett and Ghoshal, who outlined three basic models of multi-national organisations.²⁰⁵ These models are based upon governmental organisation in the countries from which the companies principally originated. Hence, the first and earliest model is developed from European Imperial structure, which featured a high degree of national responsiveness with a comparatively weak central control function. Organisations with this structure tend to compete through differentiation and the ability to respond to local conditions. This gave rise to the second model, which is the co-ordinated federation which developed from post-war American economic domination. This model featured equal emphasis placed upon each local organisation and the central function. The basis of competition for this structure is the efficient transfer of resources, specifically knowledge and information. The third model is derived from the emergence of Japan as a competitive force and the attendant model of the centralised hub, with power and influence vested almost entirely in the central function and competitiveness arising, therefore, from global standardisation and efficiency.²⁰⁶ Bartlett and Ghoshal term the "transnational corporation" the integrated network which results from combining the best features of these three models. It seems distinctly unlikely that an organisation can move from one of these structures to another, thereby reconciling apparent contradictions, although it may be more feasible to construct a new corporation in this image.

In terms of *chaebol*, it is clear that its derivation is the centralised hub that has been applied to Japanese *zaibatsu*, owing to the highly centralised control exercised by the centre and the subordination of the various parts of the business group to the overall venture. However, more recently *chaebol* have looked to develop into transnational corporations. Samsung, for example, has recently started to acknowledge both that absolute centralisation needs to be modified to allow managerial autonomy at various

²⁰⁵ Bartlett and Ghoshal (1989), *op.cit.*

²⁰⁶ It should be remembered that the nature of Japanese corporations has been substantially affected by the American occupation in the years following 1945. Indeed, the model of the centralised hub has been used by some to account for the failure of American corporations. See, for example, Keegan, W.J., Multinational Marketing Management, Second Edition (Prentice-Hall: Englewood Cliffs, New Jersey, 1980).

levels and, also, that the various parts of the business group are so different that different managerial styles are required to cope with them.²⁰⁷ At the same time, the necessity to ensure that localised branches are active in gathering information, as well as other resources, has meant that the links between localised units and the centre have been augmented and two-way flows of resources have been facilitated. The links between different localised units have also been encouraged to develop.²⁰⁸ This may be determined from the following:

- the construction of what are known as intelligent buildings;
- the development of overseas R&D units;²⁰⁹
- the desire to compete in terms of quality.

One problem that has had to be overcome in attempting this has been that *chaebol* have largely operated in markets which have rewarded a straightforward structure with a dominant central headquarters. This is because they were trading in labour-intensive markets in which they had a price advantage, which had low levels of technology and which did not need high levels of managerial supervision. With the subsequent erosion of the price advantage, Korea has been vulnerable to the emergence of other newly-industrialising countries.

More generally, there is little evidence that *chaebol* have been able realistically to choose the markets in which they have operated. Rather, they have displayed opportunist behaviour with respect to the possibilities that have been made available by the ROK government. Furthermore, there has been no evaluation of the attractiveness of industry sectors - nor any need for it - since the environment (through import protection and export promotion) has been controlled by the government. Furthermore, there has been no need for evaluation of comparative advantages since, again, the markets in which competition has taken place has been strictly determined by the government.

²⁰⁷ Nakarmi (1994), *op.cit.*

²⁰⁸ Ghauri, Pervez N., "New Structures in MNCs Based in Small Countries: A Network Approach," *European Journal of Marketing*, Vol.10, No.3 (September, 1992), pp.357-364.

²⁰⁹ Hyundai, Samsung and Daewoo have all initiated research and development institutions in California's Silicon Valley. See: Manasian (1985), *op.cit.*

Chaebol and their leaders have, therefore, reacted to the environment rather than being able either to control or enact it. Their organisational structures have traditionally been rigid and highly centralised, which has further ensured that they follow predetermined strategies. In short, their strategies have been dependent upon the external environment: the strategies have emerged from events that have affected them.

2.5. Conclusion to Chapter 2

Chapter 2 has attempted to describe the nature of Korean marketing strategy, as well as some of the factors that have caused it to take the shape that it has. It has been shown that the greatest influences have arisen from external and uncontrollable factors. Korean *chaebol* have not only had to react to external events, they have also been required to react to events as they are transmitted to them by the Korean government. That is, the government has used the *chaebol* as its tools and in trying to enact its economic and diplomatic goals internationally. This has had many effects on the marketing strategy of Korean *chaebol*. Perhaps most noticeably, this is apparent in the OEM route that *chaebol* have chosen in many sectors. This has left them with a legacy of product-driven marketing rather than with a true marketing orientation.²¹⁰

The empirical research for this thesis investigates whether these assumptions and conclusions are true of the strategies adopted by Korean *chaebol* in the UK. However, the particular and unusual nature of Korean business means that usual marketing paradigms are not entirely suitable. Consequently, it is necessary to synthesise a more appropriate paradigm from among the many that have been proposed. This is the subject of the following chapters.

²¹⁰ McKitterick, John B., "What is the Marketing Management Concept?" in The Frontiers of Marketing Thought and Action (American Marketing Association: Chicago, 1957), pp.71-82.

Chapter 3: Approaches to Marketing: A Literature Review

3.1. Introduction

The previous chapters described the development of Korean business and marketing strategy and suggested that some of the unusual properties of *chaebol* may make traditional approaches to marketing strategy inappropriate to Korean business methods. The present chapter demonstrates why this is by describing and analysing various approaches to marketing. It is shown that while most of the approaches are useful, some are more useful than others. Two of these, the interaction and network approaches, are treated at greater length since they offer particular advantages in describing Korean business in the UK.

However, marketing is to do with markets. A market is often a vague and poorly defined concept. First, therefore, there should be a brief discussion of what is understood by the term in this thesis.

3.2. Markets

3.2.1. Industrial Markets and Marketing

Economists and marketers, among others, regularly use the term “markets” without definition. There is no real agreement as to what they are. For the sake of this thesis, the following definition will be adopted:

“[Markets are] ... means for the mutually beneficial exchange of goods and for inducing the transformation of goods from one form to the other.”²¹¹

Most of the activities in which Korean companies have been involved have concerned industrial markets. That is, customers are not general members of the public but businesses or other organisations.

This branch of marketing has tended to receive a lower profile than consumer or mass marketing, which is often considered to be more exciting or glamorous. It has,

²¹¹ Arrow, K.J., "Risk Allocation and Information: Some Recent Theoretical Developments," in Paul Weller, ed., The Theory of Futures Markets (Blackwell: Oxford, 1992), pp.125-141.

therefore, tended to be defined by default, i.e. it is the parts of marketing which are not to do with consumer marketing.²¹² The following is an adequate description:

"[Industrial marketing concerns] ... all activities involved in the marketing of products and services to organisations (i.e. commercial enterprises, profit and non-profit institutions, government agencies and resellers) that use products and services in the production of consumer or industrial goods and services and to facilitate the operation of their enterprise."²¹³

Industrial marketing is now also frequently referred to as "business-to-business marketing" or "organisational marketing." This is important in that, historically, industrial marketing approaches frequently gave little attention to organisational buyers of consumer goods or to intermediaries of consumer goods. Consequently, the literature has rarely embraced the wide range of situations that may be encountered. For example, organisations may buy goods and services for the following reasons:

- (i) to be used as components for other goods and services which they will then manufacture,
- (ii) to make up or to facilitate the production of consumer / industrial goods and services;
- (iii) to facilitate the operation of their organisations.

Another complication is that goods and services do not specifically relate to industrial or consumer marketing. Rather, industrial marketing covers those goods and services which are usually thought of as being consumer goods when both exchange partners are organisations; for instance, suppliers may sell the same goods/services to consumers, organisations (e.g. personal computers to the NHS, telephones to the University of Hull) and intermediaries (e.g. trading companies, dealers, wholesalers and retailers).

Some of the more important features of the differences between consumer and organisational marketing are:

²¹² An example of this is provided by Cooke: "Industrial marketing is marketing to the organisational buyer as contrasted to consumer marketing which is marketing to the ultimate consumer." Cooke, E.F., "What is Business and Industrial Marketing?" *Journal of Business and Industrial Marketing*, Vol.1, No.1 (Autumn, 1986), p.9-17.

²¹³ Industrial Marketing Committee Review Board, "Fundamental Differences between Industrial and Consumer Marketing," *Journal of Marketing*, Vol.19 (1954), p.153.

- in organisational marketing, the purchaser may not be the end-user;
- in organisational marketing, the purchaser may in fact be a large set of people, often with quite different motivations and reasons for being part of any buying centre;
- in organisational marketing, the products or services involved may be more sophisticated, complex and expensive, although this is not necessarily the case.

In short, industrial marketing cannot be conveniently summarised as involving specific activities, goods, services and individuals. Each of these areas can vary considerably. Consequently, industrial marketers and purchasers need different professional methods than consumer marketers and purchasers do.

It is now necessary to consider the markets studied in this thesis in a little more detail. They may be broadly divided into industrial markets for organisations and industrial markets for resale.

3.2.2. Industrial Markets for Industrial or Organisational Customers

Industrial markets for organisations differ from each other mostly in terms of the use made of products and services. Although it is rarely feasible to classify goods and services as being either included or excluded from industrial marketing, Chisnall²¹⁴ points out there have been several attempts to categorise goods and services according to their eventual usage. These taxonomies generally rely on customer type rather than product type.²¹⁵ Perhaps one of the more useful is Stanton's²¹⁶ arrangement of five classes of industrial goods. He defines industrial goods according to their uses rather than, as would be the case with consumer goods, with the habits or lifestyle associated with buying. The principal distinction that he draws is between goods / services destined for internal use (i.e. within the organisation) and external use (i.e. outside the organisation). Internal use

²¹⁴ Chisnall, Peter M., Strategic Industrial Marketing, 2nd Edition (Hemel Hempstead: Prentice Hall International (UK) Ltd., 1989), pp.39-42.

²¹⁵ See, for example, Stanton, William J., Fundamentals of Marketing (McGraw-Hill: Kogakusha, 1978), Marrian, Jacqueline, "Marketing Characteristics of Industrial Goods and Buyers," in A. Wilson, ed., The Marketing of Industrial Products (Hutchinson: London, 1968), Kotler (1988), *op.cit.*, pp.445-451, McCarthy, Jerome E. and William D. Perreault, Jr., Basic Marketing, 10th Edition (Richard D. Irwin: Homewood, Illinois, 1990). pp.216-234 and Hill, Richard M., Ralph S. Alexander and James S. Cross, Industrial Marketing (Richard D. Irwin: Homewood, Illinois, 1975).

²¹⁶ Stanton (1978), *op.cit.*

would support the organisation's aims but would not be part of the core activity. External use would be goods / services used in fulfilling the organisation's main objective, perhaps by assisting in the manufacture of other goods / services. For example, a company may purchase a car for general transportation of its personnel, which is for internal use, whereas cars bought by a driving school are for external use.

It can be seen, therefore, that goods / services vary in their use in this market. The types of customers involved also vary. Industrial or organisational customers include commercial enterprises (privately owned, profit seeking companies which may be end users or resellers), government departments and agencies (including the armed services, postal service and regulatory agencies) and institutions (publicly or privately owned organisations such as universities, museums and churches, who may or may not, therefore, make a profit).²¹⁷ Industrial customers in this thesis will be divided between industrial or organisational customers who use products / services for internal or external use and resellers, since different *chaebol* are involved in the marketing of goods / services to all these sectors.

Just as it is important for marketers to know the type of customer to which they are selling (i.e. industrial or consumer), so too is it important to know how the goods will be used. This has a direct impact on the buying centres involved, positioning and segmentation. Therefore, it is important when creating marketing strategy. For example, *chaebol* such as Lucky-Goldstar and Daewoo have been trying to sell personal computers in the UK. The type of technical support they need to provide will vary depending whether users need them primarily for word-processing or for advanced CAD work.

3.2.3. Industrial Markets for Consumer Goods Resale

Commercial organisations may be divided into original equipment manufacturers (OEMs), users and resellers. The distinctions between these three areas are not fixed. Indeed, a single organisation can function as all three types. The main distinctions are:

²¹⁷ Hutt and Speh (1985), *op.cit.*, p.31; Morris, Michael H., Industrial and Organisational Marketing (Columbus, Ohio: Merrill Publishing Company, 1988), p.34; Reeder *et al.* (1987), *op.cit.*, pp.28-31.

- users purchase goods / services for the purpose of creating other goods / services;
- OEMs manufacture goods / services which may be incorporated into goods marketed by different organisations or simply sold under different brand names;
- resellers buy goods / services in order to make a profit by selling them on to other organisations or to consumers.²¹⁸

For example, a company may produce precision timepieces. These may be sold to:

- users who need them to time processes in the production of electronic components;
- companies which resell them under their own brand name;²¹⁹
- resellers who market them to users, OEMs or consumers.

It is with the third of these groups that this section is concerned since, as explained above, the first two groups are part of industrial markets for organisational customers.

Industrial markets for resale of goods present a specific challenge for marketers. The differences between markets for organisations and for resale extend across product specifications, channels of distribution, promotion and other factors. The supplier must remember that the reseller is directly in contact with the ultimate consumer of the goods / services and might, therefore, share or at least sympathise with the end users. If, for example, the end-user wants a larger size pack, so too will the reseller, if that would lead to increased demand and profits. This can lead to power struggles between different members of channels of distribution.²²⁰ Larger players are generally able to exercise more power, as may be seen in the case of retail multiples such as, in the UK, Marks and Spencer plc.

Suppliers can therefore develop indirect relationships with end users. However, they still frequently rely on resellers for information about end users' opinions. Many suppliers try

²¹⁸ Hutt and Speh (1985), *op.cit.*, pp. 14-16.

²¹⁹ As described in the previous chapters, this is the most common pattern where Korean companies are concerned, although other arrangements are possible.

²²⁰ See, for example, Lusch, Robert F. and James R. Brown, "A Modified Model of Power in the Marketing Channel," *Journal of Marketing Research*, Vol.19 (August, 1982), pp.312-323.

to make the dealer or reseller provide technical assistance or support. The basis of a reseller's power base can be that it is purchasing centrally for many outlets. This can be very influential in negotiations.²²¹ Not only might resellers have wide ranges of shelf space available but also substantial discretionary power over promotion and favourable positioning of the various products to be sold. A reseller may, therefore, be able to reduce its own costs considerably by offering suppliers opportunities for attractive promotional activities.

Resellers with multiple outlets may demand special treatment in terms of packaging, promotional and technical support. Standardisation will be required for national or regional promotions, especially in the case of franchised operations. Goods may need to be branded according to the reseller's identity or packaged to match another range of products offered by the reseller or else modified to avoid competing with them.²²² In short, therefore, the industrial resale market for consumer goods has many distinct features and deserves separate consideration.

Having described different types of relevant markets, it is now possible to describe different types of relevant approaches to marketing.

3.3. Approaches to Marketing

The basis of marketing can be seen in one of the many definitions provided by Kotler, who wrote:

"Marketing is a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others."²²³

Definitions like this may be generally adequate but they have some implications which do not really match empirical findings or personal experience. These include the idea that one of the exchange partners is passive and that individuals or organisations will react only on the basis of price or a similarly rational criterion. It also tends to undervalue the

²²¹ Importers, wholesalers, distributors, dealers and retailers may all be considered to be resellers for the purposes of this thesis.

²²² Reeder *et al.* (1987), *op.cit.*, pp. 20-23.

²²³ See Kotler (1988), *op.cit.*, p.3.

effects of time. These problems can result in assuming that the purpose of marketing is to sell the goods or services that can be produced. In other words, marketing is a product-driven process.²²⁴ This is an attitude from which Korean companies have suffered. This is partly because of the use of OEM and the low cost leadership strategy generally adopted. Both of these factors cause companies to focus inwardly on production rather than outwardly on markets. Recent developments have made this approach insupportable. These developments have included the increasing awareness that sustainable world economic growth cannot continue indefinitely. It is no longer realistic simply to look for new markets in which to sell goods produced. Consequently, there has arisen what has been termed the "marketing orientation."²²⁵ This calls for rigorous research into what is required by the market and then providing it.

This change of thought has been accompanied by the development in understanding of the relationships between organisations and the contradictions or paradoxes these pose for standard, economics-based marketing thought. One aspect of this is increased awareness of relationships between organisations which exist somewhere between markets and hierarchies.²²⁶ This has led to such new approaches as relationship marketing and the two approaches which will be considered in this thesis: the interaction and network approaches. These have the following crucial assumptions:

- both buyers and suppliers are active participants in transactions;²²⁷
- relationships between buyers and suppliers constitute genuine resources in their own right;

²²⁴ See Levitt, Theodore, "Marketing Myopia," *Harvard Business Review* (July-August, 1960).

²²⁵ See McKitterick (1957), *op.cit.*

²²⁶ This terminology, which deliberately echoes the transaction-cost economics of Williamson, is employed by Thorelli in his seminal article. See Thorelli, H.B. (1986), "Networks: Between Markets and Hierarchies," *Strategic Management Journal*, Vol.7, pp.37-51. Previous researchers had of course written about similar phenomena but with different vocabulary and employing different paradigms. For example, Arndt, Johan, "Toward a Concept of Domesticated Markets," *Journal of Marketing*, Vol.43, No.4 (Fall, 1979), pp.69-75, wrote: "Transactions in domesticated markets are usually handled by administrative processes on the basis of negotiated rules of exchange. In open, competitive markets, co-ordination is implemented *ex post* through the workings of autonomous, spontaneous decentralised decision processes. Domesticated markets, on the other hand, are co-ordinated *ex ante* by centralised control procedures. Information is consciously and directly managed."

²²⁷ The use of the word transaction is both deliberate and important, given the importance attached to transaction cost analysis by many writing about the newer approaches. This form of analysis will be considered more fully below.

- the value of relationships between buyers and suppliers should be included in any analysis of the cost of transactions.

Since the purpose of this thesis is to investigate the localisation and marketing strategy of *chaebol* in the UK, it is necessary to take into account these different approaches. This is for two reasons:

- relationships are so central to the ways *chaebol* do business and
- the UK markets in which *chaebol* have mostly been involved are very suitable for this form of analysis. Indeed, they can only realistically be examined this way. This is because they tend to feature complex and expensive products, the need for adaptation and inter-organisational and inter-organisational interaction at a different levels and comparatively few buyers and suppliers.

However, before becoming too involved in specific approaches to marketing, it is necessary to consider more broadly a wider range of approaches and their advantages and disadvantages. To achieve this, it is helpful to focus on a particular application of different approaches. In this case, applying the different approaches to Korean localisation is suitable. Four main areas will be considered: the first covers macroeconomic theories; the second covers microeconomic theories such as risk management and transaction-cost analysis; the third area covers more behavioural and cognitive approaches; while the fourth area is devoted to the resources and capabilities approach.

3.3.1. Macroeconomic Approaches

These theories depend upon the explanatory ability of macroeconomic theories and variables. Many have been proposed. The first real theory²²⁸ of trade, the mercantilist theory, was prevalent in the 17th and 18th centuries. Essentially, it states that nations can improve their economic well-being through possession of gold. This is because gold can be used to pay soldiers and soldiers determined a nation's power. Since goods are paid for by gold in international trade, exporting means acquiring gold and is good, while importing means losing gold and is bad. However, gold only really has a value when it can be used in exchange for other goods. Since such goods may be items which have a

²²⁸ See Rugman *et al.* (1986), *op.cit.*

direct impact upon power, such as weapons and armour, the mercantilist theory is inadequate.

Subsequent theories dealt with absolute advantages (Adam Smith) and comparative advantages (David Ricardo). These theories show that since costs vary, trade is efficient and inevitable. Both theories can be used to demonstrate that nations will gain from international trade, irrespective of whether one nation dominates in terms of efficiency or whether advantages are spread among two or more nations. Again, the theories are too simplistic to be useful in the modern world, since they do not take account of such factors as demand and the environment. Furthermore, in common with other macroeconomic theories, they do not distinguish between variation among different firms within a nation nor between the underlying causes of advantage and how these might change over the course of time or in interaction with environmental variables.

More recent approaches include the comparative advantage theory proposed by Kojima,²²⁹ Dunning's theory of relative development and Aliber's capitalisation rate hypothesis. The Kojima approach asserts that nations have different endowments of resources, which are essentially immobile. International business arises from combining these immobile resources with necessary mobile inputs provided by internationalising firms. In this way, international efficiency and welfare are increased. Although again there is some intuitive appeal in this idea, there is insufficient analysis of the causes of advantage and their variable effects. Kojima's approach is similar to Aliber's capitalisation rate theory in that it relies on a single explanatory cause. For Aliber, the cause is that internationalising firms decide where to do business based on the different costs of capital. Capital costs are probably related to exchange rate fluctuations. Such models clearly suffer from this reliance on a single cause. For example, empirical work undertaken in this area almost invariably indicates the importance of multiple causes or that constructs explain only a limited portion of overall variability.²³⁰

²²⁹ See, for example, Kojima, Kiyoshi, "Structure of Comparative Advantage in Industrial Countries: a Verification of the Factor Proportions Theorem," *Hitotsubashi Journal of Economics*, Vol.14 (June, 1973). Porter's development of these ideas will be discussed below.

²³⁰ Examples of this include: Kirpalani, V.H. and N.B. Macintosh, "International Marketing Effectiveness of Technology-Oriented Small Firms," *Journal of International Business Studies*, Vol.11 (Winter, 1980), pp.81-90; Johanson, J.K. and I. Nonaka, "Japanese Export Marketing Structures,

Dunning's developmental theory suggests that nations move through four distinct stages, with variable degrees of country location-specific and firm ownership-specific advantages. It is the interaction of these variables which determines whether flows of direct investment enter or leave countries. That is, inward flows of investment occur when location-specific advantages are dominant; outward flows occur when firm-specific advantages are more important.

This approach is once again vulnerable to the charge that non-national advantages may be at least as relevant in the explanation of flows of investment. Furthermore, the basic similarity between internationalising firms suggests that firm-specific advantages will generally be decisive.²³¹

The same comments that have been made about macroeconomic theories generally will also be relevant to Korean *chaebol*. That is, explanations relying on a single explanatory variable, generally country-specific, are simplifications of the situation. As the first two chapters showed, *chaebol* have historically operated under the pressures of the government and the international environment. Many factors appear to have shaped the *chaebol* and the sort of business that they undertake. It is certainly rare for one single cause to be outstanding at a particular moment. Therefore, macroeconomic theories such as the above are not considered to be very helpful.

The next section considers theories which are micro-economically based and which rely upon calculations of utility, returns and risk.

3.3.2. Micro-Economics Based Approaches

Approaches which start with analysis of micro-economic or firm-specific advantages may be divided, for the purposes of this thesis, into two main areas. The first one is theories about finance, risk and diversification. These all assume that firms will use arbitrage to

Strategies, Counter-Strategies," *International Marketing Review*, Vol.1 (Winter, 1983), pp.12-24; Bilkey (1982), *op.cit.*, and Cooper, R.G. and E.J. Kleinschmidt, "The Impact of Export Strategy on Export Sales performance," *Journal of International Business Studies* (Spring, 1985), pp.37-55.

²³¹ See Gray, H. Peter, "Macroeconomic Theories of Foreign Direct Investment: An assessment," in Alan M. Rugman, ed., *New Theories of the Multinational Enterprise* (Beckenham, Kent: Croom Helm Ltd., 1982), pp.172-95.

manage the level of risk they face;²³² the second is transaction-cost analysis, which is derived from the work of the economist O.E. Williamson and which has been very influential in shaping the interaction and network approaches to marketing. A development of Williamson's work is the Uppsala model of internationalisation. This will also be described since it has been influential in shaping the approaches which are considered subsequently.

3.3.2.1. Finance, Risk and Diversification

Risk can take many forms: expropriation of company assets by a foreign government, earthquake, exchange fluctuations and labour disputes are all forms of risk which can be faced by firms undertaking international business.²³³ Types of risk may be classified by many different dimensions. These include micro and macro-risk (i.e. whether a risk will affect a single firm or all firms in a country) and avoidable (or political) or non-avoidable (such as Acts of God). Some finance-based theories of international trade assume that firms will assess the various types and strengths of risks they face in their various operations.²³⁴ This may be expressed in the form of an index or other calculation. They will then seek to reduce the level of risk they face by looking for opportunities to invest in areas where risk is negatively correlated with the risk they currently face. This is commonly seen in hedging.²³⁵ For example, a firm agrees a contract for which it will be paid in \$US. Fearing that the value of those dollars might decrease before it is due to be paid, the firm purchases an amount of another currency which it expects to change in value exactly opposite to the way dollars will. The amount purchased may then be equal to the amount of the contract. In this way, the firm is avoiding risk.²³⁶ If an

²³² That is, the higher the risk, the greater the return. Firms select combinations of high and low risk investments (arbitrage) to match the total level of risk they want.

²³³ For a discussion of these issues, see, for example, Albaum *et al.* (1989), *op.cit.* or Globerman (1986), *op.cit.*

²³⁴ See, for example, Jaque, Laurent, "Management of Foreign Exchange Risk: A Review Article," *Journal of International Business Studies* (Spring-Summer, 1981), pp.81-101 or Froot, Kenneth A., David S. Scharfstein and Jeremy C. Stein, "Risk Management: Co-ordinating Corporate Investment and Financing Policies," *The Journal of Finance*, Vol.48, No.5 (December 1993), pp.1629-1658.

²³⁵ See Weller, Paul and Makoto Yano, "An Introduction to the Theory of Hedging and Speculation in Futures Markets," in Paul Weller, ed., *The Theory of Futures Markets* (Oxford: Blackwell, 1992), pp.15-35.

²³⁶ Of course, the transactions involved will bear some cost and there is always the question of the cost of gaining appropriate information. As Castelino points out, organisations prefer to select the type and level

internationalising firm does not undertake hedging, it is effectively operating as a currency speculator. Clearly, this can lead to complex calculations. Indeed, when applied to international business, it is difficult to find evidence that firms are able to acquire the information to perform such calculations efficiently or that they may freely move the location of their industries swiftly in response to risks, not least because of the presence of switching costs.²³⁷

These economics models seem to be intuitively appealing and to offer rigorous methods of undertaking international business effectively. However, empirical evidence tends to suggest that so many factors are relevant and they are changing so rapidly in the course of time, that the cost of acquiring accurate information²³⁸ and being able to act upon it are very unlikely to be available. Certainly, these models suffer from underestimating the effects of long term planning of business activities by Korean firms. As Chapter 1 explained, *chaebol* may have many reasons for becoming localised: e.g. side-stepping trade barriers; searching for market growth and the desire to compete domestically by being powerful internationally. Not all of these reasons can be explained by micro-economic analysis. However, the techniques used can be important in determining the types of strategy that *chaebol* can successfully employ because they help determine the structure of the firm. For example, if international diversification is considered important in minimising risk, then this will affect the resources available to the business group as a whole.

3.3.2.2. Transaction-Cost Analysis

Transaction-cost analysis is an economics based approach first proposed by Williamson.²³⁹ The approach essentially states that all organisations and individuals are linked together in a network. What links them together are transactions. Organisations are called

of risk they will face. Castelino, Mark G., "Hedge Effectiveness: Basis Risk and Minimum-Variance Hedging," *Journal of Futures Markets*, Vol.12, No.2 (April, 1992), pp.187-207.

²³⁷ See, for example, Thorelli (1986), *op.cit.*, Clemons, Eric K. and Michael C. Row, "Sustaining IT Advantage: The Role of Structural Differences," *MIS Quarterly*, Vol.15, No.3 (September, 1991), pp.275-294 and Porter (1979), *op.cit.*

²³⁸ Arnold, John and Tony Hope, Accounting for Management Decisions, 2nd edition (Prentice-Hall International (UK) Ltd.: Hemel Hempstead, 1990).

²³⁹ See, among a number of sources, Williamson (1975), *op.cit.*

hierarchies. Transactions may take place in markets or in hierarchies. Hierarchies will internalise transactions when they can conduct them more efficiently than would happen in a market. For example, a firm hires employees to work regularly rather than negotiates for every single task. However, deciding whether or not to internalise a transaction requires information and gathering information always has a cost. The organisation must decide whether it is worth paying the cost of gathering the information. Since it will not always make the right decision, an element of uncertainty is attached to the cost of transactions. Williamson argues that the greater the level of uncertainty attached to a transaction, the more likely is it to be internalised within a hierarchy. That explains why some organisations are inefficient.

When hierarchies can regularly undertake transactions more efficiently than markets can they will grow in size. The differences between hierarchies will be marked by the relative degrees of efficiency with which they can undertake different types of transaction. Therefore, they will grow in different ways. This approach seem to be quite appropriate to Korean *chaebol*, since they have acquired or internalised many companies of different types and in many different sectors. Consequently, it provides a way of deciding whether internalisation is efficient. According to Casson,²⁴⁰ the types of barriers that may be overcome by companies which internalise transactions through official contractual arrangements are:

- barriers to the transfer of firm-specific assets such as know-how and proprietary technology;
- barriers to the rationalisation of production between international oligopolists, who typically operate under conditions of scale economies;
- barriers to the specification and enforcement of long-term supply contracts.²⁴¹

This may be compared with the advantages and disadvantages that Harrigan²⁴² considers apply to vertical integration. She believes the advantages to include:

²⁴⁰ Casson, Mark .C., "Transaction Costs and the Theory of the Multinational Enterprise," in Alan M. Rugman, ed., New Theories of the Multinational Enterprise (Croom Helm: London, 1982), pp.24-43.

²⁴¹ As Lusch and Brown observe, power is composed of elements relating to coercion and non-coercion. See Lusch and Brown (1982), *op.cit.*

²⁴² Harrigan, Kathryn Rudie, "Vertical Integration and Corporate Strategy," *Academy of Management Review*, Vol.9, No.4 (October, 1984), pp.638-652.

- reducing costs by common inventorying and overheads;
- reducing costs by central buying, research and negotiation;
- improvements to marketing and technological intelligence;
- more effective environmental control;
- opportunity for product differentiation;
- economies of scale, scope and learning.

Meanwhile, the disadvantages would include:

- the integration itself causes costs;
- incompatibilities between firms can also cause costs (e.g. harmonising different machine types or sizes);
- larger size reduces the number of network connections to the environment;
- larger size can constitute a mobility or exit barrier.

In other words, integration has a number of hidden effects which are very difficult to quantify before the integration happens. *Chaebol* have previously attempted to diversify into virtually every new industry which it became possible for them to enter. Often, entry was via acquisition. Many mistakes were made. However, these were generally not very important because of the size of *chaebol* and their ability to compensate for mistakes in a rapidly growing economy. Although transaction-cost analysis provides a useful technique for determining the monetary efficiency of integration, it does not really explain the behaviour of Korean firms.

Transaction-cost analysis represents a development from other micro-economics based approaches because of uncertainty and bounded rationality. Bounded rationality is a concept first developed by Simon.²⁴³ In this case, it states that people or hierarchies will not wish or be able to gather all the data that might be useful in making a decision. This is both because of the limitations of human processing capability and because of inherent

²⁴³ See Simon, Herbert A., *Administrative Behaviour*, 2nd. edition (MacMillan: New York, 1957). The concept provides reasons for why, in Lindblom's terms, people simply "muddle through" rather than make decisions according to the full rationality-utility model suggested by economics. See Lindblom (1959), *op.cit.*

inarticulacy. This can be related to the case of the Korean firm which, rather than search for the best recruits, restricts its choice to the graduates of a particular University since they are expected to have ties and loyalties to those workers already employed and, in addition, finding out more information about potential recruits would be too costly.²⁴⁴ Irrespective of the quality of particular ideas, it is evident that within a framework of economics, there is scope for decisions which do not adhere to strict rationality.

In terms of internationalisation, the transaction-cost approach has the following implications:²⁴⁵

- organisations will be motivated by the desire to reduce uncertainty by increasing market knowledge;
- the market entry mode decision will be determined by the degree of control required over the foreign operation: higher levels of control will be in some ways equivalent to reducing uncertainty;

In other words, organisations - *chaebol* included - will wish to enforce control over their foreign operations as a means of reducing uncertainty. That level of control should be reduced as market knowledge increases. However, as will be seen in the empirical research, there is a conflict between maintaining control from head office and allowing the branch office the resources to improve the level of foreign market knowledge. This is also affected by the types of markets involved. As mentioned previously, these are often concentrated, industrial markets with few actors. The relevance of this is described by Klein *et al* as follows:

"Transaction costs (i.e. the costs of governing the system) tend to be low in highly competitive markets, thereby providing little or no incentive to substitute internal organisation for market exchange ... A limit on integration is the fact that

²⁴⁴ Cazal (1994), *op.cit.* Cazal's interpretation is that graduates from the same university will be more likely to provide harmonious relationships within the various networks of contacts within the firm. In reality, many organisations, explicitly or implicitly, attempt to ensure that newcomers are socialised or attuned to the corporate culture to such an extent that other ties are loosened. certainly in Japan and Korea the loyalty that employees traditionally exhibit towards employers also render other associations less important.

²⁴⁵ Further details are provided in, e.g., Anderson, Erin and Anne T. Coughlan, "International Market Entry and Expansion via Independent or Integrated Channels of Distribution," *Journal of Marketing*, Vol.51, No.1 (January, 1987), pp.71-82 and Anderson, Erin and Hubert Gatignon: "Modes of Foreign Entry: A Transaction Cost Analysis and Propositions," *Journal of International Business Studies*, Vol.17, No.3 (Fall, 1986), pp.1-26.

organisations are not perfect and transaction costs also are present within them."²⁴⁶

These factors should, therefore, act as disincentives for maintaining strict control in many of the industries in which *chaebol* are active in the UK. The results from the empirical research can be used to investigate whether this is true.

In conclusion, therefore, there are elements of the transaction-cost analysis approach which could be useful in explaining the behaviour of *chaebol*. Certainly the approach has the advantage that it provides verifiable propositions. The following sections concern approaches which use a number of these advantages.²⁴⁷

3.3.2.3. The Uppsala Model

The Uppsala model of internationalisation uses the transaction-cost approach just described. It assumes that the move towards internationalisation will be characterised by sequential steps which are each easily identifiable. Firms will internationalise in very similar ways, being motivated by the desire to reduce uncertainty caused by lack of foreign market knowledge. The process by which this happens is almost inevitable.²⁴⁸

²⁴⁶ Klein, Saul, Gary L. Frazier and Victor J. Roth, "A Transaction Cost Analysis Model of Channel Integration in International Markets," *Journal of Marketing Research*, Vol.27 (May, 1990), pp.196-208.

²⁴⁷ In some ways, problems with transaction-cost analysis such as the lack of empirical support and the great latitude that has to be placed on the bounded rationality concept can be remedied by applying Game Theory. In particular, the idea of competing firms disregarding the distance between first and second place and only considering the order helps to explain the way that firms attempt to best one another. This form of thinking is summarised in Dixit and Nalebuff (1991), *op.cit.*, while Game Theory itself is adequately described in Gibbons (1992), *op.cit.* and Eatwell *et al.* (1989), *op.cit.*

²⁴⁸ The Uppsala model seems to offer a satisfactory and elegant means of describing the process of internationalisation. Indeed, there is empirical evidence to support the view (see, for example, Welch, Lawrence S. and Reijo Luostarinen, "Internationalisation: Evolution of a Concept," *Journal of General Management*, Vol.14, No.2 (Winter, 1988), pp.34-55, Larimo, J., "The Foreign Direct Manufacturing Investment Behaviour of Finnish Companies," paper presented at the 11th European International Business Association Conference, Glasgow, December 15-17th, 1985 and Buckley, P.J., G.D. Newbould and J. Thurlwell: "Going International - The Foreign Direct Investment Behaviour of Smallish U.K. Firms," in L.-G. Mattsson and F. Wiedersheim-Paul, eds., "Recent Research on the Internationalisation of Business" (Acta Universitatis Upsaliensis, Uppsala, 1979). However, there is a body of evidence which casts serious doubt on such a sequential approach. Alternative patterns might be inspired by the presence of tariffs and other barriers, lack of access to necessary technological or logistic support or simply the attitudes or experiences of the decision-makers. Examples of this might be found in Bureau of Industry Economics, Australian Direct Investment Abroad (Australian Government Publishing Service, Canberra, 1984) or Hedlund G. and A. Kverneland, "Are Establishments and Growth Strategies for Foreign Markets Changing?" paper presented at the 9th European International Business Association Conference, Oslo, December 18-20th, 1983.

It is generally assumed that the amount of foreign market knowledge required will be less when the distance between the home country and the foreign country is similarly smaller. This is most commonly regarded as geographical proximity; for example, companies in Sweden will be likely to internationalise to another of the Nordic countries first, while Korea might be expected to internationalise in Japan. However, there may be other dimensions of proximity which may be more relevant in assessing distance. These include dimensions of cultural, psychic or spiritual distance.²⁴⁹ For example, UK firms may find it easier to conduct business in countries such as the USA than in Continental Europe, owing to the language similarities, while comparable bureaucracy in countries which bear a colonial influence, such as India or Sudan, will have more familiar institutions and mechanisms²⁵⁰ than those such as Turkey or Eastern Europe, where influence is comparatively slight. Different kinds of maps and mapping techniques will therefore be required in order to determine relative distances between countries. One example of this is that provided by Hofstede,²⁵¹ whose research has focussed on evaluation of four variables or constructs: masculinity; uncertainty avoidance; power distance and individuality. Constructing profiles of societies according to these dimensions can be fed into multi-dimensional scaling techniques which will indicate the cultural proximity of nations to each other. This approach is useful in itself but cannot explain internationalising decisions in isolation from other variables. Furthermore, developments in corporate form and the use of local staff in countries in which an MNE has invested means that cultural proximity is not always relevant: that is, *chaebol* have set up subsidiaries in the UK as a way of making an entrance to Europe; through employing local staff or, at least, acclimatising Korean personnel to local conditions, cultural distance

²⁴⁹ Hallén, L. and F. Wiedersheim-Paul, "Psychic Distance and Buyer-Seller Interaction," *Organisation, Marknad och Samhälle*, Vol.16, No.5 (1979), pp.308-325.

²⁵⁰ The importance of institutions in the internationalisation process is explained in rather greater depth in Whitley, Richard, "The Internationalisation of Firms and Markets: Its Significance and Institutional Structuring," *Organisation*, Vol.1, No.1 (July, 1994), pp.101-24.

²⁵¹ See Hofstede (1984), *op.cit.*

patterns will be thereby distorted. Hofstede's framework is used by Kale and McIntyre,²⁵² who propose that it is possible to predict the nature of channel relationships on the basis of the relative positions of actors according to Hofstede's four dimensions. Korean *chaebol* would be expected to exhibit power distance and uncertainty avoidance, owing to the Korean culture. They would be expected, therefore, to construct channels in which branch and head office would be rigidly kept apart and maintain separate functions. The results of the empirical research will show the extent to which this is true.

The Uppsala model of internationalisation appears to have some useful things to offer analysis of Korean business. This is because:

- supposing that definite stages must be followed provides a means of verifying the model;
- the model seems applicable since *chaebol*, owing largely to government control, generally followed the same stages in internationalisation;²⁵³
- the concept of psychic distance provides a link with more behavioural concerns and with the nature of the relationships which are very central to the way Koreans do business.

The Uppsala model possesses the same theoretical basis as the approaches which will be considered in greater detail in the two following chapters. However, these approaches also have much in common with behavioural and cognitive-based approaches, which will be discussed next.

3.3.3. Behavioural Approaches

3.3.3.1. The Political-Economy Approach

Lusch and Brown observe that:

²⁵² Kale, Sudhir H. and Roger P. McIntyre, "Distribution Channel Relationships in Diverse Cultures," *International Marketing Review*, Vol.8, No.3 (1991), pp.68-78.

²⁵³ This is the organisational isomorphism described by Ghoshal. See Ghoshal (1988), *op.cit.*

"... the more socialised channel members become, the more they perceive themselves as acting autonomously when, in effect, they are doing exactly what the channel leader would have them do."²⁵⁴

The political-economy approach, together with other models centring on the presence and application of power, seeks to demonstrate that decisions made with respect to market entry mode, including location and the allocation of resources, are determined by the architecture of power between the members of a channel. The more that one partner can bring to bear influence or power upon the other, the more the other partner is required to do its bidding. This is clearly linked to the concept of psychic distance previously described. However, the difference is that political-economic models are based on firm-specific rather than country-specific or industry-specific advantages. In other words, the possession of power in a relationship depends on the relative size and ability of the two (or more) actors, not that one of them originates in a less advanced country.

In the context of Korean localisation, it is clear from the first two chapters *chaebol* have weak positions and image in UK markets. Consequently, they would be expected to be in weaker positions in channel relationships. They are likely to be punished, therefore, for their weak positions. Such punishments might include being forced to bear the risk of exchange rate fluctuations, to be subject to strict financial penalties for late delivery or other poor performance or to have to accept unsold goods at face value. The results of the empirical research will show to what extent these kinds of punishment actually have applied to *chaebol*.

The reason why the political-economic approach is included in the behavioural rather than the micro-economic section is to make it more explicit that relationship power need not be based on strictly rational criteria. For example, in the networks of relationships and personal contacts that permeate Korean society, people are considered important as much by their friends and allies as by their individual influence and power. This has two implications: firstly, power does not depend simply upon individual amounts of money or other possessions; secondly, alliances with powerful partners (such as governments) can

²⁵⁴ Lusch and Brown (1982), *op.cit.*

be very important. This is borne out by Koh's study²⁵⁵ in which the role of government was linked with performance in exporting. However, management education was found to be a more important factor. This is a modification of the Uppsala and similar models. Progress (the reduction of uncertainty) is dependent upon management learning rather than being an inevitable part of increasing commitment. Management learning is in turn closely linked to the nature of personal relationships between people in organisations. In other words, successfully initiating and maintaining relationships directly affects performance in the foreign market. This again highlights the need for newer approaches to marketing to be used in analysing Korean business.

The research for this thesis examines more closely whether definite links between relationships and performance can be established. In some ways this is similar to the relationship marketing approach championed by Grönroos.²⁵⁶ This approach emphasises the role of existing buyer-seller relationships. It assumes that suppliers will consider their clients as a portfolio and treat each one individually - or, at least, to an extent commensurate with their value. This approach is problematic in that it requires a degree of skill in the management of customers that most organisations would find it impractical to acquire. It is also only applicable to a limited number of markets and product or service types. The approach is also inevitably doomed according to most economic analysis, since it results in increasing numbers of companies chasing the same clients.

3.3.3.2. Cognitive-Based Approaches

Prahalad and Bettis²⁵⁷ progressed the consideration of international strategy and its implementation in their discussion of the dominant logic. This suggested that managers in an internationalising firm would find it difficult to cope with more than one mode or paradigm of thinking. In other words, the differences between the ways in which thought should be patterned to achieve success in international business are so great that it is

²⁵⁵ Koh, Anthony C., "Relationships among Organisational Characteristics, Marketing Strategy and Export Performance," *International Marketing Review*, Vol.8, No.3 (1991), pp.46-60.

²⁵⁶ Grönroos, Christian, "Quo Vadis, Marketing? Toward a Relationship Marketing Paradigm," *Journal of Marketing Management*, Vol.10, No.5 (July, 1994), pp.347-60.

²⁵⁷ Prahalad, C.K. and Richard A. Bettis, "The Dominant Logic: A New Linkage between Diversity and Performance," *Strategic Management Journal*, Vol.7, No.6 (November-December, 1986), pp.485-501.

difficult for managers to switch between them effectively. Although the idea suffers from its under-estimate of the capability of the human brain, it is important in explicitly linking cognition with the internationalisation process.²⁵⁸ This enables the explanation of internationalisation decisions by a range of behavioural criteria which do not appear to coincide with the strictly rational. These criteria may appear to be the apparent glamour and excitement of international trade,²⁵⁹ the desire to commit resources to a foreign country in order to acquire a completely different set of resources or else merely to avoid paying tax in the host country. These reasons and others like them may indeed correspond to rational criteria. However, it will be very difficult to unravel the real reasons because of the complexity of the situations involved and the problems inherent in finding out the details of what happens between individuals in organisations.²⁶⁰

The importance of cognitive based approaches is in their integration with organisational and political variables in explaining strategic decision making.²⁶¹ This is particularly relevant to *chaebol* since they remain in the hands of their original founders or close descendants. This control tends to be almost absolute. Consequently, the opinions of a few people are very influential in the success of Korean localisation. However, two factors mean that this must change in the future:

- the Korean inheritance system means that control over the large number of group member companies may eventually be split between siblings;
- secondly, *chaebol* leaders, recognising the need for greater managerial autonomy as one of the lessons they have learned from Western styles of business, are actively educating managers in foreign cultures and different forms of thinking.²⁶²

²⁵⁸ Previous linkages have been rather more implicit, as will have been apparent.

²⁵⁹ Walsh (1984), *op.cit.*

²⁶⁰ See, for example, John, George and Torger Reve, "The Reliability and Validity of Key Informant Data from Dyadic Relationships in Marketing Channels," *Journal of Marketing Research*, Vol.19 (November, 1982), pp.517-524.

²⁶¹ See, for example, Schwenk, Charles R., "Linking Cognitive, Organisational and Political Factors in Explaining Strategic Change," *Journal of Management Studies*, Vol.26 (1989), pp.177-187.

²⁶² See, for example, "Taking the Cultural Blinkers Off," *Business Korea*, Vol.9, No.6 (December, 1991), pp.46-7. More recently, *chaebol* have started to implement policies such as JIT and, crucially, managers are coming to realise the organisational and behavioural possibilities of such opportunities. For example, a study by Duk Su Kang showed that managers felt that JIT, appropriately managed, could provide: sustained senior management support; thorough examination of all aspects of operations; employee involvement and a committed champion of the project. See Kang, Duk Su, "How a Leading Heavy

As executive power devolves to more people at lower levels, cognitive approaches become more important since decisions may be made according to the perceptions of classes of people rather than the prejudices of a few individuals. In other words, when chaebol are controlled by one person, decision making processes may be studied by studying the opinions of that one person. When control is spread among many different people, it is impractical to study them individually. Instead, it is important to find ways to generalise about how people think.

The final approach to marketing which will be examined here is that of resources and capabilities. This approach is more related to a schematic overview of organisational activity and strategy, as will now be explained.

3.3.4. The Resources and Capabilities Approach

Porter's explanations of international trade and business are explicitly derived from an economics paradigm.²⁶³ However, his writings have increasingly tended towards the qualitative than the analytical. This tendency is at the root of much criticism of his work.²⁶⁴ His assessment of the circumstances facing countries and the firms that arise from them can be seriously in error, as in the case of his summary of the Korean situation.²⁶⁵

Porter's system is similar to that of Kojima above and, before him, the theories of advantage proposed by Smith and Ricardo. He writes that nations possess comparative advantages by virtue of their endowments of natural resources which, in the course of time, are converted into firm-specific competitive advantages. An example of how this is

Industries Co. Ltd. in Korea Implements JIT Philosophy to Its Operations," *Computers and Industrial Engineering*, Vol.27, No.1 (September, 1994), pp.51-4.

²⁶³ Although clear from all his writings, this is most evidently true in the cases of: Porter (1985), *op.cit.* and Porter, M.E. and V.E. Millar, "How Information Gives You Competitive Advantage," *Harvard Business Review*, No.4 (July-August, 1985), pp.149-160.

²⁶⁴ Li, for example, considers that *The Competitive Advantage of Nations* (*op.cit.*) suffers from: the presence of too many ill-defined concepts; the lack of clarity concerning the ways in which national advantages are supposed to be converted into corporate advantages; the lack of importance attached to national culture and the lack of appreciation of the complicating effects of the impact of multiple diamonds of national forces upon MNEs operating in more than one country. See Li, Peter Ping, "Strategy Profiles of Indigenous MNEs from the NIEs: The Case of South Korea and Taiwan," *The International Executive*, Vol.36, No.2 (March / April, 1994), pp.147-170.

²⁶⁵ Porter, Michael E., *The Competitive Advantage of Nations* (London: Macmillan Press Ltd., 1990), pp.453-79.

considered to work is as follows: in Korea, education is held in very high regard, while music is a very common form of social interaction. As a result, rather higher than average numbers of Korean children are given tuition in music, often outside normal school hours. Consequently, many households have musical instruments, including pianos. This, combined with the competitiveness of Koreans, has resulted in the presence of a considerable number of top class musicians, such as concert pianists, in the country. The demand for musical instruments in Korea, therefore, is modified by knowledge and specific requirements of customers. This has led, Porter observes, to Korea's leading position in the production of pianos. This form of comparative advantage, which is not available to other countries, should manifest itself in the form of firm-specific competitive advantages. That is, Korea will have assembled through the years the skills, technology and know-how necessary to make pianos better than people in other countries. Naturally, not all Korean companies will be able to internalise these advantages into their hierarchies. However, those that do would be expected to emerge from the domestic level of competition as a leader. They would then be able to start looking for internationalisation opportunities.²⁶⁶ Whether or not domestic firms with such competitive advantages will be able to undertake internationalisation will be partly determined by the nature of the particular market. In the Korean context, domestic industrial markets are characterised by fierce competition between various arms of different *chaebol*. This is partly because, as previously described, the government has controlled the choice of markets in which *chaebol* can operate. However, since *chaebol* have branches which operate in virtually as many different markets as possible, they can use²⁶⁷ profits from one market to subsidise losses in another. For Koreans, market share is at least as important as short-term gains; consequently, the battle to defeat foes in various different sectors is considered a legitimate course of action and a good reason to commit resources.

²⁶⁶ Kogut observes that it is the interplay between firm-specific comparative advantages and country or region-specific competitive advantages that condition the nature of strategy and the decisions required. This certainly enhances Porter's argument and helps to deflect the criticisms aimed at macroeconomic theories described previously. See Kogut, Bruce "Normative Observations on the International Value-Added Chain and Strategic Groups," *Journal of International Business Studies* (Fall, 1984), pp.151-168.

²⁶⁷ Transfer-pricing regulations in Korea have long been contentious. See, for example, Kee, Yoong-Neung and Young-Cheol Jeong, "Korea's Transfer Pricing Rules: A Comprehensive Analysis," *East Asian Executive Reports*, Vol.12, No.5 (May 15th, 1990), pp.9, 19-24..

The Porter technique for determining whether and where competitive advantages exist within a firm is the value chain. This entails breaking down an organisation's activities and analysing individually which, if any, of them are profitable. Analysis of this sort would most likely take place according to rational economics based criteria. The technique, although useful in itself, is perhaps more important in its ability to enable managers to visualise more easily which parts of their organisations' activities are core activities, which are peripheral, which add value substantially and which are simply costs. This is at the heart of the resources and capabilities approach. It is based on thinking clearly about what organisations do and what they really need to do. It is quite closely tied into modern human resources management thought, which has helped to place employees as the core resource of an organisation. The approach necessitates organisations seriously coming to terms with what they are actually good at doing, irrespective of whether this is something that has previously formed part of their core activities. Activities which are not core can be outsourced; the UK has many examples of this presently, like hospitals contracting out their catering and cleaning services.

The resources and capabilities approach is helpful in studying Korean marketing strategy because so often the trading companies representing *chaebol* could just as easily be undertaking another form of business activity. Furthermore, as *chaebol* are aiming at achieving much higher technological and managerial capabilities, the discipline required by the approach could be helpful in determining where and when improvements will most bring added value. Certainly, recent moves by the ROK government to cause *chaebol* to divest themselves of many of their companies and to concentrate on what they define as their core activities has meant that they have been obliged to undertake analysis of this sort in any case.

3.4. Summary of Approaches to Marketing

Many approaches to marketing and to business more generally are possible. A number of these have been outlined above, in the context of the internationalisation of Korean firms. It will be apparent that no single approach is entirely satisfactory, although all those

described contribute something. This is clear when attempts to explain internationalisation, for example, are made, when researchers are generally forced to conclude that only some part of the process they explore can be explained by the model they have adopted. Alternatively, they will turn to a form of Dunning's Eclectic Paradigm. In other words, international business and the business environment are too complex to be wholly explained by any single approach. What is required, therefore, is a synthesis of different approaches which may be used to examine the particular subject being investigated. Although this might reduce the general applicability of results, , it can provide a much better tool for describing the particular situation faced.

In the case of Korean *chaebol* in the UK, therefore, the following points are particularly relevant:

- *chaebol* expect customers to approach them as much as they approach customers. Both parties are active in exchanges;
- *chaebol* expect to work with customers to devise exact specifications for goods and services required. Again, both parties are active and customers are lent considerable power in channel relationships;
- the cultural heritage of Koreans and the desire for harmony require a greater role for business relationships than is generally found in Western business methods. This entails the initiation and maintenance of long-term relationships, even when no business is being conducted between them;
- *chaebol* naturally form networks of diverse companies within an overall framework governed by the Head Office and frequently trading through the GTC window. This network form mirrors the network of contacts cultivated and maintained by all Korean *chaebol* employees. The move towards different forms of competitive advantage means that mobilising the resources that the network has to offer has become of greater importance to *chaebol* leadership.

Understanding Korean marketing strategy in the UK requires an approach, therefore which recognises and can adequately deal with these points. More specifically, such an approach or approaches should offer:

- understanding of the effect of behavioural issues in addition to rational decision-making;
- recognition of the value of a relationship as a specific resource;
- appreciation of the effects of time on marketing relationships and
- understanding that the dealings between actors - in networks, for example - will not always be governed by standard marketing criteria.

Rather than attempting to devise wholly new approaches to marketing, some of those which have been developed by others will be adapted. Two approaches which between them cater for the above points are the interaction and the network approaches. These are described in the next two chapters, which show how their use can provide significant insights into Korean localisation in the UK.

Chapter 4: The Interaction Approach and Korean Marketing Strategy

4.1. Introduction

The first two chapters outlined Korean marketing strategy and the factors which have contributed to it. Chapter 3, meanwhile, discussed a variety of the approaches that could be used to attempt to describe and to understand that strategy. Each approach has been shown to have both advantages and disadvantages: none of the approaches individually is sufficient to explain Korean marketing strategy, partly because the approaches have been developed to account for Western business methods and partly because of an insufficient focus upon behavioural concerns, among other reasons. Since this thesis hopes to contribute to a better understanding of the marketing strategies of *chaebol* in the UK, it is clear that different approaches to marketing are required. This does not mean that entirely new approaches are needed or that other approaches will be completely ignored. It does mean that syntheses of approaches will be examined to see if they can provide more effective ways of understanding Korean strategy. There are two approaches that will be examined: the interaction and network approaches. These are essentially syntheses of several different approaches. In this chapter, the interaction approach will be briefly described and evaluated. The evaluation will be conducted by applying the approach to some of the topics raised during the empirical research.²⁶⁸ In particular, relationships between UK buyers / resellers and Korean suppliers will be examined. This involves consideration of buyer and purchaser behaviour, as well as the nature and extent of inter- and intra-organisational interaction, as well as environmental and atmospheric interaction. These terms will be explained in the text.

The purpose of the chapter, therefore, is to determine whether an alternative marketing approach (or syntheses of approaches) is more suited to the task of describing and improving Korean marketing strategy. This does not mean that the newer approach has to be better suited to all aspects of strategy but only those involving relationships and the interaction between partners. This limitation is self-imposed because the empirical

²⁶⁸ The remaining topics will be considered in the next chapter, which deals with the network approach.

research, as previously explained, does not attempt to investigate every area of marketing strategy but only those which the literature review and qualitative research demonstrated were important to *chaebol*.

4.2. The Interaction Approach

4.2.1. Aspects of the Interaction Approach

A number of studies have tried to increase understanding of industrial markets by focussing on the partnership or dyad between actors as the unit of analysis, rather than discrete, individual transactions.²⁶⁹ This approach means that the intangible aspects of a relationship can be properly appreciated. These aspects might include trustworthiness, reputation²⁷⁰ and the ability to be at ease in non-task specific or social situations. They may be important but they are certainly difficult to measure.

Proponents of the interaction approach seek to integrate behavioural factors with the transaction-cost analysis devised by Williamson. Behavioural factors explicitly include intangible factors derived from relationships. The basis of the approach may be seen in such situations as quasi-vertical integration. In this, the line between buyers and suppliers can in reality be very difficult to draw, owing to the frequent and detailed level of interpersonal interaction that can exist between them.²⁷¹ It can also be seen in activities such as, for example, product or innovation development. It is generally considered that

²⁶⁹ See, for example, Håkansson, Håkan and Björn Wootz, "A Framework of Industrial Buying and Selling," *Industrial Marketing Management*, Vol.8 (1979), pp.28-39, Håkansson, Håkan, ed., *International Marketing and Purchasing of Industrial Goods: An Interaction Approach* (Chichester: John Wiley, 1982), pp.3-4, Ford, D., H. Håkansson and J. Johanson, "How do Companies Interact?" *Industrial Marketing & Purchasing*, Vol.1, No.1 (1986), pp.26-41 and Turnbull, Peter W. and Jean-Paul Valla, "Strategic Planning in Industrial Marketing: An Intercultural Approach," *European Journal of Marketing*, Vol.20, No. 7 (1986), pp.5-20. These issues have been investigated primarily by the IMP group of researchers, which has played an important role in developing responses to the understanding of new approaches (see, for example, Ford *et al.* (1986), *op.cit.*, pp.26-41). The IMP group was organised in 1976 to plan and perform co-operative research into buyer-supplier relationships in industrial and international marketing. The group has focussed on many areas of study. These included the technological inter-dependence between firms in terms of the mutual benefits from relationships and the long-term commitments accepted by each partner in respect of the other. Inter-organisational personal contacts and adaptive behaviours were also explored. The research has given rise to the development of interesting conceptual models, through utilising substantial empirical databases and a wide range of analytical methods of data analysis.

²⁷⁰ Some economics-based works have addressed these issues; see, for example, Chu and Chu (1994), *op.cit.*

²⁷¹ See, for example, Blois, K.J., "Vertical Quasi-Integration," *The Journal of Industrial Economics*, Vol.20, No.3 (July, 1972), pp.253-272.

innovation is the manufacturer's responsibility. However, empirical studies conducted by von Hippel,²⁷² among others, have demonstrated that both buyers and users can have important and active roles. This involves interpersonal interaction at a number of levels and, therefore, behavioural considerations are relevant. This suggests the importance of multi-dimensional and multi-disciplinary approaches to marketing. Belshaw, for example, detects anthropological undertones in exchanges:

"The exchanges are accompanied by forms of words and ceremonial acts, all of which reinforce the notions of honourable gift giving and mutual dependence between persons who, in most instances, would be strangers in other circumstances. But, since the institution has been passed on from generation to generation, so has been the interlinkage of partners in a relationship which is itself passed on and developed through generations."²⁷³

This perspective suggests that relationships can become almost institutionalised, being passed on through generations of employees. This may appear beneficial to the supplier company, which can routinise activities and reduce costs while maintaining regular income. However, this is not always true, for the following reasons:

- (i) institutionalisation can lead to inefficiencies, since people become accustomed to doing things the same ways and inevitably lose the desire and drive to innovate. It can also lead to organisations becoming unresponsive to the needs of their customers;²⁷⁴
- (ii) increasing levels of commitment:²⁷⁵ particularly where sophisticated products or services are involved, the buyer may expect increasingly more assistance in product development and general after-sales service while under the terms of a contract which does not include sufficient remuneration;
- (iii) life cycle of relationships: Ford, for example, pointed towards the concept of the life cycle of relationships.²⁷⁶ This implies that individual relationships might pass through stages of initial honeymoon, learning, maturing and

²⁷² von Hippel, E., *The Sources of Innovation* (New York: Oxford University Press, 1988).

²⁷³ Belshaw, C.S., *Traditional Exchange and Modern Markets* (Englewood Cliffs, N.J.: Prentice-Hall, 1965).

²⁷⁴ Ford, David, "The Development of Buyer-Seller Relationships in Industrial Markets," *Industrial Marketing Management*, Vol.13, No.2 (1984), pp.101-113.

²⁷⁵ It may be that individuals, reluctant to admit previous errors of judgement, will increasingly commit resources to a project. Staw has shown that this is particularly likely in the case of a manager reinforcing a personally made decision. See Staw, Barry M., "The Escalation of Commitment to a Course of Action," *The Academy of Management Review*, Vol.6, No.4 (October, 1981), pp.577-587.

²⁷⁶ See Ford (1984), *op.cit.*

eventual stagnation or decline.²⁷⁷ Without external stimulation, therefore, relationships will ultimately lose their value.

Relationships between partners are, therefore, vital and dynamic entities. It may also be shown that they have a definite impact upon marketing strategy. As has been described previously, Porter describes the attractiveness of an industrial sector as being shaped by a "diamond" of five principal forces.²⁷⁸ These forces are: the threat of new entrants; the bargaining power of suppliers and customers; the threat of substitute products or services and jockeying for position among current competitors. This framework is helpful in demonstrating the importance of relationships in business. Relationships can affect each of these competitive forces in a number of important ways:

- (i) **threat of new entrants:** *relationships can constitute an effective barrier to entry, through the possession of shared conventions and knowledge which can lead to quasi-integration. Conversely, the creation of a new relationship may be required in order to overcome an entry barrier. An example of this is in the Korean car industry, in which joint ventures have been created in order to allow firms access to a foreign market which government regulations might not otherwise permit;*²⁷⁹
- (ii) **bargaining power of suppliers:**²⁸⁰ *the creation of many intricate linkages in a long-term relationship constitute switching costs for organisations that might wish to create a relationship with (i.e. buy from) another firm. Hence, even when a firm buys from another outside of the principal dyad, it will try to maintain the relationship which has been so expensive to create. One example of this is offering after-sales service for computer hardware or software, especially when the equipment has required a substantial level of investment;*

²⁷⁷ This process is similar to the life cycle of products concept.

²⁷⁸ Porter (1979), *op.cit.*

²⁷⁹ Nakarmi, Laxmi and Larry Armstrong, "Ford, Toyota, Volkswagen, Fiat, Kia... Kia?" *Business Week International* (December 12th, 1994), pp.10-11.

²⁸⁰ Porter elsewhere defined bargaining power to include product specificity, existence of alternative outlets, ability to self-manufacture the item and dependence of the buyer / supplier on the business unit. See Porter, M.E., *Interbrand Choice, Strategy and Bilateral Market Power* (Cambridge, Mass.: Harvard University Press, 1976). More recently, Gundlach and Cadotte investigated the behaviour of actors in simulated channels with respect to relational power asymmetries. They found that: "First, an increasing power advantage did not result in the predicted greater use of threats and punishments, although demands and normative statements were more prevalent. Second, one side of the dyad decreased its use of rewards and the other increased its use of rewards, promises and information persuasion. As predicted, an increasing power advantage (lower relative dependence) is associated with less favourable performance evaluations of exchange partners and less residual conflict." Power is, therefore, an influential factor in relationships. See Gundlach, Gregory T. and Ernest R. Cadotte, "Exchange Interdependence and Interfirm Interaction: Research in a Simulated Channel Setting," *Journal of Marketing Research*, Vol.31, No.4 (November, 1994), pp.516-532.

- (iii) **bargaining power of customers:** *it is possible that customers who are further down the chain of production can specify means of production if they wield sufficient power. That is, a powerful buyer can force a supplier to use a particular component. An example of this is governments which can award attractive contracts to internationalising firms only if they include local firms in the production process. This was seen in the Seoul-Ulsan-Pusan railway line, in which the Korean government was able to extract considerable concessions from the successful GEC-Alstom consortium in the vital area of the transfer of technology.*²⁸¹
- (iv) **threat of substitute products:** *close liaison and adaptation of processes between partners can, if appropriately managed, stimulate innovation. This innovation might lead to efficiencies (or firm-specific advantages) which are not available to other organisations. This may be seen in the attempts to create joint ventures and strategic alliances;*
- (v) **jockeying for position:** *firms adopting new strategies often seek to reposition themselves with respect to various dimensions. For example, a chain of supermarkets might want to re-position itself to be a price leader or in terms of higher quality. Relationships can hamper this repositioning. For example, powerful²⁸² suppliers of high quality goods might object to the retailer re-positioning downmarket and threaten to withdraw if necessary. In this sense, the relationship is a barrier to mobility.*

It is clear, then, that relationships have definite value. It is also true that each can be considered an individual asset. Recent conceptions of the firm have come to visualise it as a unique assemblage of resources and competencies. When two unique assemblages and sets of individuals come together to create a relationship, therefore, that relationship will be unique:

"Every man [*sic*] is unique, therefore a relationship or a dyad is unique."²⁸³

Understanding that a relationship is unique and of definite value leads to greater appreciation that each may provide competitive advantage. Such advantages may be termed "dyad-specific." This indicates the importance of relationship management in

²⁸¹ Nakarmi et al. (1994), *op.cit.*

²⁸² Power in this context must include the ability to coerce others in the channel. See Lusch and Brown (1982), *op.cit.*

²⁸³ Nyberg, Kjell and Lars Haglund, "An Interactive Approach to the Study of Face-to-Face Business Communication," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

those sectors and circumstances in which individual relationships are important. These are generally those in which the partner is deemed important in some way.

Clearly, power is of central importance to the interaction approach. This is not just the relative levels of power between channel members but also the ability of organisations to exercise power over the environment, as Easton explains:

"A relationship implies a measure of control over another organisation and, through that organisation, the environment. The consequent reduction in uncertainty and increase in stability may be very valuable objectives for many organisations."²⁸⁴

From the basis of transaction-cost analysis, one of the ways in which hierarchies can achieve competitive advantage is through uncertainty reduction, which is equivalent to reducing costs. This reinforces the value of relationships and the helpfulness of the interaction approach. Easton goes on to write:

"Similarly, a relationship offers access to third parties who may have resources that are either valuable or essential to survival."²⁸⁵

Relationships, in other words, multiply, since the allies of one partner can become the allies of the other partner. This provides access to the competitive advantages which may arise from a new relationship, as described above, with the advantage that there will be a reduction in the costs necessary to institute such a relationship, since the need to establish trustworthiness is lessened. There are three basic types of power relationship, as Campbell writes:

"Independent, dependent and interdependent relationships arise in different situations. For example, independence arises when the buyer plays the market and the seller has plenty of potential customers. Marketing and purchasing strategies in these commodity type markets are competitive. Independence also arises in a buyer's market, in which there are many competitive sellers and in a seller's market, where there are many buyers. On the other hand, interdependency arises when both parties approach the relationship with a strategy for co-operation. They are

²⁸⁴ Easton, Geoff, "Industrial Networks - A Review," Proceedings of the 5th I.M.P. Conference (1989), *op.cit.*, pp.161-182.

²⁸⁵ *ibid.*

both willing to establish a long-term relationship, to exchange information only and to trust each other. Finally, a dependent relationship results from the dominance one party exerts over the other."²⁸⁶

This does not mean that relationships are constantly changing in nature or relative ascendancy since there is a two stage process leading from reaching a position of equilibrium²⁸⁷ to the inevitable institutionalisation of relationships. Since a power relationship is involved, it is most likely that one partner will suffer a continued disadvantage. However, the effects of time should never be disregarded, since the competitive situation will inevitably change. Hence, it is important that relationships be maintained as positive and dynamic entities leading to advantage rather than stagnant institutions constituting only costs.

It is possible to analyse relationships according to a number of different dimensions.²⁸⁸ These might include subsistence, bisexuality / classification, territoriality, temporality, learning, creativity, defence and exploitation.²⁸⁹ However, for the purposes of this thesis, behavioural aspects are largely confined to those relevant to buying / purchasing and are divided, broadly, between the tangible and the intangible factors. In particular, this will focus on the dimensions which are relevant to cross-cultural business interaction between Korean and UK firms. The efforts that Korean companies make to enter international markets should be seen in the light of an inherent cultural tendency to become involved in

²⁸⁶ Campbell, N.C.G., "An Interaction Approach to Organisational Buying Behaviour," *Journal of Business Research*, Vol.13 (1985), pp.35-48.

²⁸⁷ Ouchi observes that "equity" will be established in such relationships, either through the market mechanism, a bureaucratic mechanism where there is some future uncertainty or else through a clan mechanism, on the occasions on which both sides have come to think alike. See Ouchi, W.G., "A Conceptual Framework for the Design of Organisational Control Mechanisms," *Management Science*, Vol.25 (1979), pp.833-848 and "Markets, Bureaucracies and Clans," *Administrative Science Quarterly*, 25 (March, 1980), pp.129-139.

²⁸⁸ An alternative explanation is that one partner manages to alter or subvert the perception of the situation held by the other partner. For example, Wilson and Croom-Morgan note that: "... the seller is able to influence the buyer's perception of the nature of the problem, by focussing upon the differing needs of the buying firm throughout the problem solving process and, thus, provides a framework within which the seller may identify potentials for competitive advantage." Wilson, Kevin and Simon Croom-Morgan, "A Problem Centred Approach to Buyer-Seller Interaction," Paper Presented at the 9th I.M.P. Conference (Bath: 1993).

²⁸⁹ von Raesfeld Meijer, Ariane M., "Valuation Framing: a Method Applied to Assessing and Improving the Performance of Organisational Exchange Relationships," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.* This form of analysis has allowed for the introduction of paradigms and analogies from many other disciplines, with variable degrees of success.

interpersonal interaction greatly in excess of that which takes place in Western countries.²⁹⁰

4.2.2. Strategic Advantages of Using the Interaction Approach

As an aid to understanding the state of power dependency relationships between dyadic partners, the pivot model is introduced.

A pivot supports and balances two ends of a linear object. In order for the pivot to provide a balance, the forces acting on each end of the pivot must be equal. Where the linear object is symmetric, the pivot will be exactly in the middle, where the forces are asymmetric, the pivot must move towards the more massive end in order to provide the requisite support. Metaphorically, the forces on each side represent the power or influence exerted by each dyadic partner. Consequently, if there is a buyer's market, with few buyers and many suppliers, then the pivot is moved towards the buyer, hence indicating that the greater power resides there. In order to move the pivot closer, the supplier must make concessions, which represent increasing weight on that end. In terms of dyadic relationships, the position of the pivot represents the degree to which one partner can exert pressure and influence upon the other. The actor which has influence exerted upon it must, therefore, make alterations to its marketing or purchasing strategy or, else, to production processes or financing arrangements.

It is possible to construct a formula such that, for any position of the pivot:

$$\text{buyer weight} \times \text{buyer distance} = \text{supplier weight} \times \text{supplier distance}$$

This is shown in the following diagram:

²⁹⁰ See, for example, Pye (1982), *op.cit.*, Graham and Sano (1984), *op.cit.* and Rosalie L. Tung, "How to Negotiate with the Japanese," *California Management Review*, Vol.26, No.4 (Summer 1984), pp.62-77. More recently, Janssens has lent additional support to the idea that factors such as personal motivation are important in intercultural interaction rather than managers simply being extensions of their firms and seeking the reduction of uncertainty. See Janssens, Maddy, "Intercultural Interaction: A Burden on International Managers?" *Journal of Organisational Behaviour*, Vol.16 (March, 1995), pp.155-67.

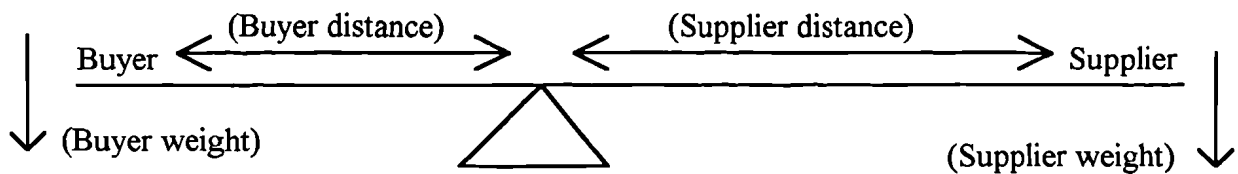


Figure 3. Action of the Pivot Model.

As each partner increases the weight on its side, so the pivot moves towards it. The variables that might affect the position of the pivot would include the size of the contract to be offered, the relative numbers of buyers and suppliers, the degree to which specialised products are required and, for resellers markets, the attractiveness of the brand name available. As many of these variables are qualitative in nature - or at least have a qualitative nature - and will vary considerably between different relationships for individual companies - then operationalising the pivot model is not feasible under the methodology employed for this thesis. Further research should be devoted to developing the model. The pivot model provides a means of assessing power dependency relationships between partners. However, it is also important to examine the advantages that accrue to actors conceiving of their relationships by means of the Interaction Approach. One of the principal components of such advantages is that, as Ranta observes:

"Industrial buyers don't just purchase something; they establish relationships."²⁹¹

If this is true, then it is good news for suppliers who establish relationships on terms equitable to them.²⁹² This suggests the importance of studying relationships. Indeed, the relationship becomes:

"..a relevant framework for the development of ... strategic options for organisational structuring and for resource allocation decisions."²⁹³

²⁹¹ Ranta, Timo, "Supplier Evaluation Anatomised," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

²⁹² This is the main objective of suppliers. It is possible to achieve it through co-operation with buyers rather than power struggles. Grönroos, Christian, "New Competition in the Service Economy: The Five Rules of Service," *International Journal of Operations and Production Management*, Vol.8, No.3 (1988), pp.9-19.

²⁹³ Cunningham, M.T., "Interaction, Networks and Competitiveness in Industrial Markets: A European Perspective of Business Marketing," Proceedings of the European - American Symposium on "Worldwide Marketplace for Technology-Based Products" (University of Twente: Enschede, The Netherlands, 1987), p.3.

For buyers, focussing on relationships can facilitate buying behaviour and optimise after sales service. For suppliers, the approach presents a much broader understanding of business relationships. In particular, the approach has provided a deeper appreciation of why relationships persist and flourish in circumstances other than strictly rational analysis would allow. The reasons for this include the costs concerned and the buyer's risk of exposure resulting from changing a supplier (switching costs).²⁹⁴ Switching costs are particularly important in the small and stable systems which are often found in industrial markets. The empirical research investigated the stability of markets, as well as a number of features of relationships. Korean marketing strategy - and business practice - revolves around the relationship. Perhaps more accurately, the focus is the network of relationships within which the business relationship exists. Clearly, therefore, it is vital for *chaebol's* attitude towards relationships to match UK attitudes. Long-term relationships can be advantageous to both partners. They may enable a time reduction in the process of adaptation to each other's business methods that partners can make.²⁹⁵ This is again particularly important in industrial markets, where there might for example be custom made goods or heavy investment in single items (e.g. shipbuilding, heavy machinery).

Furthermore, relationship analysis enables a process of micro-segmentation within the overall customer relationship portfolio.²⁹⁶ In other words, recognising a relationship as an exchange of resources allows the value of the relationship to be quantified and can inform resource allocation decisions. Finally, the interaction approach visualises an organisation as being the sum of its interactions or exchanges. An organisation which understands this can more fully mobilise its resources to deal with both its competitors and its partners.²⁹⁷ This can be the first step in controlling the environment.

²⁹⁴ Thorelli (1986), *op.cit.*, pp.37-51.

²⁹⁵ This need not be seen as a wholly positive or co-operative process since, as Cunningham observes: "Power is accepted as a fact of competitive business life and its exercise is viewed as legitimate in many cases as an industry norm." Furthermore, seeking to put into practice the power that viewing the relationship by means of the interaction approach reveals, can itself be problematic since: "When the concept of power is applied to inter-firm co-operation and conflict it is the sharing of risk, resources and know-how which is contentious. It is from these bases that the power of each party may originate and when power is exercised unreasonably or without legitimacy that co-operation breaks down." Cunningham, Malcolm T., "The Power Game Paper: A Study of Power within Supplier-Customer Relationships," Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

²⁹⁶ Turnbull and Valla (1986), *op.cit.*, pp.5-20.

²⁹⁷ Ford *et al.* (1986), *op.cit.*, pp.26-41.

4.2.3. Practical Difficulties of the Interaction Approach

Since the interaction approach demands the study of relationships between individuals and organisations, it is necessary to understand how they are formed and maintained. It is also necessary to appreciate the perceptions, memories and prejudices brought to the relationship by individuals.²⁹⁸ In other words, it is necessary to gain access to what has been described as "hidden knowledge."²⁹⁹ This knowledge exists both in the thought processes of individuals and in the accurate reconstruction of conversations and other forms of interaction. This is almost impossible to achieve. Consequently, some have attempted to categorise behaviour and relationships according to various models. This has its own difficulties. Furthermore, managers of large organisations rarely have the time to attempt to understand or become personally involved in every relationship with which their company is involved. As a result, managers tend to rely for their information on possibly unreliable sources.³⁰⁰ Consequently, no individuals have all the information required. Although it would be ideal to understand every relationship an organisation has in detail, this is impractical. However, categorising behaviour types according to generic models is little progress on traditional ways of thinking. There must, therefore, be some form of compromise.

A further difficulty encountered by practitioners of the interaction approach is shown by the following:

"Complex transactions cannot be coped with by treating them as single collective decisions or problem solving processes. Rather, it is generally more effective to handle such complex events as a sequence of partially parallel, loosely connected decision processes, each of a collective nature and each referring to different aspects of the transaction episode."³⁰¹

In other words, the complexity involved in devising a model to cope with such an organic process is too great for it to provide a deep appreciation of relationships. However, deep

²⁹⁸ Frequently, the individuals involved themselves will not be aware of the presence or extent of these factors.

²⁹⁹ Nyberg and Haglund (1991), *op.cit.*

³⁰⁰ Bauer, Judith S. and David N. Burt, "Monitoring the Supply Environment: A Key Component of Strategic Supply Environment," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

³⁰¹ Kutschker, M., "The Multi-Organisational Interaction Approach to Industrial Marketing," *Journal of Business Research*, Vol.13 (1985), pp.383-404.

appreciation is not always necessary. There are, fundamentally, only a limited number of coherent options that individuals will take in most commercial situations.³⁰² Instead, it may be more advisable to consider the organisation's position and role within the overall network of relationships that surrounds it, rather than trying to unravel every single link between the nodes in that network.

Further problems of the interaction approach include the implications that may be discerned in much of the literature concerning the approach. These are, specifically, the belief that business relationships, especially those which are maintained for long periods, are generally harmonious or that they may be maintained through choice rather than necessity. Any experience of industry would soon demonstrate, as the research for this thesis certainly confirmed, that this is far from the case.³⁰³

Having now provided a description of the interaction approach and outlined some of its more obvious implications, it is now possible to describe the ways in which the approach has been used in the empirical research. This will begin with an evaluation of potential partners, which is an area which very clearly needs to take behavioural and intangible factors into account.

4.3. Evaluation of Potential Buyers and Suppliers

To create business, *chaebol* must be considered suitable partners, since it is commonly accepted among sales people that a buyer buys more than just a product. In trying to achieve this, it is vital to know what buyers consider a suitable supplier to be. This

³⁰² This is to some extent borne out by Duysters and Hagedoorn, who found that a central group of firms within an industry tended to be those around which partnerships and networks mostly developed, at least in certain high-technology sectors. This seems to be because they are both innovative and forward thinking in their own right and also because they are the most attractive to other, similarly innovative firms interested in new business structures. See Duysters, Geert and John Hagedoorn, "Strategic Groups and Inter-Firm Networks in International High-Tech Industries," *Journal of Management Studies*, Vol.32, No.3 (May, 1995), pp.359-82.

³⁰³ Kotler, for example, explicitly links relationship building with managing customers to win more sales: "The relationship manager represents the latest step in the evolution of the salesperson. Originally salespersons were order takers. Then they evolved into order getters, aggressively seeking business from purchasing agents. Later they evolved into account representatives, who dealt with a number of people in the buying organisation who could influence purchases. Now they are evolving into relationship managers, who plan and service the entire relationship with the customers." Kotler (19 88), *op.cit.*, p.696.

section discusses the evaluation of potential partners. It also suggests how the empirical research will be used to investigate the area.

Wilson observes that:

"The buyer is attempting to secure a bundle of attributes, both tangible and psychological, from the seller. These attributes may be related to the product, to the company and to the salesman. For example: the product may provide performance attributes that are highly valued by the buyer; the company provides general reputation attributes, and the salesman may provide personal service and reliability attributes."³⁰⁴

This is true for all stages of the buying process. Various writers³⁰⁵ have attempted to describe the ways by which buyers will attempt to evaluate potential suppliers, e.g. through factory visits or formal evaluations according to pre-designed quantifiable forms.³⁰⁶ Others have provided lists of variables that may or may not be important in choosing suppliers. However, there has been little effective work undertaken on precisely what criteria are essential in choosing a partner and what are just helpful. For example, it may be helpful for a supplier company to be located nearby but, if the means of delivery are adequate, this is not essential.³⁰⁷ Perhaps just as importantly, much of the literature produced concerning industrial marketing has tended to assume that buying decisions are made on a wholly rational and discrete basis. This is true of the transaction-cost approach, for example, although these decisions can be compromised with bounded rationality.

³⁰⁴ Wilson, David T., "Dyadic Interactions," in Woodside, A.G., J.N. Sheth and P.D. Bennett, eds., Consumer and Industrial Buying Behaviour (New York: North Holland, 1977), pp.355-365. Moriarty and Reibstein, while also noting that the buyer purchases a bundle of attributes and not only a product or service, refer to these as being "tangible" and "intangible," a practice which is followed in this thesis. Moriarty, R. and D. Reibstein, "The Use of Benefit Segments in Industrial Markets," *Journal of Business Research*, Vol.14 (1986), pp.463-486.

³⁰⁵ See for example Webster, F.E., Jr., Industrial Marketing Strategy, 2nd. ed., (New York: Wiley, 1984), pp.27-30 or Morris (1988), *op.cit.*, pp.102-113.

³⁰⁶ Another method is provided by Wieters, C. David and Lonnie L. Ostrom, "Supplier Evaluation as a New Marketing Tool," *Industrial Marketing Management*, Vol.8 (1979), pp.161-166.

³⁰⁷ One method of attempting to measure this would be to present relevant decision takers with as close to a definitive list of possible selection criteria as possible and ask them to rate the importance of each according to a numerical scale. Factor analysis of the results or a similar technique could then be used to determine exactly which factors or conglomerates of factors are most useful in explaining the criteria used in selecting partners. However, such a process would require a specific research project and is, therefore, outside the scope of this thesis which is intended to cover a great deal more ground.

For *chaebol*, as for other internationalising companies, entering a foreign market can entail considerable expenditure of resources. Without sufficient foreign market knowledge - expressed here as knowing what is particularly important to buyers - many of those resources could be wasted. *Chaebol* are disadvantaged in gaining foreign market knowledge since they can rarely compete in terms of price and instead look to intangible attributes.³⁰⁸ The information cost of researching intangible attributes is higher than for tangible attributes. Hence, for *chaebol*, the cost of reducing uncertainty is higher than for many rivals. This suggests that *chaebol* will try to establish higher levels of control over their subsidiaries than their rivals.³⁰⁹ This also has implications for resources. It also indicates the importance of understanding different selection criteria. Hahn *et al.* outline a conceptual model into which the selection process fits.³¹⁰ The definition of the supplier development programme is the systematic organisational effort to establish and develop a network of competent suppliers. It involves the following stages:

- recognition of the need for the programme by top management;
- assembly of a team to handle the programme;
- evaluation of suppliers;
- identifying areas for improvement;
- establishing a suitable team for developing the programme;
- execution of plans and evaluation of results.

Hutt and Speh³¹¹ divide the possible relevant factors into rational and non-rational³¹² areas. The authors agree with the general view that rational criteria will be more important than non-rational criteria in two situations:

³⁰⁸ This is not always the case, of course. Kumar and Kim, in a study of Korean multinationals in 1984, found that they perceived their firm-specific comparative advantages to reside in their capacity to initiate and operate projects at relatively low costs; the suitability of their operating technology; the lower costs combined with outstanding commitment of their expatriate staff; the suitability of their products and their skills in marketing. It would be interesting to monitor whether these perceptions have altered in the intervening years. See Kumar and Kim (1984), *op.cit.*

³⁰⁹ See Anderson and Gatignon (1986), *op.cit.*

³¹⁰ Hahn, Chan K., Charles A. Watts and Kee Young Kim, "The Supplier Development Program: A Conceptual Model," *Journal of Purchasing and Materials Management*, Vol.26, No.2 (Spring, 1990), pp.2-7.

³¹¹ Hutt and Speh (1985), *op.cit.*, p.81-86.

³¹² Which should be distinguished from irrational.

- there are substantial differences between the marketing mixes of different products and services or
- the products or services themselves only differ slightly.³¹³

Rational criteria are based largely on economic factors. These will include not only price and product or service specifications but, also, such areas as reliability of delivery and availability of technical support. Clearly, the relative importance of each of these factors will be affected by the degree of sophistication of the products or services concerned and the uses to which they will be put. Technical support is of little value when buying basic office stationery but may be essential when purchasing computer hardware. Similarly, the purchasing firm's inventory methods will have a clear effect on the requirements for delivery. For example, with the advent of just-in-time (JIT) inventory systems,³¹⁴ delivery becomes a more important variable than price since the cost of shutting down production because of suppliers not meeting requirements is likely to exceed savings on supplied price considerably.

Lehman and O'Shaughnessy, from an empirical basis, consider that tangible factors are most usually important:

"Economic criteria are the most important criteria for standard products of simple make-up, standard application and low dollar value.....Performance criteria are most important for products of complex make-up and / or novel application....The importance of integrative criteria varies little."³¹⁵

³¹³ Snehota notes that there are two fundamental criteria which guide business relationships: the pursuit of exchange effectiveness and cost efficiency. This can only really be valid in this case with particular conditions of perfect information. Ivan Snehota: Notes on a Theory of Business Enterprise, Ph.D. Dissertation, Department of Business Administration, University of Uppsala (1990).

³¹⁴ A development of the *Kanban* system operated by the Toyota Motor Company since the 1950s, which dictates that supplies should arrive on the production line when they are needed, hence saving considerably on warehousing costs and demanding high standards of quality control and delivery performance from suppliers. See Hutt and Speh (1985), *op.cit.*, p.40. Chapter 2 described some of the advantages that Korean managers have recently started to ascribe to their adoption of JIT methods.

³¹⁵ Lehman, Donald R. and John O'Shaughnessy, "Decision Criteria Used in Buying Different Categories of Products," *Journal of Purchasing and Materials Management*, Vol.18 (Spring, 1982), pp.9-14. By integrative criteria, the authors imply the willingness of the supplier to adapt or be flexible in meeting the needs of the buyer. It is also worth noting that in a study of Czechoslovakian buying behaviour, conducted at a time when industries in that country were just emerging from Communist domination to a more market-led economy, the criteria on which suppliers were judged changed from simply being price to being: (i) references; (ii) experience in the field; (iii) ability to satisfy the user's needs; and (iv) acceptable price. Previously, price had been the sole criterion. Similarly, products and services were to be judged henceforth on the basis of: (i) quality; (ii) price; and (iii) delivery time. However, this should not be seen as a wholly evolutionary or spontaneous progression since there has been substantial input of Western marketing thought and, furthermore, the whole evaluative edifice rests on the assumption that appropriate financing arrangements are available. See Roos, Johan, Ellen Veie and Lawrence S. Welch,

Non-rational factors, again according to Hutt and Speh,³¹⁶ may be either positive or negative in nature. That is, a buyer may act from a positive motive (e.g. to enhance status at work or else out of friendship with a supplier) or from negative motives (e.g. from fear of making a wrong decision). These motivations can supplement the normal buying decision process or even supercede it. For example, a buyer may make decisions solely determined on price; this will not be free competition if the buyer is also helping a chosen supplier to achieve the cheapest cost. Additionally, the possibility of risk avoidance should be taken into account,³¹⁷ especially when considering Korean companies which were not widely known in this country. The amount of perceived risk attached to a purchasing decision is related both to the performance of the supplier in relation to the buyer's or reseller's expectations and to the reaction of other individuals to the decision. Since risk is perceived to increase with the complexity of the transaction,³¹⁸ it is likely to be higher in industrial markets. Sheth observes that this will generally lead to safety first buying policies which are not ideal:

"The risk aversion hypothesis seems to be more dramatically true among organisational buyers than among housewives, especially if the buying task is in the hands of a professional who has no ownership.....The perceived risk theory is supplemented by the application of psychological learning theories by which the organisational buying process, over time and with repetitive purchase decisions, becomes a routinised activity."³¹⁹

The most common means of reducing risk is to increase knowledge.³²⁰ Consequently, promotional activities undertaken by Korean companies are very important. Ranta notes that it is through these efforts, which help constitute the image a supplier portrays, by which they will be judged:

"Confronting Changed Decision-Making Processes in Eastern Europe: The Case of Czechoslovakia and the Purchase of Environmental Protection Equipment," Paper presented at the 7th I.M.P. Conference (Uppsala: September, 1991).

³¹⁶ Hutt and Speh (1985), *op.cit.*, pp.82-86.

³¹⁷ Levitt, Theodore, *Industrial Purchasing Behaviour* (Boston: Division of Research, Graduate School of Business Administration, Harvard University, 1965).

³¹⁸ Cunningham, M.T. and E. Homse, "Controlling the Marketing-Purchasing Interface: Resource Development and Organisational Implications," *Industrial Marketing and Purchasing*, Vol.1, No.2 (1986), pp.3-27.

³¹⁹ Sheth, Jagdish N., "Recent Developments in Consumer Buying Behaviour," *Journal of Marketing*, Vol.37 (1973), pp.50-56.

³²⁰ See, for example, Sweeney, Timothy W., H. Lee Mathews and David T. Wilson, "An Analysis of Industrial Buyers' Risk Reducing Behaviour: Some Personality Correlates," *American Marketing Association Proceedings* (Chicago: American Marketing Association, 1973), pp.217-221.

"Supplier image is a composition of supplier-related information [sic]. In the process of supplier evaluation, it is the mediator between environmental (external) information and covert or overt behaviour in relation to the supplier. In this sense, supplier image is a filter between the stimulus world and [the] reactive tendencies of the subject. It is, therefore, the single most important information structure in any evaluation process."³²¹

Although *chaebol* may be familiar with buyers approaching them, this is not usually the case in the UK. As Bauer and Burt observe in an empirical study, most buyers / resellers rely for their information on what suppliers choose to tell them:

"Many of the firms rely on information passed on to them from their supplier(s). They use the excuse of not having enough time to gather their own information....every firm needs to do its homework regardless of how much information a supplier provides....Competitive advantage can be gained through strategic supply management [...which...] requires that the supplier environment be pro-actively monitored."³²²

The motivations of and influences upon individual decision makers within an organisation are likely to form unique patterns. Since more than one decision-maker will usually be involved, there will be interaction between those people. This makes the situation even more complex. Where a market has only a small number of important actors, it may be feasible to study each one to find out how much non-rational factors affect the buying decision. However, such a luxury is rarely available.³²³ Instead, the research has aimed to establish the possible influences of various selection criteria and quantify them. This has been attempted both for buyers and for suppliers. Knowledge of these areas can be important in segmentation and positioning, as well as the allocation of resources surrounding the market entry decision.

Buyers and suppliers operate selection criteria in choosing partners. Naturally, the ideal partner will not always be available. There may also be other factors preventing a partner from obtaining a relationship with the one desired. Examples of this might include the

³²¹ Ranta (1991), *op.cit.*

³²² Bauer and Burt (1991), *op.cit.* In addition, Moore and Schlegelmilch observe that: "...technical and functional quality dimensions form the primary constituents of corporate image." Moore, S. Anne and Bodo B. Schlegelmilch, "A Proposed Methodology for Examining Inter- and Intra- Organisational Perceptions of Service Quality," *ibid.*

³²³ In shipbuilding markets it is possible, as Korean respondents confirmed, for nearly all individuals involved to know each other personally.

need to indulge in reciprocal buying,³²⁴ the strategic need to retain a multiple sourcing capability³²⁵ and head office overruling the decision of the subsidiary. However, it may still be observed that criteria will tend to fall into three areas, as follows:

(i) *Economic factors*: for buyers, primarily the variables of the marketing mix together with suppliers' financing arrangements. Suppliers will be interested in the financial conditions of buyers and buyer's demographic details (for example, turnover, size and capacity) since these have an impact on the likelihood of repeat purchases.

(ii) *Economic indicators*: these include, for both buyers / resellers and suppliers, the partner's reputation. In the case of new buying or modified rebuying, where knowledge is low, partners may need to rely on the supplier's reputation for accurate information about the ability to achieve prompt delivery or to provide technical support.³²⁶

(iii) *Non-Rational factors*: these include those variables leading to an apparently non-rational buying decision, such as loyalty to a long-standing supplier³²⁷ or friendship with individual members of the partner company. For suppliers, non-rational criteria will include the possibility of further purchases leading from an initially uneconomic order and the maintenance of long-standing relationships on advantageous terms.³²⁸

For this thesis, factors have been divided into the tangible and the intangible. Tangible factors include economic factors; intangible factors include economic indicators and non-rational factors. Tangible factors for buyers in selecting suppliers, therefore, are:

- price;
- product / service quality;
- promotional support;

³²⁴ Arrangements of this of counter buying are particularly common in international marketing, although not necessarily so relevant to Korea or the UK. See, for example, Lange, Irene and James F. Elliot, "East-West Trade and Barter," in Hans Thorelli, ed., *International Marketing Strategy*, Revised Edition (New York: Pergamon Press, 1982).

³²⁵ Morris (1988), *op.cit.*, pp.126-128.

³²⁶ Chu and Chu (1994), *op.cit.*

³²⁷ Loyalty may be owed to an individual, supplier, brand, product class or technology. Morris (1988), *op.cit.*, pp.126-127.

³²⁸ This can also include locking a supplier into a buyer's system through IT or similar means. Examples of how this can happen are common in the airline industry, for example. See Clemons and Row (1991), *op.cit.* and Cash, J.I. and B.R. Konsynski, "IS Redraws Competitive Boundaries," *Harvard Business Review*, No.2 (March-April, 1985), pp.134-142.

- on-time delivery and
- supplier's financing arrangements.

Intangible factors, meanwhile, are:

- brand reputation;
- company reputation;
- trustworthiness and
- the quality of the personal relationship.

For suppliers, when selecting resellers, the tangible factors are:

- after service capability;
- ability to sell and
 - the financial conditions of buyers.

Meanwhile, intangible factors for suppliers are:

- company reputation;
- trustworthiness;
- market position and
- the quality of personal relationships.

As the following chapters detailing the empirical research findings demonstrate, statistical analysis can determine which factors or combination of factors each group considers the more important selection criteria.

4.4. Buyer-Supplier Relationships

Research into industrial markets in the USA and Europe has produced a growing body of evidence that customers are often reluctant to change their supplier and that there is a high degree of stability in their relationships.³²⁹ These relationships can exhibit risk avoidance,

³²⁹ See, for example, Wind, Yoram, "Industrial Source Loyalty," *Journal of Marketing Research*, Vol.7 (November, 1970), pp.450-457; Håkansson, H. and C. Ostberg, "Industrial Marketing: an Organisational Problem?" *Industrial Marketing Management*, Vol.4 (1975), pp.113-123; de Monthoux, P.G., "Organisational Mating and Industrial Marketing Conservatism - Some Reasons Why Industrial Marketing Managers Resist Marketing Theory," *Industrial Marketing Management*, Vol.4, No.1 (1975), pp.25-36, Ford, D., "Stability Factors in Industrial Marketing Channels," *Industrial Marketing Management*, Vol.7 (1978), pp.410-422; Gadde, L.-E. and L.-G. Mattsson "Supplier Change Patterns - a Case Study of a Swedish Vehicle Manufacturing Company 1964-1982," Paper Presented at the European Marketing Academy Annual Meeting at Nijenrode, Breukelen, The Netherlands (April 1984) and L.

satisficing behaviour, strong source loyalty and inertia sometimes underpinned by reciprocal trading. Even large customers try to maintain co-operative relations with suppliers instead of exercising their purchasing power in the market. The interaction approach explains this through such factors as trustworthiness and quality of business relationship. In addition, the approach suggests that development of buyer-supplier relationships can be achieved through the process of interpersonal interaction between two active partners. Webster emphasises that:

"... the central focus of industrial marketing should not be on products or markets, broadly defined, but on buyer-seller relationships."³³⁰

This constitutes one of the principal lessons of the interaction approach; that the focus of marketing / purchasing should be on the interaction that takes place between individuals and organisations rather than on individual transactions between them. This difference entails the study of interaction through time and of the social, psychological and ritualistic aspects of exchange. As a consequence of this focus, practitioners of the interaction approach advocate the importance of the management of buyer-supplier relationships in industrial international marketing and purchasing.

In order to manage these relationships, it is necessary to understand how they function. As a result, much of the literature inspired by the interaction approach has sought to deal with the nature of relationships between the basic buyer-supplier dyad. For example, Håkansson³³¹ explains that the interactive process which is involved encompasses both the long-term aspects of a relationship and short term exchange episodes within the context of the continuing relationship. The individual episodes involve exchanges between buyers and suppliers, consisting of (1) product / service exchange, (2) information exchange, (3) financial exchange, and (4) social exchange. Cunningham develops the ideas here to indicate the areas of particular study that have been appropriated by practitioners of the interaction approach:

Hallén, "A Comparison of Strategic Marketing Approaches," in P.W. Turnbull and J-P Valla (eds.), Strategies for International Marketing (London: Croom-Helm, 1986), pp.235-249.

³³⁰ Webster (1979), *op.cit.*, p.50.

³³¹ Håkansson (1982), *op.cit.*, p.16.

"The product or service being bought or sold is the core of the interaction and exchange but its complexity and use by the customer affects the risk associated with the transaction. Information exchange has several facets of interest, such as its content (technical or financial), its media of communication (personal contacts or impersonal means) and the degree of formality with which it occurs. Financial exchange (or money) is an indicator of the economic importance of the relationship. Social exchange has an important function in reducing uncertainties between the two parties. This is particularly important when there exists spatial or cultural distance between the two parties. Formalisation, trust, liking, understanding, flexibility, integrity, etc., are aspects of social exchange which are incorporated into this element."³³²

The distances between organisations are, in forming relationships, gradually bridged, possibly to the extent that suppliers and buyers will come to share similar objectives and adapt their operations so as to be able to achieve joint goals.³³³ Consequently, each relationship has the potential to become unique and, therefore, may be treated as such. However, it is also considered helpful to attempt to classify the ways in which the two partners approach each other, in order to systematise the methods by which organisations develop relationships and to shorten the length of time which is required. Many writers have attempted to do this. Ford,³³⁴ for example, observes that the development of a industrial buyer-supplier relationship is a process passing through experience, uncertainty, distance, commitment and adaptation. He traces the establishment and development of a buyer-supplier relationship by suggesting five stages: the pre-relationship stage; the early stage; the development stage; the long-term stage; and the final stage.

Similarly, Dwyer, *et al.*³³⁵ suggest stages such as awareness, exploration, expansion, commitment and dissolution for developing buyer-supplier relationships. The major

³³² Cunningham, M.T., "International Marketing and Purchasing of Industrial Goods: Features of a European Research Project," *European Journal of Marketing*, Vol.14, 5/6 (1980), pp.322-338.

³³³ This process is not always, of course, undertaken in the attempt to improve the market position of the partner. Yorke and Droussiotis, for example, suggest that the development of a relationship has as an integral part the search for competitive advantage: "... visits [i.e. episodes of interaction] within certain limits can: (i) help to develop the relationship at the organisational and individual level even further; and (ii) increase the chances of obtaining important information about the customer, the decision making unit and its buying behaviour." Yorke, D.A. and G. Droussiotis, Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

³³⁴ Ford (1980), *op.cit.*

³³⁵ Dwyer, F.R., P.H. Schurr, and S. Oh, "Developing Buyer-Seller Relationships," *Journal of Marketing*, Vol. 51 (April, 1987), pp.11-27.

reason the writers give for the emphasis on the management of buyer-supplier relationships is that establishing:

".... close social and business relationships with the clients is a major factor for success in international industrial marketing."³³⁶

As will have been seen from the above, Håkansson,³³⁷ Ford³³⁸ and Dwyer, et al.³³⁹ all consider the development of buyer-supplier relationships to be either processes or stages which are passed through in time. In these interaction exchanges, buyers and suppliers can be individuals, representatives, buying centres or groups in the buyer / supplier organisations or they can act as a metaphor for buyer / supplier organisations themselves. It is quite common for practitioners of the interaction and network approaches to use the term "buyer-supplier"³⁴⁰ as being representative of an organisation and / or an organisation in itself. This mode of thinking will be very familiar to sales representatives and it is instructive to compare manuals on selling and the stages leading up to the sale with the descriptions of the development of relationships outlined above.

The importance to suppliers of forming and maintaining good relationships is made clear by Levitt,³⁴¹ who considers the buyer-supplier relationship to be a significant factor in the buyer's choice of a supplier for any subsequent transaction. Since a good relationship with the buyer is an important asset for a supplier and, consequently, it is worthwhile expending resources in order both to maintain the relationship on that level and, also, to fulfill the expectations that the buyer has of the supplier.

However, developing relationships is neither a problem free exercise nor one which will inevitably yield the desired results. Instead, just like marriage, to which the process is often compared, there need to exist mechanisms for the purpose of resolution of conflict. There will be occasions when the supplier is unable to offer, for example, strict technical innovation, low price or greater availability.³⁴² As a result, suppliers need to offer

³³⁶ *ibid.*

³³⁷ Håkansson (1982), *op.cit.*, p.16.

³³⁸ Ford (1980), *op.cit.*, pp.339-353.

³³⁹ Dwyer *et al.* (1987), *op.cit.*, pp.11-27.

³⁴⁰ Or variants such as buyer-seller or supplier-customer.

³⁴¹ Levitt (1983), *op.cit.*, pp.11-27.

³⁴² Cunningham (1985b), *op.cit.*, pp .322-338.

alternative benefits in order to break existing relationships. This process might involve alterations to the product or service being offered or in such areas as financial payments or delivery schedules. The negotiators involved will form part of the interaction. A series of personal contacts will begin and more people will become involved on different levels. Interaction between organisations will, therefore, grow organically both in terms of the personnel involved and in their degree of involvement.

Guillet de Monthoux suggests that the development of the relationship can differentiate between industrial and consumer goods marketing and purchasing:

"The industrial marketing manager often operates within a stable system of matrimony between his own firm and the buying organisation; he has a much more concentrated market than his consumer goods colleague; he must maintain good relations with buying organisations."³⁴³

The research conducted for this thesis considers many aspects of buyer / reseller - supplier relationships: these include the desire to form such relationships as opposed to playing the market, the length of time that must pass before individuals will consider a relationship to have become a long term relationship, the reasons for maintaining relationships and the numbers of new and discontinued relationships that organisations have experienced over the last year. It is hoped that examination of these aspects will help to evaluate the conceptual frameworks derived from the interaction approach and, hence, determine whether these methods might be used to identify competitive advantages which might become available to Korean companies.

Having reviewed the nature and maintenance of relationships between buyers and suppliers, it is next necessary to examine the ways that relationships are conducted by partners. This is the subject of the following section.

4.5. Application of the Interaction Approach to Buyer-Supplier Relationships

The means by which dyadic partners communicate and deal with each other within a relationship is known as buyer-supplier interaction.

³⁴³ de Monthoux, (1975), *op.cit.*, pp.25-36.

One method of characterising this, using a model derived from economics and psychology is to employ a paradigm based on stimulus-organism-response (S-O-R). Mattsson³⁴⁴ questioned the model's validity. He noted that its characteristics include discrete transactions, an atomistic universe and stereotyped and self-contained buying and selling units. This is generally considered³⁴⁵ to be more applicable to a mass marketing than an industrial marketing setting. It is clear that more important and complex transactions require interaction between buyer / reseller and supplier, although this may only be on the level of after service technical support.³⁴⁶ Often the interaction will be on a much higher level,³⁴⁷ partly because the supplier will wish to maintain a positive relationship between the two parties even when a sale is not immediately imminent.³⁴⁸

Discussion of the appropriateness of conceptual models should also consider culture from a Korean perspective. From such a perspective, interaction between two parties is, in the oriental tradition, considered to be a valuable and necessary end in itself.³⁴⁹ However, in the West, a relationship based approach tends to be used for a specific purpose³⁵⁰ or may simply be an inevitable process.³⁵¹

³⁴⁴ Mattsson (1985), *op.cit.*, pp.263-288.

³⁴⁵ See, for example, Krapfel and Pels (1991), *op.cit.*

³⁴⁶ Turnbull notes that initial interaction can lead to "... often vast networks of personal contacts, involving design, production, quality, service and distribution staff in both customer and supplier companies...[which]... develop in an unplanned and unco-ordinated way." Turnbull, P.W., "Roles of Personal Contacts in Industrial Export Marketing," *Scandinavian Journal of Management* (1979), pp.325-337. In addition, he notes that personal contacts can themselves individually fulfill many different functions, e.g. the information exchange role, the assessment role, the negotiation and adaptation role, the crisis and insurance role, the social role and the ego-enhancement role. It might be noted that recent concentration on quality generally has meant that suppliers will now be more aware of the need to fulfill these roles even for potentially low value customers.

³⁴⁷ That is, interaction based on a much higher number of episodes between individuals in different organisations, who are responsible for a number of different functions and, possibly, on a much more intense basis.

³⁴⁸ Most books on selling will stress this as being a self-evident good. See also Penn, W.S., Jr. and Mark Mougel, "Industrial Marketing Myths," *Industrial Marketing Management*, Vol.7, 1978, pp.133-138.

³⁴⁹ Many authors deal with these issues. In English, see, for example, Pye, Lucian W., Chinese Commercial Negotiating Style (Cambridge, Mass.: Oelgeschlager, Gunn and Hain Publishers, Inc., 1982) and Pyatt, Roger, "Recent Research Developments into Dyadic and Organisational Network Strategies of Mainland and Overseas Chinese, Korean and Japanese Traders," *Proceedings of the 8th I.M.P. Conference* (Lyon: September, 1992), Vol.I, pp.280-286.

³⁵⁰ As outlined in, for example, Håkansson, Håkan, J Johanson and B. Wootz, "Influence Tactics in Buyer-Seller Processes," *Industrial Marketing Management*, Vol.5 (December, 1976), pp.319-332.

³⁵¹ "Rarely is it appreciated that other scarce human resources in technical, manufacturing and quality control functions as well as in senior general management levels in the supply company can become committed in an ad hoc manner to a company's array of customers and prospects." Cunningham and Homse (1986), *op.cit.*, pp.3-27.

Irrespective of motives and philosophy, relationship based approaches to marketing and purchasing often require considerable expenditure of resources. This suggests that it can be necessary to guard against the wasting of resources by ensuring that repeat purchases take place. Under such circumstances, a zero-sum game approach³⁵² may not deliver the desired outcomes. Instead, creative and positive negotiating strategies should be used to help to demonstrate the advantages of a proposed deal to both sides.³⁵³ This could be important in the present research because, given their comparatively weak current market positions, Korean suppliers might use relationships primarily as a means through which to secure further business rather than, as can sometimes be the case, to exert power in order to impose their views and perceptions in the hope that this will influence the partner.

The research conducted for this thesis indicates that buyers and suppliers can interact positively; that is, they may consult each other when looking for new sources of business. This would seem to demand a measure of trust since, for example, the buyer could use the new knowledge acquired to reduce the level of business with the supplier.

4.5.1. Buying and Supplying Centres

Two of the principal reasons for Korean businesspeople to try to cultivate relationships with their partners is to gain greater knowledge of the buying centre and to become recognised as a suitable partner. So it is necessary to examine what constitutes a buying centre and how organisations might seek to interact with it.

Webster and Wind³⁵⁴ write that buying centres are created in response to specific situations. That is, when one or more people in an organisation feel that an issue can be resolved through buying something, they will create a buying centre.³⁵⁵ The process by which a centre forms and the roles that people take within it have been documented in the

³⁵² That is, negotiations between buyer and supplier is predicated on the basis that as one side wins (or gains a concession in the negotiating process), the other partner loses to just the same extent. Morris (1988), *op.cit.*, p.372.

³⁵³ Rinehart, Lloyd M. and Thomas J. Page, Jr., " A Negotiation Process Model for Global Contractual Channels," Paper presented at the 7th IMP Conference (1991), *op.cit.*

³⁵⁴ Webster and Wind (1972), *op.cit.*, pp. 28-37.

³⁵⁵ Bonoma, Thomas V., "Major Sales: Who Really Does the Buying?" *Harvard Business Review*, 60 (May-June, 1982), pp.111-119.

organisational behaviour literature.³⁵⁶ However, for this thesis it is sufficient to note that people tend to fulfill similar functions within a wide range of different groups. Common roles include gatekeepers, influencers, deciders, buyers and users. These roles are mostly self-explanatory. Although groups exhibit a great deal of similarity, each will still have unique features since each is composed of individuals and interpersonal interaction. Speckman and Stern describe the situation as follows:³⁵⁷

"(an)... informal, cross-departmental decision unit in which the primary objective is the acquisition, impartation and processing of relevant purchasing related information."

This view may be taken as either optimistic or naive depending upon which organisation is being considered.

Since individuals meet in order to make a decision, there will inevitably be a degree of interpersonal interaction in the process of decision-making. It may be, for example, that no individual's choice will receive majority backing and, consequently, a compromise position will eventually be reached. Sheth uses the term "politicking" to describe this process.³⁵⁸ Where the purchase is an important one or, alternatively, a bureaucracy is involved, there may be formal structures for administering the buying centre. These may be useful in themselves³⁵⁹ or an apparent waste of time.³⁶⁰ In either case, the supplier is required to devote resources to presenting the goods and services on offer, in the forms of detailed proposals, live presentations, factory visits and similar activities.³⁶¹

³⁵⁶ Examples include Brown, R., Group Processes Dynamics within and between Groups (Oxford: Blackwells, 1988); Zurcher, L.A. Social Roles: Conformity, Conflict and Creativity (Beverly Hills, California: 1983) or Zander, A. "The Study of Group Behaviour during Four decades," *Journal of Applied Behavioural Science*, Vol.15, No.3 (1979), pp.272-282.

³⁵⁷ Speckman and Stern (1979), *op.cit.*, p.56.

³⁵⁸ Sheth, Jagdish N., "A Model of Industrial Buyer Behaviour," *Journal of Marketing*, Vol.37, No.4 (October, 1973), pp.50-56.

³⁵⁹ "...the output of the group decision-making process is not only a solution to the buying problem but also non-task satisfactions and growth for the group and its members." Webster (1984), *op.cit.*, pp.38-39 This is an optimistic view.

³⁶⁰ Hutt and Speh (1985), *op.cit.*, p.51, quote a shipbuilding executive as saying, in relation to undertaking contracts for the US Government, "We're not finished until the paperwork outweighs the ship."

³⁶¹ An alternative view of this process is suggested by Mazet and Spencer, who consider the modification of buying centres (and, by extension, the processes which the centres administer) to be a deliberate tactic designed to demonstrate the buyer's power over the supplier. Naturally, there are occasions on which the boot can be on the other foot. See Mazet, Florence and Robert Spencer, "Understanding Relationships between Industrial Groups: A Network Approach," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

Two reasons render this more likely to occur in the case of the Korean companies discussed in this thesis: firstly, industrial marketing tends more often to involve large volume or expensive purchases than is the case with consumer marketing; secondly, the risk factor described above tends to require Korean companies more frequently to present documentation and credentials than would be the case with UK or other more well known suppliers.

Consequently, it appears important for Korean suppliers to have an understanding of buying centres and their constitution. The composition of a buying centre will tend to vary according to the following variables:

- (i) The nature of the organisation;
- (ii) The nature of the products or services involved;
- (iii) The uses to which those products or services will be put;
- (iv) The type of buying being undertaken.

The nature of the organisation concerns such aspects as its size (a small organisation may not have a designated buying centre: everyone becomes involved) and structure (an autocratic organisation may have decisions made by one person, a bureaucratic organisation may require detailed proposals to be drawn up, a committee to vote on funding and another committee to undertake actual purchasing). This has been measured in the research for this thesis by the number of employees, the employees involved in dealing with the partner and the level of annual turnover.

The type of products or services involved is relevant here. Basic office stationery differs considerably from heavy engineering in this respect.

Similarly, the uses to which those products or services will be put can also be relevant. These areas have been assessed in the research by finding out what products / services were being supplied and the nature of the buyers' business. Where the goods are bought for resale, then different considerations will be involved than when they are for use in facilitating the organisation's primary function or else in the production of value added

goods. Consequently, it is appropriate for different personnel or types of personnel to become involved in the centre.

The type of buying that is being undertaken will also have an effect.³⁶² The three standard types generally considered are the straight rebuy, that is a repeat order; the modified rebuy, that is the same order from a different supplier (with the previous one having failed to live up to expectations) or else a change in circumstances affecting the situation between the same buyer and supplier; or new task buying, that is purchase of goods or services of a type not previously purchased.³⁶³ It is likely that the centre will be constituted differently according to each situation. Straight rebuying may require only a clerical officer, while new task buying of expensive and complex machinery might require the services of the entire management and technical structure. Establishing which type of buying occurs requires sequential research: this is outside the scope of this thesis.

In the literature, these areas have been largely considered from the perspective of the buyer; i.e. the factors described above are evaluated in terms of their impact upon the constitution and procedures of the buying centre: however, they will also have an impact upon the supplying centre, although not necessarily in the same degree or fashion, since supplying centres will tend to attempt actively to orient themselves such that they may interact most efficiently with the relevant buying centres, adapting themselves as much as possible to their counterparts' new situation.

However, it is not easy to evaluate the impact of the characteristics of the buying centre upon the supplying centre since the latter have received little direct study. Where consideration of supplying centres has taken place, this has generally been as an aspect of sales management.³⁶⁴ As a result, there has been little evaluation of the interaction, if any, between technical, financial, administrative and sales departments in determining marketing and selling activities, nor which of these functions tends to be involved in the sales process. Furthermore, particularly for Korean companies, the action of selling

³⁶² See, for example, Doyle, Peter, Arch G. Woodside and Paul Michell, "Organisations Buying in New-Task and Rebuy Situations," *Industrial Marketing Management*, Vol.8 (1979), pp.7-11.

³⁶³ Reeder *et al.* (1987), *op.cit.*, pp.75-76.

³⁶⁴ See, for example, Hutt and Speh (1985), *op.cit.*, pp.527-542; Kotler (1988), *op.cit.*, pp.663-698; and Chisnall (1989), *op.cit.*, pp.57-59, among others.

should be considered as only part of the supplying process: i.e. within the pattern of pre and post sales interaction.

This thesis has attempted to address these issues by examining the individuals involved in the Korean companies' supplying centres (and those involved from the perspective of UK buyers) and, through qualitative research, seeking to explore the activities and processes contributing to the selling effort.

The literature review thus far has examined the overall nature and scope of industrial and international marketing and purchasing, as well as describing the behaviour of actors within the markets that have been assessed. The following builds upon this by discussing the methods by which those actors seek to affect their environment to their own advantage.

4.5.2. Buyer Behaviour and the Interaction Approach.

Previous industrial buyer behaviour literature has tended to focus on the management of single independent purchases.³⁶⁵ However, it is clear as has been described above that many relationships between buyers and suppliers will extend beyond a single purchase. It may be that the relationship will last a number of years and involve a wide range of products or services and this will entail interaction between a wide range of individuals on both sides. Cunningham³⁶⁶ notes that a simple evaluation of factors offered by the supplier cannot fully explain buying behaviour.³⁶⁷ In some circumstances, direct comparison of suppliers shows that some who do not perform as well as others are still selected and relationships are maintained which traditional approaches would suggest should be broken. While some relationships may be maintained because of high switching

³⁶⁵ The two most well known models are those proposed by Sheth (1973), *op.cit.*, pp.50-56 and Webster and Wind (1972), *op.cit.*, pp.28-37. Attempts to refine or develop these models have tended to suffer from the inclusion of every possible variable that might be included, hence making already complex models increasingly unwieldy. See also Laczniak, G.R. and P.E. Murphy, "Fine Tuning Organisational Buying Needs," in C.W. Lamb and P.M. Dunne (eds.), Theoretical Development in Marketing (Chicago: American Marketing Association, 1982), pp.77-80 and Campbell, N.G.C., "An Interaction Approach to Organisational Buying Behaviour," *Journal of Business Research*, Vol.13 (February, 1985), pp.35-48.

³⁶⁶ Cunningham (1985b), *op.cit.*, pp.322-338.

³⁶⁷ See also Kutschker (1985), *op.cit.*

costs³⁶⁸ and risk aversion,³⁶⁹ it is apparent that buyers are on occasions interested in intangible factors.³⁷⁰

In addition, previous approaches to marketing have divided buyer behaviour into the study of separate areas of the buying centre, the buying decision and the buying situation. The variables at work in each of these processes then meet in what has come to be called a "black box."³⁷¹ This approach is criticised by practitioners of the interaction approach in that it assumes a process of rational, economically based decisions according to objectively definable criteria, which does not represent the situation as it is found in real life.³⁷² Consequently, it is felt more appropriate to consider buyer behaviour in the light of patterns of long term relationships and interaction between different actors in the market.

An interaction model of buyer behaviour posited by Campbell³⁷³ features the active participation of both buyer and supplier, with either partner subject to an environment constituted of such factors as product characteristics, company characteristics and market characteristics. The model is based on the premise that exchange relationships between actors are based on power dependencies and, as a result, buying and supplying strategies that may be adopted are dependent upon the degree of power enjoyed by the organisation. A buyer in a buyer's market, therefore, can use a command strategy; a supplier in a buyer's market is required to use a competitive strategy. Since the number of strategy types and their interaction is comparatively small, it is suggested that the environmental factors

³⁶⁸ See, for example, Thorelli (1986), *op.cit.*

³⁶⁹ Sheth (1973), *op.cit.*, pp.50-56.

³⁷⁰ Moore and Schlegelmilch observe that intangible factors are, by their nature, of particular relevance to service industries. However, this thesis is concerned with Korean companies and, since they are primarily involved in manufacturing industries, the service sector is not covered in any depth in this work. Moore, S. Anne and Bodo B. Schlegelmilch, "A Proposed Methodology for Examining Inter- and Intra-Organisational Perceptions of Service Quality," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.* Byun and Smith observe that: "... suppliers hope that the additional bundle of benefits being offered to the customer will differentiate their offer in the market, thereby stimulating customer loyalty." Byun, Hyun-Young and Phil Smith, "Some Effects of Systems Selling in Networks," Proceedings of the 5th I.M.P. Conference, *op.cit.*, pp.101-121.

³⁷¹ Campbell (1985), *op.cit.*, pp.35-48.

³⁷² Moller, for example, indicates that widely prevalent routine response behaviour is generally ignored or, at least, under estimated. K. Moller, "Buying Behaviour of Production Materials: A Conceptual Model and Analysis," *Series B-54* (Helsinki: School of Economic Publications, 1981).

³⁷³ Campbell (1985), *op.cit.*, pp.35-48.

affecting these be studied rather than, as is the case with traditional approaches, all the factors which may affect buying behaviour in any of its stages.

Such an approach will enable buyers / resellers to take a more active role in assessing their suppliers and potential suppliers and vice versa.³⁷⁴ That buyers / resellers demonstrate that they are prepared to enter into long-term relationships and to expend resources in developing relationships, as well as avoiding zero-sum negotiations as a strategy³⁷⁵ means that suppliers are more willing to take part in such evaluative studies.

The study of buyer behaviour necessarily entails the study of the ways in which individuals interact with each other. Just as every individual has a unique personality and history, so too does every individual have a unique conversational and negotiating style. The interaction approach, by concentrating on the relationships rather than transactions, enables the visualisation of buyer behaviour as a product of the interplay between individuals rather than as a strictly economically based decision making process. As a result, it is apparent that suppliers have a role to play in determining buyer behaviour, rather than simply presenting their products and hoping that their prices are the lowest.

Suppliers must, therefore, attempt to understand which additional variables will be important to individual and corporate buyers, how these will vary from individual to individual and over time and how the supplier's offerings should be modified in the light of such variations. The research undertaken for this thesis has been intended to assist in this. However, managers must make decisions as to the extent to which this will be worthwhile in individual cases. Frequently, those involved in marketing, especially with fairly concentrated markets, undertake this sort of analysis on an informal level.

4.5.3. Interpersonal Interaction

Interpersonal interaction between Korean and UK businesspeople tends to be characterised by the Koreans' desire to improve relationships through non task specific encounters and their need to have many decisions approved centrally. This is different

³⁷⁴ As an example, see van der Meer, Robert and Mairi Gudim, "Measuring Supplier Responsiveness," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

³⁷⁵ See Rinehart and Page (1991), *op.cit.*

from normal UK practice, which tends to place greater emphasis on independent decision making and action, task-specific activities and the willingness to postpone thorough discussions of fine detail. UK business people occasionally criticise Koreans for two reasons: firstly, using too much time on apparently non-essential matters; secondly, seeming to avoid taking decisions - i.e. not taking responsibility. Conversely, Koreans, when politeness does not intervene, regard UK personnel as being:

- too hurried;
- unwilling to observe the formalities of a hierarchical structure and
- inflexible and bureaucratic, especially when compared with Americans.

As has already been noted, interaction behaviour reflects the state of a power relationship between partners: i.e. it can be expected that the more powerful partner will require the less powerful partner to adapt to the more powerful partner's customs. When localising in the UK, *chaebol* are generally less powerful than UK buyers - although not in all industrial markets. It is reasonable to suppose, therefore, that it is the Koreans who will have changed their habits to a more western style rather than the reverse.

4.5.4. Organisational Interaction.

4.5.4.1. Intra-Organisational Interaction

Intra-organisational interaction is that kind of interaction that takes place between different individuals or departments within an organisation.³⁷⁶ Clearly, good management depends to a considerable extent upon ensuring that appropriate co-ordination and integration between different functions within the organisation takes place. However, experience shows that this does not always happen. For example, Gummesson cites Lee Iacocca, arriving as CEO of Chrysler, as saying:

"Nobody at Chrysler seemed to understand that interaction among different functions is absolutely critical ... The manufacturing guys would build cars without

³⁷⁶ Many organisations operate with structures that do not easily fit into common paradigms. This is especially true of those conducting international business. *Chaebol*, particularly, offer different organisational structures than those most commonly tackled by western marketing texts. In these cases, the divisions between intra- and inter-organisational interaction may be less clear-cut than most standard texts concerning marketing would assume.

even checking with the sales guys ... We ended up with a huge inventory and a financial nightmare."³⁷⁷

This provides a vivid example of the need for effective intra-organisational interaction, since its lack can be directly related to poor financial and operational performance. Cunningham explains this further:

"[There is a] ... need ... to integrate and co-ordinate those activities and functional departments which impinge upon the total range of technical and commercial interactions between supplier and customer in industrial markets."³⁷⁸

It is clear that inter-organisational interaction (see below) can involve and be affected by intra-organisational interaction. For example, customers purchasing a complex product or service might wish to have contact with a number of different people within an organisation. Korean companies, especially when they are the buyers, prefer to have one nominated person within the partner organisation to handle all liaison and co-ordination between the two firms. Consequently, the ability that firms have to organise intra-organisational interaction has a considerable impact upon their success in managing their external relationships. This will be particularly relevant to Korean companies when there are conflicts within a buyer / reseller which has an impact upon the relationship or potential relationship with the Korean company. It will be necessary, in such cases, for the supplier to be able to identify all the individuals who have influence over the relationship and seek to satisfy their demands or fears regarding the Korean company. The qualitative research conducted for this thesis investigated whether and to what extent this takes place.

4.5.4.2. Inter-Organisational Interaction

Inter-organisational interaction involves the exchange of such resources as information, finance, personnel, plant and equipment, depending upon the closeness of the dyad and its nature (i.e. whether the dyad is constituted of a buyer-supplier relationship or buyer-buyer, supplier-supplier and so on). Ford, Håkansson and Johanson³⁷⁹ observe that

³⁷⁷ Iaccoca, L. (with W. Novak), *Iaccoca* (New York: Bantam Books, 1984), p.162, cited in Gummesson (1987), *op.cit.*, pp.10-20.

³⁷⁸ Cunningham (1985b), *op.cit.*, pp.322-338.

³⁷⁹ Ford *et al.* (1986), *op.cit.*, pp.26-41.

organisations undertake many different forms of interaction with other organisations, many concurrently. Indeed, since interactions represent the exchange of resources and occur both internally and externally, organisations may be considered to be the sum of the interactions with which they are involved. Furthermore, individual interactions do not take place in a vacuum but in the context of other interactions both past and present.³⁸⁰ The organisation primarily exists, therefore, as a series of interactions.³⁸¹ However, many of these forms of interaction are not relevant to marketing and purchasing strategies and are discounted from this thesis. For example, the interactions that *chaebol* have with support services such as cleaners and caterers, although they may have some impact upon the core business in certain circumstances, are mostly irrelevant. Since, in addition, the social and psychological aspects of the inter-personal interaction involved are almost impossibly difficult to study, it is of some importance to reduce the degree of complexity as far as possible. This of course illustrates one of the practical difficulties of the Interaction approach. In order for it to have a practical application, it is advisable to study the major strategies that organisations adopt when dealing with each other rather than attempting to cover every possible aspect of interaction that might occur.

Four dimensions have been considered to be involved in the interconnectedness between companies: mutuality, particularity, capability and inconsistency.³⁸² These dimensions may be viewed as either constraints imposed upon the organisation or strategies which can be adopted when dealing with the environment or other companies. Whether it is a constraint or a strategy depends on relative power dependency and can change over time and across different relationships. Since both partners actively interact with each other and the environment, each has the ability to operate within each dimension.³⁸³

³⁸⁰ See also Belshaw (1965), *op.cit.*, p.114.

³⁸¹ The authors compare this "interacted environment" with Weick's "enacted environment." See Weick (1969), *op.cit.*

³⁸² Mutuality describes the long term approach of organisations willing to cede short term advantage so as to yield greater long term profit; particularity relates the specific ways in which the interactions between two organisations differs from the interactions they pursue with other organisations; capability reflects the ability of the organisation to translate its assets into resources which can be exchanged with other organisations; inconsistency describes the ways in which the nature, frequency and depth of interactions with another organisation will vary from individual to individual and over time. Ford *et al.* (1986), *op.cit.*, pp.26-41.

³⁸³ The method by which this occurs in practice is defined by Cook and Emerson in the following terms; "Two exchange relations are connected to the extent that exchange in one relation is contingent, positively or negatively, upon exchange in the other relation." Cook, K. and R.M. Emerson, "Exchange

However, interaction between organisations should not be seen as an endless struggle with unsuccessful power struggles leading to broken relationships. The many studies of source loyalty that have already been cited indicate that the interaction approach should be seen as a way of describing continuing relationships rather than a succession of individual battles. Interaction in itself creates bonds between organisations.³⁸⁴ Bonds may act as adjustments or adaptations³⁸⁵ to product or process capability,³⁸⁶ understanding and knowledge about each other,³⁸⁷ personal confidence and approval, special credit arrangements and long term contracts.³⁸⁸

Practitioners of the interaction approach have attempted to show that interaction between the individuals making up organisations is almost infinite in scope. However, studying interaction and environmental variables enables a useful classification of the strategies that can be used in relationships. These strategies may not be adopted voluntarily but be forced upon the organisation through the operation of the environment. In any case, both partners will be following their own strategies or combination of strategies and this too can have unpredictable results because of the interaction between them. Nevertheless, it is possible to outline some of the major dimensions which shape patterns of interaction between organisations. In the present case, the nature and degree of inter-organisational interaction between Korean and UK companies is largely dependent upon the type of organisation employed by the Korean company. These may, as described above, be divided between industrial goods and consumer goods suppliers.

Industrial goods suppliers will be manifested as either branch, regional, liaison or representative offices on the one hand and trading companies on the other hand. The first type deals only with co-ordination and liaison and not in contracting business, although

Networks and the Analysis of Complex Organisations," in S.B. Bacharach and E.J. Lawler, eds., Research in the Sociology of Organisations, Vol.3 (1984), JAI Press, pp.1-30.

³⁸⁴ Johanson, Jan and Lars-Gunnar Mattsson "Internationalisation in Industrial Systems - A Network Approach," in David Ford, ed., Understanding Business Markets (London: Harcourt, Brace, Jovanovich, 1988), pp.287-314.

³⁸⁵ Sandström observes that adaptations affect not only products and production but also:"... adjustments of the cognitive structures of the persons involved in the relationship." Sandström (1991), *op.cit.*

³⁸⁶ i.e. since the supplier will devote resources to modifying the products for the buyer.

³⁸⁷ i.e. company or product specific knowledge can lead to reductions in cost.

³⁸⁸ i.e. both partners may need to devote resources to a long term contract and, therefore, will be less likely to break the bond. See, also, Johanson and Mattsson (1988), *op.cit.*, pp.287-314.

searching for potential partners is possible. Consequently, Inter-organisational interaction involving these companies is more likely to be related to technical, administrative and financial functions, which require attention throughout the course of a business relationship. Relationships with trading companies may be initiated before, during and after contracts are signed since the trading companies will be looking to establish new business relationships and develop those that already exist. Interaction may take place at all levels and between all departments as the relationship develops. However, the trading companies will be aware that technical or other specific staff that may be required will belong to other member companies of the business group.

Consumer goods suppliers may be divided between manufacturers who have initiated their own sales companies and trading companies who will act on behalf of a number of other companies. Differences in inter-organisational interaction between industrial and consumer goods suppliers will focus on the different numbers and types of buyers. It will also focus on the fact that dealing with consumer goods may be less complex. This is because the goods themselves may be less complex³⁸⁹ and require less after sales and technical assistance. Consumer goods suppliers tend to have more personnel and, owing to the greater need to contact organisations and to make sales, these will more often be local employees. Consequently, inter-organisational interaction can occur in the same form that it would between two UK companies.

The actual experiences of personnel involved in both Korean and UK companies in Inter-organisational interaction will be discussed in Chapter 5. It will become clear that, as Holmlund and Kock have more recently found, a complex combination of factors will be influential in structuring relationships, one of which is the economic.³⁹⁰

4.5.4.3. Environmental Interaction

The level of trade between Korea and Europe as a whole rose from \$270 million in 1971 to \$6 billion in 1984. However, this level of trade is very minor in comparison with that

³⁸⁹ Even when highly complex, they will be produced in large numbers and so expertise is relatively cheaper for each item.

³⁹⁰ Holmlund, Maria and Sören Kock, "Buyer Perceived Service Quality in Industrial Networks," *Industrial Marketing Management*, Vol.24, No.2 (March, 1995), pp.109-122.

conducted between the USA and Japan. Similarly, European trade with Korea is less important for European countries than inter-European trade and trade with the USA or even with Japan. This means that governments on all sides are less willing to guarantee that trade continues on the best conditions possible. Partly because of the perception that exporting to Korea is subject to a number of unfair tariffs and partly because Korean suppliers are accused of receiving unfair assistance from their government, European governments have, on occasion, sought to limit the amount of Korean imports and imposed tariffs and other entry barriers upon them. Although some of these measures will be reduced because of GATT agreements, it seems likely that Korean imports to the UK and other European countries will still be subject to restriction. It is partly in order to counteract this that Korean companies have set up in the UK since, being legally British, this enables the Korean groups to take advantage of freedom of trade within the European Community.

The UK business environment in recent years has shown less governmental support for manufacturing industries, massive increases in unemployment, reductions in employment rights and decreasing value of the pound. These measures have had contradictory effects on the positions of UK suppliers in comparison with suppliers from other countries. While costs charged by UK suppliers have been driven down, comparatively few supplier and indeed buyer companies remain. At the same time, devaluation of the pound was matched by massive expenditure of foreign reserves and the currencies of many other countries have also been devalued to similar extents. Meanwhile, unemployment has depressed demand to a significant extent as well as reducing the ability of the Government to take action to assist industry without tax increases or additional public service cuts which would further reduce demand.

In Korea, previous spectacular levels of growth have over recent years decreased, partly owing to recessions in the USA and Japan, which affect Korea directly, since the country is so dependent upon foreign trade. More importantly, problems have arisen from high interest rates, labour costs³⁹¹ and appreciation of the *won*. Simultaneously, the traditional

³⁹¹ Recent reports suggest that labour costs are now higher in Korea than they are in at least parts of the UK. This explains Daewoo's decision to localise in a factory in Antrim, Northern Ireland, which can

problem of the balance of trade deficit has continued to intensify. Other regional actors, such as the Philippines, Thailand and the PRC are increasingly able to compete with Korean goods in terms of technological sophistication and advantageously in terms of price.³⁹²

Consequently, both UK and Korean environments show indications of comparatively poor recent performance, although the differences are that while Korea is not improving as fast as previously, she is still outperforming the UK and, also, Korean industries have the support of their government and there are still considerable incentives are in place to assist in encouraging exporting and internationalisation.

4.5.4.4. Atmospheric Interaction

"Atmosphere" is a metaphor for the emotional and attitudinal superstructure in which interaction occurs. Cultural and social differences between UK and Korean businesspeople impact upon their interaction, for example individuals from either country tend to hold opinions about those from the other country and those opinions will be applied to their organisations and institutions.

Atmosphere is affected by history. For example, compared to the USA, Russia, Japan and China, there has not, traditionally, been much interaction between Korea and the UK. Consequently, mutual knowledge is limited. UK business people are more familiar with Japanese methods and are likely to judge Koreans in comparison with Japanese; conversely, Koreans tend to judge UK business people and methods in comparison with what is more familiar from the USA. However, insofar as Koreans and British people do know each other, the relationship is positive. Although the UK retains a larger economy and greater economic ability, Korea is growing swiftly and the differences between the two are narrowing swiftly. Consequently, neither side can claim to command the control and economic dimensions of the atmosphere.

produce some 3 million VCRs annually. See "A Tiger in Belfast," *The Economist*, Vol.332, No.7876 (August 13th, 1994), p.52.

³⁹² There are indications that some regional players, specifically Malaysia, have learned the lessons of East Asian industrialisation to such an extent that they can manage their own transition from low cost magnet for foreign investment to industrialised power in its own right. See McLeman, Neil, "Boom Nation Seeks Upward Mobility," *Corporate Location* (July / August, 1994), pp.2-3.

4.6. Conclusion to Chapter 4.

This chapter has described the interaction approach to marketing and purchasing. This approach is most frequently considered to be a combination of basic marketing concepts, behavioural concerns and transaction-cost analysis. This gives the approach a basis of both rationality and non-rationality, which can mean that efforts are made to incorporate non-rational (or intangible) factors into a quantifiable, even numeric framework. This is the approach adopted in the empirical research for this thesis, which seeks to measure and evaluate the role and importance of behavioural concerns. This means that the opinions and subjective judgements of actors involved in relationships must be explored.

Chapter 5: The Network Approach and Korean Marketing Strategy

5.1. Introduction

The previous chapter introduced the interaction approach and explained how it could be used in illuminating the empirical research which was aimed at improving the marketing strategy of *chaebol* in the UK. The present chapter follows a similar pattern in that it introduces a new approach, the network approach, which is then applied to aspects of Korean marketing strategy in the UK. This is necessary because, as has already been established, standard approaches to marketing been shown to be inadequate in describing Korean strategy.

The network approach assumes that much of the theoretical underpinning of the interaction approach is valid. This is because it takes as the unit of analysis the set of relationships which connect actors to each other. This requires that relationships should be measurable and should directly affect business decisions. In some ways, therefore, the network approach supplies the macro perspective that complements the micro perspective provided by the interaction approach. Empirical evidence that shows firms acting in ways suggested by these theories has now started to become available.³⁹³ This research seems to have been pursued most intensively in Europe, perhaps because of the importance of issues surrounding prospective European integration.³⁹⁴

Consequently, while strategy may be determined and planned according to the network approach, the ability of organisations to enact strategies depends on their ability to manage interaction and relationships. That is why the network approach is considered after the interaction approach.

³⁹³ See, for example, Hagedoorn, J., "A Note on International Market Leaders and Networks of Strategic Technology Partnering," *Strategic Management Journal*, Vol.16, No.3 (March, 1995), pp.241-50.

³⁹⁴ Grandori, Anna and Giuseppe Soda, "Inter-Firm Networks: Antecedents, Mechanisms and Forms," *Organisation Studies*, Vol.16, No.2 (1995), pp.183-214. This article provides a useful attempt to chart the different forms of networks and the perspectives by which they can be viewed, showing that multi-disciplinary approaches may be helpful in understanding them. See, also, Grabher, G., ed., The Embedded Firm: the Socio-Economics of Industrial Networks (Routledge: London, 1993) and Williamson, O.E., "Comparative Economic Organisation: the Analysis of Discrete Structural Alternatives," *Administrative Science Quarterly*, Vol.36 (1991), pp.3-37.

5.2. The Network Approach

5.2.1. Aspects of the Network Approach

The network approach aims to demonstrate how a company exchanges its resources with individual customers or organisations through interactions. These interactions take place within a network composed of other companies linked together by individual interactive relationships. The development of the approach is again closely linked to the transaction-cost analysis of Williamson,³⁹⁵ as Thorelli's seminal article demonstrates:

"... the entire economy may be viewed as a network of organisations with a vast hierarchy between the single firm and the markets, i.e. two or more firms which, due to the intensity of their interaction, constitute a subset of one (or several) market(s). Generically, a network may be viewed as consisting of "nodes" or *positions* (occupied by firms, households, strategic business units inside a diversified concern, trade associations and other types of organisation) and *links* manifested by interaction between the positions."³⁹⁶

By making this distinction, the network approach uniquely highlights the unique aspect of each link or relationship between nodes or actors. This conflicts with economics, as Vahlne and Nordström explain:

"The basic assumption is ... that needs and products ... are heterogeneous, which is in direct contradiction to the (traditional) economics literature in which it is assumed that goods supplied (and needs) are homogeneous. If information costs are assumed to be low, the cost of change is consequently zero or, at least, very small. In practice it is possible to find supplier-customer relationships that have lasted for decades."³⁹⁷

³⁹⁵ See, for example, Williamson (1975), *op.cit.* and Williamson, Oliver E., The Economic Institutions of Capitalism (Macmillan Free Press: New York, 1985). This approach assumes that organisations (or hierarchies), which exist because of their ability to exploit economies of scale or scope, will undertake business activities internally only when that is cheaper than leaving it to the market. However, this analysis takes place under conditions of what Simon terms "bounded rationality," that is, it is understood that people cannot process all the information necessary consistently to make accurate decisions. As he observed: "It is impossible for the behaviour of a single, isolated individual to reach any high degree of rationality. The number of alternatives he must explore is too great, the information he would need to evaluate them so vast that even an approximation to objective reality is hard to conceive." Simon (1957), *op.cit.*, p.79.

³⁹⁶ Thorelli (1986), *op.cit.*, pp.37-51.

³⁹⁷ Vahlne, Jan-Erik and Kjell Nordström, "Choices of Market Channel in a Strategic Perspective," in Neil Hood and Jan-Erik Vahlne, eds., Strategies in Global Competition: Selected Papers from the Prince Bertil Symposium at the Institute of International Business, Stockholm School of Economics (London: Croom Helm, 1988), pp.256-282.

As a result, the network can be said to consist of a series or portfolio of unique and valuable relationships, which each have a basis in rational economic analysis. Håkansson describes the network in the following way:

"The network is the framework within which the interaction takes place but is also the result of the interaction. Thus it is affected by the exchanges between the actors."³⁹⁸

The network approach differs, therefore, in that it takes the network itself as the unit of analysis rather than individual organisations or relationships.³⁹⁹ In common with the interaction approach, it assumes that the resources that can be exchanged between links include such intangibles as power, trust and influence. Clearly, this can very easily give rise to considerable complexity, at least in terms of analysis:

"A company can be viewed as a node in an ever-widening pattern of interactions, in some of which it is a direct participant, some of which affect it indirectly and some of which occur independently of it. This web of interaction is so complex and multifarious as to deny full description or analysis."⁴⁰⁰

In attempting to combat this complexity, two methods have generally been adopted: firstly, a distinction is made between "formal" and "informal" agreements;⁴⁰¹ secondly, concentrated markets are taken as the norm.⁴⁰² Additionally, nets, portions of networks, are generally analysed. Mattsson explains:

"We can regard the global industrial system as one giant and extremely complex network since exist always some path of relationships that connect any two firms for obvious analytical reasons, this total network must be subdivided

³⁹⁸ Håkansson (1987), *op.cit.*, p.210.

³⁹⁹ Rogers, Everett M., "Organisations and Networks: Illustrations from the Silicon Valley Microelectronics Industry," Paper presented at the International Research Seminar on Industrial Marketing, Stockholm School of Economics, Sweden, August 29-31, 1984.

⁴⁰⁰ Ford et al. (1986), *op.cit.*, pp.25-41.

⁴⁰¹ Raffa, Mario, "Relationships in High Tech Networks: Small and Large Firms Interdependence," Proceedings of the 8th I.M.P. Conference, Vol.1 (Lyon: September, 1992), pp.287-293.

⁴⁰² Krapfel and Pels observe that while the traditional approaches to marketing cover mass markets, the I.M.P. Group introduced "relationship markets," which were still moderately concentrated, now with the arrival of "network markets" involving also "third party resource providers," the study remains on very concentrated markets, partly because of the difficulties inherent in studying more than a few actors in any depth and partly because of differences in perception regarding market structure. Krapfel, Robert and Jacqueline Pels, "Market Types and Marketing Strategy Rationale for a Network View," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

according to criteria such as interdependence between positions due to industrial activity chains, geographical proximities, etc."⁴⁰³

This method of division has resonances with such marketing activities as segmentation and competitor analysis. In the same way, concentration on one dimension at a time should not mean the other dimensions are ignored. In addition to the operating environment in which organisations exist, they are enfolded by the atmosphere, which is a superstructure consisting of economic and control dimensions,⁴⁰⁴ as well as emotional and other attitudinal dimensions.⁴⁰⁵ However, as the following sections will indicate, power is the critical dimension.

5.2.2. Strategic Advantages of Using the Network Approach

The Interaction Approach does not deal sufficiently with the concept of competition within nets or dyadic relationships. There is a danger in assuming that each actor is more than willing to undertake co-operative strategies with each other or to undertake adaptations to production processes in order to assist the organisations with which it has relationships.⁴⁰⁶ This has been partly remedied by the Network Approach. This allows for deeper appreciation of the possibilities for competition. However, it is still true that the objective of the Network Approach is to describe situations rather than to analyse them. Hence, normative lessons often arise from the process of applying the approach rather than through the outcomes indicated by that application. Cunningham observes that:

"... co-ordination and mobilisation of the network relationships and resources leads to competitive advantage."⁴⁰⁷

⁴⁰³ Mattsson, Lars-Gunnar, "Interaction Strategies - A Network Approach," Paper presented at the Marketing Educator's Conference (San Francisco: Summer, 1988).

⁴⁰⁴ I.M.P. Group (1982), in Ford (ed.) (1990), *op.cit.*, pp.10-27.

⁴⁰⁵ This renders objective evaluation of networks particularly difficult since actors often rationalise their actions and emotions after the event. Sandström, Madelene (1991), "Atmosphere: The Emotional Superstructure of Business Relationships," Proceedings of the 8th I.M.P. Conference, Vol.I (1992), *op.cit.*

⁴⁰⁶ Ford, David, Concluding Remarks in Ford (ed.), *op.cit.*, pp.541-542. See also Campbell, Donald T., "Rationality and Utility from the Standpoint of Evolutionary Biology," in Robin M. Hogarth and Melvin W. Reder, eds., Rational Choice: The Contrast between Economics and Psychology (University of Chicago Press: Chicago, 1986), pp.171-180.

⁴⁰⁷ Cunningham (1987), *op.cit.*, p.3.

Since resources are, by definition, scarce, organisations that have control over or access to them can act to deny the resources to others. It is, therefore, possible to gain a specific (although perhaps temporary) competitive advantage through exploiting that resource.⁴⁰⁸ However, the Network Approach also provides organisations with a means by which competitive advantages can be segmented. Cunningham and Culligan,⁴⁰⁹ for example, in a study of various suppliers of electronic information databases, identified possible areas as including the competence enhancement net, the technological development net, the technological adaptation net, the value adding net, the market opening net and others. The authors conclude that:

"... while network forms are necessarily manifest in terms of co-operative relationships, the underlying driver of these relationships is the search for competitive advantage. Consequently, while networking is a valid method of competition with elements outside the focal net, inevitably, competitive forces reside within that net and condition its operation and evolution."⁴¹⁰

In other words, the nets which an organisation might consider as a basis for such segmentation possess different boundaries and actors, with those actors occupying different positions with respect to each other. Therefore:

"Competing firms within the industry are involved in several nets simultaneously to achieve specific and complementary goals ... each net type may be particularly effective under certain market conditions and ... each will be characterised by the involvement of particular dominant partners."⁴¹¹

The advantages that individual organisations obtain through examination of these nets may be classified according to their relative value. One method of attempting this has been described by Rautkylä⁴¹² who categorises competitive advantages as being either lower order or higher order. Lower order advantages (e.g. low labour costs or cheap resources) are defined as being relatively easy to imitate, while higher order advantages (e.g. product quality or intellectual superiority) are more difficult to replicate. However,

⁴⁰⁸ This model may be compared to that offered by Porter (1990), *op.cit.*, pp.1-32.

⁴⁰⁹ Cunningham and Culligan (1988), *op.cit.*

⁴¹⁰ *ibid.*

⁴¹¹ *ibid.*

⁴¹² Rautkylä, Ritva, "Strategic Capabilities in Internationalisation: A Socio-Ecologic Network Approach," Proceedings of the 8th I.M.P. Conference (1992), Vol.II, *op.cit.*, pp.288-301.

these advantages too will eventually be assimilated by competitors. This is clearly applicable to Korean marketing strategy in a macro sense. The race for higher order advantages is similar to the race to become part of the relevant networks. That this is not necessarily a simple procedure is discussed in the following section.

5.2.3. Practical Difficulties of the Network Approach.

The principal practical difficulty attendant upon the network approach is that of defining and describing the actors in that network in sufficient detail. As noted previously, Ford, Håkansson and Johanson observe that, for organisations, the "web of interaction is so complex and multifarious as to defy full description or analysis."⁴¹³ This is made more difficult by the fact that networks have many dimensions and because of the difficulties in studying interpersonal interactions.⁴¹⁴ Until recently, theorists have been mostly concerned with describing the basic principles of networks⁴¹⁵ rather than rigorously attempting to portray behaviour in actual networks.⁴¹⁶ Studies of even triadic relationships have encountered considerable difficulties in coping with the level of complexity involved.⁴¹⁷

⁴¹³ Ford *et al.* (1986), *op.cit.*, pp.25-41.

⁴¹⁴ Additionally, it has been written that network structure will be rearranged substantially by the attempt to organise it or even to observe it. For example, " ... if marketing scanning is based on networks of interpersonal relationships that cannot be organised without risk of destroying them, it is almost impossible to define a scanning orientation. To exit this dilemma, one can draw the hypothesis that the person in interaction should not organise [*sic*] his network, so as to remain in a non-utilitarian approach to the relationship." Cova, Bernard, Florence Mazet and Florence Muet: "Intelligence Gathering Networks: The Case of Contracting Firms," Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

⁴¹⁵ This failing, which may be explained by the newness of the approach, has been criticised by Moller in the following terms: "Although the network approach is primarily dynamic, the majority of studies have focussed on structural issues. The dualistic nature of networks, their soft social-organisational dimension and hard economic and technological dimensions may call for differentiated use of methodology ... Compared to the political-economy approach - which also provides a systematic framework and emphasises contextuality - the network approach is weak in its explanatory aspects and subsequently weak in prediction." Moller, K.E. Kristian, "Interorganisational Marketing Exchange: Metatheoretical Analysis of Current Research Approaches," Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

⁴¹⁶ See, for example, Araujo, Luis and Carlos Brito, "Patterns of Co-operation in the Port Wine Industry: A Network Perspective," Proceedings of the 8th I.M.P. Conference (1992), Vol.II, *op.cit.*, pp.5-21, Raffa (1992), *ibid.*, pp.286-293, Anderson, Helen, "A Network Illustrated: A Description of Relationships Between Small and Large Companies in a Local Community," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.* and Cunningham and Culligan (1988), *op.cit.*

⁴¹⁷ See, for example, Easton, Geoff and Miguel Henriques, "Competition in Triadic Relationships," Proceedings of the 8th I.M.P. Conference (1992), Vol.II, *op.cit.*, pp.120-133 and Phil Smith and Yens Laage-Hellman, "Data Handling in Network Research," (1992).

A further practical difficulty of the network approach is that the emphasis has often been on co-operative relationships rather than competitive dealings. As a result, network dynamics have tended to ignore the disruptive efforts, misinformation and relationship breaking tactics which organisations routinely use to improve their market positions. Many organisations will destroy aspects of the network than co-operate with its members. Hence, the application of the network approach to concepts of marketing and purchasing strategy should be attempted with caution and on the understanding that it will not always accurately reflect an organisation's true intentions.

As an example of the difficulties likely to be encountered, Araujo and Brito⁴¹⁸ have examined the port wine industry in Portugal. They delineated the relationships that exist between growers, shippers and other actors in the network. Relationships in this network are frequently long standing and many decisions are based on tradition and custom. The number of actors is strictly limited by the geography of the area: i.e. there are only a limited number of places where the appropriate grapes can be grown to yield the required quality of wine. Furthermore, considerable capital investment would be required before an alternative company could enter the market since the port wine itself must be seasoned for a number of years before it can be bottled. There is no guarantee that the overall quality will meet technical standards. The authors note that even within a comparatively limited network such as this, political manoeuvring is constantly taking place with often subtle changes of position by coalitions of actors. They infer that even with such a bounded network as they describe, understanding the full extent of relationships and the changes in them can be virtually impossible.

This tends to suggest that only the actors within networks are likely to have the opportunity to gather sufficient information and devise accurate enough interpretation to

⁴¹⁸ Araujo and Brito (1992), *op.cit.*, pp.5-21.

understand the relationships around them. The network of relationships will contain many actors and the interactions forming it will be on many different levels (e.g. technical, financial, marketing). Therefore, it will be virtually impossible for an outside agency to gain enough knowledge of the situation to understand it properly.

5.3. Application of the Network Approach to Marketing Strategies

The previous chapters described the marketing strategies of *chaebol* and the factors that have contributed to them. This chapter will describe some of the more particular aspects of strategy - or tactics - and the ways in which the empirical research attempted to investigate them. The purpose of this is twofold:

- firstly, to summarise how the marketing strategy described in the previous chapters will be manifested in practice;
- secondly, to investigate whether *chaebol* actually behave in this way.

The empirical research also investigated the perceptions of the *chaebol's* partners. Matching the perceptions of both buyers and suppliers will help to determine the value of the strategies actually adopted.

The topics discussed in this chapter reflect the order of the process followed by *chaebol* in entering a foreign market such as the UK.⁴¹⁹ For example, barriers to entry must be considered in order to assess the feasibility of the possible market entry, followed by decisions in connection with the form of market entry mode that will be most helpful to the company. Subsequently, the *chaebol* must assess the market and organise their efforts to penetrate it efficiently through segmentation; the *chaebol* will also need to consider its positioning within the market or markets which it has entered. Finally, there will be a consideration of information systems, since it is information that enables strategies to be satisfactorily enacted.

⁴¹⁹ The linear timeframe used by standard marketing texts is adopted here. This does not mean that it is uncritically accepted, as previous chapters have made clear.

5.3.1. Barriers to Entry

Businesses exist to make profits. Generally, the fewer competitors there are in a market, the more opportunities there are for profits to be made. Consequently, it is reasonable to assume that organisations in a market will hope to resist the arrival of new entrants, since:

"New entrants to an industry bring new capacity, the desire to gain market share and, often, substantial resources. Prices can be bid down or incumbents' costs inflated as a result, reducing profitability."⁴²⁰

At the same time, there are other independently arising factors which can deter organisations attempting to penetrate a market. Collectively, these are known as barriers to entry⁴²¹ or, more properly, "mobility barriers."⁴²² These represent:

"...either absolute costs of movement from one group to another or the operating cost penalty relative to the incumbents that the entrant must face."⁴²³

It is clear that barriers to one organisation represent competitive advantages to another organisation.⁴²⁴

From an international marketing / purchasing perspective, there should also be recognition of cultural differences as an entry barrier. More specifically, these are the preconceptions that businesspeople have about the difficulties that may be encountered when dealing with organisations from other cultures. Therefore, this barrier to entry can be likened to the experience curve, which Porter suggests as an additional variable.⁴²⁵ The *chaebol* that are investigated in this thesis have already moved into the UK market and so the mobility or entry barriers have been partly overcome in physical terms, if not necessarily in terms of

⁴²⁰ Porter (1980), *op.cit.*, p.7.

⁴²¹ The original concept (or at least its description) appears to derive from Bain, J., Barriers to New Competition (Harvard University Press, 1956).

⁴²² See, for example, McGee, J. and H. Thomas, "Strategic Groups: Theory, Research and Taxonomy," *Strategic Management Journal*, Vol.7 (1986), pp.141-160 and Caves, R.E. and M.E. Porter; "From Entry Barriers to Mobility Barriers: Conjectural Decisions and Contrived Deterrence to New Competition," *Quarterly Journal of Economics*, Vol.91 (1977), pp.241-262.

⁴²³ McGee, J., "Strategic Groups: a Bridge Between Industry Structure and Strategic Management," in Thomas and D.M. Gardner, eds., Strategic Marketing and Management (Wiley, 1985).

⁴²⁴ John H. Grant and William R. King, The Logic of Strategic Planning (Boston: Little, Brown and Company, 1982), pp.48-49. In this sense, it might be helpful to consider Cunningham and Culligan's vision of organisations or groups "...surrounded by mobility barriers of different heights [and] .. these mobility barriers are asymmetrical on the entry and exit side." M.T. Cunningham and K.L. Culligan (1988), *op.cit.*

⁴²⁵ Porter (1980), *op.cit.*, pp.12-13.

culture or organisational structure. However, the methods by which they have been overcome in themselves have implications for the ways in which the companies will operate; for example, by using a licensing agreement or an agent or adopting a middle position in the market.

The concept of networks is relevant to this issue of entry or mobility barriers both for defence and to facilitate role redefinition. This is because the network is an organic construct:

"The concept "network connection" allows us to specify the boundaries of concrete networks and develop a theory in which events happening at any location in the network have predictable repercussions within the boundaries of the network."⁴²⁶

For example, Cunningham and Culligan propose that by using resource access analysis,⁴²⁷ organisations can achieve competitive advantage through technology transfer, market access and competitor blocking.⁴²⁸

However, Thorelli writes that the ability of networks to resist intervention by new entrants is limited:

"... the boundaries around most networks are rather flexible. They are responding to environmental impulses from changing public policies, lifestyles, technologies, as well as neighbouring networks."⁴²⁹

⁴²⁶ Cook, K. *et al.*, "The Distribution of Power in Exchange Networks: Theory and Experimental Findings," *American Journal of Sociology*, Vol.89, No.2(1983), pp.275-305.

⁴²⁷ Cunningham and Culligan (1988), *op.cit.* An appropriate way of describing resource access analysis is in terms of Porter's diamond of forces. These were empirically tested in a network framework by Karakaya and Stahl. The criteria were:

- cost advantages possessed by those already active in the market;
- capital required to enter the market;
- switching costs associated with changing suppliers;
- problems associated with gaining access to distribution channels;
- government policy.

The authors also identified some differences in depending on whether early or late entry was being attempted. Research results indicated that all these criteria are relevant to various degrees. Naturally, there are indications that other, untested variables would also have been important. Nevertheless, there is evidence that barriers to entry caused by the bonds created by long term relationships can be important (Dorey and Valla (1984), *op.cit.*, pp.338-377). See Karakaya, Fahri and Michael J. Stahl, "Barriers to Entry and Market Entry Decisions in Consumer and Industrial Goods Markets," *Journal of Marketing*, Vol.53 (April, 1989), pp.80-91.

⁴²⁸ See Dorey, F. and J-P Valla, "The Multistrat Model: a New Framework for Industrial Marketing Strategies, in P. Turnbull and S.J. Paliwoda (eds.), Proceedings of the Conference on Research Developments in International Marketing (Manchester, 1984), pp.338-377. Mobility barriers are part of the vocabulary developed by Porter. See, for example, Porter (1985), *op.cit.*

A network approach is also relevant to the concept of mobility barriers from the perspective of transaction cost analysis.⁴³⁰ The closer and stronger the relationship between two organisations, the lower transaction costs between them will be. This is because of relationship-specific adaptations to operations and methods. This requires the investment of time and money. Not only will these investments be lost if the relationship is broken (or devalued if the relationship subsequently yields fewer business transactions) but more resources will be needed to develop relationships with other organisations. Hence, a measurable feature of network relationships is the level of transaction or switching costs necessary to create and develop another relationship.⁴³¹ The marketing strategy described in the previous chapters indicated that the features of the ways that *chaebol* have tackled barriers include the following features:

- a measure of organisational isomorphism combined with governmental control. This has caused *chaebol* to take similar forms and to act in similar ways;
- expectation that partners will take some initiative in surmounting barriers;
- the use of personal relationships as a means of overcoming barriers;
- an inevitable need to confront barriers to mobility because of the declining competitiveness of the price leadership strategy.

The empirical research sought to investigate these areas in the following ways:

- determination of which partner first attempted to make contact;
- assessment of the nature of relationships between partners;
- determination of the relative importance of selection criteria. This will be helpful in suggesting appropriate ways of overcoming barriers;
- similarly, examination of the sources of information most frequently used by actors will also suggest ways of initiating the relationships which surmount barriers.

The marketing strategies employed by *chaebol* and the means by which they can be improved are analysed by the empirical research described in the next chapters.

⁴²⁹ Thorelli (1986), *op.cit.*, pp.37-51.

⁴³⁰ This is described in previous chapters.

⁴³¹ Thorelli (1986), *op.cit.*, pp.37-51.

5.3.2. Market Entry Mode

According to the literature, an appreciation of barriers should inform the choice of market entry mode. There are three main choices: exporting, foreign direct investment and licensing.⁴³² Exporting implies the transportation of goods and services produced in the home country to the overseas market; foreign direct investment implies purchasing or acquiring part or all of an overseas based organisation; while licensing implies selling or leasing the production of goods / services or their rights to an overseas organisation. Entering a new market is not inherently a good or profitable decision. Porter observes:

"The economics of entry rests on some fundamental market forces that are operating whenever entry occurs. If these market forces work perfectly, in the economist's sense, then no entry decision can ever yield an above-average return on investment."⁴³³

Consequently, the potential market entrant searches for markets in which market forces are not working perfectly⁴³⁴ and attempts to exploit them. Multinational enterprises tend to have advantages here in that they can exploit market imperfections in different countries and sectors - and gain advantages through resources from many different places.⁴³⁵

Albaum *et al.*⁴³⁶ conclude that the criteria which can affect the market entry mode decision include:

- the nature of the target market;
- products / services to be offered;
- availability of marketing organisation;
- company considerations and governmental policies.

⁴³² See, for example, Rugman *et al.* (1980), *op.cit.*, pp.121-136.

⁴³³ Porter (1980), *op.cit.*, p.340.

⁴³⁴ See, amongst relevant sources, Kumar and Kim (1984), *op.cit.* and Casson (1982), *op.cit.*

⁴³⁵ Hout *et al.* (1982), *op.cit.*

⁴³⁶ Albaum *et al.* (1989), *op.cit.*, pp.142-146.

The authors acknowledge that it is only on very rare occasions that all these criteria will indicate the same mode. de Leo, meanwhile, observes that the entry mode decision will be conditioned by the:

"...interplay between transaction, strategic and environmental specific variables"⁴³⁷

In similar vein, Reid writes that the decision is a product of the interaction between market opportunities and heterogeneous resource patterns⁴³⁸ - i.e. the sources of organisations' competitive advantage. The goods and services investigated here tend to be positioned generally in the middle of market ranges. This is partly because many UK markets are comparatively well developed.

Market entry mode may be defined simply as the method of organising a company to sell products or services in a new market. As well as determining product specifications, promotional and packaging issues, it is also necessary to consider the legal and organisational aspects of the selling unit. This may be in the form of an agent, a licensing agreement, a joint venture or through a clearing house. More relevant to this thesis will be decisions regarding direct investment and the forms that this will take. It is clear that market entry in a foreign market can be much more complex than entering a new market in the same country.

Factors that affect this include government legislation, the level of tariffs, the use of local currency and the degree of technical competence in the target country. Korean companies are relative newcomers to the UK market. Since Korean companies first established themselves in the UK, there has been a shift in balance between the relative economic power of each country. This means that it is no longer possible to produce goods in Korea as cheaply as before because of the considerable rise in the cost of labour. In determining market entry mode in the UK, therefore, Korean companies need to compete on approximately the same terms as their UK competitors. As a result, Korean companies often rely on intangible factors such as establishing a good business relationship.

⁴³⁷ de Leo, Francesco, "Entry Strategies in International Markets: The Role of Inter-Firm Relationships," undated paper.

⁴³⁸ Reid, S., "Firm Internationalisation: Transaction Costs and Strategic Choice," *Bell Journal of Economics* (Winter, 1983), pp.44-56.

Since competition is on an equal footing, the choice of market entry mode becomes even more important. Korean companies, as is true for organisations from many different countries, will often commence market entry by establishing an outpost (e.g. a branch office), which may in time become a much larger independent sales company in its own right. Others will directly set up a sales limited company. The process is logical in that in the early phase of entry, there is a need for instant credibility and sales such as can be provided by local agents. However, as the level of business increases, it becomes more economical to employ company personnel (who may be Korean or UK nationals) rather than paying agents. At the same time, both the company and its Korean employees will become more efficient and valuable through acquiring more knowledge of the foreign (i.e. UK) market.

Korean companies generally operate a policy whereby Korean employees remain in an overseas post for some four to five years. This entails a more or less continual turnover of staff in the UK. Consequently, the relative importance of tangible variables as compared to intangible factors arising from long term relationships is considered to be higher. However, initial qualitative research indicated that the organisational relationship often persists whether or not the personal relationship continues. Respondents involved in this research were, therefore, asked about the relative lengths of personal and business relationships.

A further factor affecting market entry mode is the nature of the products or services to be sold. Where these are large scale industrial items destined for end users (e.g. shipping and containers), then the Korean branch office in the UK tends to act more as a facilitator or co-ordinator. However, in reseller markets, there are many more customers, each of which is comparatively less important since their purchases will be lesser in value and probably more frequent. This means that *chaebol* need to maintain more staff and support in the UK to cater for the increased number of customers. This might be achieved by establishing relationships with various intermediaries or else by moving down the chain of distribution and selling to organisations closer to the end users (i.e. retailers rather than importers). *Chaebol* active in such markets generally maintain a larger presence in the UK, both because of the need to contact more organisations and because they have been

involved in the localisation process for longer. Market entry mode acts, therefore, as both a contributory factor to marketing strategy and a result of it.

The network approach may be used to deal with market entry mode. Indeed, the network approach is particularly useful because it is specifically concerned with the connections between actors. The form that actors take within a network will affect the way they deal with each other. The usual process is represented as evolution through the stages of licensing, exporting via an agent or distributor, exporting through its own sales representative or sales subsidiary, local packaging and assembly and, finally, foreign direct investment.⁴³⁹ This process is seen to be a series of economically based decisions. In contrast to this, a network theory of internationalisation⁴⁴⁰ posits three methods by which organisations enter foreign markets: these are by international extension (where relationships have to be established), by penetration (where existing relationships are developed and strengthened) and by international integration (which is achieved by means of augmenting the co-ordination of positions in different national networks).

This concept is developed by Mattsson in the following way:

"[when] The firm has no established relationships in the market [and]... if the network is not very exclusive, it might have some close indirect complementary relations through its suppliers or customers in networks where it is established. It might be possible to use such external resources in its investment process to establish positions in the new network. When the firm is a new entrant, a strategic consideration is to decide at what level in the value added chain the direct relationships should be established and to what extent earlier established relationships should be utilised."⁴⁴¹

Since one of the central concepts of the network approach is the idea that network links represent access to resources, it is clear that, as described above, relationships with actors

⁴³⁹ This sequential model suffers from many faults, some of the more important of which have been outlined in the previous chapter.

⁴⁴⁰ Johanson and Mattsson (1984), *op.cit.*

⁴⁴¹ Mattsson, Lars-Gunnar, "Indirect Relations in Industrial Networks - A Conceptual Analysis of Their Strategic Significance.," Paper presented at the 3rd IMP Conference (Lyon, September, 1986).

occupying positions in other national nets denotes access to the resources of those other nets. Consequently, internationalisation can occur through indirect means.⁴⁴²

A practical example of this from an empirical basis is provided by Ardisson and Bidault.⁴⁴³ They propose that technology transfer from licensors to licensees not only brings transactions opportunities but also facilitates market entry and the development of a network of relationships in the country concerned. The authors quote a number of examples in which this occurs. In essence, technology transfer will take place when the technology possesses an advantage over any competitors in the market place. This automatically gives the licensee a competitive advantage. The greater the advantage, the more that licensees should be interested. Suppliers or licensors, therefore, are the dominant forces in the market and receive transaction opportunities (i.e. the marketing mix is much more in their control). Suppliers can also quite conveniently gain market entry in a number of different countries and, through licensees and their connections, can very quickly establish, penetrate or integrate with a network of relationships with other actors (who might include minor suppliers, government bodies or marketing agents).

The entrant in a foreign market must overcome the problems related to cultural and language differences. Appropriate use of the network can help to reduce these problems. This is because the entrant will bring to a network relationships of its own and may control these. For example, links with government agencies other organisations in quite different markets may be used as information sources. In this way, organisations can acquire favourable positioning through association. That is, if the organisation is considered to be linked to another organisation which is viewed well, then its own reputation may thereby be increased.⁴⁴⁴

⁴⁴² This has been the subject of work by Ghauri, concerning the ways in which localised branch offices commence and develop relationships between each other. See Ghauri (1992), *op.cit.*

⁴⁴³ Ardisson, J-M and F. Bidault, "Technology Transfer Strategies as a Means to Build International Networks," *Industrial Marketing and Purchasing*, Vol.1, No.1 (1986), pp.59-71.

⁴⁴⁴ This idea is familiar from economics and from finance. See, for example, Chu and Chu (1994), *op.cit.* or Edwards, J., "Recent Developments in the Theory of Corporate Finance," *Oxford Review of Economic Policy*, Vol.2, No.4 (1986), pp.1-12.

An empirical example of how this occurs in process has been provided by Monami *et al.*⁴⁴⁵ who described the network dynamics involved when a Swedish company sought to achieve market entry into Russia. The study illustrated the growing level of contact between partners on a number of levels, including personal, technical and governmental. The apparent life cycle of the network may be relevant to the study of other networks in that interactions pass from relative simplicity through complexity and then reverted to simplicity. The application of the Network Approach suggests that this occurs through the creation, augmentation and maintenance of links or relationships between nodes in different nets. Since the approach allows for a much richer appreciation of the possible nodes with which nodes owned or controlled by the focal organisation may interact, then internationalisation may be seen to take place outside of the traditional linear, incremental approach. As will be seen below, internationalisation may be characterised by commitment from the outset, rather than being a feature of the end stage.⁴⁴⁶

The process of market entry, which has been dealt with in this section, precedes that of segmentation, although it may be argued that the two processes should not be separated in time in this way. However, as the application of the Network Approach has shown, the construction of marketing strategies need not be considered as linear processes.

5.3.3. Market Segmentation

Market segmentation as a concept is derived primarily from a paper by Wendell R. Smith, who wrote:

"Segmentation is based upon developments on the demand side of the market and represents a rational and more precise adjustment of product and marketing effort to consumer or user requirements. In the language of the economist, segmentation is disaggregative in its effects and tends to bring about recognition of several demand schedules where only one was recognised before."⁴⁴⁷

⁴⁴⁵ Monami, Eric, Martin Johanson, Alexander de Wit and Nazeem Seyed-Mohamed, "Foreign Market Entry: Scanditronix in Russia," Proceedings of the 8th I.M.P. Conference (1992), Vol.II, *op.cit.*, pp.250-273.

⁴⁴⁶ This appears to be true of *chaebol* in the UK. However, it may be a less accurate representation of the situation facing other organisations who, perhaps having little real intention of doing so, can begin internationalisation unintentionally. However, treating as the enhancement of links between nodes is still relevant.

⁴⁴⁷ Smith, Wendell R., "Product Differentiation and Market Segmentation as Alternative Marketing Strategies," *Journal of Marketing*, Vol.21 (July 1956), pp.3-8.

The basic premise is, therefore, that it is virtually impossible for a firm to penetrate all areas of a market of any size. This may be because the market is too large geographically, demand is too high, the diversity of products / services required is too great or there are too many different types of potential customers. Consequently, while some sections may be covered fully, others must be largely ignored. It is necessary, therefore, for companies to concentrate wherever possible on the more profitable segments. The process of analysing the market and dividing it into meaningful portions is known as market segmentation and the process of deciding which portions or segments to cover is known as target marketing.

That not all segments of the total market may be served equally well may appear to be no more than common sense and, unfortunately, marketing and purchasing strategies have frequently failed to go beyond such a rudimentary analysis. Garda,⁴⁴⁸ for example, observes that little concerted effort has been directed towards effective industrial segmentation and calls for a varied approach using strategic marketing segmentation (SMS) which will aggregate customer groups "so as to maximise (i) homogeneity of demand within segments and (ii) differentiation of demand between segments."⁴⁴⁹ Other writers⁴⁵⁰ have suggested that in order to achieve this, it may be helpful to divide the market according to macro and micro variables. Morris, for example, draws the distinction between the two in the following terms :

"Macro segmentation involves dividing the market into subgroups based on overall characteristics of customer organisations.... [for example]... size, usage rate of the product or service being sold, the application made of the product or service....[and others]....Micro bases for segmentation pertain to characteristics of the decision-making process and the buying structure within customer organisations....[for example].... the position of the buying centre in authority and communication networks, the amount of influence held by key departments, in markets. demographics and personality characteristics of key members of the buying centre....[and others]."⁴⁵¹

⁴⁴⁸ Garda, Robert A., "Strategic Segmentation: How to Carve Niches for Growth in Industrial Markets," in Barton A. Weitz and Robin Wensley, eds., Readings in Strategic Marketing: Analysis, Planning and Implementation (Chicago: The Dryden Press, 1988), pp.135-147.

⁴⁴⁹ Garda (1988), *op.cit.*, pp.135-147.

⁴⁵⁰ This idea is largely derived from Wind, Yoram and Richard N. Cardozo, "Industrial Marketing Segmentation," *Industrial Marketing Management*, Vol.3 (1974), p.155.

⁴⁵¹ Morris (1988), *op.cit.*, p.215.

A less complex approach is favoured by Turnbull and Valla,⁴⁵² who consider micro-segments to have a unit base of individual customers. This would seem to be helpful only in certain markets. However, those market sectors are important to *chaebol* in this research; they include ship building, containers and in certain computer applications markets. The relevance might increase if the process of segmentation is intended to reduce the number of customers dealt with to the individual level. This is one implication of the relationship based approaches to marketing.

More systematically, Bonoma and Shapiro⁴⁵³ have proposed a "nested approach" to the process, which postulates segmentation criteria arranged in concentric circles, from the most general on the outside to the most specific as the innermost ring. Such a tool has the advantage that it allows marketers and purchasers to divide the market according to the relevant criteria to whatever degree is desired.

These methods of segmenting the market are used by Korean companies in a primarily international context.⁴⁵⁴ The organisations involved in the research conducted for this thesis have already made the decision to adopt an international approach to their business and, indeed, have entered the market of another country (i.e. the UK). This decision represents a form of macro-segmentation. Micro-segmentation may be examined by assessing the methods by which companies are selected, the information sources that are consulted in searching for them and demographic organisational details. Each of these may form the basis for nested micro-segments.

The application of the network approach to market segmentation is an innovatory concept and is here explained primarily through resource dependency and resource access analysis. Just as the interaction approach details access to other organisations through interorganisational interactions, the network approach provides a method by which organisations can examine access to resources through their network connections. This

⁴⁵² Turnbull, Peter W. and Jean-Paul Valla, "The Strategic Role of Marketing Management," in Turnbull and Valla, eds., Strategies for International Industrial Marketing: The Management of Customer Relationships in European Industrial Markets (London: Routledge, 1989), pp.250-264.

⁴⁵³ Bonoma, Thomas V. and Benson P. Shapiro, Segmenting the Industrial Market (Lexington, Mass.: Lexington Books, 1983).

⁴⁵⁴ This thesis will consider segmentation to be a suitable option for buyers / resellers searching for suppliers.

has clear implications for market segmentation in that, as links and nets may be examined and evaluated in the light of various criteria, then an organisation's connections with other organisations and resources can be evaluated, categorised and prioritised according to the criteria that may be applied to the network connection. The interaction approach suggests methods of undertaking micro-segmentation of the market by means of customer relationship portfolios, while the network approach describes macro-segmentation. This might take place on the basis of those organisations with which the company has a direct relationship (which will be comparatively few) and those with which it has an indirect relationship. Indirect relationships may be further divided, according to Mattsson,⁴⁵⁵ into seven distinct dimensions. These include:

- the strength, type and content of direct bonding, interdependency or interconnected nature of direct relations possessed by each organisation;
- the distance from the focal firm;
- whether the relationship is of a vertical or horizontal nature;
- whether the relative positions of the organisations are complementary or competitive;
- or the connection is narrow or wide and
- the value added of a focal firm's direct relationship.

These dimensions all provide bases on which segmentation might take place. Naturally, the scope and nature of these dimensions will vary according to the specific organisation involved. Indeed, in many cases, it is likely that segmentation will not be feasible this way since potential companies in each segment may vary considerably with regard to other important variables. However, this need not invalidate the approach just as it does not invalidate segmentation generally that the division of firms according to any individual criterion does not produce results that are considered to be logical or coherent with the results obtained by segmentation according to another criterion. Perhaps a more important criticism is the lack of rigour in these dimensions, since they are not easily or

⁴⁵⁵ Mattsson (1986), *op.cit.*

satisfactorily quantifiable and, also, fail to take account of ideology or institutional behaviour. These are grounds on which it is possible to criticise behavioural approaches to marketing more generally.

Additional criteria by which segmentation might take place include the following:

- the presence of positions in different nets with which co-ordination may be made or extended
- or, combining the network with the interaction approach, according to relative power dependencies obtaining in individual links.

In order to conduct segmentation, it is necessary to take the perspective of an individual organisation. Cunningham and Culligan⁴⁵⁶ observe that the most important relationships involving organisations at any one time may form what are termed "focal nets."⁴⁵⁷ The set of focal nets defines the total network while competition derives from the periodic interaction of such focal or partial nets. Consequently, the organisation wishing to segment the market considers itself at the centre of the focal net.⁴⁵⁸ It may then undertake macro-segmentation according to the criteria described above. Subsequently, micro-segmentation may be conducted on the basis of a customer relationship portfolio approach. A further method would be by prioritising relationships and potential relationships according to the amount and type of resources to which the relationship gives access.⁴⁵⁹

Undertaking tasks such as segmentation on the basis of traditional approaches to marketing can be assisted by mathematical models. This has yet to be achieved for more recent approaches satisfactorily. Nevertheless, there are indications that mathematical procedures are possible. Consequently, the economic and rationally quantifiable basis of network relationships will emerge. Cook, for example, writes that:

⁴⁵⁶ Cunningham and Culligan (1988), *op.cit.*

⁴⁵⁷ In some ways, considering a network from the perspective of a focal organisation is contrary to the central concept of taking the entire network (or at least net) as the unit of analysis.

⁴⁵⁸ More than one focal net may be relevant to individual organisations.

⁴⁵⁹ This may of course give rise to a situation in which alternative routes provide similar levels of access to similar levels of resources. If it is thought to be absolutely necessary to prioritise organisations in terms of their desirability, then this may be achieved through employing ever more subtle segmentation criteria. However, it may be more relevant to note that, ultimately, the creation of marketing and purchasing strategies is as much an art as a science and, hence, relies to some extent on subjective and qualitative grounds.

"Concepts from graph theory can be employed in the analysis of exchange networks in such a way that measures can be obtained for important network features including centrality, distance, balance, reachability, etc."⁴⁶⁰

Such mathematical ideas allow for the use of the pivot model to assist in the measurement of equilibrium between two nodes in a network.

Investigating the ways in which *chaebol* have segmented their markets in the UK takes place according to two perspectives. The first of these, the determination of which country's markets to enter (the macro-segmentation decision) merges with market entry strategy. The second perspective is the micro-segmentation decision, which is concerned in this case with dividing customers within the UK. Investigation of this area was conducted largely by qualitative research. The success of the segmentation process will be dependent partly on the suitability of the structure of *chaebol* in the UK for dealing with the market segments which are targeted. It should be possible to spot this in both the methods by which partnerships are initiated and in how successful those relationships turn out to be.

5.3.4. Market Positioning

Market positioning denotes the situation in which a company (or its products and services) finds itself relative to others in the same market. Porter⁴⁶¹ observes that "positioning embodies the firm's overall approach to competing" and is composed of two major variables: competitive advantage and competitive scope. Organisations will, therefore, seek to identify where they hold advantages over competitors and will concentrate on production in those areas.⁴⁶² Albaum *et al* note that:

"The conceptual foundation of international positioning is that a set of products can be viewed as different collections of attributes which can provide benefits to

⁴⁶⁰ Cook, Karen S., "Exchange and Power in Networks of Interorganisational Relations," in J. Kenneth Benson (ed.), *Organisational Analysis: Critique and Innovation* (London: Sage Publications, 1977), pp.64-84. In such systems, the concept of centrality is equated with influence or "systemic power." Edward W. Lehman, *Co-ordinating Health Care: Explorations in Interorganisational Relations* (Beverly Hills: Sage Publications, 1975).

⁴⁶¹ Porter (1990), *op.cit.*

⁴⁶² This will not always be the case since larger organisations may wish to become known in all sectors of the market, service companies will wish to offer a comprehensive range of services (possibly sub-contracting to meet requirements) and others will want to occupy the same position as a successful brand or product. However, most theories of MNEs and MNE activity are founded on this assumption.

the buyer / user. When targetting the specific market segments, the marketer tries to develop those product attributes that generate the benefits matching the requirements of a targetted segment."⁴⁶³

This is achieved, according to Aaker and Shansby,⁴⁶⁴ by developing strategies based on product attribute, price compared to quality, use or application, product user, product class and competitor.

In terms of Korean companies in the UK, the concern is to establish how their general position in the market is viewed by UK buyers / resellers. Since, apart from some specialised areas, *chaebol* were fairly unknown in this country, their positioning depended considerably upon the preconceptions held by UK companies and upon the image that they can create for themselves. As previously described, a combination of increasing labour costs and lack of technological innovation has driven Korean goods into middle positions in many sectors. Products and services can be unpopular since they offer neither the low costs of third world countries nor the high quality technologically advanced features of Japan or western countries.⁴⁶⁵ To establish whether this accurately reflects how buyers perceive Korean companies and whether better positioning opportunities are available, it is helpful to think of positioning in terms of the dimensions of hierarchy; structure and cognition. Hierarchical positioning reflects power differences, i.e. which company is strongest in the market or which company is the most competitive; structural positioning reflects the industry type of a particular organisation or its place in the distribution network; cognitive positioning reflects the image of the organisation as perceived by others.⁴⁶⁶ It was measured in this thesis by brand and company and overall

⁴⁶³ Albaum *et al* (1989), *op.cit.*, p.208.

⁴⁶⁴ Aaker, David A. and J. Gary Shansby, "Positioning Your Product," *Business Horizons*, Vol.25, No.3 (May-June, 1982), pp.56-62. The authors acknowledge the similarities between this process and segmentation.

⁴⁶⁵ A study of Korean managers showed that they rated Japanese goods highly not so much because of overall quality but because of more intangible factors such as communication, reliability and technical assistance. It was also noted that Japanese companies have attempted to localise their goods and services, thereby competing directly with local suppliers. Chang, Dae Ryun and Ik-Tae Kim, "A Study on the Rating of Import Sources for Industrial Products in a Newly Industrialising Country: The Case of South Korea," *Journal of Business Research*, Vol.32, No.1 (January, 1995), pp.31-9.

⁴⁶⁶ Stubbart notes that: "...cognitive scientists subscribe to a doctrine called functionalism, viewing cognition as intentional, representational and computational" (Stubbart, Charles I., "Managerial Cognition: A Missing Link in Strategic Management Research," *Journal of Management Studies*, Vol. 26 (1989), pp.325-348). Consequently, it appears valid to attempt to measure cognitive perception. Furthermore, cognition is not an aspect of prejudice or other unconscious and, hence, unwitting

reputation. Hierarchical positioning was also considered, in terms of the company being the market leader, among the strongest, middling or weak or very weak. The diagram below illustrates these points.

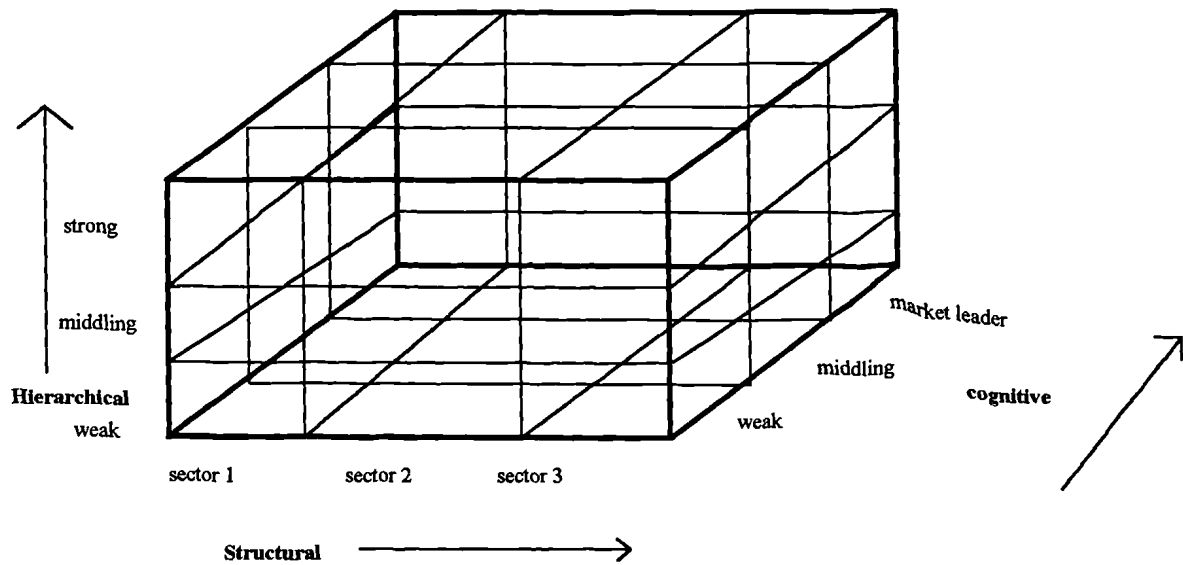


Figure 4. Hierarchical, Structural and Cognitive Positioning

All three types of positioning have implications for marketing strategy.⁴⁶⁷ Appreciation of what the desired positioning is will affect the market entry mode. Hierarchical and cognitive positioning have been presented primarily on the basis of power dependency relationships. However, this need not always be the case. For example, a company which finds itself in a comparatively weak position or which deliberately puts itself into a weak position, might be able to turn this to advantage by not appearing to challenge the major players in the market. As a result, the company might be used by buyers interested in using multiple sources without attracting retaliation from other suppliers. This is certainly true in retailing, where certain retailers might wish to offer a broad range of goods in several price categories. Examples of this in this research include footwear,⁴⁶⁸ clothing and some consumer electronics equipment. Positioning, therefore, is a dynamic process.

determination. Hence, it may be materially affected. See, also, Miles, R. and C. Snow, "Causes of Failure in Network Organisations," *California Management Review*, Vol.34, No.4 (1992), pp.53-72.

⁴⁶⁷ See, for example, Schwenk (1989), *op.cit.*, for a discussion of how cognitive, organisational and political factors interact in order to help determine strategic management decisions. Possible methods for attempting to measure such interaction have been described by Ginsberg, Ari, "Construing the Business Portfolio: A Cognitive Model of Diversification," *ibid.*, pp. 417-438 and Haley, Usha C.V. and Stephen A. Stumpf, "Cognitive Traits in Strategic Decision-Making: Linking Theories of Personalities and Cognitions," *ibid.*, pp.477-497.

⁴⁶⁸ A 1991 report by the Korea Foreign Trade Association outlined a number of different reasons for the generally low standing of Korean goods, including: problems with marketing and customer service, product design and neglect of quality control over a long period. This situation is consistent with the

The research conducted for this thesis has attempted to measure the positions of Korean suppliers and UK buyers in terms of all three of these criteria. The intention has been to attempt to establish whether significant variations exist in terms of the relationships formed and maintained by Korean and UK companies with respect to the positioning of their partners. Thorelli observes that the positioning of an organisation in the network is:

"...a matter of as great strategic significance as positioning its product in the marketplace. Networks may be tight or loose, depending on the quantity (number), quality (intensity) and type (closeness to the core activity of the parties involved) of interactions between the positions or members."⁴⁶⁹

Positioning is both a cause and a result of the influence that an organisation possesses over other actors in the network. Mattsson states that the term "position" can refer to four distinct possibilities:

"... the functions performed by the firm for other firms ... the relative importance of the firm in the network ... the strength of the relationships with other firms the identity of the firms with which the firm has direct relationships."⁴⁷⁰

Consequently, the organisation's position will be constantly moving in relation to the other actors in the net as changes in relationships and interaction with the environment affect it. As mentioned previously, such changes affect the entire network since all the nodes are interconnected.⁴⁷¹ As a result, positioning and repositioning is a constantly dynamic process, not all of which is under the control of the focal organisation.⁴⁷² However, these changes⁴⁷³ may be so minor in nature as to be virtually undetectable. Therefore, it is

description of marketing strategy in the previous chapters. See Kim, Jin-Moon, "Building a New Image," *Business Korea*, Vol.9, No.6 (December, 1991), pp.29-30.

⁴⁶⁹ Thorelli (1986), *op. cit.*, pp.37-51.

⁴⁷⁰ Mattsson (1986), *op.cit.*

⁴⁷¹ Easton (1989), *op.cit.*, pp.161-182.

⁴⁷² Ford and Thomas consider that the network structure itself constrains the range of activities possible to actors operating within it: "... the structure of economic exchange relationships defines the bargaining power and competitive forces to which the firm is subject ... network structure also sets the boundaries within purposive change can be carried out by the firm." Ford, David and Richard Thomas, "Network Position, Technology Strategy and Purchasing Practice," Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

⁴⁷³ Anderson and Havila observe that: "... change is the successive outcome of the position the actor has within the network structure combined with the activities the actor performs from that position." Anderson, Helen and Virpi Havila, "Role and Position: Understanding Dynamics in Networks," Paper Presented at the 9th I.M.P. Conference (1993), *op.cit.*

necessary to distinguish between micro and macropositional changes. The latter are generally the deliberate attempts of organisations to orient themselves in networks.

The relationship between micro and macro positioning is defined by Johanson and Mattsson in the following way:

"... micropositions are characterised by: (a) the role of the firm in relation to the other firm(s); (b) its importance to the other firm; and (c) the strength of the relationship with the other firm. ... macropositions are characterised by: (a) the identity of the other firms with which the firm has direct relationships and indirect relationships in the network; (b) the role of the firm in the network; and (c) the strength of the relationships with other firms."⁴⁷⁴

The act of macro positioning should be seen in the context of an organisation's overall strategy within a network. Thorelli⁴⁷⁵ considers this to have four principal stages: entry, positioning, repositioning and exit. Positioning and repositioning are not always under the full control of the organisation, since:

"... The net clearly constrains and circumscribes the behaviour of the focal firm... [therefore] ... it should not be thought that position changes are easy to achieve or always possible. Firms may be in preferred positions and defend those positions by any means at their disposal including making other microposition changes to nullify the initiated change. Firms also have desired positions which they may be seeking to achieve and which may be threatened by the proposed changes."⁴⁷⁶

From an industrial network perspective, organisations will be able to impose their own attempts at positioning and repositioning on other actors to the same extent that they have influence or power over those actors.

Forsgren and Pahlberg⁴⁷⁷ propose that influence in a network is derived from the number of relationships (i.e. links between nodes) that an organisation possesses with both internal and external elements, since each may be considered to be a resource in its own right.⁴⁷⁸

Hence, there is a causal link between relationships, influence and positioning since

⁴⁷⁴ Johanson and Mattsson (1986), *op.cit.*

⁴⁷⁵ Thorelli (1986), *op.cit.*, pp.37-51.

⁴⁷⁶ Easton (1989), *op.cit.*, pp.161-182.

⁴⁷⁷ Forsgren, Mats and Cecilia Pahlberg, "Managing International Networks," Paper presented at the 7th I.M.P. Conference (1991), *op.cit.*

⁴⁷⁸ Naturally, some nodes and, hence, the links between them, will be more important to organisations than others.

hierarchical positioning confers "legitimate" power and the relationships between actors are:

"...characterised by multiplexity, continuity and specificity. [Hence]... networks are non-transparent."⁴⁷⁹

Forsgren and Pahlberg suggest, therefore, that the links between the actors in a network, although perhaps difficult to discern accurately, are open to objective measurement and, as noted above, networks possess multiple dimensions.⁴⁸⁰ Consequently, networks are measurable according to the positioning criteria (i.e. structural, hierarchical and cognitive) that were outlined previously.

This thesis is concerned with a range of Korean companies of different types and in a range of different sectors. Consequently, it is not feasible to attempt to map in any depth all the relationships which they possess. Instead, it is intended that a more generic or macro-network structure may be delineated, such that the position of Korean companies as a whole can be mapped in relation to buyers / resellers and relevant intermediaries. This may be seen in areas such as market entry strategy and in trying to determine relative levels of power in channel relationships.

The following section describes the ways that firms try to position themselves within foreign markets.

5.3.5. Network Positioning in the Foreign Market

Joong-Woo Lee⁴⁸¹ describes network positioning in the foreign market as a three stage process. Each of these is characterised by the development of bonds between actors, either through short or long term interaction processes. The first stage is the position initiation stage, which is:

"... all activities between a foreign actor and a local actor taken to initiate contacts and establish a relationship.... activities are focussed on the gradual penetration of

⁴⁷⁹ Forsgren and Pahlberg (1991), *op.cit.*

⁴⁸⁰ Cunningham and Culligan (1988), *op.cit.*

⁴⁸¹ Lee (1991), *op.cit.*

foreign nets through establishment of positions that are new to the foreign actor."⁴⁸²

This process takes place by gathering the information necessary to enable resource exchange. Gathering information of course reduces uncertainty and the cost of transactions. In assuming that positions are new to the actor, Lee's model resembles the theory of network internationalisation presented earlier, in terms of international extension.⁴⁸³

The second stage is position building. This is:

"... characterised by actors' activities undertaken to establish the relationships through the exchange and adaptations and creation of particular bonds. The activities are focussed on networks in which the actor already has a position."⁴⁸⁴

This is again comparable with the strategy of penetration in Johanson and Mattsson's internationalisation model.⁴⁸⁵ There are also clear links with transaction-cost analysis, for example in the similarity between establishing network connections and the internalisation decision. Again, relationship building (i.e. behavioural activities) may be equated with rational cost analysis.

The final stage in Lee's model is position integration, which is :

"... characterised by actors' activities undertaken to institutionalise long-term bonds. The activities are focussed on integration of position by increasing co-ordination in different local nets."⁴⁸⁶

This is again comparable to internationalisation models, although the integration is between positions in different local nets rather than different national nets.⁴⁸⁷ There are problems with this model in assuming, as other internationalisation models do, that the development of network connections - and the relationships these represent - is an predestined and mechanistic process. However, the difficulties in gathering data about

⁴⁸² *ibid.*, p.67.

⁴⁸³ Johanson and Mattsson (1984), *op.cit.*

⁴⁸⁴ Lee (1991), *op.cit.*, p.68.

⁴⁸⁵ See p.68, Johanson and Mattsson (1984), *op.cit.*

⁴⁸⁶ Lee (1991), *op.cit.*, p.69.

⁴⁸⁷ See p.68, Johanson and Mattsson (1984), *op.cit.*

relationships which do not flourish⁴⁸⁸ can mean that it appears inevitable that relationships grow in the way they do when this is not really the case.

According to the network concept, therefore, the processes of internationalisation and positioning are very similar. Both methods seek to develop access to resources (i.e. principally other actors in the net) and attempt to achieve this through interaction with those resources (actors). The marketing literature generally has tended to concentrate on the idea that organisations change their perceptions to a global outlook. This implies there is a definite method of conducting international business to which organisations aspire. The Korean term for this process is *hyun jee hwa*, which translates as "localisation." This phrase describes Korean multinationals moving away from a global perspective towards a series of local perspectives. In terms of the network approach, MNEs adapt their resources so that network relationships can be more efficiently developed.⁴⁸⁹ This approach differs significantly from other models⁴⁹⁰ and shows that Korean companies enter foreign markets as a deliberate, planned policy, backed by governmental incentives.⁴⁹¹

As described above, the positioning development process is characterised by the increasing co-ordination between nodes in different national nets. The *chaebol* contacted for the research for this thesis attempt this both intra organisationally and inter organisationally.⁴⁹² That is, co-ordination will take place both with a range of other

⁴⁸⁸ See, for example, John and Reve (1982), *op.cit.* and Borgida, E. and R. Nisbett, "The Differential Impact of Abstract vs. Concrete Information on Decisions," *Journal of Applied Social Psychology*, Vol.7 (1977), pp.258-271.

⁴⁸⁹ In certain circumstances, network relationships have been observed to mature in a comparatively short timescale. See Smith, Phil and Geoff Easton, "Network Relationships: A Longitudinal Study," Paper presented at the 3rd I.M.P. Conference (1986), *op.cit.*

⁴⁹⁰ That is, *chaebol* begin the internationalisation process at what most writers consider to be the final stage of international development. See, for example, Cavusgil, S.T., "Differences Among Exporting Firms Based on Degree of Internationalisation," *Journal of Business Research*, Vol.12 (1984), pp.195-208, Johanson, J. and J.E. Vahlne, "The Internationalisation Process of the Firm: A Model of Knowledge Development and Increasing Foreign Commitments," *Journal of International Business Studies*, Vol.8 (Spring / Summer, 1977), pp.23-32 and Bilkey, W.J. and G. Tesar, "The Export Behaviour of Smaller Sized Wisconsin Manufacturing Firms," *Journal of International Business Studies*, Vol.9 (Spring / Summer, 1977), pp.93-98.

⁴⁹¹ This has been more fully described in previous chapters. This explanation is provided for the connections that are made between positioning, internationalisation and localisation.

⁴⁹² Biemans notes that: "... networks should be considered at two different levels. While each of the major parties involved in the product development process is part of a large external network, every one of them has its own internal network as well." Biemans, Wim G., "The Managerial Implications of Networking," *European Marketing Journal*, Vol.8, No.4 (December, 1990), pp.529-540.

organisations and a range of departments within those organisations (e.g. technical, administrative and financial). The companies set up by *chaebol* in the UK may act, initially, as liaison offices which are unable to contract new business on their own. However, they exist as intermediaries between UK buyers / resellers and the full internal network and resources of the individual *chaebol*. In other words, the commitment to localisation is present from the start, although the ability to carry it out may vary in time. An example of this is Korean localisation in Vietnam, which began after the troop withdrawal's from Cambodia in 1989. *Chaebol* began opening offices in the country for motives including the following:

- investigation of possibility of exploiting abundant natural resources;
- looking for a source of cheap but skilled labour;
- investigation of possibilities of developing the country's infrastructure;
- ensuring a Korean presence when the USA eventually began to deal with the country.⁴⁹³

In other words, the opening of offices in Vietnam acted as conduits for the resources of the *chaebol* to become active as appropriate. Maintaining a small base - and with suitable investment in IT - provides *chaebol* with a cost-effective means of undertaking business in a foreign country until it decides that a different type of investment will be profitable.

Localisation is, therefore, a procedure by which Korean companies enable nodes within different national and internal nets to increase their co-ordination with each other. In doing so, they are attempting to reduce costs associated with barriers to entry. They are also hoping to define their market entry mode according to the customs of the country being penetrated. This is shown by Sunkyong. This *chaebol* published a brochure which stated that one of its principal aims is the:

"... localisation of overseas business interests to adapt better to the new trend of globalisation of the world economy. Each overseas business unit will be encouraged to pursue business structures which will best fit the business

⁴⁹³ This is perhaps more a case of the USA allowing the IMF and World Banks to resume the issuing of credits to Hanoi. Hiebert, Murray, "Seoul Mates? South Korean Firms Eye Openings in Vietnam," *Far Eastern Economic Review*, Vol.154, No.51 (December 19th, 1991), p.71.

surroundings in which it is operating under its own independent management. An efficient information network will be built between the head office and overseas branches so that a well orchestrated global strategy would be actively pursued."⁴⁹⁴

Chaebol which enter overseas markets are aware this represents an increase in the size of their internal networks. While they may previously have viewed internationalisation as an opportunity to increase profits which would be administered centrally, new forms of management are being introduced that focus on the need to integrate overseas operations into the environment of the foreign country.⁴⁹⁵ This requires detailed knowledge of the foreign country and the ability to meet its unique requirements with resources from the overall network.⁴⁹⁶ *Chaebol* are becoming increasingly aware of the crucial functions of management and organisation.⁴⁹⁷ This can be manifested in terms of actual business activities and in gathering information:

"The Corporation is a uniquely positioned organiser of a comprehensive range of large-scale projects, co-ordinating the activities of affiliates local and foreign collaborators from feasibility study and design to machinery, manufacturing, structure fabrication, erection and supervision."⁴⁹⁸

"... the gathering, analysis and distribution of information is among the most important functions of a General Trading Company.... Lucky Goldstar International despatches specialists in foreign exchange and financing to form an international network with the combined expertise to assure effective risk exposure and financial management."⁴⁹⁹

Consequently, overseas organisations may form part of both inter-organisational and intra-organisational networks. The exact form established will vary according to:

- the nature of the operations to be undertaken;
- the amount of resources to be invested.

⁴⁹⁴ Sunkyong Ltd. Annual Report, 1988.

⁴⁹⁵ Woo, Jung-en, Race to the Swift (New York: Columbia University Press, 1992).

⁴⁹⁶ See, for example, "Taking the Cultural Blinkers Off," *Business Korea*, Vol.9, No.6 (December, 1991), pp.44-5.

⁴⁹⁷ Chun, Sang-Kyun, "CEO Lee Pursues Endless Management Reforms," *Business Korea*, Vol.12, No.2 (August, 1994), pp.30-31.

⁴⁹⁸ Hyundai Co., Ltd., Annual Report, 1989.

⁴⁹⁹ Lucky Goldstar International Brochure, 1989.

Particularly in industrial products markets such as ship building and heavy engineering, a branch office may consist of as few as one or two Korean employees with a local secretary. This is because the office acts as liaison between buyers and the Korean mother company. In other markets, the *chaebol* may wish to operate a sales limited company or its structure may be shaped by the needs of a joint venture.

Previously, the authoritarian nature of *chaebol* required that all decisions be made centrally. This caused problems with employees based overseas,⁵⁰⁰ who sometimes felt that they were better able to make decisions because they had greater knowledge of local conditions and business methods.⁵⁰¹ This also prompted difficulties with buyers / resellers whose needs were not best met by such large organisations.⁵⁰² However, more recently, *chaebol* have started to address these issues by devolving greater levels of responsibility to local offices:

" in 1988, the group significantly reorganised its management structure, giving far greater autonomy and flexibility to lower level executives best in touch with the unique complexities of local markets of the rapidly changing international economic scene."⁵⁰³

Similarly, the Sunkyong group has expressed similar desires:

"Overseas branches will continuously be expanded and existing overseas branches will vigorously be converted into local subsidiaries, better to perform triangle trade and function as direct investors."⁵⁰⁴

The nature of international business and the operation of a multinational enterprise require that positions in different nets be mobilised and co-ordinated. Individual overseas offices need to be autonomous within an overall strategy in order to enter nets which would not be accessible to the mother company. This process requires both that Korean personnel

⁵⁰⁰ See Chapter 1.

⁵⁰¹ In other words, the operation was not efficient since, by failing to take account of the views of localised staff, *chaebol* were not reducing uncertainty to the greatest extent by increasing foreign market knowledge.

⁵⁰² These problems are not unique to Korean industry. Iwao outlines some of the ways that *sogo shosha* are confronting similar issues. Iwao, Ichiisi, "Sogo Shosha: Meeting New Challenges," *Journal of Japanese Trade and Industry* (January-February, 1995), pp.16-8. Samsung has perhaps most obviously been busy in this regard in Korea. See Nakarmi (1994b), p.21.

⁵⁰³ Lucky Goldstar International Brochure, 1989.

⁵⁰⁴ Sunkyong Ltd., Brochure.

become attuned to local conditions and that local employees can assist in adapting the Korean business structure so that it will perform at optimum level in the overseas country.

Korean companies attempt localisation in overseas markets by the following means:

- entering the network directly: for example, setting up a sales company or branch office;
- gaining access to the network through using existing positions in that network: for example, employing expert local sales representatives (perhaps through a marketing agency);
- increasing the level of co-ordination between positions in different networks: for example, developing links deriving from the above two examples and the networks of the mother company.

In each of these cases, the business group increases its presence in, information of and control over foreign nets by creating routes whereby its own resources may be transferred to those overseas nets. Establishing UK owned companies enables resources to be exchanged with points in nets all across the European Community.⁵⁰⁵ These can then be redeployed globally as required.

Where business groups are present in overseas markets as trading companies, they can also assist these functions through exporting from the foreign country to Korea. By buying in overseas countries, companies gain access to new national nets which can also be employed in the transfer and exchange of resources. This offers opportunities to the MNE to internalise transactions over a wider range of markets than the single-country firm is able to manage. If the resources that can be gained this way can be transferred to another country where they are not otherwise available, as explained in chapters 2 and 3, this provides competitive advantage.

More generally, contact with each position improves the *chaebol's* marketing information network. That network can be used to indicate where additional market potential is available. For example, if *chaebol* member cannot locate the products it requires in a foreign country, this may be because of a gap in the market. The *chaebol* be able to

⁵⁰⁵ Mention has previously been made of Korean banks entering London for just this reason. Crowe (1995), *op.cit.*

satisfy this need either through direct supply or by transmitting the information to the mother company so that another group member can manufacture suitable products. Gaining access to knowledge about European markets through localising in, for example, the UK, enables the process of globalisation (that is, choosing the best position for a particular facility, regardless of country) to take place more easily. As described previously, this process has been undertaken by *chaebol* under the supervision of the Korean government and in ways designed to help meet international political goals. Naturally, the process has benefitted both partners. The example of Vietnam shows that establishing diplomatic relations and increasing trade occur together. However, owing to the control the government still exercises domestically, *chaebol* cannot simply initiate trade or investment deals with organisations in foreign countries without the permission of the government. The questions with which this thesis deals concern whether this method of localisation actually occurs in the UK and whether it is efficient.

In terms of the empirical research, localisation is measured by a range of different factors. These include:

- qualitative research concerning the nature of operations established in the UK;
- assessment of the means by which links between different organisations are created and enhanced: i.e. selection criteria and performance;
- measurement of power dependency relationships.

Determining whether this form of localisation does take place and whether it is efficient is the subject of the following chapters. However, the preceding sections have described strategies which can only be successful when appropriate information is available.⁵⁰⁶ Consequently, it is necessary to examine the methods by which organisations seek to gather that information. This will be the subject of the next section.

⁵⁰⁶ Engelbrecht, for example, outlines the importance of information services in international business and concludes that *chaebol* suffer from the inappropriate provision of information. See Engelbrecht, Hans-Jürgen, "Are Purchased Information Services Underused in Manufacturing? Evidence from Japan, Korea and Taiwan," *Applied Economics*, Vol.22, No.2 (February, 1990), pp.201-209.

5.3.6. Marketing Information Systems

The role and nature of information gathering (or intelligence) is defined by Hutt and Speh in the following terms:

"Marketing intelligence is a systematic process for generating the information needed to manage business marketing strategy effectively..... Marketing intelligence activities are thus focussed on developing the research methodologies, data sources and processing capabilities necessary to evoke this information in a form that supports marketing strategy development."⁵⁰⁷

This definition is similar in nature to that provided by Berenson, who observes that a marketing information system is:

"...an interacting structure of people, equipment, methods and controls, which is designed to create an information flow that is capable of providing an acceptable base for management decisions in marketing."⁵⁰⁸

In Berenson's view, the marketing information system differs from market or marketing research, therefore, in the scope and depth with which it covers subjects.

Both the giving and receiving of information by *chaebol* is important in this thesis, as has already been described. However, notwithstanding the dramatic recent advances in IT, the exchange of information is not and should not be free and open. There are two principal reasons for this: firstly, from a policy perspective, Porter observes that:

"Selective disclosure of information about itself is a crucial resource the firm has in making competitive moves. The disclosure of any information should only be made as an integral part of competitive strategy."⁵⁰⁹

Secondly, from a more human perspective, Kotler writes:

"There is not enough marketing information of the right kind. Marketing information is so dispersed throughout the company that it takes a great effort to locate simple facts. Marketing information is sometimes suppressed by subordinates when they believe it will reflect unfavourably on their performance.

⁵⁰⁷ Hutt and Speh (1985), *op.cit.*, p.138.

⁵⁰⁸ Berenson, Conrad, "Marketing Information Systems," *Journal of Marketing*, Vol.33 (October, 1969), pp.16-23.

⁵⁰⁹ Porter (1980), *op.cit.*, p.107.

Important information often arrives too late to be useful. It is difficult to know whether the information is accurate."⁵¹⁰

In other words, information flows are blocked both by design and oversight.⁵¹¹ When information systems are considered to be a series of flows between individual units, it is clear that at each stage the quality of information must inevitably be degraded.⁵¹² Consequently, managers must make decisions on the best analysis available, without believing that their decisions are infallible. At the same time, it has been observed that:

"...the real issue facing international managers is typically not a lack of basic economic information but the need to be selective in acquiring and evaluating information."⁵¹³

The use of the information that may be gathered is equally important. Information gathering without a specific aim or process whereby it can be used profitably is an exercise of little commercial worth. Johnson *et al.* consider that information should be allied to information decision systems, which in turn:

"..... should be considered in conjunction with the fundamental managerial functions: planning, organising and controlling. If an organisation is to implement planning and control, if an organisation is tied inextricably to communication and if communication is represented as an information decision system, then the key to success in planning and controlling any operation lies in the information decision system. Its importance cannot be over-emphasised."⁵¹⁴

The information decision system is similar in concept to the decision support system (DSS) model which Little *et al.* describe as:

"... a co-ordinated collection of data, systems, tools and techniques with the necessary software and computer hardware through which an organisation gathers

⁵¹⁰ Kotler (1988), *op.cit.*, pp.101.

⁵¹¹ This is one of the areas in which traditional approaches to marketing have been found wanting. See Chapters 2 and 3 for more modern approaches and the methods by which they attempt to surmount these difficulties.

⁵¹² The difference between information and data has already been discussed briefly. To summarise, information affects non-trivial decisions in non-trivial ways; the rest are data.

⁵¹³ Globerman (1986), *op.cit.*, p.112.

⁵¹⁴ Johnson, R.A., F.E. Kast and J.E. Rosenzweig, The Theory and Management of Systems (New York: McGraw-Hill Books, 1967), p.107.

and interprets relevant information from the business and environment and turns it into information that can be acted upon."⁵¹⁵

That is, the DSS acts as an interface between the organisation, the environment and other organisations, gathering data and using it to inform decisions.⁵¹⁶ The DSS may be formal or informal in nature, depending upon the individual organisation and may collate information from a wide range of inter-organisational and intra-organisational sources.⁵¹⁷

Systems may make use of both formal and informal routes. Some informal routes are very unexpected and difficult to track. There are certainly differences in the informal routes common in Korean and UK businesses. Research conducted for this thesis shows that even direct competitors are prepared to share information about buyers to some extent. This may be through formal meetings or, as is more likely for non-competitors, through informal or social interaction. Systems of this form have not always been successfully covered by traditional marketing approaches. Mattsson describes the normal model as:

"...control information coming from the accounting systems, from investment / project control systems and from market research / statistics ... [which] ... is typically not relationship-oriented ... [but] ... is usually highly aggregated and does not acknowledge marketing and market investments."⁵¹⁸

However, it is clear that relationships between organisations can operate as channels through which information may flow. Information is a valuable resource in its own right. For example, Håkansson⁵¹⁹ notes the value of the network as an information exchange mechanism. He points out that the network can be used as an intermediary in

⁵¹⁵ Little, John D.C., Lakshmi Mohan and Antoine Hatoun, "Using Decision Support Systems," *Industrial Marketing*, 67 (March 1982), p.50., cited in Hutt and Speh (1985), *op.cit.*, p.141.

⁵¹⁶ "Once the CEO recognises that he's got to do something to harness the strategic use of information, he's not going to do it himself," says Melvyn E. Bergstein, an Andersen managing director. "He's going to change the organisation." Bock, Gordon, Kimberley Davis and Jo Ellen Davis, "Management's Newest Star: Meet the Chief Information Officer," in James C. Wetherbe, V. Thomas Dock and Steven L. Mandell, *Readings in Information Systems: A Managerial Perspective* (West Publishing Company: St. Paul, Minnesota, 1988), pp.419-423.

⁵¹⁷ Albaum *et al.* divide information sources between the internal and the external. Internal sources include "sales and cost records and the acquired knowledge of company personnel." External sources may be either primary (i.e. drawn from research initiated by the organisation) or secondary (i.e. research derived information that has already been recorded by other agencies. In the latter case, the authors (as do many others) outline an extensive range of possible options. Albaum *et al.* (1989), *op.cit.*, pp.118-119.

⁵¹⁸ Mattsson (1986), *op.cit.*, p.22.

⁵¹⁹ Håkansson, Håkan, *Industrial Technological Development: A Network Approach* (London: Croom Helm, 1987), pp.84-128.

disseminating information to all members of the network.⁵²⁰ The methods by which information is passed between transacting partners is through individual interactions. The type and amount of information exchanged is, according to Johanson and Wootz, dependent upon such factors as:

"... sales value, complexity of product, frequency of deliveries, technical adaptations and service intensity."⁵²¹

However, the network approach suggests that indirect relationships between organisations also play important roles. For example, buyers in the UK have tried to contact directly the Korean manufacturers of goods for which GTCs act as intermediaries. Information exchange is important in both Intra-organisational and interorganisational contexts, with the former helping to determine the efficiency of the latter.⁵²²

Resource access analysis is a method by which the network approach may be applied to marketing information systems. As described above, these systems are designed to gather and process information until it is in a form that may be used by managers in planning and strategy decisions. By segmenting information sources such that only those which have particularly close relationships with the focal organisation are consulted, two risks are avoided. The first is that there is too great a flow of perhaps irrelevant information. The second is the danger of disclosing too much information to an indiscreet source.

In this thesis, the use of the network to exchange information is examined by asking buyers and suppliers which information sources they use in searching for partners and in building up impressions of potential partners.

In seeking to gain information about UK markets, Korean suppliers have access to two nets: intra- and inter-organisational. That is, Korean suppliers can obtain access to the resources contained in the various parts of their own mother companies and from other Korean and UK suppliers.

⁵²⁰ Most writing on the network approach has failed to take account of the distortions that information will inevitably suffer when it is passed between individuals and organisations. In addition, the network approach has generally failed to take sufficient account of the competition between nodes and, hence, that misinformation is just as likely to be used by organisations as genuine information.

⁵²¹ Johanson, Jan and Björn Wootz, "The German Approach to Europe" in Turnbull and Valla (1986), *op.cit.*, pp.79-126.

⁵²² Biemans (1990), *op.cit.*, pp.529-540.

Intra-organisational nets stretch across many boundaries and into many different sectors of industry. The Korean company in the UK, therefore, can act as the focus of the *chaebol* and utilise the *chaebol's* resources, perhaps to facilitate sales for a particular organisation. Inter-organisational nets are partly co-ordinated by Korean governmental bodies.⁵²³ Different *chaebol* suppliers have a tradition of communicating with each other on interpersonal levels, owing to the importance that Koreans place upon such interactions. This is particularly true when entering, for example, markets such as the UK. Here, there are comparatively few Korean suppliers attempting to service many UK buyers / resellers. Consequently, *chaebol* are less likely to encroach upon each other's activities. Although *chaebol* are fiercely in competition with each other, they are also fiercely in competition with suppliers from other countries.

Marketing networks exchange information concerning contacts, business style and the location of other buyers / resellers. Mobilising these networks mirrors the informal networks that exist among UK buyers / resellers and which may be seen at exhibitions and conferences, as well as more formally in joint research and development activities. These networks provide, through interpersonal interaction, a source of information about new suppliers and their business methods. Once Korean companies establish reputations as suppliers in particular sectors, they can become accepted as part of the information networks in those sectors. This may mean being asked to give information about other Korean suppliers. When a contract between a UK buyer and a Korean supplier represents the beginning of a long term relationship, both partners will be trusted to use information appropriately and sensitively.⁵²⁴ Inappropriate use of information can lead to breakdowns in relationships.

One of the largest Korean business groups, Lucky Goldstar,⁵²⁵ uses both domestic and overseas research centres for information sources, together with worldwide offices, clients

⁵²³ As described in the first two chapters, the Korean government has devoted considerable resources to instituting organisations intended to improve the Korean industrial and export effort, including, for example, the Korean Institute of Science and Technology (created in 1966), subsequently amalgamated into the Korean Advanced Institute of Science and Technology (1971), the Korean Trade Association and many others.

⁵²⁴ Naturally, multiple sources of information will still be consulted.

⁵²⁵ Lucky Goldstar International Brochure, 1989. These tactics, in conjunction with the importing of Western-style management techniques, has enabled Lee Hun-Jo, who was appointed chief executive in

and a wide range of international publications. As described previously, the decision to invest more heavily in research institutions is one that has been made by the majority of *chaebol*. It has been made more necessary by the need to enter more capital-intensive and high technology industries to try to regain competitive advantage. Lucky Goldstar, for example, speaks of its investments in the:

"... company's overseas marketing network.... manufacturing facilities through joint ventures ... [and] ... resource development projects.⁵²⁶

The need to invest more heavily in research is put into perspective by the fact that Korea as a whole currently expends less in this area than does a company such as IBM.⁵²⁷

Networks in the UK can be augmented by the establishment of sales and manufacturing companies. These can then be used to gain access more conveniently to Europe-wide information sources. This is achieved partly through the governmental assistance which is open to all UK companies and partly through employing expert local sales representatives. One of the main assets of local sales representatives is that they have their own personal networks.⁵²⁸ Such methods as these (which are a form of localisation), enable *chaebol* to integrate their intra- and inter- organisational networks. The level of information available requires considerable investment in IT to process and assimilate it effectively. This in turn helps lead to the restructuring of *chaebol* and their re-orientation towards functions more involved in co-ordination and liaison.

It may be seen, therefore, that the ways in which *chaebol* organise their broadcasting and reception of information is of great importance. There are two particular reasons for this. Firstly, according to transaction-cost type analysis, information reduces uncertainty and therefore costs. Secondly, information can help break down barriers based on ignorance and cultural stereotyping. The research conducted for this thesis included investigation of the various sources that both buyers / resellers and suppliers might consult in searching for partners. Comparing these with measurements of the eventual success of relationships

February, 1989, to improve the fortunes of Goldstar dramatically. See Nakarmi, Laxmi, "Goldstar is Burning Bright," *Business Week*, No.3391 (September 26th, 1994), pp.129-30.

⁵²⁶ *ibid.*

⁵²⁷ *The Guardian*, February 25th, 1994, p.9.

⁵²⁸ This can inspire sales people to set up in competition with their companies, as happened to some *chaebol* in the USA.

should help to determine whether certain information sources should receive more attention from *chaebol*.

5.4. Conclusion to Chapter 5.

This chapter has explored the network approach to marketing and purchasing. In common with the interaction approach, upon many of the assumptions of which it relies, the network approach seeks to integrate the rational and the non-rational. This is attempted in ways which demonstrate that measuring and quantifying non-rational factors are meaningful activities. It is concluded that this is the case and, therefore, the empirical research has real worth. The ways in which the empirical research has been used to build on the theoretical basis provided in these two chapters will be the subject of the next two chapters.

Implications for Localisation

The interaction and network approaches seek to draw together economics based and behavioural approaches to marketing. The degree to which this has been successful is open to some debate, as the previous section has suggested. Furthermore, these approaches are not the only ones which could be used. However, they do seem to provide a reasonable way to describe Korean business methods and strategy. This is because:

- firms, especially *chaebol*, place value on behavioural characteristics such as the resources to be derived from relationships;
- firms further understand that utilising those resources has costs attached;
- these costs must be balanced by an understanding of the benefits possible from intangible resources. Such an understanding is available from the application of the interaction and network approaches.

Providing a framework which synthesises behavioural factors with rational, economic calculations is perhaps a westernised way of explaining Korean and other Oriental business methods. However, this is considered justified since many Koreans are now

looking to alternative methods of management and business from around the world. The approaches described in this thesis provide means of evaluating both methods and managers in a more objective and rational way than has been possible. This enables a more precise evaluation of the costs and benefits of localisation to be undertaken.

In the current research, localisation into the UK is studied. Although *chaebol* generally recognise that localisation is an effective and familiar means of entering foreign markets, they are also concerned to ensure that it is conducted efficiently. This desire is usually manifested in control over the localising office, since *chaebol* restrict executive control to a very centralised level of owner-managers. The more that localisation can be regulated, therefore, the less control that the central and authoritarian *chaebol* management need to relinquish or delegate to localising offices. The newer approaches outlined in this research help *chaebol* top management to achieve that.

However, at least as important as this is the need to ensure that localisation takes place in ways that will most benefit *chaebol*. This requires the efficient input of local resources, including local knowledge, which may be the most crucial. This shows the need to be aware of the requirements of business partners in the UK, both in terms of tangible and intangible factors. Furthermore, in the absence of decision-making authority being delegated to local offices, information needs to be transferred swiftly to the headquarters and appropriate responses need to be returned equally swiftly. This shows the need to be involved in information networks.

These areas form the basis of the empirical research, which is described in the next two chapters. The research continues with the themes explored in the chapters up to this point by investigating whether rational and non-rational factors may be meaningfully integrated. That is, the issue becomes whether the opinions of actors can feasibly be used to evaluate the effectiveness of use of behavioural factors in the progress of localisation. If this does prove to be the case, the implications for the progress of Korean localisation can be rigorously considered.

From Theory to Practice: Operationalising and Applying the Interaction and Network Approaches to Localisation.

In order to analyse which strategies to use, it is first sensible to explore which strategies can be used. Although it would be possible to change organisational structure and management control systems and style in *chaebol* to allow them to undertake different types of strategy, this is not a sensible aim for a thesis of this nature. A more realistic aim is to help choose between those strategies which may fairly painlessly be employed. This is the approach adopted here.

To inform the strategy decision, it is necessary to discover what *chaebol's* customers (UK business partners) want. This is the central element of the marketing orientation. Of course, in industrial marketing particularly, customers must be guided in what they want through what the provider can make available. It would be foolish to expect localising *chaebol*, which may have invested considerable resources in producing certain goods and services, to undertake wide-ranging surveys of potential UK customers regarding what types of products and services they would like. This is not just because of the legacy of the production orientation previously operated in Korea. Instead, *chaebol* need to know how to market their offerings successfully and, more importantly, how they can exploit their own skills and resources in marketing most efficiently. Those resources and skills are strongly rooted in behavioural concerns, although the tangible offerings of the products themselves are not inconsiderable. So, the empirical research investigated:

- buyer and purchaser behaviour: more particularly, the relative importance of tangible and intangible attributes;
- buying decisions are heavily influenced by how actors perceive one another: that is, do the images that actors portray match the reality of the value of their offerings? *Chaebol* need to ensure that the image they portray is that of the sort of partner that UK partners want to have. In order to sustain partnerships, localising *chaebol* actually need to be that sort of partner.

Underlying these concerns is the need to discover what kind of relationship UK actors want and how, therefore, Korean companies can meet that demand. Relationships are measured according to the following dimensions:

- expected length of duration;
- propensity of actors to contract new partners and discard old ones;
- perceived importance in doing business;
- connection between interpersonal and inter-organisational forms of interaction;
- more generally, the differences if any between how UK and Korean businesspeople interact within a business relationship.

These are all considered in Chapter 6, which follows. Chapter 7 is concerned with decisions on a more strategic level, touching upon areas such as market entry mode, segmentation and positioning. However, the principal area of investigation for this chapter is in the area of marketing information networks. These are crucial for assuring management control, as the previous section demonstrated. They are also vital for monitoring the process of localisation. Networks are assessed according to the following dimensions:

- the importance and use of information;
- their constituent members;
- relative value of individual members;
- the extent to which Korean actors have become involved in already existing industrial information networks.

These issues are all considered in some depth in the empirical research, a description of which begins in the next chapter.

Chapter 6. Interaction and Relationships

6.1. Introduction to the Empirical Research

The first five chapters of this thesis have described Korean marketing strategies both generally and in the UK. It has been shown that many unique features have caused Korean strategies to take the forms they do. As described in Chapter 2, strategies will be likely to have the following unusual features:

- expectations that buyers will be active in seeking out suppliers;
- reliance on a price leadership strategy which no longer applies;
- comparatively low technical and quality levels, together with limited product and after-sales support;
- familiarity with using networks of relationships and resources in the *chaebol* structure;
- great emphasis placed on personal harmony in interaction as a means of conducting business successfully.

It has also been shown that these strategies differ from those employed by localising Japanese companies in ways such as the following:

- Japanese corporations exhibit interdependency between each other rather than between diversified parts of the same *chaebol*. This has implications for the types of relationships established by *chaebol*;
- use of more sophisticated strategies than simple price leadership. However, the synergies available to manufacturing concerns do enable price competitiveness to be viable;
- greater availability of advanced technology and support services. This may be the result of competitive advantages derived from manufacturing and production based advantages.

However, as has also been discussed, the conditions under which Japanese localisation in the UK was able to proceed have changed significantly. Furthermore, it has also been established that the institutional backgrounds of Korean and Japanese business vary to such an extent that this has had a definite impact upon their shape, structure and nature. The discussion of strategy demonstrated that its interconnection with structure is very great. Consequently, Korean *chaebol* cannot, should not and have not followed the paths of their Japanese competitors. This does not mean that the Japanese example should not be studied. Indeed, in the report of the empirical research which follows, attempts will be made to connect the activities of both Korean and Japanese corporations. However, it does mean that simply expecting to follow Japanese patterns is wrong.

The main findings of the empirical research are presented in summary form below:

Organisational Structure

- The structure and roles of Korean companies in the UK differ widely. This is seen in their size, independence and the range of responsibilities granted to them. There seems to be no direct link between the size of the establishment in the UK and the degree of independence allowed by the mother company.
- It is clear that the mother company has a role to play in terms of facilitating the localisation process and in allowing the subsidiary company to conduct its affairs successfully. However, independence from the mother company is a double-edged sword. It is inconsistent for companies to complain about interference and, at the same time, expect the mother company to act continually as a funding agent and support in the event of a financial crisis.⁵²⁹

Chaebol seem to be pursuing different paths towards localisation - and indeed to avoid localisation if they consider it to be inappropriate to the particular market concerned. Nevertheless, it became apparent that specific patterns emerge over time.

⁵²⁹ In any case, Korean personnel in the UK felt that they were frequently given an unfeasibly heavy workload to complete.

Relationships between Buyers and Suppliers

- suppliers perceive that they have longer business and personal relationships than buyers / resellers do;
- suppliers contract more new relationships than buyers do;
- the markets investigated tend to be quite stable;
- the main reason given by buyers / resellers for maintaining relationships with suppliers was the limited choice of alternatives, followed by trust and good after sales service. Overwhelmingly, the main reason given by suppliers for maintaining relationships with buyers / resellers was good co-operation;
- both buyers and suppliers preferred to maintain long-term relationships than to play the market. This was especially true of consumer goods resale markets;
- although most respondents found that personal relationships were important in business, there was no definite connection between the quality of a relationship and the maintenance of a long term relationship;
- most respondents defined long term relationships as being less than 6 years in length.

It became clear that relationships between partners were of considerable importance to respondents. Koreans involved in doing business in the UK must, therefore, take them seriously. There is some evidence that Koreans need to adapt their attitudes towards creating and maintaining relationships to a greater extent than they had managed.

Selection Criteria

- in choosing a supplier, tangible factors were generally considered to be more important than intangible factors. Ranking of attributes was almost identical between industrial organisational and consumer goods resellers markets. Tangible factors were also more important when choosing a buyer, although to a lesser extent;
- when choosing a consumer goods reseller, suppliers looked for the ability to sell and a leading market position: when choosing an industrial buyer, suppliers looked for a good personal relationship;

- evidence from buyers suggests that a preference or otherwise for maintaining a long term relationship will affect the relative importance of selection criteria.

The investigation of these areas demonstrated that *chaebol* need to continue to concentrate on the variables of the marketing mix, in addition to developing their attitudes towards relationships that the previous sections indicated. Again, there is evidence to suppose that individual circumstances can be more important than more general conditions.

Performance

- buyers consider that the performance of suppliers has generally declined (slightly) while suppliers consider the performance of buyers to have improved;
- the performance of partners does not really improve with the length of the relationship: i.e. there was no real evidence of adaptive or satisficing behaviour;
- buyers were more likely to perceive that there had been problems with their partners than suppliers were;
- buyers tend to be more important to suppliers than suppliers are to buyers;
- suppliers considered the image of buyers to be better than buyers considered the image of suppliers to be;
- suppliers considered buyers to be better positioned than buyers considered suppliers to be;
- buyers perceived the importance of selection criteria to be higher than the performance of their partners when measured against those criteria. Suppliers did not perceive a comparable difference.

The lessons to be learned from these aspects of the research centred upon the ways in which Korean companies tended to suffer the weak ends of power dependency relationships with their UK partners. In conjunction with the other areas, it became apparent that localisation could help to mitigate some of the effects of weak power positions.

Marketing Information Networks

- both buyers and suppliers were active in searching for partners;

- none of the information sources examined was very intensively consulted;
- there was no evidence that Korean companies behaved differently to companies from other countries in their use of information;
- the type of information sources consulted included other network actors, such as competitors and partners, as well as secondary sources such as directories and databases;
- suppliers in consumer goods resale markets tended to make more use of the information sources than those in industrial organisational markets did;
- there was some evidence that differential consultation of information sources has an effect on the performance of the partner;
- buyers used information sources less frequently when searching specifically for Korean partners than when searching generally;
- suppliers consulted information sources more frequently when searching for UK buyers than when searching generally.

Generally, it was found that consultation of information sources and use of information gathered took place rather less commonly than was anticipated. It would certainly appear that there is scope for acquiring competitive advantage through more aggressive use of information. *Chaebol* show indications of having definite and sensible plans for using technology to gain advantages in this way.

It was shown in Chapter 3 that traditional approaches to marketing do not adequately explain these features of Korean marketing strategy. Alternative approaches were offered and evaluated. Chapters 4 and 5 developed some of these approaches by examining conceptually some of these unusual aspects of Korean marketing strategy. The empirical research to be presented in the next two chapters is intended to determine the degree of localisation that *chaebol* have achieved and the success of their marketing strategies. It tries to do this by examining different aspects of strategy. These aspects are broadly divided into two areas. The first of these areas concerns interaction and relationships since it is through these that *chaebol* enact their strategies. Their ability in these areas

determines the types of organisational structure that *chaebol* can adopt. As described previously, the type of strategy that can be enacted depends upon the structure of the firm. Consequently, there is little point in proposing strategies that would depend upon adopting structures which the *chaebol* cannot sustain.

This chapter will, therefore, examine issues relating to the interaction and relationships between UK buyers / resellers and Korean suppliers. It deals with the following issues:

- which criteria are thought to be important in choosing partners;
- connections between business and personal relationships;
- how stable relationships are;
- what problems arise, are they resolved and, if so, how?
- what relationship, if any, is there between performance and the maintenance of relationships.

6.2. Summary of Research Hypotheses

The empirical research investigated a number of research hypotheses to illustrate the process of localisation and other aspects of marketing strategy followed by *chaebol* and how they might be improved. To aid understanding of the findings of the thesis, the following summary is provided:

No.	Hypothesis	Null Format	Results
1	When choosing a partner, respondents consider tangible factors to be more important than intangible factors.	Respondents do not consider tangible factors to be more important than intangible factors in choosing a partner.	Yes for buyers / resellers; no for suppliers.
2	Whether respondents prefer a long term relationship or to play the market affects the factors important to them in choosing a partner.	Whether respondents prefer a long term relationship or to play the market makes no difference to the importance placed upon selection criteria.	Yes for buyers and resellers. No for suppliers.
3	Respondents' definitions of a long term relationship affect the tangible and intangible factors important to them in choosing a partner.	Respondents' definitions of long term relationships does not affect the importance placed upon selection criteria in choosing partners.	Yes, can be rejected.

- | | | | |
|----|---|--|-------------------------|
| 4 | Respondents who prefer long term relationships to playing the market place greater emphasis on intangible factors in choosing a partner than do those who prefer playing the market | Respondents who prefer long term relationships to playing the market do not place any different emphasis on intangible factors in choosing a partner than do those who prefer playing the market.. | No, cannot be rejected. |
| 5 | Respondents prefer long term relationships to playing the market. | Respondents have no particular preference when it came to decisions about playing the market or maintaining a long term relationship. | Yes, can be rejected. |
| 6 | The more important that personal relationships are in doing business, the more companies will place emphasis on intangible factors in choosing a partner. | The degree of importance placed upon personal relationships in doing business has no effect on the emphasis placed upon intangible factors when choosing a partner. | Yes, can be rejected. |
| 7 | Respondents who prefer long term relationships to playing the market place more emphasis on personal relationships in doing business. | It makes no difference to the emphasis placed on personal relationships in conducting business whether respondents prefer a long term relationship or to play the market. | Yes for resellers. |
| 8 | The more important that respondents consider personal relationships to be in doing business, the more likely they will be to maintain longer relationships with their partners. | The degree of importance attached by respondents to personal relationships in doing business makes no difference to whether they will maintain a long term relationship or not. | No, cannot be rejected |
| 9 | Respondents tend to be in stable markets | Respondents are in neither stable nor unstable markets | No, cannot be rejected |
| 10 | The better that suppliers will perform now, the longer their period of relationship with the industrial buyer / reseller will be and vice versa. | Variations in how suppliers perform now have no effect on the length of their period of relationship with the buyer / reseller. | Yes, can be rejected. |
| 11 | Korean suppliers attach more importance to personal relationships than UK industrial buyers / consumer goods resellers do. | Korean suppliers do not attach any different level of importance to personal relationships than UK industrial buyers / consumer goods resellers do. | No, cannot be rejected. |
| 12 | The perception of the partner's image in the market is lower than the perception of the importance of selection criteria at the start of the business relationship. This is more likely to be true of tangible factors than intangible factors. | There is no difference between the perceptions of the partner's image and the perception of the importance of selection criteria at the start of the business relationship. | No, cannot be rejected. |

- 13 The better the partner company is now positioned in terms of the cognitive hierarchy, the longer its relationship with the respondent will be The period of the business relationship has no effect on the partner's perceived position in the cognitive hierarchy. Yes, can be rejected.
- 14 Not only do suppliers search for industrial buyers / consumer goods resellers, but industrial buyers / consumer goods resellers also deliberately search for suppliers. Suppliers do not search for industrial buyers / consumer goods resellers and industrial buyers / consumer goods resellers do not deliberately search for suppliers. Yes, can be rejected.
- 15 Korean suppliers are more active in searching for UK buyers than suppliers from other countries are. Korean suppliers have no different levels of activity in searching for UK buyers than suppliers from other countries have. No, cannot be rejected.
- 16 The more likely that respondents are to use other actors as information sources, the more that they will find personal relationships important There is no connection between the likelihood of respondents using other actors as information sources and the extent to which they find personal relationships important. No, cannot be rejected.
- 17 The more that other actors are consulted as information sources when choosing a partner, the better that partner will perform. There is no connection between the degree to which other actors are consulted as information sources when choosing a partner and the subsequent performance of that partner. Yes, can be rejected.
- 18 Buyers / resellers are more likely to consult other actors as information sources in searching for partners than their suppliers are. Buyers / resellers are no more likely to consult other actors as information sources in searching for partners than suppliers are. No, cannot be rejected.
- 19 When searching for Korean suppliers, UK buyers will place different emphases on available information sources than they would in searching for other suppliers. This is also true for Korean suppliers searching for UK buyers. Buyers / suppliers will not place different emphases on various information sources when searching for partners and when searching more particularly for partners from a particular country (either Korea or the UK). Yes, can be rejected.

6.3. Selection of Partners

One theme emerging from the previous chapters has been the importance of intangible rather than tangible attributes.⁵³⁰ Choi and Wright observe:

"For a Korean, the most important aspect of a businesspartnership is the relationship itself. This conflicts with the Western viewpoint which emphasises the business and profit motive as being of much greater consequence. A relationship in Korea depends not just on friendship between partners but also the commonality of background."⁵³¹

In contrast, Korean respondents in the early stages of this research suggested that intangible attributes would only prove decisive when possible partners could not be separated by tangible attributes.⁵³² In the light of this, a more probing investigation of selection criteria seemed justified.

6.3.1. Selection Criteria

It has previously been established that the relationships that *chaebol* enter into feature lower levels of interdependency between complementary businesses than is the case for Japanese corporations. However, this does not mean that Korean relationships are not stronger and more intricate than those constructed by western (UK) firms. It was anticipated that evidence of relationships would show both the close and multiplicitous interpersonal links and the basis of rationality. This would be manifested, it was anticipated, in the criteria used in selecting business partners; i.e. that both personal and financial or rational would be influential. In the empirical research, this was investigated initially in the qualitative research, in which both UK and Korean respondents were asked what they thought buyers were looking for in partners, they usually responded with tangible attributes. The most common of these were:

- price;
- financing arrangements;
- prompt delivery;

⁵³⁰ This does not mean that tangible factors are not considered to be important.

⁵³¹ Choi and Wright (1994), *op.cit.*, p.70.

⁵³² This also agrees with Hutt and Speh (1985), *op.cit.*, p.81-86.

- the availability of high technology and
- buyers' desires to be reassured about the abilities of their partners.

Buyers felt that suppliers should not only possess these attributes but should demonstrate that they possessed them. This desire for transparency appeared particularly strong in industrial organisational markets, where individual purchases are important and the tangible attributes of competing products might be indistinguishable. Once these requirements were met, price usually became the dominant factor.⁵³³ The repercussions of this were that competitive advantage tended to pass around the world, since economies which thrived because of low labour costs found that the results of their success were inevitably economic development and increasing wages.⁵³⁴ Although respondents observed that other factors might be important, they could generally be directly related to price; for example:

- buyers might give preference to those suppliers who maintained repairs sections in the UK because it could lead to reductions in distribution expenses;
- some suppliers were prepared to share promotional costs such as brochures and exhibitions or provide incentives in entertainment and sponsorship. Korean suppliers felt that these kind of activities would be translated into financial terms by buyers, who base their purchasing decisions almost invariably on price.

⁵³³ Price is of course always likely to be the common factor. This is partly at least because of its common applicability to all people and organisations. For example, Ouchi observes that: "In addition to information, prices provide a mechanism for solving the problem of goal incongruity. Given a frictionless price mechanism, the firm can simply reward each employee in direct proportion to his contribution, so that an employee who produces little is paid little and all payments, being exactly in proportion to contribution, are fair." Ouchi (1979), *op.cit.*, p.66. In addition, price has a leading role in approaches such as transaction-cost analysis, since when price can express all that is required to be known about a product or item (i.e. it has a commodity-like status), then information is effectively free. See, amongst many economists, Williamson, Oliver E., "The Modern Corporation: Origins; Evolution; Attributes," *Journal of Economic Literature*, Vol.19 (December, 1981), pp.1537-1568.

⁵³⁴ Kogut explains how this situation occurs with respect to the parallel case of Japanese *sogosha*: "Japanese trading companies illustrate experience effects due to organisational learning. A trading company does not own any specialised physical assets, tends to trade in commodities and in quasi-commodities and frequently works on commission. Their phenomenal success is not only restricted to Japan, since European trading companies, such as the Swedish Johnson Group, have also played significant historical roles in international trade. The strategic assets of trading companies rest in 2 areas. The first is economies of scale in logistic systems, particularly in ocean transport in large and sophisticated vessels. the second is the creation of an organisation system that has developed an effective scanning and resource network and that efficiently disseminates knowledge regarding international profit opportunities through this network. Because the strategic assets of trading companies rest in bulk logistics and market knowledge, it is not surprising that their share of total Japanese trade is falling as Japanese exports and imports increase in their differentiation and sophistication." See Kogut (1984), *op.cit.*

A minority of suppliers felt that the focus on price had been accentuated by the recession in the UK. However, most thought that the same criteria would be adopted whatever the state of the economy.

6.3.1.1. The Selection of Suppliers

Buyers / resellers were invited to comment on the relative importance of a battery of factors when selecting between suppliers. These factors were divided into tangible and intangible.⁵³⁵ Tangible factors were: product / service quality; price; prompt delivery; supplier's financing arrangements and promotional support. Intangible factors were: brand reputation; company reputation; supplier's trustworthiness and personal relationship.⁵³⁶ Buyers / resellers rated on a 5 point scale how important each feature was in choosing a potential supplier.⁵³⁷ The results were:

%	5	4	3	2	1	Average
<i>Tangible Factors</i>						
On Time Delivery	62.1	26.1	10.6	0.6	0.6	4.49
Price	42.9	39.8	17.4	0	0	4.25
Product / Service Quality	90.7	8.1	0.6	0	0.6	4.88
Promotional Support	9.0	19.2	23.7	31.4	16.7	2.72
Supplier's Financing Arrangements	22.7	22.1	22.1	17.5	15.6	3.19
Tangible Factor Average						3.91
<i>Intangible Factors</i>						
Brand Reputation	17.6	27.0	30.2	18.2	6.9	3.30
Company Reputation	25.8	27.7	33.3	11.9	1.3	3.65
Personal Relationship	20.1	37.1	27.7	13.2	1.9	3.60
Supplier's Trustworthiness	61.0	25.2	12.6	0.6	0.6	4.45
Intangible Factor Average						3.75

n = 154 - 161

Table 7. Factors Important to Buyers in Choosing a Supplier by Tangible and Intangible Factors (see Figure 5 below).

All the intangible factors exhibited higher than average importance.⁵³⁸

⁵³⁵ The process of allocating factors into the tangible and the intangible was essentially subjective. However, guidance was possible from a number of different sources which dealt with this area.

⁵³⁶ In the questionnaires themselves, tangible and intangible factors were intermingled to try to reduce bias. However, since this was a postal survey, it was not possible to vary the order of factors as can be done in personal interviewing and this can be a source of bias.

⁵³⁷ The scales referred to in this chapter were of a standard format. In this case, the wording was:

Very Important	Fairly Important	Average	Not Very Important	Not Important
5	4	3	2	1

⁵³⁸ That is, more than 3 on a 5-point scale.

However, overall, tangible factors tended to be rated as slightly more important, particularly quality, delivery and price. The role of trustworthiness, an intangible factor, was also important.

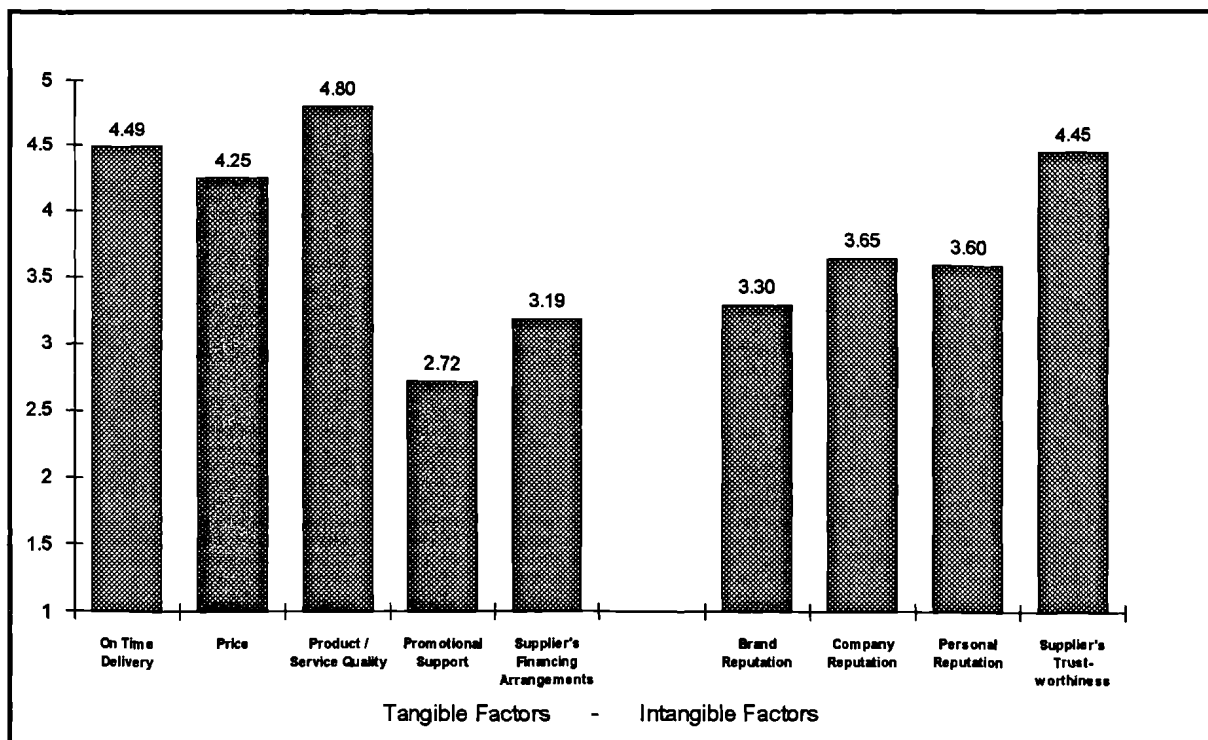


Figure 5. Factors Important to Buyers in Choosing a Supplier by Tangible and Intangible Factors.

The qualitative research suggested that intangible factors will be decisive when the tangible attributes of competing partners are similar. Consequently, *chaebol* cannot expect to rely upon intangible factors to provide business, unless their tangible attributes are at least the equal to those already in the market. Indeed, since there are costs implicit in learning about a new partner and in changing partners, *chaebol* must aim to offer tangible factors better than those already available in the market. This probably requires strategies of either price leadership or differentiation.⁵³⁹ The question arose whether all buyer types shared similar ratings. This was to give some indication of whether differences could be discerned according to the type of industry in which respondents operated.⁵⁴⁰

⁵³⁹ Porter (1980), *op.cit.*

⁵⁴⁰ As discussed previously, the way the samples were constructed meant that it was not possible to offer meaningful analysis by sectors.

Much of the literature dealing with this area suggests that there would be differences between actors in industrial and resellers markets, as was discussed previously. To restate the main issues, it would be expected that, in the former, factors relating to the interaction between buyers and supplier would be more influential than in the latter, which would reflect the perhaps more complex and customised nature of the goods and services involved.⁵⁴¹ Analysing the list of factors by buyer type produces the following results:

<i>Factor</i>	<i>Industrial Buyers</i>		<i>Consumer Product Resellers</i>	
<i>Average Score (rank order)</i>				
On time delivery	4.39	(2)	4.58	(3)
Price	4.21	(4)	4.35	(4)
Product / service quality	4.85	(1)	4.93	(1)
Promotional support	2.33	(9)	3.23	(9)
Supplier's financing arrangements	2.94	(8)	3.46	(8)
Brand reputation	3.10	(7)	3.59	(7)
Company reputation	3.40	(6)	4.15	(5)
Personal relationship	3.49	(5)	3.73	(6)
Supplier's trustworthiness	4.34	(3)	4.59	(2)

n = 154 - 161

Table 8. Factors Important in Choosing a Supplier by Buyer Type.

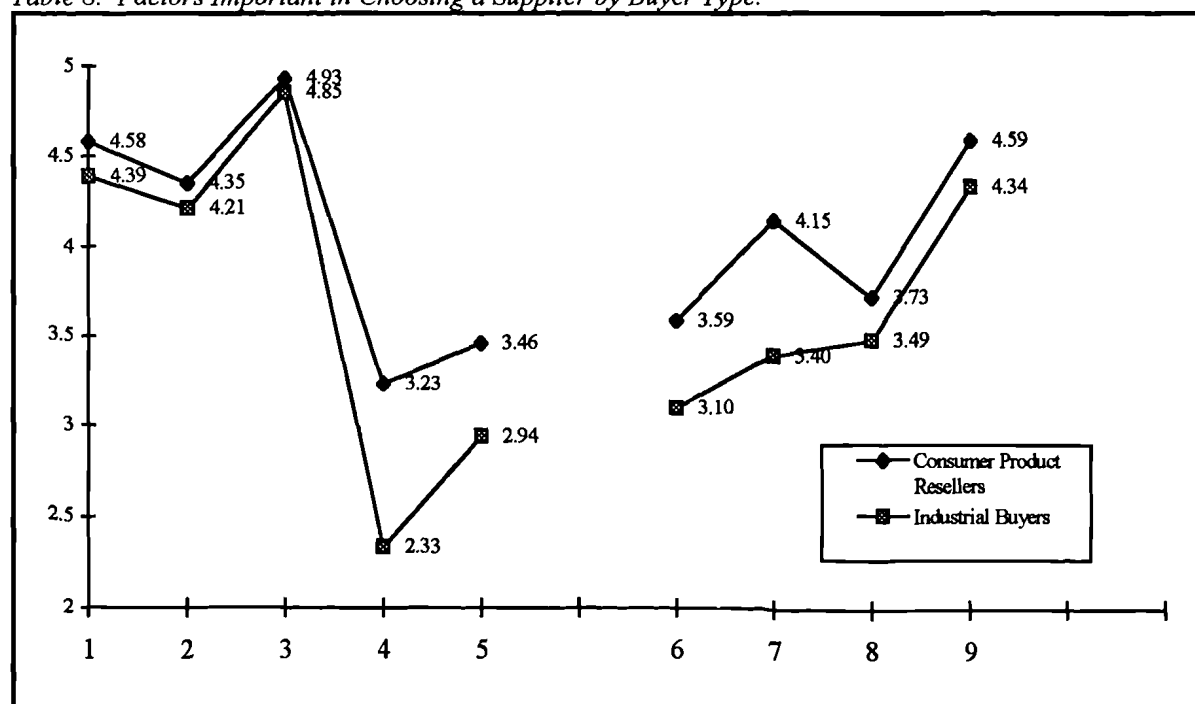


Figure 6. Factors Important in Choosing a Supplier by Buyer Type.⁵⁴²

⁵⁴¹ Of course, the situation is complicated by the fact that products cannot always be neatly categorised in this way.

⁵⁴² In this graph, the X axis numbers represent: 1 = on time delivery; 2 = price; 3 = product / service quality; 4 = promotional support; 5 = suppliers' financing arrangements; 6 = brand reputation; 7 = company reputation; 8 = personal relationship; 9 = supplier's trustworthiness.

It appears that all the factors were more important to consumer product resellers than they were to industrial buyers. This is, perhaps, not surprising in the cases of promotional support, brand reputation and company reputation, since well known brands are more likely to be attractive in mass consumer markets.⁵⁴³ There was also a considerable difference between respondents in terms of supplier's financing arrangements. This suggests that more emphasis is placed on credit terms by consumer product resellers (although this is not exclusively the case). Since they are more likely to be involved in high volume (and therefore high value) markets and to be competing for end-users in terms of price, this is not very surprising.⁵⁴⁴

6.3.1.2. The Selection of Buyers / Resellers.

Suppliers were asked which factors were important in choosing a buyer. A similar method was employed to assess this. Again, the factors are grouped to show tangible and intangible factors.

%	5	4	3	2	1	Average
Tangible Factors						
Ability to sell	23.5	41.2	17.6	17.6	0	3.71
After service capability	6.3	43.8	18.8	25.0	6.3	3.18
Financial Conditions	52.9	35.3	5.9	5.9	0	4.35
Intangible Factors						
Company Reputation	11.8	41.2	35.3	11.8	0	3.53
Market Leader	11.8	5.9	29.4	47.1	5.9	2.70
Personal Relationship	11.8	29.4	47.1	0	11.8	3.29
Trustworthiness	29.4	52.9	17.6	0	0	4.12

n = 17

Table 9. Factors Important to Suppliers in Choosing a Buyer by Tangible and Intangible Factors (see Figure 7 below).

Suppliers were interested in the financial conditions of buyers, particularly so when negotiating credit terms. The next most important tangible factor for suppliers was the ability of the buyers to sell. Of the intangible factors, Korean suppliers considered

⁵⁴³ This is known as "signalling" in economic theory. As Chu and Chu explain: "The foreign manufacturer, not having any reputation of its own to post as bond, may be posting the reputation bond of the established retailer which has agreed to display the product on its shelf, thereby signalling product quality to consumers." See Chu and Chu (1994), *op.cit.*

⁵⁴⁴ Generally, results which are not surprising are rewarding to the researcher, since they indicate that the line of investigation is accurate, that the conceptualisation is reasonable and the sample is behaving as samples that other researchers have investigated have behaved.

trustworthiness to be the most important, followed by company reputation and then personal relationship.

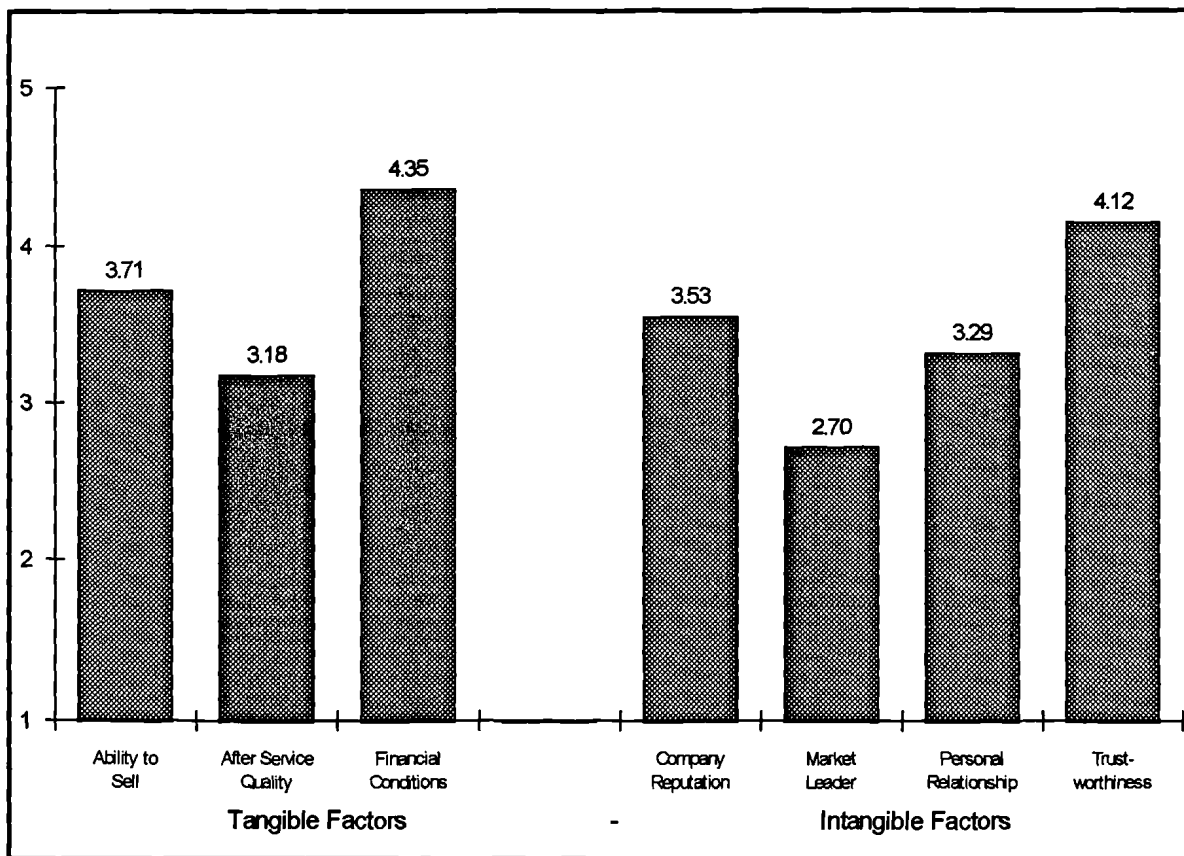


Figure 7. Selection Criteria Important to Suppliers by Tangible and Intangible Factors.

Analysing these results by supplier type produces the following:

Factor	Industrial supplier		Consumer product supplier	
Average score (rank order)				
Ability to sell	3.11	(6)	4.38	(1)
After service capability	3.38	(5)	3.00	(6)
Financial conditions	4.33	(1)	4.38	(1)
Company reputation	3.89	(2)	3.13	(4)
Market leader	2.33	(7)	3.13	(4)
Personal relationship	3.78	(3)	2.75	(7)
Trustworthiness	3.78	(3)	4.25	(3)

n = 17

Table 10. Factors Important in Choosing a Buyer by Supplier Type (see Figure 8 below).

The differences between the samples of suppliers are greater than for buyers and resellers.

This may be due to the small sample size, which can sometimes make extreme results more likely.

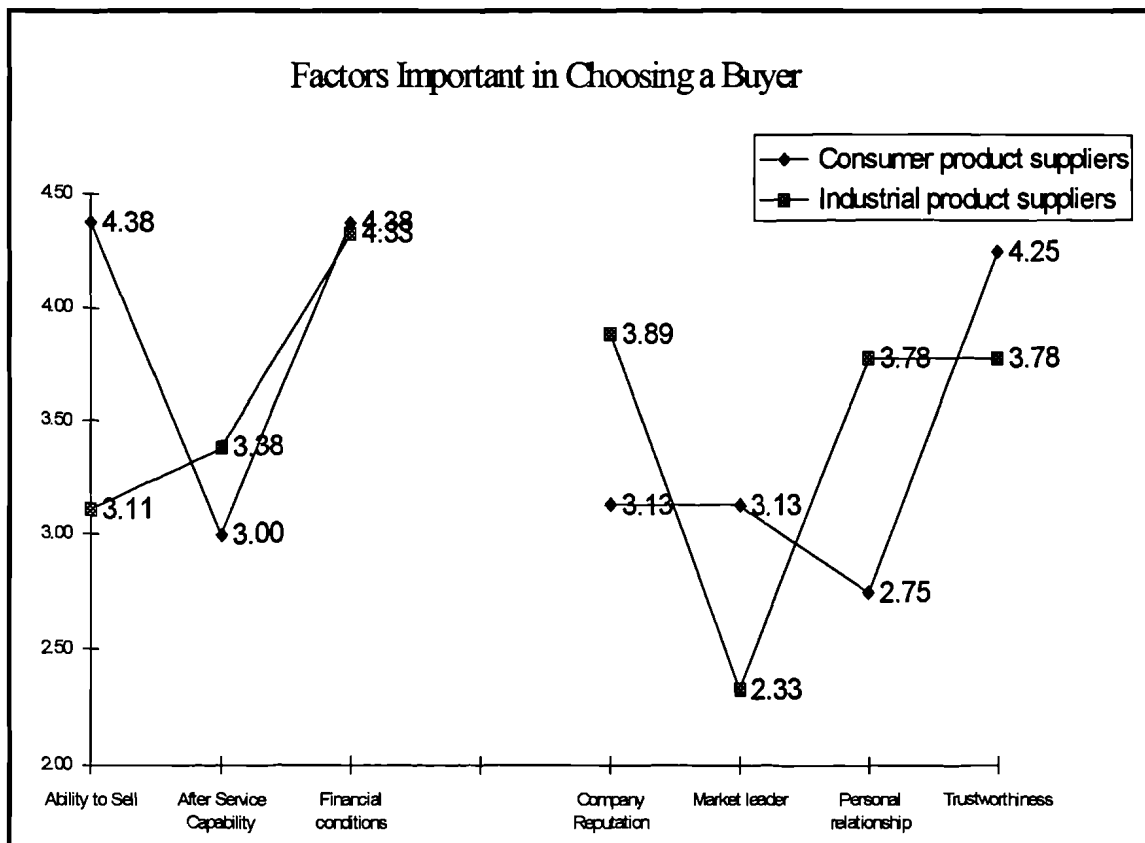


Figure 8. Factors Important in Choosing a Buyer by Supplier Type.

Nevertheless, the following results emerge:

- consumer products suppliers are more interested in their partners' selling ability and in their being market leaders; industrial suppliers are more concerned about personal relationships. This is consistent with the point previously made that Koreans prefer market share as an indicator of success;
- Korean suppliers did not generally attach great importance to after service capability. The qualitative analysis showed that some UK companies (particularly organisational buyers buying products for in house use) complained about this. This finding is consistent with the idea that many *chaebol* continue to rely on low quality low price strategies that are no longer really viable;
- both samples of suppliers considered the financial conditions of buyers to be very important, which might arise from uncertainty about the state of a foreign market.⁵⁴⁵ This might be compounded when control resides with decision-makers who are remote from the market. This is an indication that localisation has not yet been fully achieved, which is again consistent with the progress as it has been described.

⁵⁴⁵ Transaction-cost analysis assumes that market transactions can only be efficient when all relevant information can be contained within a single factor: price.

Cross tabulations of industrial buyers and consumer product resellers indicate significant differences for the following factors:

	5	4	3	2	1	Average
Brand reputation	11.4	21.6	35.2	26.1	5.7	3.07
- industrial						
- consumer	25.4	33.8	23.9	8.5	8.5	3.59
(p = 0.00400)						
Supplier's financing arrangements	21.2	15.3	24.7	16.5	22.4	2.96
- industrial						
- consumer	24.7	30.5	18.8	18.8	7.2	3.47
(p = 0.03353)						
Supplier's promotional support	4.7	10.5	22.1	37.2	25.6	2.31
- industrial						
- consumer	14.3	30.0	25.7	24.3	5.7	3.23
(p = 0.00012)						

n = 157 - 161.

Table 11. Factors Important in Choosing a Supplier by Buyer Type.

Unsurprisingly, consumer product resellers considered these factors to be more important than industrial buyers did. Since consumer products resellers are more likely to be retailers or wholesalers, it is important for them to have the particular brands that customers require. In contrast, industrial buyers were more likely to be end users and therefore interested in products which are custom made rather than those boasting famous brand names. Furthermore, consumer products resellers were more likely to have a choice of suppliers offering similar products than industrial buyers had. Financing arrangements are important to retailers since they prefer longer credit terms in order to sell the products before they need to pay their suppliers. However, there are exceptions: for example, occasionally industrial buyers (e.g. some shipping companies buying containers) would only buy when finance was available through the supplier.

Promotional support would be more likely to be important to consumer product resellers than it would be to industrial buyers since it is important to retailers but has little value for end users. As will be seen throughout these results, the desire for promotional support has generally not been satisfied by Korean suppliers, which is consistent with the idea that *chaebol* have yet to develop marketing strategies which can satisfy anything but very basic requirements.

6.3.1.3. The Relative Importance of Tangible and Intangible Factors

The qualitative research, together with the review of marketing literature and the description of Korean marketing strategies, have all suggested that although intangible factors are important in partner selection, tangible factors are generally decisive. It is possible to demonstrate this statistically. This can be achieved by reference to the following hypothesis:

Hypothesis 1. When choosing a partner, respondents consider tangible factors to be more important than intangible factors.

This hypothesis was converted into null format, as follows:

H₁₀ *Respondents do not consider tangible factors to be more important than intangible factors in choosing a partner.*

The analysis was conducted by computing separate variables representing the overall means of buyers / resellers / suppliers for both tangible and intangible selection criteria. These variables were then subjected to a paired T-test. This produced significant results for buyers / resellers (T value = -3.48, significance = 0.001) but not for suppliers. *This indicates that the null hypothesis could be rejected. Buyers / resellers consider tangible attributes to be more important than intangible attributes.*⁵⁴⁶

Further research would be required in order to ascertain whether the results would be repeated with other samples.

6.3.2. Long Term Relationships and Selection Criteria

6.3.2.1. Does a Long Term Relationship Affect Selection Criteria?

The extent and nature of the relationships that are created by localising companies have been described previously. Although it is of course dangerous to generalise too much, it has been suggested that Korean *chaebol* create relationships of a different nature than localising Japanese corporations. One crucial dimension in which relationships vary is in

⁵⁴⁶ That this cannot be demonstrated for suppliers is most likely the result of small sample size., although it is tempting to assert that there is a difference between the rationalist UK businesspeople and the interpersonal attribute-driven Koreans.

their length. More particularly, the definitions that actors have of the length of time necessary for a relationship to become a long-term relationship can vary. It was thought that there might be some relationship between the length of this definition and the relative importance of selection criteria. During the qualitative analysis, respondents were found to attach differing levels of importance to selection criteria according to whether or not they preferred long term relationships. If it could be shown quantitatively that this was the case, then this would suggest that some respondents are operating (albeit intuitively) from an interaction viewpoint. This issue was measured by means of the following research hypothesis:

Hypothesis 2. Whether respondents prefer a long term relationship or to play the market affects the factors important to them in choosing a partner.

Examining this hypothesis entailed measuring those factors important in choosing a partner against the preference for playing the market or maintaining a long term relationship.⁵⁴⁷ The hypothesis was first examined by means of a profile analysis. This was used both to produce the graphical representation of average scores displayed below and to indicate where statistically significant differences might be found. This is shown in the table below⁵⁴⁸

Given the very small sample sizes for some of these cells, it is not possible to offer much more than very tentative interpretations of the results. However, those who prefer to maintain long term relationships tended to consider each of the factors to be more important than did those who preferred to play the market or who expressed no preference. Furthermore, for industrial buyers / consumer goods resellers, four factors seemed to be more important than the others. Of these, three were tangible factors (product / service quality, price and on time delivery) and only one was intangible (supplier's trustworthiness). Generally, differences between those who preferred long term relationships and those who preferred to play the market were in attitudes towards

⁵⁴⁷ The factors involved were those described in the previous section.

⁵⁴⁸ In this table, no distinction is made between the degree to which respondents prefer long term relationships or to play the market. Consequently, the five point scale is reduced to three categories.

intangible factors. In other words, there is a consensus of opinion concerning the relative importance of tangible factors which does not exist for intangible factors.

<i>Average</i>	<i>Industrial Buyers</i>	<i>Consumer Goods Resellers</i>
	Long Term Relationship	Either Play the Market
On Time Delivery	4.50* ⁵⁴⁹	3.77* 3.88*
Price	4.19	4.15 4.13
Product/Service Quality	4.84	4.85 4.88
Promotional Support	2.38	2.15 2.00
Supplier's Financial Arrangements	3.14	2.42 2.38
Brand Reputation	3.04	3.23 2.63
Company Reputation	3.54	3.15 3.14
Personal Relationship	3.66	3.31 2.50
Supplier's Trustworthiness	4.46	4.08 3.71
n	68	13 8 61 9 2

Table 12. Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial Buyers / Consumer Goods Resellers).⁵⁵⁰

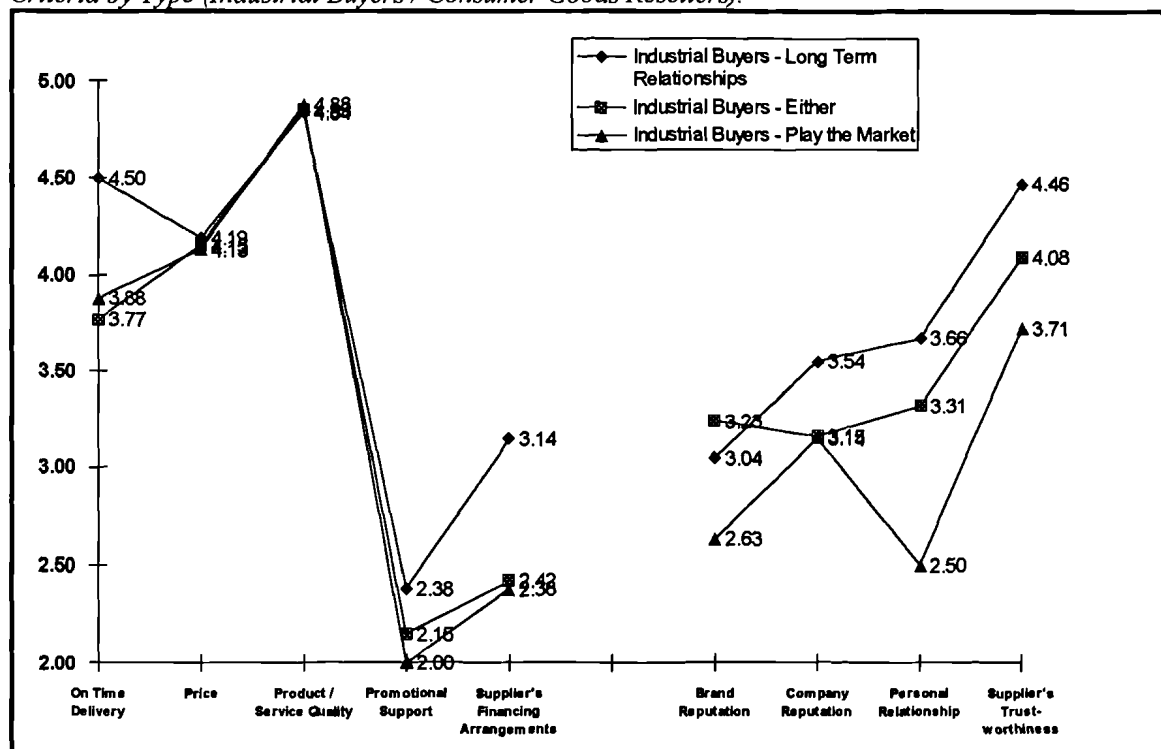


Figure 9. Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria for Industrial Buyers.

⁵⁴⁹ Asterisks here denote figures derived from a statistically significant result at the 5% level. All these figures were derived from an original percentage frequency distribution according to five point scales.

⁵⁵⁰ As has been mentioned previously, samples have been shown to derive from normal distributions or adequately close approximations and, consequently, means derived from those samples may be accepted as an acceptable representation of the total population. However, it should be acknowledged that sample sizes for suppliers in particular are sometimes very small and, therefore, where a statistically significant result has not been identified in the text, caution should be used in interpreting the results.

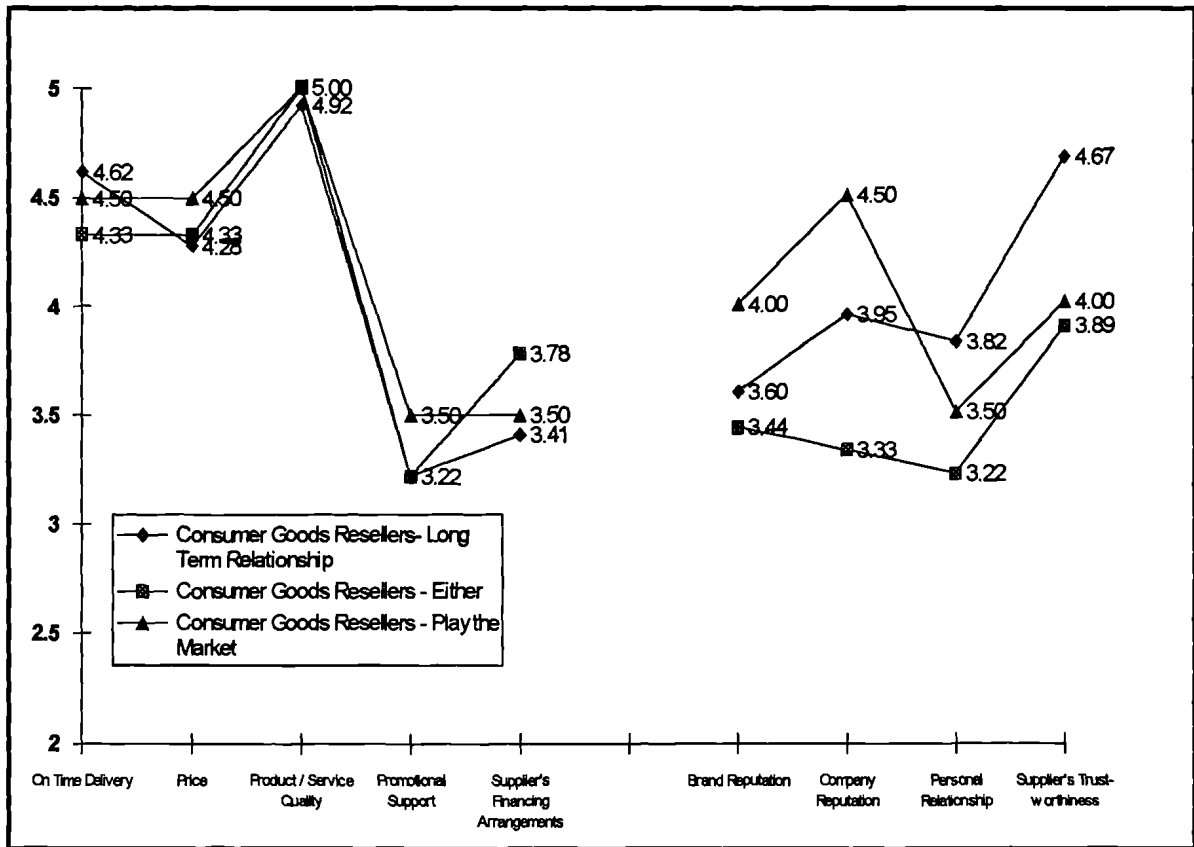


Figure 10. Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria for Consumer Goods Resellers.

The results for suppliers are shown below.

Average	Industrial Suppliers			Consumer Goods Suppliers		
	Long Term Relationship	Either	Play the Market	Long Term Relationship	Either	Play the Market
Ability to Sell	3.00	3.33	-	4.38	-	-
After Service	3.40	3.67	-	3.00	-	-
Capability						
Financial Conditions	4.00	5.00	-	4.38	-	-
Market Leader	2.00	3.00	-	3.13	-	-
Company Reputation	3.50	4.67	-	3.13	-	-
Personal Relationship	4.00	3.33	-	3.50	-	-
Trustworthiness	4.00	4.00	-	4.25	-	-
n	6	3	0	8	0	0

Table 13. Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial / Consumer Goods Suppliers).

This table shows that none of the suppliers preferred to play the market and their preference was to maintain a long term relationship. One explanation of this is that *chaebol* had yet to establish themselves in the various markets. Setting up in a different

country entails considerable expenses and it is likely that Koreans will, therefore, look initially to secure long term relationships in order to offset those expenses.

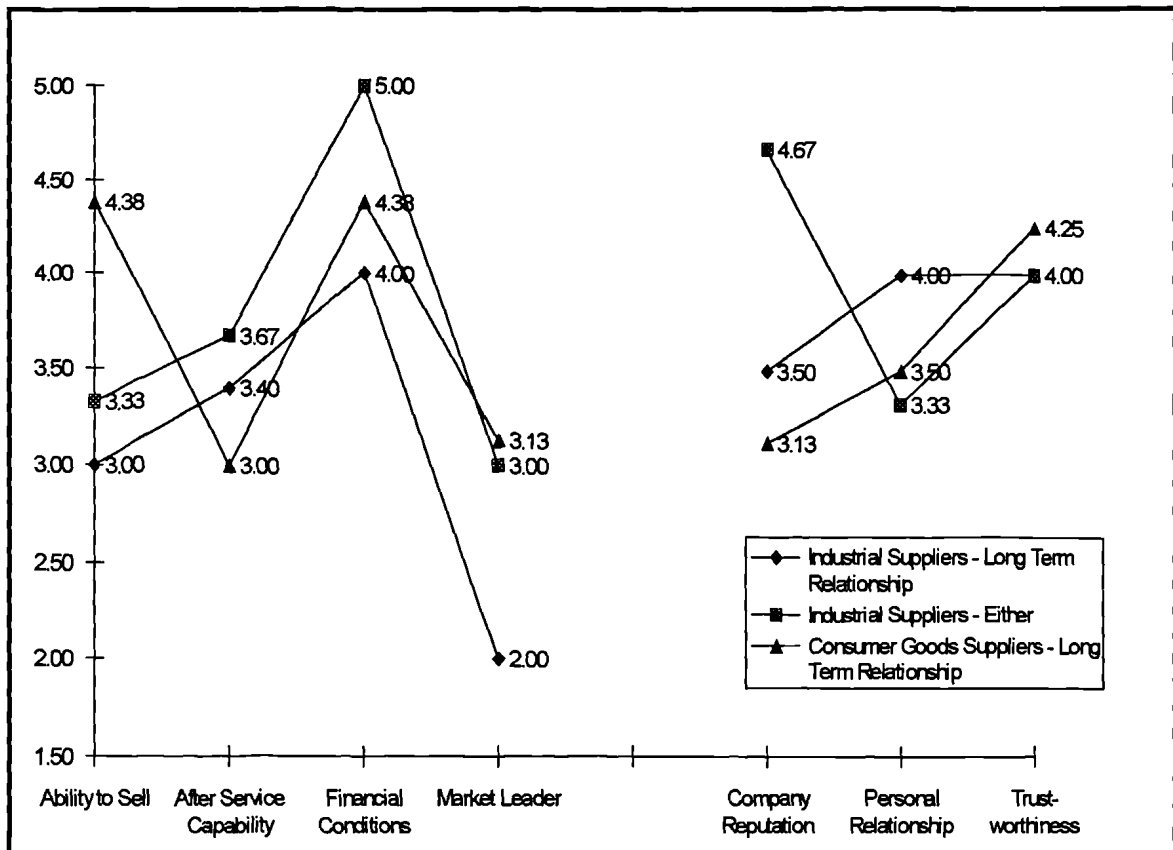


Figure 11. Effect of Preference for Long Term Relationships or Playing the Market upon Selection Criteria by Type (Industrial / Consumer Goods Suppliers).

Alternatively it may be that *chaebol* generally occupy weak market positions currently and have no real chance to play the market. It was decided to investigate this area more thoroughly. A null hypothesis was constructed. It was:

H₂₀ Whether respondents prefer a long term relationship or to play the market makes no difference to the importance placed upon selection criteria.

The results of ANOVA show that:

- examining buyers and resellers together, prompt delivery was found to vary significantly (F probability = 0.0103);⁵⁵¹
- the importance of the personal relationship also varied significantly (F probability = 0.0006).⁵⁵²

⁵⁵¹ Bonferroni analysis indicated that differences were between groups answering 1 (prefer long-term relationships) and 5 (prefer to play the market).

⁵⁵² Further analysis in this case showed differences between groups answering 1 (prefer long-term relationships) and 2 (quite prefer long-term relationships) and the group answering 4 (quite prefer to play the market).

The following conclusion may, therefore, be drawn:

For industrial buyers and consumer goods resellers together, the importance of both prompt delivery and personal relationship when choosing a partner varied depending on whether the buyer / reseller preferred a long term relationship or to play the market.

Analysing industrial buyers separately, the only factor which varied in importance was personal relationship (F probability = 0.0038).⁵⁵³ This led to the following conclusion:

For industrial buyers, the importance of personal relationships in choosing a partner varied depending on whether the buyer preferred a long term relationship or to play the market.

Considering only consumer goods resellers, no factors significantly varied in importance.

For industrial and consumer goods suppliers, whether considered together or singly, no significant differences could be detected. Hence, *the null hypothesis that a preference for playing the market or maintaining a long term relationship has no effect on selection criteria cannot be rejected.*

It would appear, therefore, that suppliers were looking for the same kind of relationship to be established no matter whether or not it developed into being long term. In other words, they exhibited no systematic differentiation of their intentions. If this lack of differentiation were extended to other facets of their marketing strategy, it would suggest they were not considering modification of their business practices as a market entry strategy. Alternatively, it might be that the suppliers feel they had no choice in the matter since their positions were still weak.

Results of the Bonferroni multiple classification analysis (MCA) show that, for industrial buyers / consumer goods resellers combined, it is possible to state:

- (i) the more buyers / resellers prefer to maintain a long term relationship, the more importance they place on prompt delivery as a selection criterion;
- (ii) for the importance of personal relationships as a selection criterion, the group which preferred to play the market to some extent differed significantly from the

⁵⁵³ Further analysis showed group variation as for footnote 552 immediately above.

groups preferring to maintain a long term relationship either definitely or to some extent.⁵⁵⁴ In this case, the groups preferring long term relationships attached significantly more importance to personal relationships in doing business.

For industrial buyers alone, the same pattern was apparent as in the preceding case for industrial buyers / consumer goods resellers combined. However, the importance attached to prompt delivery as a selection criterion was generally less (i.e. prompt delivery is more important to consumer goods resellers than it is to industrial buyers).

These Bonferroni results suggest that the spread of results is not always predictable. For example, the results showed that more importance is attached to personal relationships by respondents who answered that they definitely preferred to maintain a long term relationship or definitely preferred to play the market than by those who were less categorical. It may be that respondents who were extreme are more likely have a definite policy in relation to partnerships than the others, whose attitudes may vary from case to case or who have not given the matter much thought. Alternatively, this may have been caused by the fact that Korean companies were not then very well known in the UK.

6.3.2.2. Does the Definition of a Long Term Relationship Impact Upon Selection Criteria?

The previous section indicated that it was not easy to demonstrate that the desire for a long term relationship affected selection criteria. However, it was still possible that selection criteria might be influenced by the definition of a long term relationship. That is, those who consider a relationship to be long term only when it reaches ten or more years might be different from those who think it only needs to last two or three years. To establish this, the following research hypothesis was formulated:

Hypothesis 3. Respondents' definitions of a long term relationship affect the tangible and intangible factors important to them in choosing a partner.

The qualitative research suggested that definitions of "long term" might vary from between one or two years to ten years or more.⁵⁵⁵ To examine whether these variations had any impact on selection criteria, the hypothesis was converted to null format:

⁵⁵⁴ i.e. those respondents answering either "1" or "2" to this question.

H3₀ *Respondents' definitions of long term relationships does not affect the importance placed upon selection criteria in choosing partners.*

Analysis conducted for industrial buyers and consumer goods resellers combined showed that significant differences were only indicated for promotional support (F probability = 0.0012).⁵⁵⁶ It is concluded, therefore, that:

- apart from promotional support, industrial buyers' / consumer goods resellers' definitions of a long term relationship had no impact upon perceptions of selection criteria;
- the importance attached to promotional support increased as the definition of a long term relationship increased. This suggests that a commitment to promotional support is considered to be an important part of a long term strategy.

Promotional support has previously been shown to have been considered to be significant by respondents. The fact that *chaebol* which have begun to localise more recently have emphasised promotion and promotional support to a much greater extent than those localising early did tends to suggest that they have learnt this lesson from their partners.

There were significant variations for industrial suppliers in terms of financial conditions (F probability = 0.0118) and for ability to sell for consumer goods suppliers (F probability = 0.0338).⁵⁵⁷ It would appear that:

- Korean suppliers wishing to initiate long term relationships were much less likely to be worried about such matters as short term payments and other matters relating to the need to finance their own operations.

These results have an appealing logic in that industrial suppliers are more likely to be interested in sales which are comparatively small in number but large in value.

⁵⁵⁵ Indeed, as observed previously, in some cases respondents answered "0 years," implying that a long term relationship may be defined as a state of mind rather than in actual length of relationship.

⁵⁵⁶ Bonferroni MCA indicated that the subgroup answering 10+ years differed from those answering 1-3 years and 4-6 years. Additionally, the 3 years or fewer group also differed significantly from the group defining a long term relationship as being from 7 - 9 years. Meanwhile, analysis of industrial buyers alone showed that the definition of a long term relationship did not affect any of the factors considered to be important in choosing a partner. Analysis of consumer goods resellers alone also indicated no significant differences.

⁵⁵⁷ Bonferroni results showed that, in terms of financial conditions for industrial suppliers alone, the group of suppliers defining a long term relationship as being 10 years or more differed significantly from other groups. This group considered financial conditions to be much less important.

Consequently, industrial suppliers need to rely on the financial conditions of buyers for regular cash flow (which would be especially important in justifying the expense of moving into an international market). For consumer goods suppliers, cash flow would depend upon regular and swift repeat orders. In addition, consumer goods suppliers are selling to intermediaries and not, usually to end users. They must, therefore, rely on the intermediaries finding end users willing to buy.

As the definition of a long term relationship increases in length, it is reasonable to assume that the degree of commitment also increases. It is pleasing that the results support this. It suggests that behavioural concerns can have a direct impact upon rationally judged criteria. This finding lends some credence to interaction based approaches to marketing.

6.3.2.3. Does the Desire for a Long Term Relationship Impact upon Intangible Selection Criteria?

The previous section described some of the connections between long term relationships and selection criteria. The present section details an attempt to establish more closely how those connections work. It does this by attempting to discover whether there is a group of actors who are particularly interested in interpersonal matters and who might, therefore, be expected to associate long term relationships with intangible selection criteria. The presence of such a group of actors might explain the variation in results. The hypothesis created to investigate this was:

Hypothesis 4. Respondents who prefer long term relationships to playing the market place greater emphasis on intangible factors in choosing a partner than do those who prefer playing the market.

There had been indications previously that nearly all selection criteria were considered more important by industrial buyers who preferred to maintain long term relationships than those who did not. However, no statistically significant results were available to support the contention. Therefore, it cannot be assumed that the desire or otherwise for a long term relationship affects perceptions of the relative importance of intangible selection criteria. The marketing strategy of Korean companies in the UK would be affected

considerably by whether buyers / resellers did or did not wish to maintain long-term relationships.

In order to investigate this issue, respondents were invited to indicate their opinions according to a five point scale. The results of this were:

%	<i>Long term relationship</i> 5	<i>Quite Long Term</i> 4	<i>Either</i> 3	<i>Quite Play the Market</i> 2	<i>Play the market</i> 1	Average 558
Buyers	37.9	42.2	13.7	4.3	1.9	4.10
Suppliers	41.2	41.2	17.6	0	0	4.24

n = 178

Table 14. Preferences for Long Term Relationships in Buyers and Suppliers.

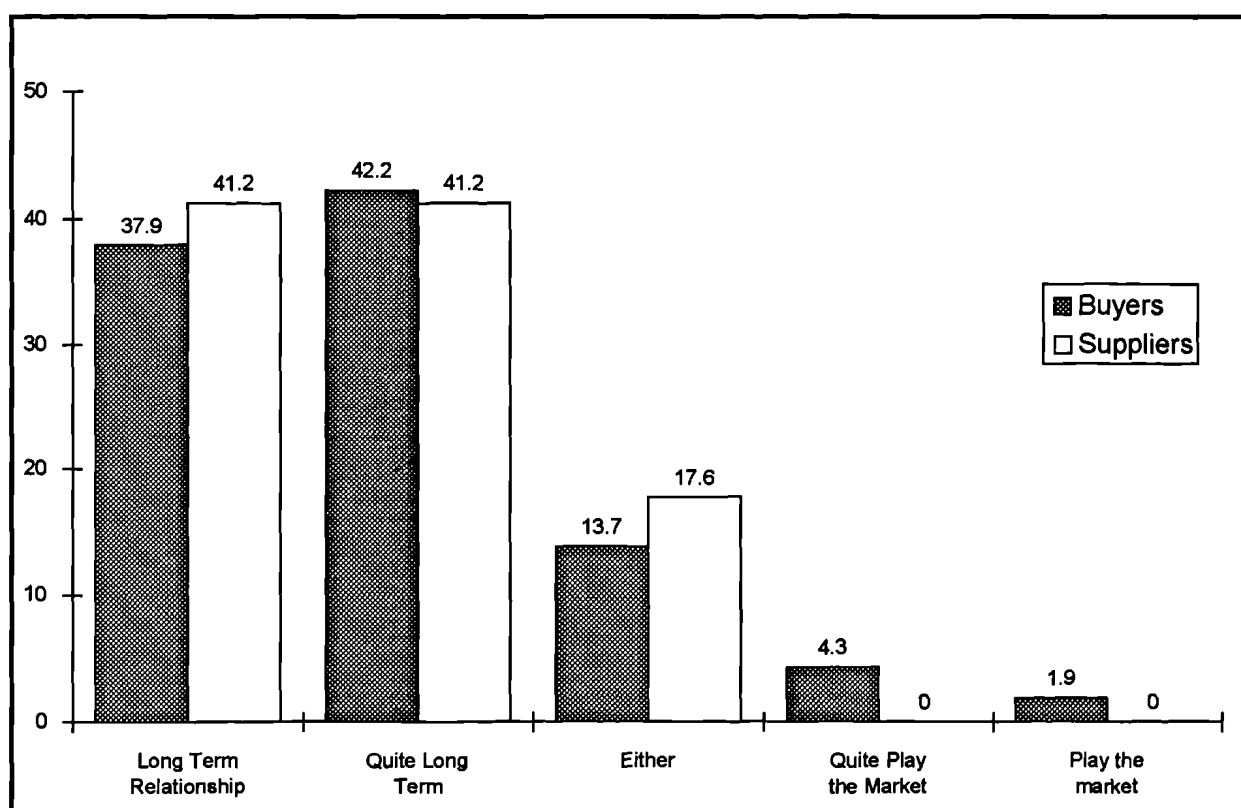


Figure 12. Preferences for Long Term Relationships.

Both buyers and suppliers exhibited very similar views, preferring to maintain long term relationships rather than playing the market. However, there were significant differences between industrial buyers and consumer product resellers, as Table 15 below shows.

⁵⁵⁸ Average scores were calculated on the basis of awarding a similar number of points as that indicated by the response and dividing the resulting total sum by the valid number of respondents.

	<i>Long term</i>	<i>Quite long term</i>	<i>Either</i>	<i>Quite play the market</i>	<i>Play the market</i>	<i>Average</i>
	<i>5</i>	<i>4</i>	<i>3</i>	<i>2</i>	<i>1</i>	
Industrial buyers	27.0	49.4	14.6	6.7	2.2	3.93
Consumer product resellers	51.4	33.3	12.5	1.4	1.4	4.32

p = 0.02042 n = 178

Table 15. Tendencies towards Long Term Relationships by Buyer Type.

It was observed previously that a long term relationship might be important to both consumer product resellers and industrial buyers. Indeed, these figures suggest that it was even more important to consumer product resellers. However, qualitative interviewing has shown that, perhaps because of the recession, buyers were not always able or willing to maintain long term relationships. This was because they were looking for short term money saving. Korean suppliers reported that British buyers were often very price sensitive. To try to establish more definitely the preference or otherwise for long term relationships, the following research hypothesis was formulated:

Hypothesis 5. Respondents prefer long term relationships to playing the market.

Qualitative and quantitative research indicated that all respondents normally preferred to maintain long term relationships to playing the market so long as this was not harmful to the company's interests.⁵⁵⁹ The research hypothesis may be reformulated in null form as follows:

H5₀ Respondents have no particular preference when it came to decisions about playing the market or maintaining a long term relationship.

Evaluation of the null hypothesis was undertaken by means of a univariate examination of the variable, which indicated the following significant results:

- buyers / resellers combined: chi square = 0.0000
- industrial buyers: chi square = 0.0000

⁵⁵⁹ That is, where avoiding playing the market would mean that the company fails to achieve a deal which would be better in terms of the marketing mix. There are certain exceptional circumstances where this pattern does not hold true: for example, where there is a buyers' market (where supply far exceeds demand) or, alternatively, a suppliers' market (where demand far exceeds supply). In these cases, even those companies most strongly favouring long term relationships will instead resort to playing the market.

- consumer goods resellers: chi square = 0.0000
- all suppliers combined: chi square = 0.0001⁵⁶⁰
- industrial suppliers: chi square = 0.0439⁵⁶¹

These figures are sufficient to reject the null hypothesis. It is shown that *all respondents prefer to maintain long term relationships than to play the market*. This is an important finding since it disproves economics based marketing paradigms which assume atomistic organisations and purely market based transactions. Although there is a wealth of anecdotal evidence to support this view, it is still useful to have the finding demonstrated quantitatively.

Having established the desire for a long-term relationship, it is next necessary to investigate what is meant by the term.

6.3.2.4. Definition of a Long Term Relationship

Although the literature has described long term relationships extensively, no writer has satisfactorily defined their length. The research sought to rectify this. As well as simply filling a gap in knowledge, this information is also important in helping to define the appropriate timescale for localisation. As previously described, localising companies need to overcome existing relationships and establish their own long-term relationships in order to be successful. It would be of considerable assistance in the planning procedure of localising companies if they knew how long they might be expected to demonstrate commitment to the foreign market before they can anticipate success.

Consequently, both buyers and suppliers were asked how long they thought such a relationship was.⁵⁶² The responses were as follows:

%	0 - 3 years	4 - 6 years	7 - 9 years	10+ years
Buyers	38.0	38.0	3.8	20.3
Suppliers	12.5	75.0	6.3	6.3

n = 175

Table 16. Definition of a Long Term Relationship.

⁵⁶⁰ Results for suppliers are questionable owing to the number of cells in which the expected frequency is less than 5.

⁵⁶¹ *ibid.*

⁵⁶² An open question format was used in order to avoid leading respondents.

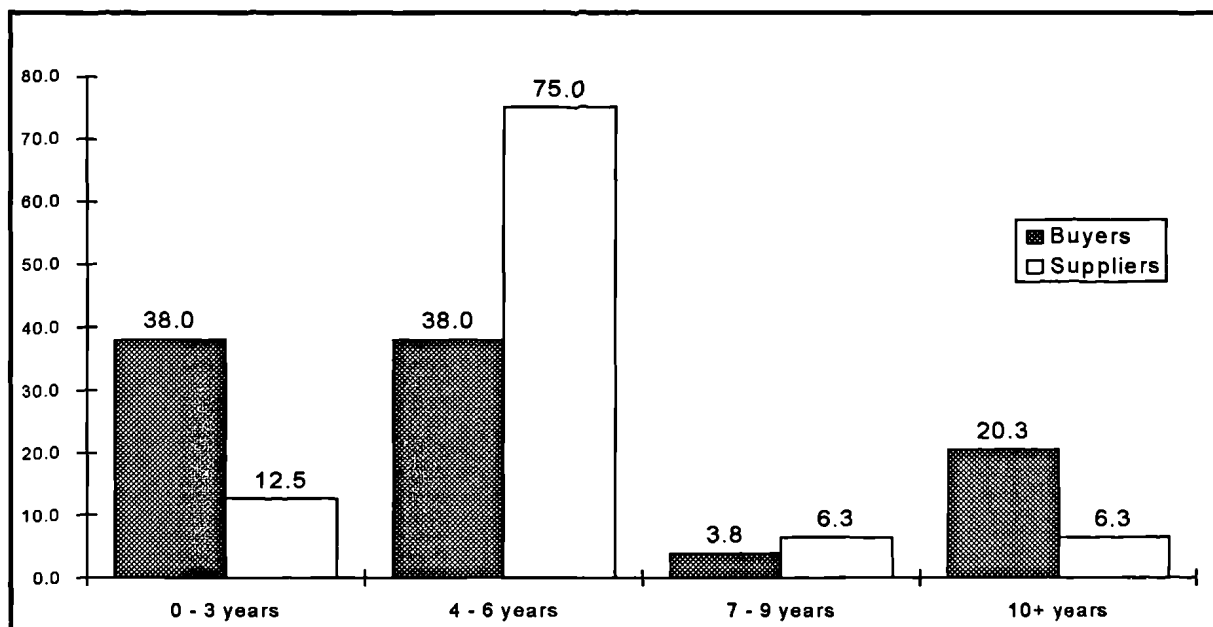


Figure 13. Definition of a Long Term Relationship.

More than three quarters of all respondents considered a long term relationship to be six years or less, while 75% of suppliers defined a long term relationship as between 4 - 6 years.⁵⁶³ Interestingly, some respondents answered that a relationship could become a long term relationship without any expenditure of time, indicating that a long term relationship is more of a state of mind. Since entering into a long-term relationship generally means a degree of commitment, the fact that some will provide this commitment immediately tends to cast doubt on the Uppsala model and other models of internationalisation which postulate increasing degree of commitment.

The above results showed that there was a wide range of opinion among respondents as to what constituted a long term relationship.

6.3.3. Personal Relationships

⁵⁶³ This may be partly because of the general length of residence of Korean employers in the UK. As explained previously, this tends to be between 3 - 5 years and, hence, a relationship lasting 4 - 6 years will be likely to be longer than their period of residence and, as a result, necessitates project management from more than one individual.

The differences between industrial buyers and consumer product resellers were significant, as the following table shows:

%	0-3 years	4-6 years	7-9 years	10+ years
Industrial buyers	47.1	39.1	4.6	9.2
Consumer product resellers	26.8	36.6	2.8	33.8

n = 158

P = 0.00096

Table 17. Definition of a Long Term Relationship by Buyer Type.

It was apparent that consumer product resellers tended to consider relationships to be longer than industrial buyers did. Over a third of consumer product resellers considered a long term relationship to be in excess of 10 years, while only 10% of industrial buyers thought the same.

6.3.3.1. The Impact of the Importance of Personal Relationships upon Intangible Factors.

The importance of intangible attributes as selection criteria has already been established. This supports the view that personal relationships are important in business. One area of investigation that this suggests is whether a personal relationship established by a Korean businessperson can affect the UK counterpart's perception of the *chaebol*. This was investigated through the following research hypothesis:

Hypothesis 6. The more important that personal relationships are in doing business, the more companies will place emphasis on intangible factors in choosing a partner.

To explore this hypothesis, a series of ANOVA tests was conducted. Each one considered a separate criterion. Tangible factors were also included in order to provide a contrast. For the purposes of investigation, the hypothesis was converted into null format, as follows:

H₆₀ The degree of importance placed upon personal relationships in doing business has no effect on the emphasis placed upon intangible factors when choosing a partner.

The results from the ANOVA analysis were not so conclusive as to demonstrate a wide-ranging connection. However, the results did enable the rejection of the null hypothesis. It is concluded, therefore, that *personal relationships do affect partner selection*.⁵⁶⁴

A further ANOVA test was conducted with variables representing the overall mean scores given by respondents to the totals of, separately, tangible and intangible factors. Analysis

⁵⁶⁴ This was not very surprising since most of the evidence for this relates to the effect on the importance of personal relationships as a selection criterion in choosing a partner and there are significant differences in this respect for:

- industrial buyers (F probability = 0.0000);
- consumer goods resellers (F probability = 0.0000);
- all suppliers combined (F probability = 0.0365);
- industrial suppliers alone (F probability = 0.0197).

Results of the Bonferroni MCA showed that, in terms of the importance of personal relationships as a selection criterion, for both industrial buyers and consumer goods resellers separately, nearly all groups differed significantly from each other. It is possible to state conclusively that the more personal relationships were considered to be important in doing business, the more importance will be attached to personal relationships as a factor in choosing a partner. For industrial suppliers alone, it was observed that the more that personal relationships were considered to be important in doing business, the more that importance would be attached to personal relationships as a selection criterion when choosing a partner.

of these was undertaken with respect to buyer / reseller or supplier type. This test showed a number of significant variations,⁵⁶⁵ which prompt the following conclusions:

- ❶ for industrial buyers, the more that personal relationships are considered important in conducting business, the more emphasis will be placed on **intangible** selection criteria;⁵⁶⁶
- ❷ for consumer goods resellers, the more that personal relationships are considered important in conducting business, the more emphasis will be placed on **intangible** selection criteria;
- ❸ for industrial suppliers, the more that personal relationships are considered important in conducting business, the more that emphasis will be placed upon **tangible** selection criteria.

It may be concluded from this that the importance placed on personal relationships can be used to help predict the importance placed upon selection criteria more generally. In terms of marketing strategy, it would be worth suppliers attempting to cultivate good personal relationships with partners insofar as they are hoping to compete in terms of intangible factors. The fact that personal relationships (and other intangible factors) appear to be important suggests that for localisation to be effectively accomplished, Korean businesspeople (or those individuals working for Korean companies) should attempt particularly to become involved in the networks of which UK buyers are members. The social aspects of these networks will also be important.

6.3.3.2. The Importance of Personal Relationships in Business

One of the principal reasons that has been proposed to explain the continuation of long term relationships is the warmth of the personal interaction that may obtain between partners. If this is true, then it would be anticipated that respondents in this research would consider personal relationships to be important in doing business, since they prefer

⁵⁶⁵ These included the following:

- intangible factors for industrial buyers (F probability = 0.0000);
- intangible factors for consumer goods resellers (F probability = 0.0000);
- intangible factors for industrial buyers and consumer goods resellers combined (F probability = 0.0000);
- tangible factors for industrial suppliers (F probability = 0.0355).

⁵⁶⁶ This does not imply that intangible criteria are therefore considered to be more important than tangible criteria.

long term relationships. In order to assess this quantitatively, respondents were invited to comment according to a five point scale, with the following results:

	<i>Very much</i> 5	<i>Much</i> 4	<i>Moderate</i> 3	<i>A little</i> 2	<i>None</i> 1	Average
Buyer	28.0	38.5	26.7	6.8	0	3.88
Supplier	23.5	47.1	23.5	5.9	0	3.88

n = 178

Table 18. *The Importance of Personal Relationships in Business (see Figure 14 below).*

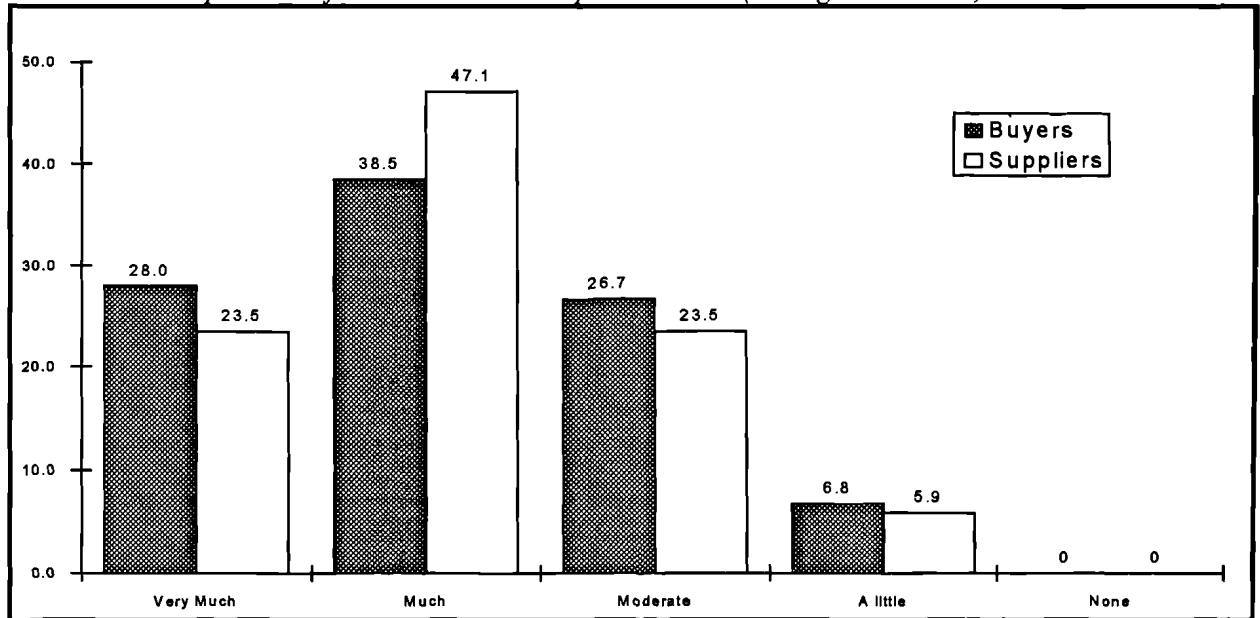


Figure 14. *The Importance of Personal Relationships in Business.*

These were very similar results for both buyers and suppliers and showed that personal relationships in business were generally considered to be important. Furthermore, there were no significant differences between industrial buyers and consumer product resellers in this regard, which implies that all sectors considered personal relationships to be equally important. At the same time, qualitative research indicated that personal relationships, while important, were not really a criterion on which partners might be judged but a channel of communication without which interaction would be more difficult. That is, they were part of the "second rank" of factors which become decisive only when the tangible factors of competing bidders were similar.

Further exploration of the interaction approach (and the possibility of extending this to consumer goods resellers markets) was undertaken through the consideration of whether the importance of personal relationships in doing business was associated with the

preference for long term relationships. This was investigated through the following research hypothesis:

Hypothesis 7. Respondents who prefer long term relationships to playing the market place more emphasis on personal relationships in doing business.

Although no respondents felt that a good personal relationship would cause an individual to behave in a way that was contradictory to his or her company's best interests (for example, using a supplier much less competitive than others), there was a general feeling that a good personal relationship would allow a business relationship to be maintained in most circumstances. Indeed, should business be undertaken with a rival, this would not mean that the relationship with the focal company was broken but just temporarily dormant.

In investigating the research hypothesis, it was necessary that it should be reformulated in null form as follows:

H7₀ It makes no difference to the emphasis placed on personal relationships in conducting business whether respondents prefer a long term relationship or to play the market.

Analysis by means of ANOVA indicated that there were no significant differences in this case when analysing industrial buyers and consumer goods resellers together nor in the case of industrial buyers alone.

Analysis by consumer goods resellers alone shows significant variations in subgroup averages (F probability = 0.0084).⁵⁶⁷ The following conclusion may be drawn from this:

For consumer goods resellers, the importance placed on personal relationships varies depending upon whether the reseller prefers a long term relationship or to play the market.

Interestingly, there were no significant differences to be detected in the case of suppliers. It appears that although suppliers prefer long term relationships, this is not because of

⁵⁶⁷ Bonferroni MCA showed that the subgroup answering 1 = long term differs significantly from the subgroups answering 5 = play the market and 3 = either.

benefits that might be gained from good relationships. This may be contrasted with resellers⁵⁶⁸ who viewed a long term and a good personal relationship as being connected. While this will already no doubt be reflected in purchasing strategies, it should also be taken into account in designing marketing strategies. Since Korean companies are thought traditionally to emphasise personal relationships in conducting business, it might be expected that they would, consequently, achieve good results when dealing with a buyer / reseller interested in maintaining long term relationships.⁵⁶⁹

Having indicated that an association could be detected between the importance of personal relationships and the preference for long term relationships, it was next decided to explore whether changes in one factor could be predicted by changes the other. This was investigated by means of the following research hypothesis:

Hypothesis 8. The more important that respondents consider personal relationships to be in doing business, the more likely they will be to maintain longer relationships with their partners.

The hypothesis derived from this was examined by means of the variables concerning perceptions of the importance of personal relationships in conducting business and the length of time that the business and personal relationships had thus far been maintained. To do so, the hypothesis was converted to null form as follows:

H8₀ The degree of importance attached by respondents to personal relationships in doing business makes no difference to whether they will maintain a long term relationship or not.

The length of business and personal relationships were coded after return of questionnaires, with relationships up to 2 years coded as 1, relationships of 3 to 4 years coded as 2 and so on up to 5 for 9+ years. For the purposes of this analysis, relationships of 7 or more years are considered to be long. This was partly a judgmental decision and partly because of the recent introduction of Korean companies into the UK, which meant

⁵⁶⁸ There was a trend in the data to suggest buyers as well, although there was insufficient statistical evidence to demonstrate this.

⁵⁶⁹ However, qualitative research, as described previously, indicated not only that personal relationships were not always the best but also that Korean companies did not conceive of personal relationships in the same way that UK companies did.

that it would be unrealistic to expect relationships to have lasted any longer than this. Additionally, as mentioned previously, the standard length of stay of a Korean businessperson in another country is three to five years. By setting a relationship as being long term at a limit of seven years, therefore, it is apparent that the relationship with the partner must concern at least two sets of relationships with different Korean personnel and cannot be considered simply that it is a good personal relationship with one individual which causes the connection to be maintained.

Examination of this hypothesis by industrial buyers and consumer goods resellers combined and separately indicated no significant variations. Suppliers also show no significant variations. In other words, suppliers did not consider personal relationships to be necessarily connected to a long term relationship. The interaction and network approaches tend to suggest that good or at least committed personal relationships will almost inevitably develop as a result of sustaining a long term relationship. However, the results of this thesis tend to show that personal relationships are not considered to be essential in maintaining a long term relationship. This may be a result of a cultural difference since, as has been discussed previously, personal relationships are generally considered to be an integral part of business for Koreans. Consequently, it may be that personal relationships are held to be such an inevitable aspect of the pattern of doing business that they need not be emphasised further. Moreover, as has been shown, personal relationships tend to be perceived as means by which business may be conducted rather than being goals in themselves. An alternative interpretation relates to cultural differences in that while Korean business people do place great emphasis on personal relationships in doing business, this is not matched by their UK counterparts.

6.4. Relationships

The previous sections in this chapter have explored the ways partners are selected and whether they can be used, statistically, to predict other types of behaviour. It has been shown previously that *chaebol* attach great importance to interpersonal relationships. It has also been shown that establishing relationships is an important part of the localisation process. This should mean, therefore, that *chaebol* will have skilfully established effective

and harmonious relationships. The current section will examine whether or not this is true. The section is introduced by a review of the qualitative research concerning relationships, which will demonstrate the areas of concern for respondents, which in turn helped to shape the quantitative research.

6.4.1. Qualitative Overview of Relationships

The qualitative research gathered important information on how Korean respondents viewed relationships, how important long term relationships are and how they are conducted. The present section summarises some of the more important features of this discussion.

6.4.1.1. The Importance of Interactive Relationships.

Korean respondents felt that to conduct business efficiently, interpersonal and inter-organisational interaction should be sustained constantly throughout the organisation. The ideal form of interaction was personal, face-to-face discussion on a regular basis. If this could not be managed, then contact could be by telephone or fax. However, Korean respondents observed that their UK counterparts had different ideas. Indeed, some stressed the importance of not contacting UK partners too frequently in case it "irritated" them.⁵⁷⁰ UK respondents, meanwhile, felt that it was not the high level of contact that was a problem but the fact that so much of it seemed to be unrelated to specific tasks.

Nevertheless, despite an assumption to the contrary in some marketing literature, Korean respondents did not feel that they engaged in interaction any more than businesspeople from any other country did.⁵⁷¹ They also felt that their interaction was almost entirely because of specific reasons. Significant reasons included:

- the importance of information. This was mostly relevant to industrial organisational markets. Information that might be vital in tendering processes would only be given to partners with whom good relationships were maintained;⁵⁷²

⁵⁷⁰ This can be taken to an extreme; some UK respondents, particularly those in consumer goods resale markets, complained that their Korean partners did not keep in touch at all.

⁵⁷¹ Koreans can also think of themselves as emotional and irrational in comparison with the cold, logical approach of Westerners. Choi and Wright (1994), *op.cit.*

⁵⁷² Gaining access to relevant knowledge has been widely considered to be a vital criterion in achieving success in the foreign market, as the literature review has demonstrated.

- when potential partners cannot really be separated by tangible attributes, buyers assess differences in intangible attributes such as the quality of relationships;
- there was a feeling that interaction was definitely linked to success: "...[it might] ... not necessarily lead to better deals but it might be reflected in an increasing number of sales;"
- problems that occur between partners can be resolved when the relationship between them is cordial. This seemed to take two main forms: good inter-organisational interaction could resolve problems arising from tangible attributes such as product quality or delivery; good interpersonal interaction could resolve difficulties arising from the presence or role of unsympathetic individuals.⁵⁷³

These findings support the literature. It is clear that there is a risk of misunderstanding between Korean and UK partners which results from different business methods. Western businesses place much greater importance on written contracts and agreements, while Oriental businesses generally place more importance on the understanding between partners. Therefore, when some new transaction between the partners is desired, Koreans will try to achieve it through the established pattern of interaction while their UK counterparts will require a more formalised procedure.

6.4.1.2. The Structure of Relationships.

Korean respondents felt that although they would do what they reasonably could to ensure a pleasant atmosphere in the relationship, they would never confuse this with genuine

⁵⁷³ These findings suggest that Korean and UK businesspeople have different expectations of what constitutes a task-specific conversation. This would be more extreme in the case of the expectations of UK and Japanese businesspeople, since the governance structure of Japanese corporations relies much more on the establishment of mutual dependency relationships between managers and staff and on processes such as the ringi system of ensuring consensus before a decision is reached (See McMillan, Charles J., The Japanese Industrial System, revised edition (de Gruyter: Berlin, 1989), pp.159-61). Comparisons with studies of Japanese localisation in this respect are of limited value since the level of analysis is too removed from that of this thesis. The majority of studies focus on financial data and on manufacturing concerns (e.g. Dunning (1986), *op.cit.*, Nitsch *et al* (1995), *op.cit.*, Yoshihara (1978), *op.cit.* or Fitzpatrick Associates (1991), *op.cit.*, while other studies investigating the use of and access to knowledge tend to do so from an organisational perspective (see, for example, Sohn, Jung Hoon Derrick, "Social Knowledge as a Control System: A Proposition and Evidence from the Japanese FDI Behaviour," *The Journal of International Business Studies*, Vol.25, No.2 (Second Quarter 1994), pp.295-324). Studies dealing with Japanese localisation on an individual firm level, meanwhile, tend to focus on large corporations and in retrospect (for example, Faulkner (1995), *op.cit.* and Parter (1993), *op.cit.* This continued focus on a different perspective is evident from, to take just one example, Parter, who writes of a five-point plan for the use of information which involves auditing the local community, matching inputs and outputs of information, monitoring and evaluating the external environment (Parter (1993), *ibid.*, p.5). This form of analysis is certainly very useful but it is not feasible to provide direct comparisons with the current thesis.

friendship. Any show of feeling would be a "pretence."⁵⁷⁴ They felt this would be understood by everyone involved. Interaction between business partners cannot create genuine understanding since:

"... no one is able to stand in another's shoes entirely."

One implication of this is that inter-organisational interaction is considered to be more important than interpersonal interaction. For example, it was observed that:

"Most people should be able to adapt to changing business methods."

This suggests that individuals could be interchangeable in business relationships.⁵⁷⁵ There were certainly reasons why Korean managers prefer relationships to remain on an inter-organisational rather than an interpersonal level. These included the following:

- there have been occasions when Korean staff have built up relationships on a more personal basis in the overseas country (notably the USA). Subsequently, the employees were able to rely on these relationships when they left the company and established their own, rival businesses, taking the contracts offered by their friends with them;
- when UK buyers are introduced by Korean trading companies to Korean manufacturers, either side might attempt to side-step the intermediary, using tactics of inconsistency and disinformation. That is, the UK buyer tells the trading company it does not wish to pursue the partnership, only to be discovered later dealing directly with the manufacturer, having avoided paying commission to the middle man. Both buyers and manufacturers have in the past attempted to initiate these direct relationships;
- in industrial organisational markets particularly, each relationship is so important that much work goes into strengthening relationships to the greatest possible extent and at the greatest number of levels. It is, therefore, unusual for

⁵⁷⁴ This seems to contradict the view of Choi and Wright, who write: "For a Korean, the most important aspect of a business partnership is the relationship itself. This conflicts with the Western viewpoint which emphasises the business and profit motive as being of much greater consequence. A relationship in Korea depends not just on friendship between partners but also the commonality of background."(Choi and Wright (1994), *op.cit.*, p.70). This apparent discrepancy might be explained by the difference between inter and intra-organisational relationships, bearing in mind that *chaebol* relationships are intra-organisational (see Whitley (1992), *op.cit.*, pp.42-53).

⁵⁷⁵ Although this is perhaps more strictly true of Japanese corporations, it is certainly true that Korean personnel will rotate around various departments within the company. This promotes the sharing of knowledge and collective decision-making (albeit at a non-executive or strategic level).

relationships to be broken. Indeed, the strength of relationships can act as powerful barriers to entry;⁵⁷⁶

- the authoritarian style of top *chaebol* management is suited by the idea that individual managers lower down the organisation are not constructing their own power bases through personal connections with partners.

Generally, it was accepted that both buyers and suppliers would be active in looking to introduce interaction between the two partners.⁵⁷⁷

Having now considered in a qualitative way the relationships between partners, it is now possible to investigate those areas of relationships which are best explored by quantitative means.

6.4.2. The Nature of Relationships.

6.4.2.1. Lengths of Business Relationships.

This section of the research was dedicated to investigating how the relationships described above are manifested in the behaviour of the respondents. The qualitative research tended to support the findings suggested by the literature review and it was hoped that the quantitative results would be similarly amenable to interpretation. The first area to be investigated was that of the lengths of relationships. This issue was investigated because it has direct implications for the localisation process; e.g., *chaebol* managers would find it helpful to know when their commitment to the market can be expected to yield business success.⁵⁷⁸ The issue was measured with the following results:⁵⁷⁹

⁵⁷⁶ It is also clear that once this kind of relationship has been established, the cost of transactions between partners is lessened while transactions with outsiders become more expensive. In effect, the relationship has internalised the partner within the firm. See Section 3.5. previously.

⁵⁷⁷ It was felt that this might take the form of one-sided demand, especially in the case of industrial organisational markets, in which buyers contact suppliers with definite and perhaps customised requirements.

⁵⁷⁸ Korean and Japanese commentators repeatedly observe that to achieve success in their domestic markets it is vital to demonstrate commitment to the market. This commitment is routinely expected to last a number of years before targets can start to be met and is necessary to establish necessary relationships, gain market knowledge and be accepted by actors as a potential partner who will be available to deal with transactions over a long period of time. Since Chapters 1 and 2 showed that Korean marketing strategy is to a large extent dependent on external factors and is emergent in nature, it is expected that Koreans will adopt (at least initially) similar strategies to those successful domestically (the

(%)	0 - 2 years	3 - 4 years	5 - 6 years	7 - 8 years	9+ years
Buyers	53.5	22.6	11.3	3.1	9.5
Suppliers	12.5	31.3	31.3	6.3	18.8

n = 175

Table 19. Length of Business Relationship between Buyers and Suppliers.

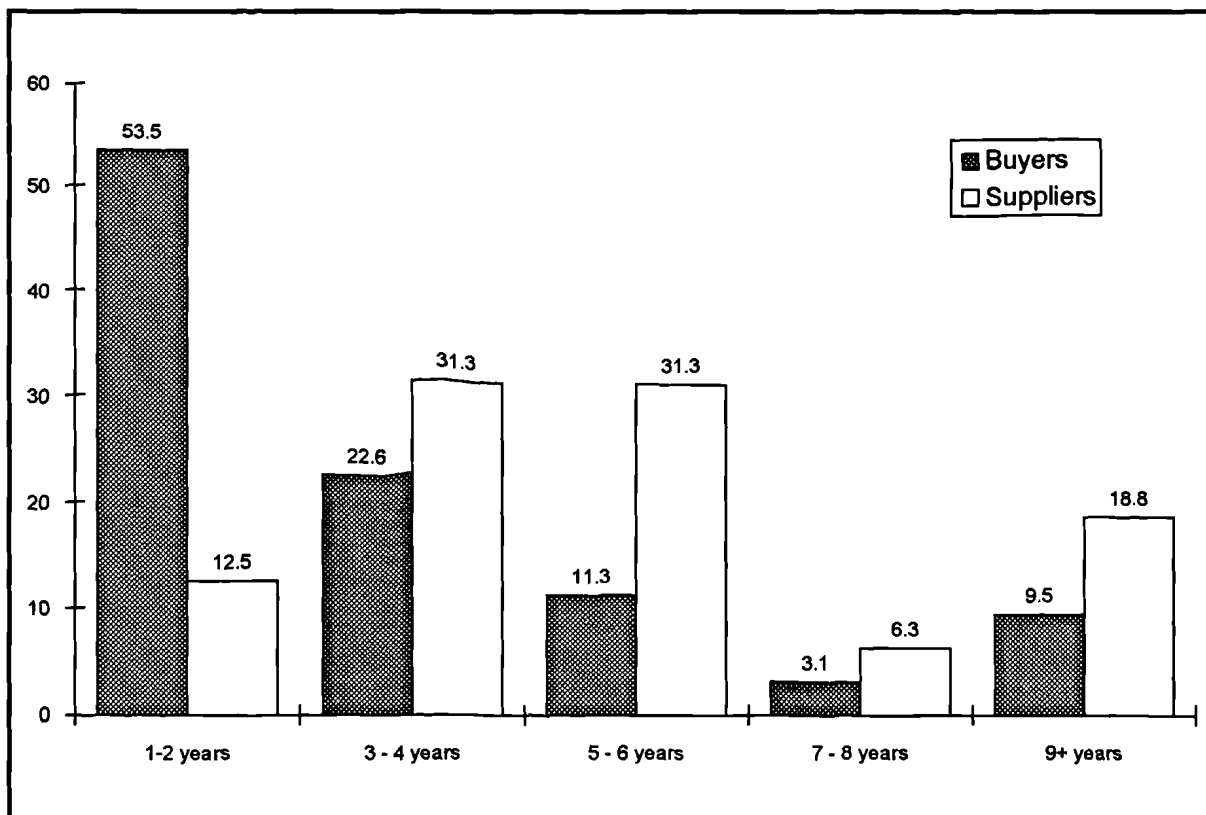


Figure 15. Length of Business Relationship between Buyers and Suppliers.

Over 50% of UK buyers / resellers have had a relationship of less than 2 years with Korean suppliers. However, Korean suppliers tended to state that the relationships were longer than was reported by buyers.⁵⁸⁰ The qualitative research showed that some buyers may have been unaware of the fact that they were dealing with Korean suppliers.

The differences between lengths of business relationship according to buyer type were statistically significant⁵⁸¹ and it appears that industrial buyers had shorter business

qualitative findings supported this contention). Consequently, time measurements become a crucial part of planning.

⁵⁷⁹ This was a closed question. The level of detail required was not great here and, in any case, experience of surveys shows that respondents asked for information which might be of a personal nature, of an apparently inappropriate level of detail or else simply not immediately available are less likely to complete the questionnaire satisfactorily.

⁵⁸⁰ This may be because respondents were invited to comment on one relationship and suppliers had a number of relationships from which to choose.

⁵⁸¹ This is shown by the following table:

%	1-2 years	3-4 years	5-6 years	7-8 years	9+ years
Industrial buyers	65.5	20.7	9.2	0	4.6
Consumer product resellers	39.4	25.5	14.1	7.0	14.1

P = 0.00438 n = 159 Table 20. Length of Business Relationship by Buyer Type.

relationships than consumer product buyers did.⁵⁸² It was noticeable that Korean suppliers operating in consumer goods resellers markets tended to be more well established than those operating wholly within industrial organisational markets. This finding is consistent with the previous chapters, which showed Korean industrialisation moving on a sector by sector basis.

6.4.2.2. Lengths of Personal Relationships

In addition to the business relationship, the length of the personal relationship between partners was also investigated. Although the literature review and the qualitative research both suggested a distinction between interpersonal and inter-organisational forms of interaction, this was an opportunity to adduce numerical evidence to what might otherwise appear anecdotal. A similar method was used to gather the data as that described in the previous section and the results were as follows:

(%)	0 - 2 years	3 - 4 years	5 - 6 years	7 - 8 years	9+ years
Buyer	56.0	22.0	13.8	1.9	6.3
Supplier	25.0	50.0	12.5	6.3	6.3

n = 175

Table 21. Length of Personal Relationship between Buyers and Suppliers (see Figure 16 below).

Just like the business relationship, the personal relationship tended to be longer for suppliers than it was for buyers. Korean personnel generally work in a country on a three or five year basis. However, some will return to the same country after a few years elsewhere, which might help to explain why one quarter of supplier respondents had a relationship with the buyer for longer than five years.⁵⁸³

⁵⁸² This might be partly explained by circumstances specific to the Korean supplier sample: for example, most (industrial) computer buyers were interested in one off purchases; tape suppliers meanwhile had recently changed their distribution lines, re-entering the market on a different basis.

⁵⁸³ Further analysis indicated a significant difference between industrial buyers and consumer product resellers, as the following table shows:

	1 - 2	3 - 4	5 - 6	7 - 8	9+ years
Industrial buyers	69.0	18.4	9.2	0	3.4
Consumer product resellers	40.8	26.8	19.7	4.2	8.5

P = 0.00668 n = 159

Table 22. Comparative Lengths of Personal Relationships by Buyer Type.

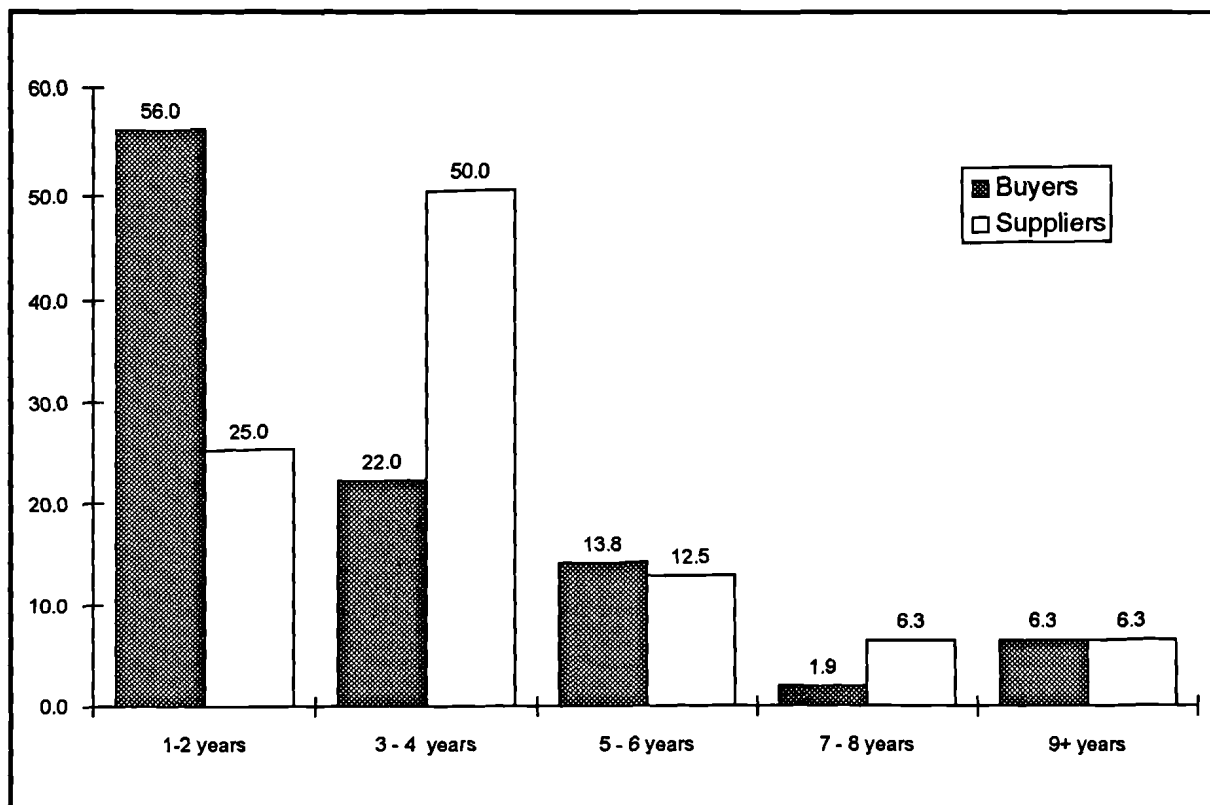


Figure 16. Lengths of Personal Relationship between Buyers and Suppliers.

It is noticeable from the results reported that the lengths of business and personal relationships were very similar for buyers. However, for suppliers, the personal relationship was somewhat shorter than the business relationship. This may be connected with the length of stay of Korean personnel mentioned above or, alternatively, with the fact that relationships may have been initiated via the mother company. In any case, these results indicate opportunities for greater promotion of the *chaebol*. This recommendation recurs several times in these results and subsequent events have shown that it has been integrated into strategy.⁵⁸⁴

To help to judge whether the relationships which have been described are representative, it is important to determine how many relationships are established and how frequently they are discontinued. This is the subject of the next section.

6.4.2.3. New and Discontinued Relationships.

The number of new and discontinued relationships that buyers / suppliers make and break is directly relevant to the positions of Korean companies in the UK. This is because

⁵⁸⁴ Associating lengths of relationships with commitment and success is best achieved after the assessments of the extent to which performance varies over time which are described in later sections.

Korean suppliers, generally lacking products which would create new demand in mature markets, need to break existing relationships in order to gain business.⁵⁸⁵ This has previously been shown to be a reason why direct comparison with Japanese localisation is not very helpful.

Respondents were asked to estimate how many suppliers / buyers were signed up in a financial year.⁵⁸⁶ The results of this were:

%	1 - 3	4 - 6	7 - 9	10+
Buyers	48.0	30.0	3.3	18.7
Suppliers	37.5	25.0	6.3	31.3

n = 177

Table 23. The Number of New Relationships by Buyers and Suppliers

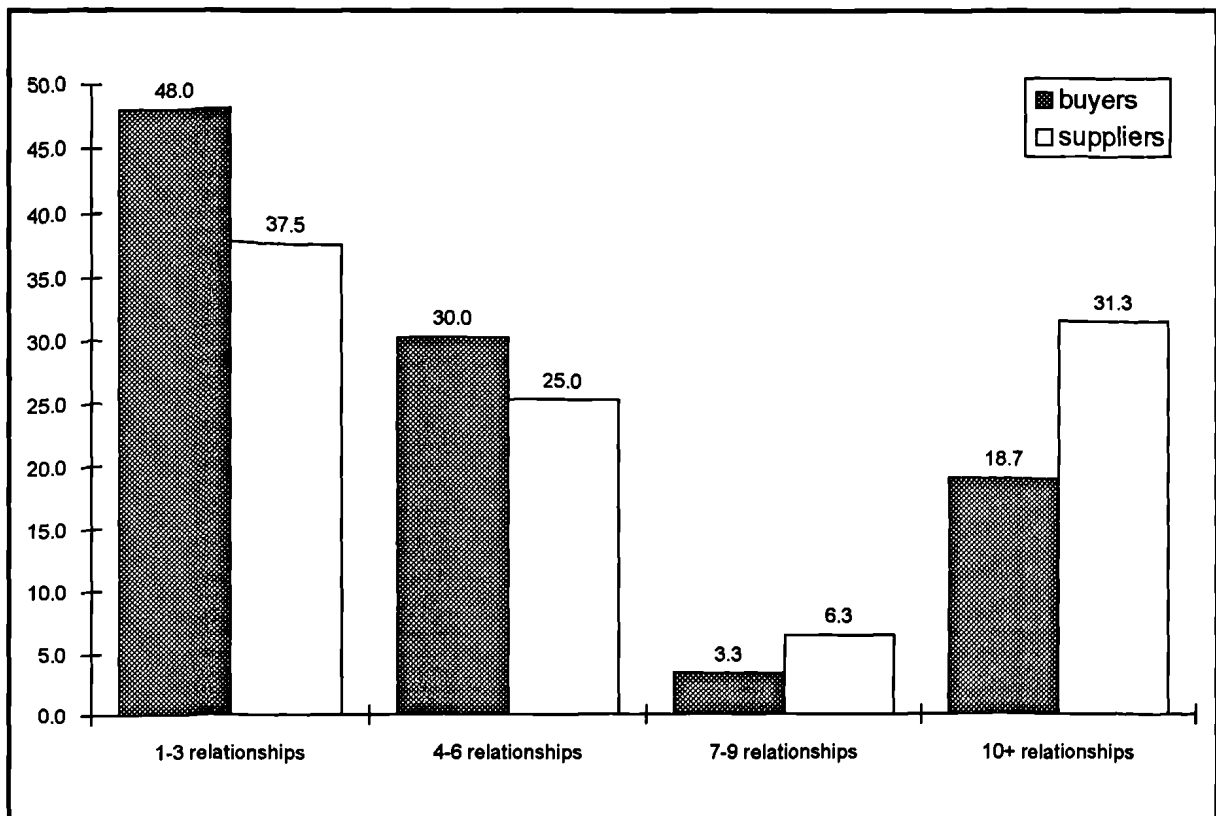


Figure 17. Number of New Relationships by Buyers and Suppliers.

Suppliers tended to sign up more buyers than buyers signed up new suppliers. This mirrors what would be expected, especially since the relationships refer to the core business of the suppliers. Buyers, therefore, seemed to be in a more stable position than suppliers did since, as will be shown, they had fewer new and discontinued relationships to

⁵⁸⁵ As described in previous chapters, recent attempts to improve technical quality and innovation may cause this section to be superceded.

⁵⁸⁶ The answer to this question was to be based on the previous three years.

manage. Qualitative research showed that many buyers, especially those involved in industrial organisational markets, dealt with Korean companies in areas which were not part of their core business activities; for example, large public sector organisations purchased small numbers of personal computers. In terms of resource allocation, relationships of this sort are likely to be more important to suppliers than they are to buyers.

Having established the number of new relationships, it was then asked how many business relationships were discontinued over an average financial year.⁵⁸⁷ The results of this were as follows:

%	1 - 3	4 - 6	7 - 9	10+
Buyers	71.4	17.7	2.2	8.7
Suppliers	75.0	6.3	0	18.8

n = 171

Table 24. The Number of Discontinued Business Relationships (see Figure 18 below).

Approximately three quarters of both buyers and suppliers discontinue between 1 and 3 relationships per year. This suggests that, from an admittedly subjective perspective, stability is comparatively high. Additionally, because fewer relationships tend to be discontinued than commence, it seems the level of contact within markets is generally increasing. From a network perspective, this suggests that Korean companies are becoming more involved in local networks, which is an indication of their increasing localisation. This seems to be especially true since, as described previously, *chaebol* in the UK are generally operating in the UK in mature markets in which large numbers of new entrants would not be expected.

The assertion that actors are operating in operating in stable markets can be subjected to a more rigorous examination and this forms the subject of the next section.

⁵⁸⁷ The basis of estimates was again the preceding three years.

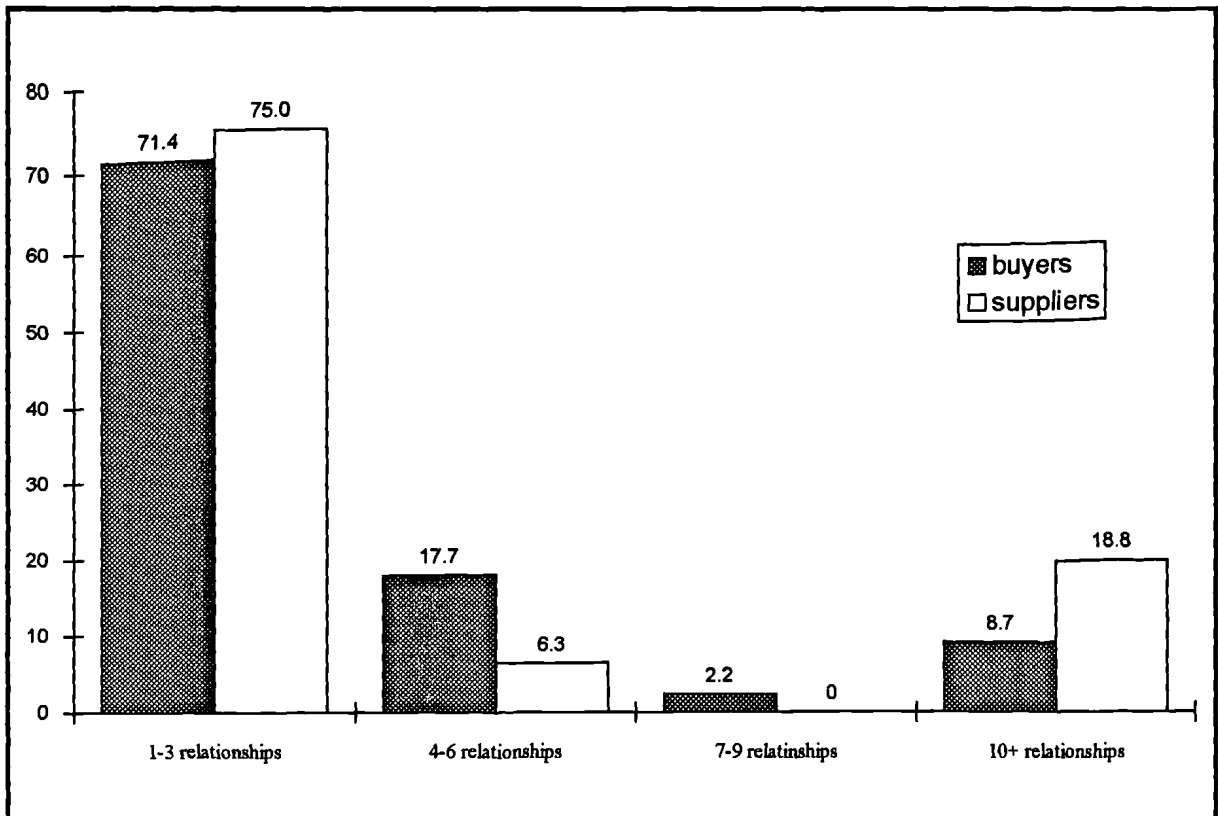


Figure 18. The Number of Discontinued Business Relationships.

6.4.2.4. The Stability of Markets

The impression that industrial buyers / consumer goods resellers and their suppliers tended to be in stable markets was supported by the qualitative research, in addition to the quantitative results described above. This is certainly consistent with the view previously expressed that Korean and indeed Japanese firms will attempt to internalise partners up and down the supply chain in order to reduce transaction costs.

To try to triangulate these findings, the following research hypothesis was formulated:

Hypothesis 9. Respondents tend to be in stable markets.

The actual definition of a stable market must be subjective and will no doubt vary according to circumstances and the external environment. For the purpose of this thesis, it was decided that should a company experience 6 or fewer new and discontinued relationships annually, then it would be considered to be in a stable market. Preliminary analysis indicated that industrial buyers tended to have both started and ended more relationships than consumer goods resellers had. For suppliers, the low sample size rendered observations borderline in validity. These results are:

%	Number of relationships	Industrial Buyers	Consumer Goods Resellers	Industrial Suppliers	Consumer Goods Suppliers
Number of New Relationships	3 or fewer	41.4	57.1	33.3	42.9
	4 - 6	34.1	24.3	33.3	14.3
	7 - 9	2.4	4.3	11.1	0
	10 +	22.0	14.3	22.2	42.9
Number of Discontinued Relationships	3 or fewer	64.6	81.4	77.8	62.5
	4 - 6	24.1	8.5	0	12.5
	7 - 9	1.3	3.4	22.2	12.5
	10+	10.1	6.8	0	12.5
	n	82	70	9	8

Table 25. The Number of New and Discontinued Relationships by Buyer / Reseller and Supplier Type.

According to the criteria chosen for membership of a stable market as described above, it was clear that, in all categories, more than 50% of respondent companies belonged to stable markets.

To investigate the situation more fully, the hypothesis was converted into null format, as follows:

H₀ Respondents are in neither stable nor unstable markets.

ANOVA tests were then conducted on the relevant variables according to buyer / reseller and supplier type. These produced no statistically significant results. Consequently, it was not possible to reject the null hypothesis.

6.4.2.5. Maintenance of Relationships

As Chapter 3 described, relationships between buyer-supplier dyads can be maintained even when traditional approaches to marketing suggest they should be broken or deactivated. It was observed during the qualitative research that both partners wished to treat each other well since the ending of a relationship would be a disappointment or even a failure. Furthermore, especially in industrial organisational markets, suppliers would look to strengthen relationships as a deterrent to new actors entering the market. Since *chaebol* are supposed to appreciate the value of relationships, they would be expected to provide many reasons for their partners to maintain relationships. Demonstrating the value of relationships to partners should be a goal of *chaebol*. It may be possible, therefore, to

learn something about the progress of localisation from the reasons respondents give about maintaining relationships.

Respondents were asked why they had maintained the relationships about which they were answering.⁵⁸⁸ This question took the form of a series of factors which respondents may or may not have found to be important. The results are shown below.

%	Yes	No
Limited choice of alternative suppliers	77.6	22.4
Part of the same group	4.3	95.6
Technical innovator	27.3	72.6
Lowest price	35.4	64.6
You trust suppliers	72.0	28.0
Good after sales support	66.9	33.1
Good personal relationship	58.4	41.6

n = 133 - 161

Table 26. Reasons for Retaining Suppliers.

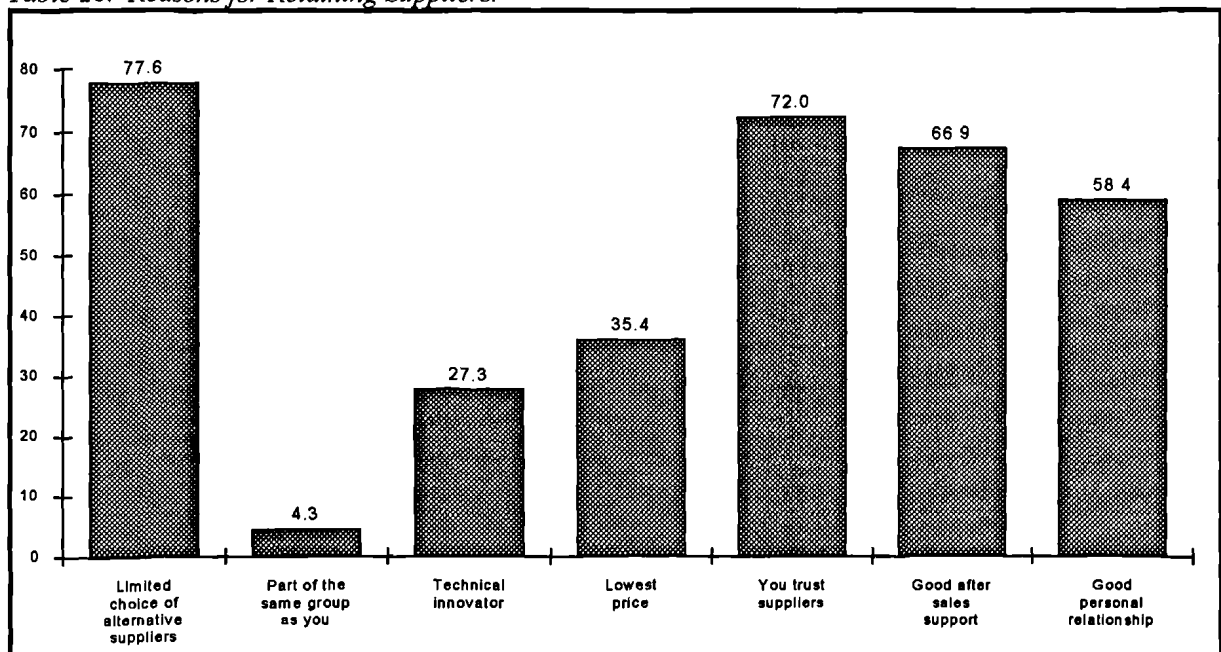


Figure 19. Reasons for Retaining Suppliers.

The most commonly reported factor for buyers was the limited choice of alternative suppliers. The inference is, once again, that the researched areas had concentrated market structures and so the number of potential buyers and suppliers was relatively small.⁵⁸⁹

⁵⁸⁸ It will be remembered that, during the quantitative research, respondents were invited to talk about one particular relationship only, although in some cases this may have proved to be a relationship that was typical of several others or even an amalgamation of experiences.

⁵⁸⁹ This was further suggested by the fact that there were no significant differences between those who most commonly contacted suppliers and those who were most commonly contacted by suppliers.

Thus, the degree of interconnectedness between actors in markets was likely to be high and, therefore, this was an area where the network approach could be applied.⁵⁹⁰ It would appear from these results that trusting suppliers and a good personal relationship were more likely to be important reasons for maintaining a relationship than the lowest price.⁵⁹¹ Good after sales support was also important and Korean suppliers were criticised when they did not provide it. To judge from comments made, problems with after sales support often concern the lack of between supplier-buyer and between supplier-Korean Headquarters communications. Further analysis of the data⁵⁹² indicated that in markets with limited choice of suppliers, price was the dominant factor in determining whether relationships would be maintained (this might be compared with the role of price as a selection criterion, as described in the previous chapter) while, in consumer goods resellers markets, limited choice of suppliers could mean that after sales service would suffer.⁵⁹³ Suppliers were also asked about their reasons for maintaining relationships with their buyers, with the following results:

⁵⁹⁰ It will be recalled that it was previously observed that concentrated markets are most amenable to the application of the network approach. See, for example, Krapfel and Pels (1991), *op.cit.*

⁵⁹¹ It may also be that rivals charged similar prices.

⁵⁹² This was undertaken by a process of bivariate correlations, which indicated that the following pairs of variables correlated significantly with each other:

(i) all industrial buyers / consumer goods resellers combined:

- limited choice and being part of the same group ($p = 0.001$);⁵⁹²
- limited choice and lowest price ($p = 0.004$);
- good after sales service and good personal relationship ($p = 0.041$).

(ii) industrial buyers alone:

- being part of the same group and limited choice ($p = 0.000$);
- being part of the same group and lowest price ($p = 0.041$).

(iii) consumer goods resellers alone:

- limited choice and lowest price ($p = 0.017$);
- lowest price and being part of the same group ($p = 0.043$);
- limited choice and good after sales service ($p = 0.034$ - negative correlation - since the correlation is negative in this case, it is apparent that the more likely that limited choice constituted a reason for maintaining a relationship, the less likely good after sales service would be and vice versa).

⁵⁹³ These findings are interpretations only since the statistical technique employed here does not indicate the presence of causal relationships.

<i>%</i>	<i>Yes</i>	<i>No</i>
Limited Choice of Alternative Buyers	26.7	73.3
Part of the Same Group	6.7	93.3
Market Leader	26.7	73.3
Good Co-operation	86.7	13.3
You Trust Buyers	40.0	60.0
Good Personal Relationship	33.3	66.7

n = 15

Table 27. Reasons for Retaining Buyers / Resellers (see Figure 20 below).

For suppliers, it is clear that limited choice of buyers was not generally an important factor in maintaining relationships. More important was good co-operation with buyers. However, it would appear that suppliers would continue a relationship even when personal relationship and trust were not particularly good. Suppliers of course have less incentive to break relationships. Although buyers considered many factors to be important (i.e. more than 50% nominated that factor), suppliers only named one factor as being similarly important to maintain relationships. This might be explained by the fact that, for suppliers, relationships will be maintained unless there are specific reasons for ending them. As mentioned previously, respondents consider a broken relationship to be a failure in any case.

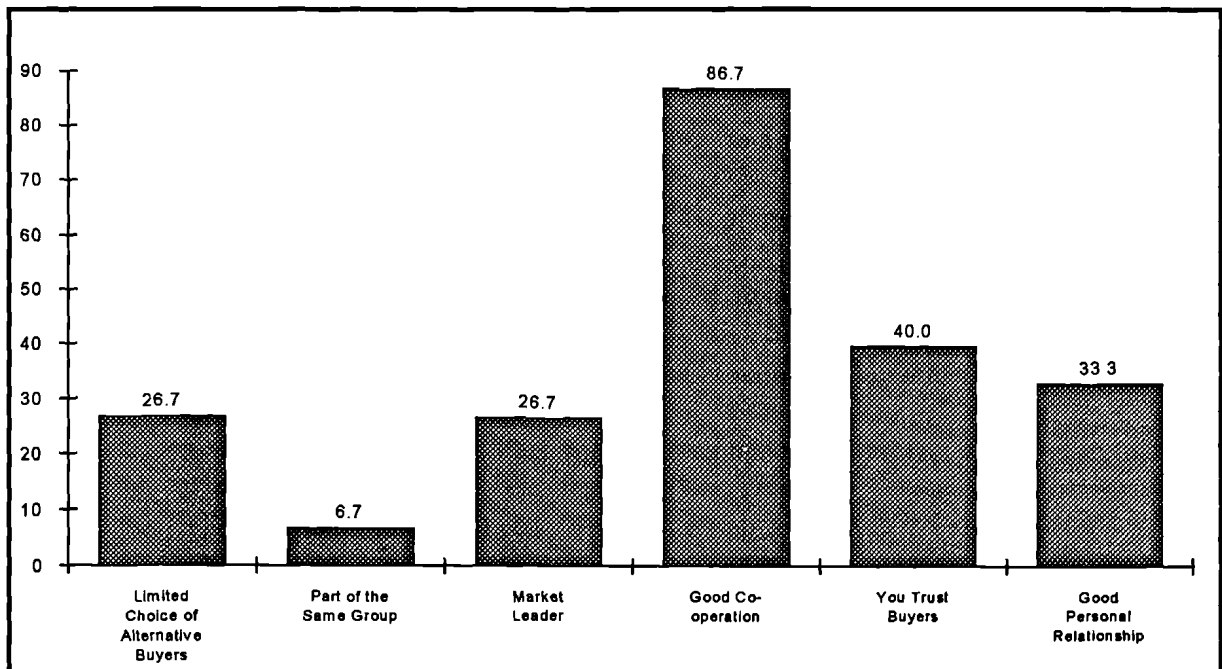


Figure 20. Reasons for Retaining Buyers / Resellers.

Further analysis of the data⁵⁹⁴ showed that, in consumer goods resellers markets, good personal relationships are dependent upon the buyer being a market leader. It has already been shown that this is considered to be an important selection criterion. This is consistent with the literature review, in which it was stated that Koreans aim for market share rather than short term profitability.

The results in these two sections suggest there may have been some difficulties with the relationships examined. This is further explored in the next section.

6.4.2.6. Satisfaction Provided by Current Relationships.

An important factor in shaping attitudes towards relationships is the level of satisfaction provided by relationships which have already been established. It is, therefore, necessary to measure this satisfaction. However, the qualitative research indicated that there were many important aspects to the satisfaction provided by a relationship. Although these included both tangible and intangible factors, qualitative research suggested that tangible factors were not of lesser importance.

One important additional dimension that was considered was the effect of time. One reason for this has already been discussed. It is the need to assess the progress of localisation. If localisation is proceeding satisfactorily, then relationships should show increased levels of satisfaction as time passes.⁵⁹⁵ In contrast to Japanese localisation, the companies investigated had not established large scale manufacturing or other influential organisations. Consequently, they cannot expect to wield the degree of power that those Japanese corporations are able to wield and must instead rely on relationships on less favourable terms.

⁵⁹⁴ This involved an identical process of bivariate correlations as already described. The following pairs of variables correlated significantly with each other:

(i) all suppliers together:

- buyer being the market leader and good personal relationship ($p = 0.041$).

(ii) industrial suppliers alone:

- no significant results.

(iii) consumer products suppliers alone:

- buyer being the market leader and good personal relationship ($p = 0.000$).

⁵⁹⁵ Ford has suggested that relationships follow a life cycle curve. It is assumed that the comparatively recent nature of Korean localisation in the UK means that relationships have yet to progress to stages of decline and divorce. Ford (1984), *op.cit.*

Relationships were investigated, therefore, both when they began and at the time of the research. It was hoped this might indicate adaptive or satisficing behaviour, which might be detected if it is shown that partners are perceived to show increased levels of satisfaction as the relationship has continued. These issues were measured by inviting respondents to rate, by means of a five point scale, how well various aspects of their relationships fared at the beginning of the relationship and subsequently. The results of this are as follows:

<i>UK Buyers' Perceptions about Korean suppliers (%)</i>		5	4	3	2	1	Average
On time delivery	- at first	26.7	28.7	29.3	12.7	2.7	3.64
	now	19.9	32.6	27.0	14.9	5.7	3.46
Price compared to quality	- at first	24.3	35.5	34.9	4.6	0.7	3.78
	now	14.5	42.1	31.7	9.7	2.1	3.57
Product / service quality	- at first	22.5	29.1	29.1	15.9	3.3	3.52
	now	20.4	42.2	25.2	10.9	1.4	3.69
Promotional support	- at first	7.3	18.2	25.5	31.4	17.5	2.67
	now	8.3	25.6	28.6	23.3	14.3	2.90
Supplier's financing arrangements	- at first	20.3	24.1	39.8	10.5	5.3	3.44
	now	18.8	25.0	39.8	10.2	6.3	3.39
Business relationship	- at first	18.0	34.0	36.0	10.7	1.3	3.57
	now	22.3	35.1	28.4	8.8	5.4	3.60
Personal relationship	- at first	24.0	29.3	32.0	12.7	2.0	3.61
	now	27.0	25.0	33.1	10.1	4.7	3.60
Trustworthiness	- at first	30.0	31.3	30.0	7.3	1.3	3.82
	now	30.1	33.6	22.6	10.3	3.4	3.77
Korean Suppliers' Perceptions of UK Buyers							
Business commitment	- at first	12.5	50.0	12.5	25.0	0	3.50
	now	31.3	37.5	25.0	6.3	0	3.93
Business relationship	- at first	12.5	25.0	37.5	25.0	0	3.25
	now	37.5	37.5	18.8	6.3	0	4.06
Personal relationship	- at first	0	37.5	37.5	25.0	0	3.12
	now	37.5	56.3	6.3	0	0	4.31
Trustworthiness	- at first	6.3	50.0	31.0	12.5	0	3.51
	now	37.5	56.3	6.3	0	0	4.18

n = 149 - 168

Table 28. Value of Past and Present Aspects of the Business Relationship (see Figures 21 and 22 below).

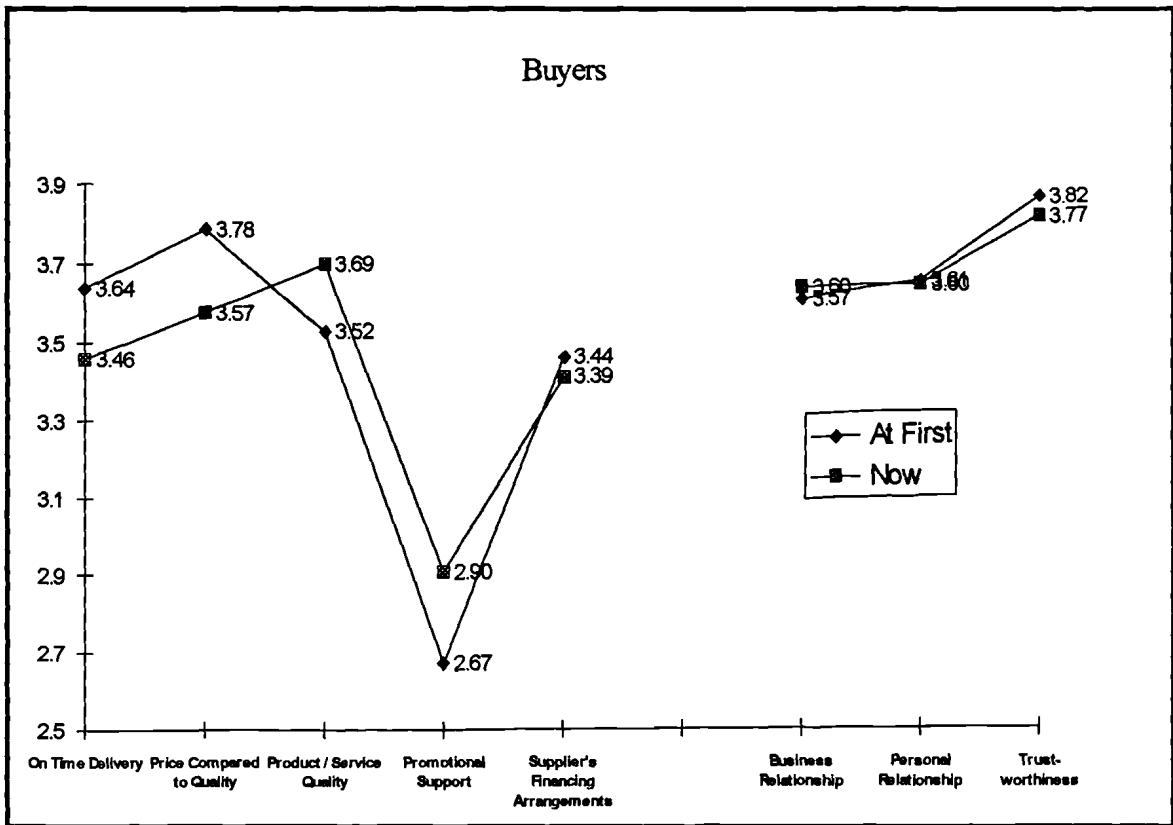


Figure 21. Performance of Past and Present Aspects of Business Relationships for Buyers.

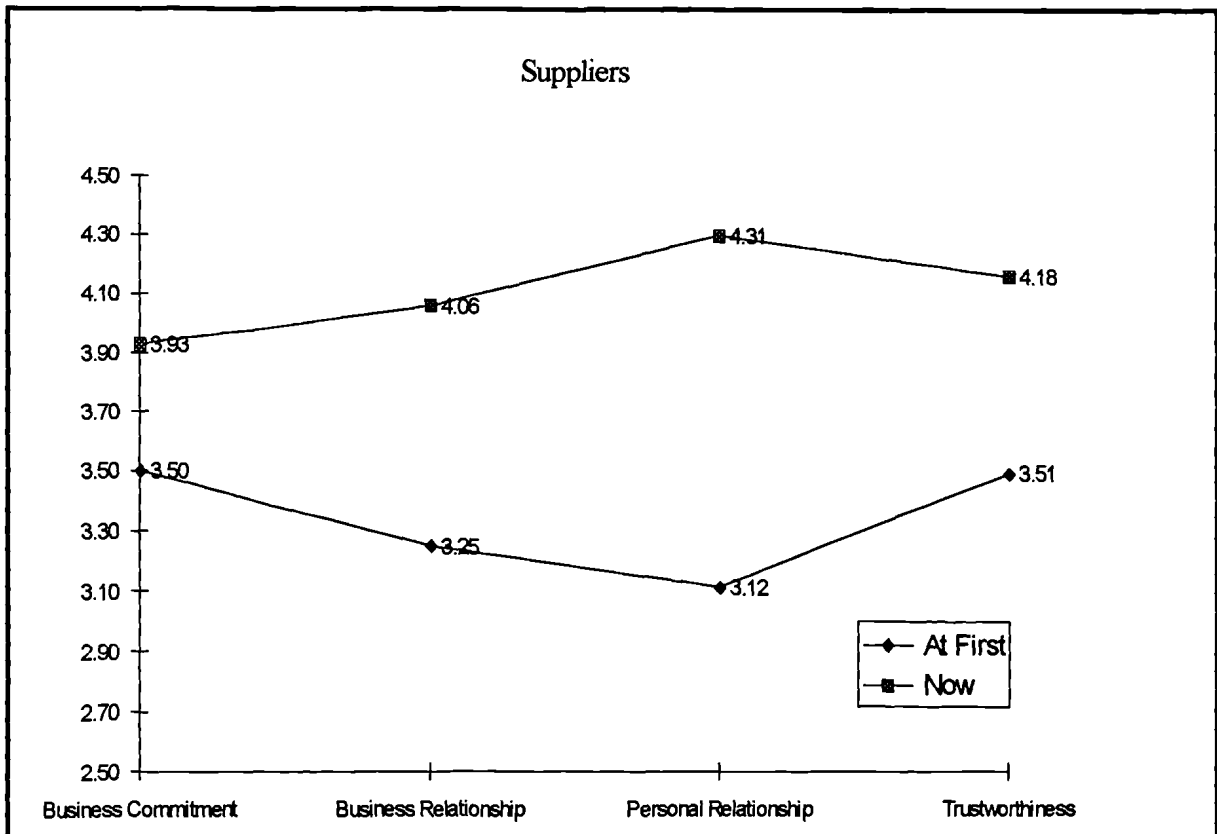


Figure 22. Performance of Past and Present Aspects of Business Relationships for Suppliers.

Buyers generally considered that the performance of suppliers had declined, while suppliers generally considered that the situation had improved. According to buyers, only two aspect of suppliers' performance had improved: promotional support and business

relationship.⁵⁹⁶ This is rather disappointing since it suggests suppliers had shown little effort in providing their established customers with better service. However, there are some mitigating circumstances,⁵⁹⁷ notably the worsening condition of the Korean economy at the time of the research, with higher interest rates, appreciation of the *won*, labour disputes and the decline of price competitiveness. Although Korean suppliers have started to attempt to counteract these circumstances through greater concentration on quality control, innovation and technologically superior products, it would appear that this has yet to be communicated effectively to buyers.⁵⁹⁸

These preliminary results cast doubt on what would, intuitively, be expected, that as suppliers get to know their buyers better, they will be able to provide a better service to them. This would presumably be their aim since, as previously described, transaction costs are reduced by increased mutual knowledge and locking buyers into relationships can act as a powerful barrier to entry.

Furthermore, some respondents indicated during the qualitative research that when long term relationships had been maintained, the partner was likely to perform better. This was for two reasons. Firstly, if the partner did not perform well the relationship would not have been maintained. Secondly, the partner had become accustomed to the counterpart's ways of conducting business.⁵⁹⁹

In order to resolve this apparent contradiction, the satisfaction results were explored in relation to the lengths of relationships between buyers and suppliers. It was hoped that

⁵⁹⁶ The only significant differences among buyers was for prompt delivery now - which was better for industrial buyers - and promotional support at first - which was also better for industrial buyers.

⁵⁹⁷ The issue of changing expectations is difficult to tackle with the methodology employed. Indeed, the issue is problematical with any methodology. Further research using perhaps longitudinal techniques might be the best way to approach the issue.

⁵⁹⁸ This again distinguishes localising Korean companies in the UK from Japanese ones which benefit from years of corporate promotion and image blandishment.

⁵⁹⁹ Ford (1984), *op.cit.* The concept of relationship life cycles suggests that relationships would improve in quality for a certain length of time until, eventually, the relationship starts to outlive its value to both sides and, consequently, its quality becomes degraded. Quantification of life cycles according to this conception is very difficult, especially given the variations in the definition of a long term relationship that has been seen previously, although it may have been possible on a case by case basis.

this might provide verifiable means of grouping respondents and removing the contradiction. Analysis was conducted through the following research hypothesis:

Hypothesis 10. *The better that suppliers will perform now, the longer their period of relationship with the industrial buyer / reseller will be and vice versa.*

Before conducting the ANOVA analysis, it was necessary to examine whether aspects of the performance of companies generally varied between those measured at the start of the relationship and those measured at the time of the interview. This was achieved by converting the results for individual variables into mean scores, as may be seen from the following tables:

<i>Average Scores</i>	<i>Industrial Buyers</i>		<i>Consumer Goods Resellers</i>		<i>Overall</i>	
	<i>At first</i>	<i>Now</i>	<i>At first</i>	<i>Now</i>	<i>At first</i>	<i>Now</i>
On time delivery	3.83	3.68	3.39	3.19	3.64	3.46
Price compared to quality	3.84	3.60	3.71	3.52	3.78	3.57
Product / service quality	3.71	3.79	3.26	3.57	3.52	3.69
Promotional support	3.07	3.06	2.19	2.72	2.66	2.90
Supplier's financing arrangements	3.60	3.45	3.25	3.34	3.44	3.40
Business relationship	3.61	3.65	3.52	3.54	3.57	3.60
Personal relationship	3.67	3.57	3.53	3.63	3.61	3.60
Trustworthiness	3.96	3.82	3.62	3.70	3.81	3.77

n = 133 - 152

Table 29. *Comparison between Performance of Suppliers At First and Now Perceived by Buyers / Resellers.*

<i>Average scores</i>	<i>Industrial Suppliers</i>		<i>Consumer Goods Suppliers</i>		<i>Overall</i>	
	<i>At first</i>	<i>Now</i>	<i>At first</i>	<i>Now</i>	<i>At first</i>	<i>Now</i>
Business commitment	3.56	4.44	3.43	3.29	3.50	3.94
Business relationship	3.22	4.56	3.29	3.43	3.25	4.06
Personal relationship	3.22	4.56	3.00	4.00	3.13	4.31
Trustworthiness	3.56	4.56	3.43	3.71	3.50	4.19

n = 16

Table 30. *Comparison between Performance of Buyers / Resellers At First and Now Perceived by Suppliers.*

It appears that although the perception of suppliers has generally worsened, this is largely because of consumer goods suppliers; indeed, attitudes towards industrial suppliers has

generally improved. Roughly similar patterns are observable in the opinions of suppliers, with much more positive results being given in the industrial organisational markets. It seems reasonable to conclude that this results from the different types of strategy that the suppliers have used.

In any case, there is certainly sufficient evidence to demonstrate that performances had altered over the course of time, either for better or worse. ANOVA was used to determine whether these variations may be attributed to different lengths of business and personal relationships.⁶⁰⁰ The significant results obtained indicated that, generally, the quality of personal relationship improved with longer business relationships. The dividing line appears to be two years. That is, once the business relationship exceeds two years, perceptions of the personal relationship tend to improve considerably. However, while *the null hypothesis that the level of performance is not affected by the period of the relationship could be rejected*, this is only possible because of certain isolated circumstances. If performance generally improved during the course of a relationship, there should be more evidence of it.⁶⁰¹ This has implications for marketing strategy. Since it appears that suppliers' performance will not improve during the relationship, then the suppliers need to address the issue. Furthermore, this indicates a number of problems with Korean localisation, since a considerable part of that process involves locking partners into mutually beneficial relationships.

Having demonstrated there are some problems with localisation and relationships, it will be helpful to integrate some of the qualitative commentary, since this sheds considerable light on what those problems are.

⁶⁰⁰ Significant results were shown in the cases of industrial buyers / consumer goods resellers combined in terms of prompt delivery now (F probability = 0.0374). Results from the Bonferroni MCA showed that, for industrial buyers and consumer goods resellers combined in terms of on time delivery now, there was evidence to suggest that there was an inverse relationship between the length of business relationship and the performance of prompt delivery now; that is, the shorter the relationship, the better the performance. This might be explained by new Korean companies entering the market which have better arrangements for delivery or else that communications between the UK and Korea had recently improved; i.e. prompt delivery is now easier.

Meanwhile for all suppliers considered together in terms of trustworthiness now (F probability = 0.0035), there were significant differences between the group with a length of business relationship of up 2 years and all other groups.

⁶⁰¹ This comment is only intended to refer to the sample investigated.

6.4.2.7. Buyers' Opinions of Korean Companies.

A number of UK buyers and resellers were willing to take the opportunity to criticise their Korean suppliers.⁶⁰² Complaints may be divided between specific technical aspects and problems arising from inconsistency or lack of communications. Comments made about specific technical aspects included:

- quality of products;
- lack of promotional support for products;
- late delivery and no arrangements made for peak seasons such as Christmas;
- poor after sales service;
- hub-drop⁶⁰³ and other specific issues which show poor quality control or different quality standards.

Comments made about communications and inconsistency included the following:

- the lack of support from Korea, so that promises made by staff in the UK are undermined by Head Office;
- partly related to the above, staff members will occasionally give different accounts of events, which can be very irritating for buyers;
- the inability of staff in the UK to be able to make quick and authoritative decisions, perhaps because of the need to refer to the Head Office in Korea. As previously described, control in *chaebol* is strictly maintained at the top level. Korean respondents also observed that the unwillingness of top management to delegate can result in late and inappropriate decisions.

These factors indicate that the organisational structure of *chaebol* is actively hindering localisation. That is, the rigid centralisation of executive power prevents relationships from developing in the UK because Korean personnel cannot always give the swift and full response that their partners require. One respondent felt that these problems had been

⁶⁰² They may have been equally keen to criticise UK or other suppliers. It may be worth pointing out that many of the comments in this section derived from open text areas provided on questionnaires, while others derived from the qualitative interviews. It may also be worth mentioning that comments from suppliers about their partners are found in a number of places in this chapter.

⁶⁰³ This refers to problems arising from audio-visual tapes or cassettes.

caused by too rapid industrialisation in Korea. This had given substantial market presence to Korean companies who have not had time to accumulate sufficient experience of overseas markets and this has caused problems.⁶⁰⁴ In order to combat the decline in price competitiveness and, indeed, to improve their service generally, some respondents felt that it would benefit Korean companies to concentrate to a greater extent on moving their goods into specialist outlets and into niche markets. Again, this highlights differences with Japanese patterns of localisation. In this case, Japanese corporations have always delegated decision-making power to decentralised subordinates and, although swift responses are by no means guaranteed, localising Japanese companies do not have to contend with the same structural difficulties. As a result, since an appropriate structure is available, planned or deliberate strategy can be followed. It is also easier to achieve localisation when supported by dominant roles in power dependency relationships.

Some context for the issues raised in connection with inter-organisational interaction has now been provided. Next, this will be balanced by a qualitative context for interpersonal interaction.

6.4.3. Interaction and Cultural Differences

6.4.3.1. The Importance Placed on Personal Relationships

The empirical research did not attempt to measure cultural differences between Korean and UK companies. However, some relevant issues that are often assumed by practitioners can be assessed by the research method adopted. These issues concern the greater importance supposedly attached to personal relationships by Korean businesspeople (and Far Eastern businesspeople more generally), as well as Korean attitudes towards business more generally. The importance of power is once again emphasised here, since localising companies without power (e.g. Korean *chaebol*) must

⁶⁰⁴ A similar problem, the lack of managerial experience, is thought by some to affect Japanese companies. See, for example, Sender, Henny, "Turf Matters," *Far Eastern Economic Review* (June 8th, 1995), p.45.

adapt themselves to local norms while those with power (e.g. Japanese *kaisha*), will find local people much more willing to adapt themselves to foreign culture.⁶⁰⁵

To investigate these issues, buyers / resellers were first asked whether they felt that Korean suppliers had a different attitude towards business than UK buyers and vice versa. 15% of buyers and 23% of suppliers felt that there were different attitudes. These are fairly small proportions and it would have been interesting to compare these results to answers that might be given by companies which had not had a relationship with a Korean company. Respondents who felt that there were differences in attitude were then invited to specify them, with the following results:

Buyers	%
Knowledge of market	27.6
Different management style	20.7
Inflexible	10.3
Don't respond well	7.0
Lack urgency	7.0
Language	7.0
Credit facilities	3.4
Don't solve problems	3.4
Lack of trust	3.4
Live to work	3.4
Not as good as Japan	3.4
Too long term	3.4
Suppliers	
Constant emphasis on price	50.0
Selfish	50.0

n = 33

Table 31. *Aspects of Differences in Attitude between Korean and UK Companies*

The small sample size here suggests that in some cases responses have been inspired by single examples. However, two important factors emerge: knowledge of the market and

⁶⁰⁵ This is demonstrated by the very large number of books, papers and articles dedicated to, for example, Japanese management style and personnel practice, as well as those advocating following Japanese ways. See, amongst a large number of examples, Warner, Malcolm, "Japanese Culture, Western Management, Taylorism and Human Resources in Japan," *Organisation Studies*, Vol.15, No.4 (October, 1994), pp.509-534, Purcell, John and Bruce Ahlstrand, *Human Resource Management in the Multi-Divisional Company*, (OUP: 1994), Bartlett, C.A. and H. Yoshihara, "New Challenges for Japanese Multinationals: Is Organisation Adaptation Their Achilles' Heel?" *Human Resource Management*, Vol.27, No.12 (Spring, 1988), pp.19-43 and Shipchandler, Zohar E., Vern Terpstra and David Shaheen, "A Study of Marketing Strategies of European and Japanese Firms Manufacturing in the US," *International Business Review*, Vol.3, No.3 (1994), pp.181-200.

different management style.⁶⁰⁶ The lack of market knowledge is understandable and is addressed more fully in the next chapter in the section on marketing information networks. The complaint about different management style is perhaps familiar from the idea that Koreans attach more importance to personal relationships than UK people do. This idea has been supported by media representations of Oriental business and it is to some extent accurate. However, it is a more accurate description of Japanese business methods. Koreans themselves would certainly consider their methods to be different in this case. There are several reasons for this and the two most important have already been described. Firstly, Korean respondents felt that interpersonal interaction was only undertaken for specific and appropriate reasons. Secondly, there is a distinction between inter-organisational and intra-organisational interaction. It is intra-organisational interaction that features social contact and socialisation. However, since the UK respondents were not part of *chaebol*, they would not personally be involved in this form of interaction. This area is important in localisation since it is difficult to establish harmonious relationships when one partner is more insistent than another.⁶⁰⁷ It is also necessary to ensure that UK partners do not have false impressions. This research may help in such an effort.

The area was explored statistically. Although the amount of interaction cannot be measured,⁶⁰⁸ the value placed on the interaction can be. This is assessed by asking respondents to rate the importance they place on personal relationships. The analysis used the following research hypothesis:

Hypothesis 11. Korean suppliers attach more importance to personal relationships than UK industrial buyers / consumer goods resellers do.

Testing of this hypothesis by ANOVA failed to produce significant variations and, hence, the null hypothesis that *there is no difference in the level of importance attached to*

⁶⁰⁶ There is a problem with attempting to ascertain whether cultural differences might be detected from these results is that like is not being compared with like: i.e. the goals of a buyer and the goals of a supplier are different. However, this was not the case with the importance placed on personal relationships, where opinions were directly comparable.

⁶⁰⁷ It is tempting to use the language of courtship and marriage when describing long-term relationships. However, all actors are polygamists.

⁶⁰⁸ A different research method would be required to measure this. It would probably have to focus on a smaller sample and adopt a longitudinal approach.

*personal relationships by Korean suppliers and UK industrial buyers / consumer goods resellers cannot be rejected.*⁶⁰⁹ Although this is not conclusive proof that the amount of importance is the same, it does demonstrate that the importance attached is not significantly different.

6.4.3.2. Misunderstandings.

An additional area in which relationship difficulties might have been detected is in misunderstandings. This might be manifested in language problems, which are usually considered crucial when doing business overseas. Not only might problems arise from lack of understanding but also from differences in interpretation. However, the results show this is not the case. An initial analysis showed that one in five buyers reported problems from misunderstandings as compared with fewer than one in ten suppliers. These low proportions do not necessarily mean that any difficulties were similarly minor. However, it is possible that the low level of misunderstandings may be because *chaebol* frequently use local staff as intermediaries, particularly consumer goods markets. Therefore, many buyers had no contact with Koreans at all. This is suggested by the results in the following table, which details respondents' explanations of the reasons for misunderstandings:

<i>Buyers</i>	%
Poor support / after sales	15.2
Warranty / contracts	15.2
Poor quality	12.1
Technical specifications	12.1
Invoicing	9.1
Lack of trust	9.1
Delivery	6.1
Administration	3.0
Cash flow problems	3.0
Failed to supply	3.0
Marketing	3.0
Product range	3.0
Promotion	3.0
Slow response	3.0

n = 33 (Note: no supplier responses to this question)

Table 32. *Business Difficulties.*

⁶⁰⁹ There is a danger in this case that the method may be flawed in that Korean and UK respondents are relating their opinions to a different base line. That is, when UK respondents answered that personal relations were quite important, they were comparing this to a UK context in which, generally, personal relationships were considered to be less important or, perhaps, of a different nature than they are in Korea. However, without extending the research to a considerable extent, there was no feasible method by which such contentions may be conveniently removed.

Problems were generally related to paperwork (warranties / contracts and invoicing) and to poor support / after sales service. There were also problems mentioned in connection with technical specifications and poor quality. These findings are certainly consistent with the picture of Korean marketing strategy described in the first part of this thesis. Subsequent activities on the part of localising *chaebol* should have gone some way towards rectifying these problems and it would be interesting to repeat the survey to discover whether this is the case.

There is little indication that cultural differences produced significant problems. This is further shown by the results to another question which concerned more general business difficulties. The results of this are as below:

Buyers	%
Product unreliability	25.0
Delivery	11.1
Technical support	11.1
Communications	8.3
Business style	6.9
Contracts / warranties	5.6
Language	5.6
Parts availability	5.6
Price	5.6
Promotion	5.6
Keeping to quotes	4.2
Slow Response	2.8
Administration	1.4
Mail order	1.4
Suppliers	
Constant threats to change to cheaper supplier	50.0
Constantly changing requirements	16.7
General trade problems	16.7
Personal relationship	16.7

n = 78

Table 33. Difficulties with Partners.

The larger response rate to this question indicates that general problems were much more common than problems caused by the supplier coming from a different country. This is consistent with previous findings. There was some duplication of responses and, in addition, it is possible that certain problems which had been specified as "product unreliability" arose from different standards of quality. More generally, it can again be

seen that concerns centre on tangible attributes.⁶¹⁰ The qualitative research suggested that the complaints described here could apply to any group of international suppliers.

6.4.3.3. Relationships with Other Partners

Although no real problems with cultural differences were found in this sample, this does not prove that there would be no problems with other samples. It was possible to investigate this to some extent. Respondents were asked whether they had relationships with other Korean suppliers or UK buyers. They were also asked whether those relationships had been associated with problems. 50% of buyers had dealings with Korean suppliers, while 92% of suppliers had a relationship with other UK buyers / resellers.

Significantly, 60% of consumer product resellers had a relationship with other Korean suppliers compared to only 42% of industrial buyers ($P = 0.02442$). This might reflect the deeper level of penetration that such suppliers have achieved in the UK market or the larger number of contacts that companies in this sector tended to make.⁶¹¹ Respondents who had other relationships were asked whether there had been problems with them. The results of this were:

%	Yes	No
Buyers	27.5	72.5
Suppliers	33.3	66.7

n = 92

Table 34. Problematic Relationships.

There were more problems with past relationships than with present relationships. However, since the present relationship had still been started, the problems could not have been very terrible. Consequently, it is concluded that cultural differences have not caused major problems. In any case, this could be cause for optimism about the process of localisation. Although previous results have indicated that performance does not

⁶¹⁰ It is acknowledged that these results do not show that there are not any cultural differences, only that any cultural differences that might exist do not appear to cause problems to a great extent.

⁶¹¹ However, it has previously been demonstrated that the level of connectedness in these markets tends to be high.

necessarily improve with time, there does appear to be fewer problems with more recently established relationships.

6.5. Conclusion to Chapter 6

This chapter has introduced the results of the empirical research. This research was designed to illuminate Korean marketing strategy in the UK. The results clearly show that the description of strategy in the first four chapters was matched by the empirical findings.

In particular:

- tangible factors were considered more important selection criteria than intangible factors, although intangible factors could still be decisive when potential partners could not otherwise be separated;
- both buyers and suppliers operated in fairly stable markets. Suppliers tended to contract more new relationships and be involved in more discontinued relationships than buyers;
- some actors were keen to create relationships which were long-term in feeling from their outset;
- both buyers and suppliers considered relationships to be valuable resources and discontinued relationships to be failures;
- the performance of partners within a relationship does not automatically improve in time;
- buyers generally had the upper hand in power relationships among channel members;
- problems were reported with technical quality and lack of after-service care;
- some stereotyped assumptions about oriental business methods and cultural difficulties were found to be without foundation.

Implications for Localisation

These findings are generally encouraging for the process of localisation, although it appears there is still room for improvement. For localisation to be successfully achieved, relationships should be established which both partners consider useful and will support with allocation of resources to an appropriate level. That is, although both partners should consider the relationship important, the partner with greater power in the relationship would be expected to devote a lower proportion of resources to the relationship. Since Korean companies generally held weaker positions at the time of the research, it is appropriate for them to devote more resources to sustaining the relationship.

Although problems with Korean goods and services *chaebol* offered were reported, the nature of these problems could have been predicted from the evaluation of Korean marketing strategy provided in earlier chapters. *Chaebol* have become aware of these issues and have started to address them. This has been attempted by the following means:

- improvements in goods and services. This is a result of higher levels of technology in the production processes⁶¹² and, also, some adoption of the marketing orientation;⁶¹³
- use of technology to mitigate some of the structural problems associated with the localisation of *chaebol*. In other words, rather than delegating decision-making authority, top management is trying to make it easier to make centralised decisions through IT;
- increased awareness of alternative management techniques and the need for management education, specifically in understanding overseas cultures and systems.

These areas have been described more thoroughly in earlier chapters. The findings resemble what has been suggested by the literature review and other analysis.

⁶¹² This has been combined with reduction on costs through relocating production overseas where labour costs are lower. This includes Northern Ireland (Fitzpatrick Associates (1991), *op.cit.*)

⁶¹³ As previously described, this is considerably affected by the role of the state in encouraging *chaebol* to enter various industrial sectors and to adopt different strategies.

Trying to compare this procedure with Japanese patterns of localisation is, as has been mentioned on a number of occasions, of limited value and might even lead to misleading or erroneous conclusions. The reasons for this include the following:

- very different corporate structure in localising firms. This has considerable impact upon the type of strategies that can be successfully enacted;
- very different environmental conditions during the early period of Japanese localisation and the more recent Korean attempts.

The situations of Korean and Japanese localising firms at the time of the research can scarcely be compared since the balance of economic power between the countries, together with experience and history of overseas localisation and relocation, ensure that companies are competing in very different ways. As a result, although it is true that some insights into successful localisation may be gleaned from studying the Japanese example, this is probably not any more valid than studying antecedents from any other country. It has already been shown that assuming that Korean companies will exhibit characteristics associated with Japanese ones is wrong.

Implications for Methodology

As mentioned above, it is clear that the method adopted has been demonstrated to be an appropriate way of describing Korean marketing strategy in the UK. It could, therefore, be used to make recommendations for improvements to that strategy. It is also apparent that the marketing paradigms used here are appropriate. As the summary above demonstrates, many relevant aspects of strategy are concerned with relationships and interaction. They are most sensibly approached by mixtures of qualitative and quantitative approaches to both sides of relationships.

Having described the method adopted in the thesis and the means by which *chaebol* enact their strategy, it is now possible to begin to investigate aspects of strategy more closely.

7. Networks and Marketing Strategy

7.1. Introduction

Localisation introduces *chaebol* to local networks. This reduces the influence of the mother company and enhances the influence of local interests. The company attempts to remove its foreign nature and behave and appear just like, in this case, UK owned companies. This will be a genuine process. The organisation will really want to become a local company. At the same time, there can be advantages to retaining an element of foreignness or strangeness: e.g. German companies might benefit from the image of German reliability, while Japanese companies might benefit from general perceptions of high technology and reliability. However, at the time of the research especially, Korean companies suffered from a poor or even negative image, which derived largely from the legacy of low cost production.⁶¹⁴

Consequently, companies consider entering and positioning themselves within networks with two aims: firstly, retaining the links they have already established (e.g. reputation for being an overseas company) and, secondly, hoping to create new links (hence becoming localised). In either case, the extent to which *chaebol* have really localised is moderated by the perceptions of their partners and potential partners.

This chapter examines this process through positioning and marketing information networks. Positioning can affect the extent and nature of power dependency relationships between channel members, since this depends to some extent upon the proportion of overall business activities that dealing with the partner represents.

The concept of marketing information networks is an innovative one and it can act as a paradigm for the localisation process. The way in which *chaebol* localise is similar to the way they try to gain access to information networks and, in time, become integral parts of them. This process features the strengthening and enhancing of existing links as well as the development of new links. Actors in information networks can deliberately use tactics

⁶¹⁴ This illustrates another important difference between Korean and Japanese companies pursuing localisation. Japanese companies can feel comfortable about integrating themselves into local networks on a much greater basis of influence and power than *chaebol* can.

designed to spread false information and conceal true intentions. Furthermore, actors can make efforts to displace, block or constrict the activities of their rivals. As a result, *chaebol* will need to be active if not aggressive if they are to succeed in integrating themselves into information networks. Furthermore, as described previously, *chaebol* tend not to have the heritage of organised, integrated circles of suppliers that Japanese companies have, which are based upon dealing with sub-contractors and rather smaller companies. Instead, they have intra-organisational links between group members which, although superficially a similar situation, tends to involve relationships between similar types of organisations run by the same top management in the same way. Hence, *chaebol* can find it difficult to adapt to being the lesser partners in relationships.

This chapter commences with an overview of relevant parts of the qualitative research. This will help to outline the main features of the quantitative research, which will subsequently be described. This will feature investigations into the activity of both partners in gathering information, the mode and means of first contact, sources of information on positioning and the amount and nature of information exchanged between Korean companies. The means by which that marketing information networks can be detected will be described, as well as whether the networks were detected.

7.2. Qualitative Overview of Marketing Strategy

7.2.1. Localisation

Korean respondents generally emphasised the importance of localisation.⁶¹⁵ There were three main reasons for this:

- suppliers can more easily sell their goods if the company appears to be as European as possible;
- utilising local inputs as much as possible helps to reduce governmental and EC trade barriers;⁶¹⁶

⁶¹⁵ This is perhaps inevitable since respondents wanted to have the responsibility and decision-making ability that localisation can infer. Different levels of management would perhaps have different perceptions of localisation.

⁶¹⁶ *Chaebol* have also suffered periodically from being the targets of anti-dumping legislation. This has partly been the result of Korean economic development outstripping political and diplomatic development. However, this is not a completely one way process of the supplier gaining advantages by localising. One

- local⁶¹⁷ staff are more aware of local conditions, can more easily utilise local networks and, if they can implement their own plans and programmes, they will exhibit more imagination and enthusiasm than if they were controlled from Korea.

Some respondents felt the localisation strategies followed by *chaebol* were "too passive."

This complaint had two causes:

- *chaebol* have tended to localise first in the more developed countries, often largely because that is what companies from other countries (particularly Japan) have done. Reasons why this can cause problems have been outlined elsewhere;
- local offices have remained under the centralised and patriarchal control typical of *chaebol*. They have rarely shown initiative or encouraged the enthusiasm of local staff.

Respondents tended to think that inherent flaws in the Korean character were at least partly responsible for this passivity. These flaws included the belief that mass production provides an automatic key to success. It was observed that:

"If Koreans make it, it has to be the biggest and the best."

As described previously, *chaebol* have in some ways followed the Japanese model of localisation. Since Japanese companies have had on average an extra ten years to become localised in overseas countries, *chaebol* are trailing and, given the different environmental conditions now prevailing and the fundamental differences in organisational structure and control between Korean and Japanese firms, they seem unlikely to be able to bridge that distance. Areas in which localising *chaebol* have followed Japanese patterns, according to respondents, included the following:

- investing in self-financing overseas holdings;
- the use of Head Office to finance promotional activities and other investment while allowing locally recruited staff to use their knowledge and initiative to drive the company to increased success.

respondent observed that "we could have had an additional 15% profit through sourcing completely from Korea.

⁶¹⁷ The staff employed are defined as "local" if they are normally resident in the UK; in some cases, therefore, this can include Korean nationals.

It was acknowledged that there are difficulties in attempting to follow this path. This was mostly because of the organisational structure of *chaebol*, which is still dictated by Headquarters. Consequently, it risks becoming "shapeless" or "faceless" because of the strict division of labour into separate departments. Furthermore, the centralised nature tends to mean that *chaebol* in the UK are controlled pragmatically and from afar. This further detracts from the ability of local offices to be effective in local conditions.

7.2.2. Segmentation.

Qualitative research showed that, beyond a country by country basis, Korean companies rarely segment potential buyers in the industries examined. Two principal reasons were given for this:

- for companies involved in industrial organisational markets, there are too few potential customers for sensible segmentation;
- some Korean respondents felt that European people and companies were too similar to distinguish between them.

It would be interesting to discover whether these attitudes will continue.

Consumer goods suppliers segmented the UK market more thoroughly when selling to retailers rather than wholesalers or importers.

7.2.3. Positioning.

Respondents talked about positioning the same way they talked about localisation. From a network perspective, both processes involve strengthening connections that have already been established. Positioning generally occurred with respect to product type or attribute.⁶¹⁸ It was attempted primarily through interpersonal connections. Positioning according to product type or attribute would appear to be a rather more sensible approach for Japanese companies, since they can generally offer products which can be differentiated from the competition in some positive way. However, although positioning in these ways did not seem entirely appropriate for *chaebol*, this does perhaps show indications of

⁶¹⁸ Aaker and Shansby (1982), *op.cit.*, pp.56-62.

forward planning by localising staff. It is possible that overseas staff, perhaps acting as boundary spanners to some extent, will take leading roles in innovation.

Positioning was further examined by the quantitative research, as the following sections detail.

7.3. Market Positioning

7.3.1. Positioning within Channel Relationships

Positioning has been described as having structural, cognitive and hierarchical dimensions. Positioning is similar to localisation in that both make use of the enhancement and strengthening of links between points in the network. As will be shown below, this was a policy deliberately adopted by a number of *chaebol*.

In terms of structural positioning, nearly two thirds of Korean supplier companies operated through licensees and distributors. The presence of an intermediary implies another dimension to positioning: the positioning of the supplier with respect to the intermediary and to the end user.⁶¹⁹ Respondents were asked to define their position with respect to their partners. This was to investigate the nature of power dependencies. The results of this were:

%	<i>The company is your main supplier / buyer</i>	<i>The company is one of several, equally important suppliers / buyers</i>	<i>The company is a minor supplier / buyer</i>
Buyers	24.7	35.4	39.9
Suppliers	56.3	37.5	6.3

n = 178

Table 35. Definition of the Importance of Buyers / Suppliers (see Figure 23 below).

Korean suppliers tended to be one of many, possibly minor suppliers to a buyer, whereas Korean suppliers regarded UK buyers as being their main buyers. This may indicate that buyers were considering more than one type of product or else that the market position of Korean suppliers is comparatively weak.⁶²⁰ Further analysis demonstrated that there were

⁶¹⁹ This section is more directly relevant to consumer goods resale markets.

⁶²⁰ Results to a preliminary open text question indicated the likelihood of this, in that the majority of supplier companies felt that they occupied "weak" or "poor" positions.

no significant differences between industrial buyers and consumer product resellers in this respect.

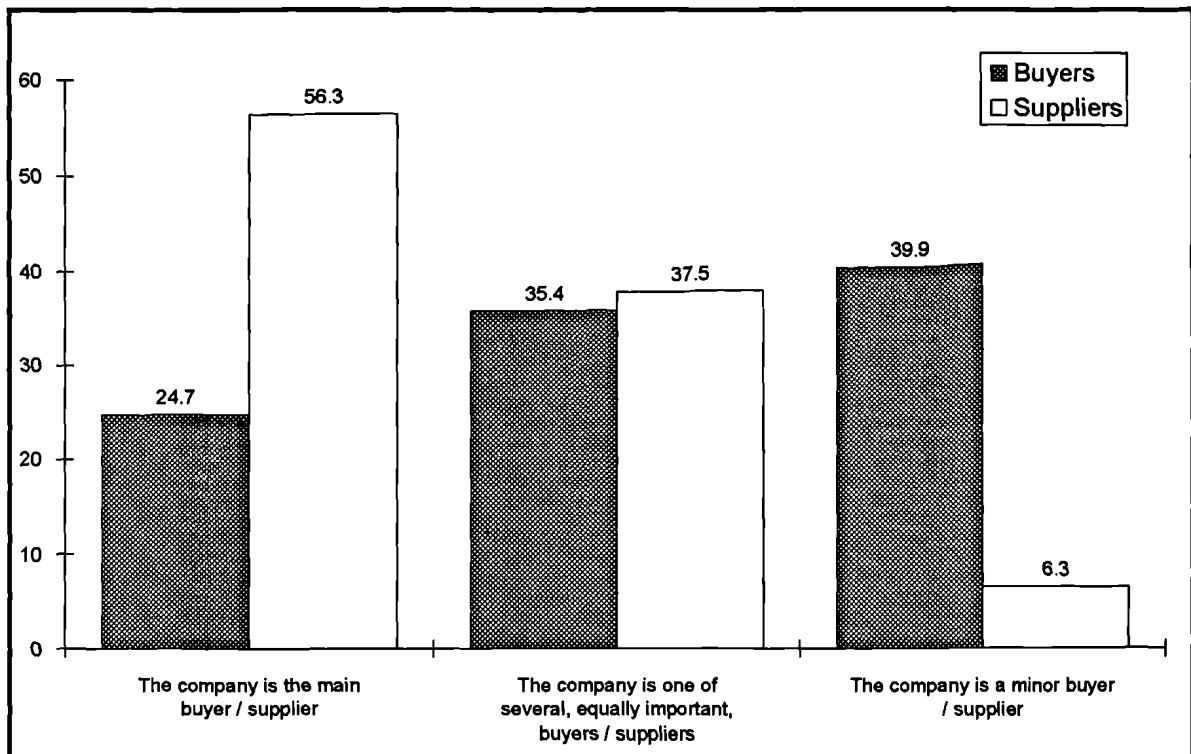


Figure 23. Definition of the Importance of Buyers / Suppliers

These results suggest that *chaebol* occupy weak positions in networks. This again highlights differences with the localisation of Japanese companies, which have often been able to construct networks of suppliers around themselves in which they maintain the dominant role.

7.3.2. Market Positioning at the Beginning of the Relationship

Actors in the market assess the positions of other actors by considering their image. This can be both subjective and objective and involve both tangible and intangible attributes. After all, it will be remembered that inconsistency and disinformation have been identified as valid business strategies. It is proposed, therefore, that no truly independent and accurate assessment of a tangible factor can be made.

This section investigates perceptions of partners' images at the outset of relationships. As this involves a retrospective appraisal, it is reasonable to anticipate bias in respondents' perceptions in that more recent experiences may have altered perceptions.⁶²¹

⁶²¹ Weick (1969), *op.cit.*

Respondents were invited to rate their partner according to a number of criteria⁶²² in terms of a five point scale with the following results:

<i>Buyers' Perceptions of Korean Suppliers (%)</i>	5	4	3	2	1	Average
Brand reputation	1.4	16.2	53.5	19.0	9.9	2.80
Company reputation	5.5	22.1	51.0	16.6	4.8	3.07
Price compared to quality	20.1	38.3	36.9	3.4	1.3	3.72
Product / service quality	9.9	23.2	47.0	14.6	5.3	3.18
Promotional support	3.6	15.3	32.1	27.0	21.9	2.52
Trustworthiness	10.0	30.7	46.4	10.0	2.9	3.35
<i>Suppliers' Perceptions of UK Buyers</i>						
Ability to sell	31.3	37.5	25.0	6.3	0	3.93
After service capability	6.7	33.3	33.3	13.3	13.3	3.07
Company reputation	26.7	33.3	33.3	6.7	0	3.80
Financial conditions	20.0	40.0	33.3	6.7	0	3.73
Trustworthiness	33.3	53.3	6.7	6.7	0	4.13

n = 153 - 165

Table 36. *Image in the Market.*

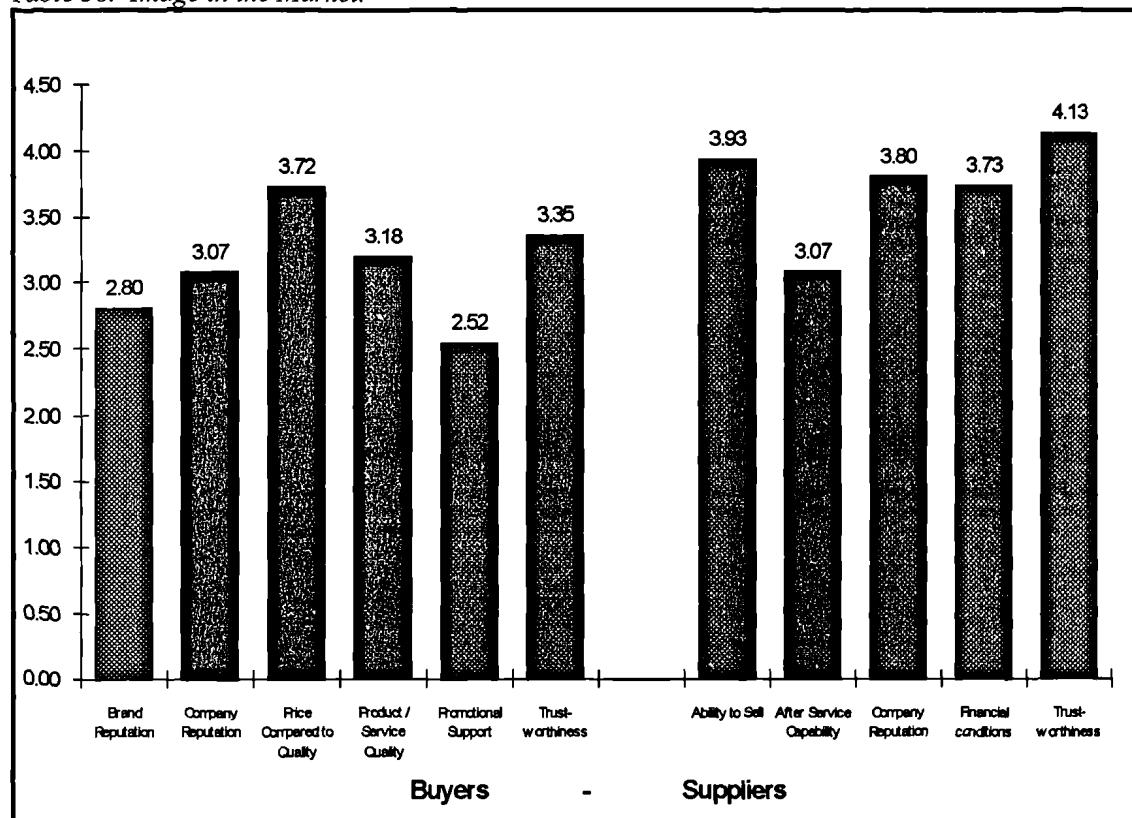


Figure 24. *Image in the Market.*

For UK buyers, the image of Korean suppliers was better than average in terms of price compared to quality, trustworthiness, product / service quality and company reputation

⁶²² The list of factors examined was again inspired by the qualitative research.

respectively. Lower than average scores were recorded for brand reputation and promotional support.

UK buyers gave lower marks for their Korean suppliers' image at the beginning of the relationship than for the importance they attached to selection criteria.⁶²³ In other words, they scored poorly on factors regarded as important. The situation for buyers depended on the type of market.

As noted previously, industrial buyers and consumer product resellers considered brand reputation an important selection criterion, while consumer product resellers also considered promotional support to be important. However, Korean suppliers were frequently the branch offices and subsidiaries of multinational organisations. It seems likely that buyers would be more aware of the *chaebol's* name than they would be of the goods supplied. This is because the *chaebol* deal with a wide range of product and service types and those goods and services are rarely strongly branded or positioned. This is indicated by the fact that company reputation was rated higher than brand reputation and explains why *chaebol* scored badly on brand reputation and promotional support.

From the perspective of Korean suppliers, all features of the image of UK buyers were rated above average. Comparison with selection criteria provided a very similar pattern. The image of the partner when the relationship began was perhaps even better than the evaluation of the importance of the criteria. This might have been affected by the Korean sense of politeness or else from considering the relationship which performs most satisfactorily. The features⁶²⁴ rated highest were trustworthiness and ability to sell. Presumably, these factors were taken into account when selecting buyers to approach.⁶²⁵

Figure 25 below illustrates the points raised in comparison between perception of image and selection criteria.

⁶²³ The lists of factors are not in fact identical. This is because certain factors included as selection criteria are difficult to assess at the outset of a business relationship.

⁶²⁴ Certain factors have been excluded from this analysis for reasons specified for buyers above.

⁶²⁵ It was noted previously that definitions of ability with respect to these criteria tended to be based, in a number of cases, upon appearance in appropriately prestigious trade publications or other promotional media.

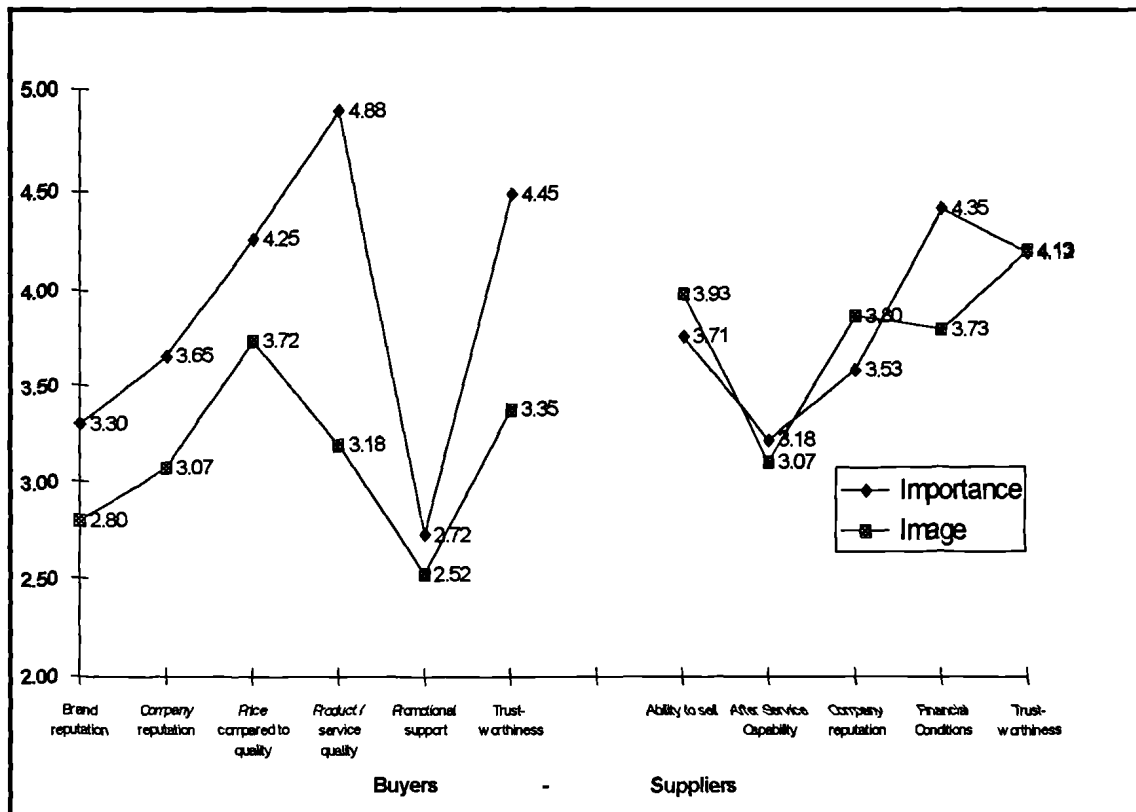


Figure 25. Summary of Importance and Image by Buyers and Suppliers.

The only significant variation by buyer type was that industrial buyers appeared to consider promotional support from Korean suppliers to be better than consumer product resellers did.⁶²⁶ More generally, when the expectancy of consumer product resellers was high, the actual performance of suppliers was comparatively poor and vice versa. Too great a disparity between expectation and reality might cause problematic relationships.

This is a fairly complex issue and it is easy to lose sight of the main points of the analysis. It is worth repeating, therefore, that the image that *chaebol* portray to their UK partners can have a direct impact upon the balance of power in channel relationships. Image is most important at the beginning of the relationship since that is when power is distributed most influentially.⁶²⁷ The distribution of power can also be redistributed during the

⁶²⁶ This is shown by the following table:

	Very good 5	Fairly good 4	Average 3	Fairly poor 2	Very poor 1	Average
Industrial buyers	6.8	18.9	36.5	20.3	17.6	2.77
Consumer product resellers	0	11.1	27.0	34.9	27.0	2.52

n = 153 P = 0.03080

Table 37. Performance of Promotional Support by Buyer Type.

⁶²⁷ This is demonstrated by the amount of resources expended on advertising and corporate promotion. Although there is some debate as to whether advertising is effective at all, it seems clear that decision-makers in *chaebol* and other influential actors believe it to have value because of the amount of money they dedicate to it.

relationship and it will be partly influenced by the continuing image of the partners involved.

In order to attempt to investigate more thoroughly the relationship between image and selection criteria, the following research hypothesis was formulated:

Hypothesis 12. The perception of the partner's image in the market is lower than the perception of the importance of selection criteria at the start of the business relationship. This is more likely to be true of tangible factors than intangible factors.

Naturally, the importance of selection criteria varies depending on individual companies. Logically, companies will want their partners to perform well, especially in terms of the selection criteria that they consider particularly important. However, in reality prospective partners cannot always meet the expectations inherent in the importance attached to selection criteria. This hypothesis attempted to identify discrepancies between the importance attached to various factors and the performance of partners with whom relationships were maintained.

ANOVA was used to test this hypothesis. It was found that there was little evidence to support the rejection of the null hypothesis.⁶²⁸ One possible explanation for the general absence of evidence (apart from simply discounting the premise of the hypothesis) is that respondents were answering in terms of one particular relationship (as the questionnaire invited them to do). If the relationship was not typical of all the relationships of which the respondent had experience, then the situation as described would not lead to valid results in this particular instance. Experience of surveys shows that respondents are more likely to answer positively than negatively when they can, perhaps choosing one instance over another where this is possible.⁶²⁹ For a positive instance, the partner company will be more likely to have performed well (as a good image would suggest) and the relationship

⁶²⁸ The only significant variation that was produced was in terms of promotional support for consumer goods resellers (F probability = 0.0061). The results of the Bonferroni MCA indicated that, in this case, the group considering the supplier's promotional support to be very poor differed from the group considering it to be fairly good (no respondents thought that it was very good). There is evidence to suggest that as performance according to promotional support increased, so also did the importance attached to that factor as a selection criterion.

⁶²⁹ See also: Easterby-Smith, M., R. Thorpe and A. Lowe, Management Research: An Introduction (London: Sage Publications, 1991) and Schuman, H. and S. Presser, Questions and Answers in Attitude Surveys: Experiments on Question Form, Wording and Context (New York: Academic Press, 1981).

sustained. A sustained relationship is more likely to show consistency between the importance attached to selection criteria and the performance of the partner according to those criteria than a relationship which has failed.⁶³⁰

7.3.3. Cognitive Positioning

To assess cognitive positioning, respondents were invited to consider their partners' present market position. Again, this was moderated by a five point scale.⁶³¹ The results were:

<i>Buyers' Perceptions of Suppliers' Image (%)</i>	5	4	3	2	1	Average
Brand position	0	15.4	52.3	24.2	8.1	2.75
Company position	0	22.7	56.0	19.3	2.0	2.99
Overall reputation	0	23.2	62.3	11.3	3.3	3.05
Suppliers' Perceptions of Buyers' Image						
Brand position	31.3	43.8	18.8	6.3	0	3.99
Company position	12.5	62.5	25.0	0	0	3.87
Overall reputation	12.5	56.3	25.0	6.3	0	3.75

n = 165 - 167

Table 38. *Image in the Market Place: Cognitive Positioning (see Figure 26 below).*

Suppliers rated company and brand position and buyers' / resellers overall reputation higher than vice versa. That is, according to their image, UK partners are better than Korean partners. As described elsewhere, this is also reflected in the distribution of power in channel relationships. Since Korean suppliers tend to target their promotional efforts on the more prestigious and larger buyers, it may be that perceptions are uneven through the range of buyers.

UK industrial buyers gave a higher rating to Korean suppliers for company and brand position than UK consumer product resellers did.⁶³² Furthermore, industrial buyers were more likely to have contacted the suppliers first and, therefore, would have had the opportunity to choose suppliers with good reputations. As previously described, industrial

⁶³⁰ These concerns are less likely to affect Japanese companies and others which hold sufficient power within networks of relationships since they can lock the less powerful companies into relationships on terms which especially suit the more powerful actors. These are the sorts of relationships which Japanese companies are used to creating.

⁶³¹ The wording of this was: **The leader (5), Among the strongest (4) Middling (3) Quite weak (2) Very weak (1)**

⁶³² This is a trend in the data and not a significant result.

suppliers are more likely to compete in terms of relationships and other intangible factors than simply price. Overall reputation was also perceived significantly better by industrial buyers than by consumer goods resellers.⁶³³ This again reflects the need to differentiate between these types of markets, which is an issue Korean suppliers have started to address.

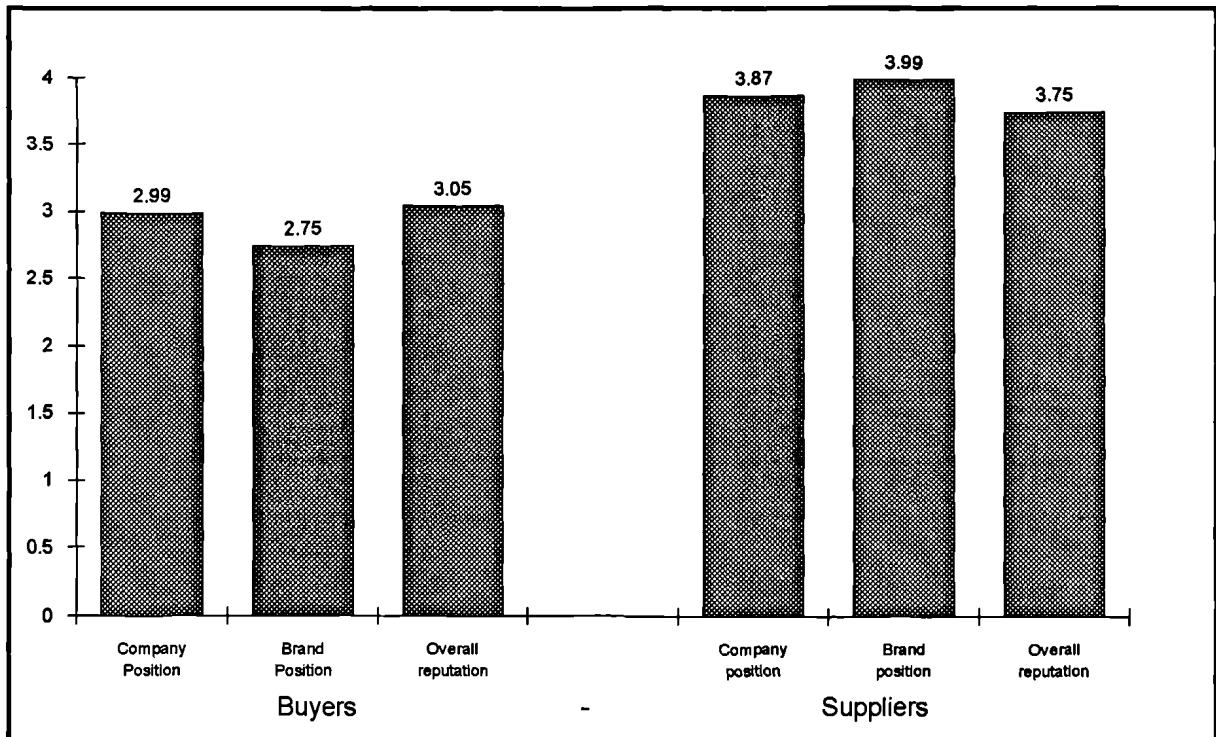


Figure 26. Image in the Market: Cognitive Positioning.

Previously, it was shown that no real connection between the satisfaction provided by and length of a relationship. It was concluded then that no evidence of adaptive or satisficing behaviour had been found, since that would have probably have led to . However, positioning offers another opportunity to detect such behaviour. This is because actors might vary their opinions on their partners' cognitive positioning in the course of the relationship.⁶³⁴

⁶³³ This is shown by the following table:

Overall Reputation of Korean suppliers (%)	The Leader	Among the Strongest	Middling	Quite Weak	Very Weak	Average
Industrial buyers	0	32.1	56.0	10.7	1.2	3.16
Consumer product resellers	0	11.9	70.1	11.9	6.0	2.82

n = 151 P = 0.01552

Table 39. Image of Overall Reputation by Buyer Type

⁶³⁴ It is not contended that this would constitute definite proof but would act rather as an indication.

The qualitative research supported what the interaction approach would imply: the longer the relationship between partners, the higher they were likely to rate their partner's image and performance. This was because they felt they could trust their partners more and could be more sure of prompt deliveries and technical support. To investigate whether the quantitative research would support this view, the following research hypothesis was formulated:

Hypothesis 13. The better the partner company is now positioned in terms of the cognitive hierarchy, the longer its relationship with the respondent will be.

This hypothesis, therefore, examined whether there were statistically significant relationships between the length of a relationship and the partner's positioning within the cognitive hierarchy. The implications of Ford's relationship life cycle should also be borne in mind here. This suggests that as the length of a relationship extended beyond some unknown point, its quality would inevitably deteriorate. Consequently, there may not be a linear progression of increasing improvement.

The hypothesis was investigated in null format:

H13₀ The period of the business relationship has no effect on the partner's perceived position in the cognitive hierarchy.

ANOVA showed that the *period of relationship did seem to affect the partner's perceived position*.⁶³⁵ Hence, although the results were inconclusive in some ways, the null hypothesis could be rejected.⁶³⁶

The results of the Bonferroni MCA showed that as the length of the business relationship increased, so brand position also improved. However, there was no evidence to suggest that companies perceived their partners more highly with a long relationship. This suggests - but does not prove - that positioning in the cognitive hierarchy is comparatively fixed in time. It also suggests that in the case of successfully maintained relationships such

⁶³⁵ This was in the cases of company position for consumer goods resellers (F probability = 0.0468) and brand position for all suppliers combined (F probability = 0.0455).

⁶³⁶ The reader is referred to Appendix 2 for full details of the statistical analysis.

as those under discussion here, it is customary for a partner's performance and positioning to remain at a relatively constant level.⁶³⁷

Again, it would probably be spurious to attempt to compare these results with what might have been found with respect to Japanese forms of localisation. This is because Japanese companies, especially those with a base in production, tend to operate very detailed and effective supplier development programmes. These would be expected to have an impact upon the level of satisfaction exhibited by a relationship in the course of time.

Having considered a number of issues relating to positioning, it is now possible to move on to the next major area to be described in this chapter, which is that of marketing information networks.

7.4. Marketing Information Networks

The marketing information network, a comparatively new concept, was prompted partly by the qualitative research. A summary of this follows.

7.4.1. Qualitative Overview of Marketing Information Networks

The qualitative research delineated four main areas with respect to marketing information networks. These were:

- the value of information;
- the use of misinformation and disinformation;
- the role and nature of brokers and other intermediaries;
- the possible sources of information.

These will be described below.

7.4.1.1. The Value of Information.

There is a danger that the search for information and ways of gathering it overshadows any appreciation of how it can be used and its value.⁶³⁸ The qualitative research deliberately

⁶³⁷ An alternative explanation is that, given the life cycle concept discussed previously, the issue has become clouded with the evidence of relationships that have been extended beyond their optimum length. This cannot realistically be ascertained by use of the present methodology.

tried to avoid this by asking Korean respondents what they thought was the justification for gathering information, with the following results:

1) Information leads directly to new business opportunities. Derived from formal and informal sources, information about new contacts - even being introduced to them - is clearly of particular importance to Korean companies. This is because of the need to counter the dyad-specific advantage of established relationships that can act as a barrier to entry.⁶³⁹ Korean respondents felt disadvantaged in this, specifically in finding appropriate topics of conversation not immediately related to work;

2) Vital information is required for tendering. In order to compete aggressively for tenders, prospective competitors must be aware when and where the tender will be offered. They also need to know details such as technical specifications, how to apply and buying centre information. The problems particularly are:

- a lot of information is privileged: companies who have access to privileged information will clearly have an advantage;
- hidden agenda or political situations can substantially affect the outcome of apparently free and fair contests. This is a problem in gathering the information and understanding its implications.

Those companies possessing valuable information rarely have an incentive to share it or present it more openly. This is clearly true in the case of competitors. Buyers too might not wish to distribute information openly, especially if they have a favoured candidate.⁶⁴⁰ Entering networks for the first time, *chaebol* may need special provision for getting access to information.

⁶³⁸ Indeed, Ackoff notes that the problem with information systems is not in the provision of information but in the fact that there is too much. See Ackoff, Russell L., "Management Misinformation Systems," in James C. Wetherbe, V. Thomas Dock and Steven L. Mandell, "Readings in Information Systems: A Managerial Perspective" (West Publishing Company: St. Paul, Minnesota, 1988), pp.80-87.

⁶³⁹ Vahlne, Jan-Erik and Kjell Nordström, "Choices of Market Channel in a Strategic Perspective," in Neil Hood and Jan-Erik Vahlne, eds., Strategies in Global Competition: Selected Papers from the Prince Bertil Symposium at the Institute of International Business, Stockholm School of Economics (London: Croom Helm, 1988), pp.256-282.

⁶⁴⁰ They may not wish information about hidden agenda and political sensitivities to be more widely known. It is also possible that personnel responsible for distributing information may not be aware of these issues. Although it has been shown that the individuals forming buying centres are of the same levels of seniority as respondents, this does not mean that the same people are involved.

3) The determination of cause and effect linkages. Without proper feedback, particularly concerning failed tender bids, *chaebol* cannot be sure why their bids failed and how they might succeed in the future. Of course, rivals will want to suppress this information as well.

7.4.1.2. The Use of Misinformation and Disinformation.

The previous section described why actors might wish to restrict flows of information. The current section describes the ways respondents felt actors might try to restrict information. These ways are disinformation and misinformation. Disinformation is the deliberate release of information designed to mislead or confuse. It does not need to be inaccurate, simply misleading because of:

- emphasis placed on particular aspects to disguise the overall situation;
- careful timing. Negative news can be hidden if more important things are announced at the same time;
- the medium rather than the message: truth can be disguised through the way it is presented.

These tactics have all been reported by respondents, both Korean suppliers and UK buyers, as being realistic and perfectly fair ways for an actor to improve or maintain its position.

Misinformation, on the other hand, is simply false or inaccurate information. It is not necessarily deliberate lying. This is usually caused by of outdated information, resulting from imperfectly maintained databases, trade directories or industrial literature, which tend to have long lead times and may not be updated often.

7.4.1.3. Brokers and Other Intermediaries.

Respondents described the role of brokers and other intermediaries as being another way of controlling information flows. The intermediary tries to position itself strategically in the information network to ensure that information flows must pass through them. They may be assisted by government or at least governmental bodies in this regard. Although in this sample intermediaries were mostly brokers operating in shipping markets, there is no reason they should not act in other markets. However, most comments made in this

section referred to countries other than the UK. It is not suggested that practices prevalent in certain countries take place in the UK.

Brokers, it was considered, could be "hidden" or "open" in nature. This indicates a degree of unprincipled if not illicit behaviour in the case of "hidden" brokers, especially when this was alleged to be supported by a number of Middle Eastern governments. A "hidden" broker in fact controls the ways in which tenders are disseminated and eventually awarded. There is clearly scope for bribery in an arrangement such as this in which the controlling body is unaccountable to the public.

7.4.1.4. Possible Sources of Information

It has already been established that one of the purposes of the qualitative research was to help to define the quantitative research. In the context of marketing information networks, the qualitative research looked to identify possible sources of information. This process determined that the following might all be important:

- personal contact: this may arise inter or intra organisationally and may derive from a formal or informal episode of interaction. Establishing personal contacts with customers and potential customers is clearly advantageous. Contacts may be the result of direct or indirect links: i.e. the contact may be between the sales representative and the buyer or it may be between the sales representative and a colleague of the buyer in a different department (or vice versa);
- on line computerised databases. These are likely to become increasingly important in the future. Indeed, notwithstanding a generally poor level of investment, Korean companies have looked to create what are called "intelligent buildings." However, such sources are not suitable for every form of information (e.g. political or interpersonal material) and can be expensive in terms of both money and time;⁶⁴¹
- trade directories, magazines and other published data. These sources are perhaps the cheapest and the most freely available, although they will also be the most likely to be out of date or inaccurate in some other way. However, the accessibility of these sources almost dictates that they are inevitably the

⁶⁴¹ As described elsewhere, it is also possible that this use of IT is equally dedicated to ensuring that authoritarian management control can be more effectively disseminated throughout an organisation, including even localising offices.

most frequently consulted by Korean suppliers in the earliest parts of their dealings in the UK market;

- government departments: trade associations or development agencies offered by government are available in a variety of different formats. Korean respondents suggested that those offered by the Korean government for trade in the UK had scope for improvement;
- marketing agencies: essentially, contracting a marketing agency to provide information means utilising previously mentioned sources indirectly. The value for money and usefulness of information offered by marketing agencies tends to vary considerably;
- local sales representatives. it is possible to establish contacts with local organisations vicariously through hiring local sales representatives. Respondents tended to think that this represented the most effective method of achieving instant credibility with local firms.

7.4.2. The Nature of Marketing Information Networks

7.4.2.1. Methodology for Detecting Marketing Information Networks.

In order to detect marketing information networks and discover something about the way that they operate, it is first necessary to devise criteria by which their presence might be shown. Previous chapters have indicated a number of criteria which might be helpful in this respect; these include:

- the activity of both partners in the market: networks are constructed of interactive relationships. It has already been shown that both partners are active in relationships and, hence, in networks;
- the differential and discriminating use of selection criteria: since it has been shown that respondents do not simply rely on price in choosing partners, then sophisticated types of information have a value in important business activities;
- the segmentation of actors within market sectors: since it is possible to differentiate between actors, then information about them will reflect these differences. The important point is that the type of information that will be available can be used to discriminate between actors.

These areas all tend to suggest the presence of networks and, therefore, similar grounds should reasonably imply the presence of marketing information networks. Consequently, a

search will be made for similar features in this chapter. More specifically, evidence for the following will be sought:

- activity of both partners in searching for information;
- the differential and hierarchical use of information sources;

In addition, evidence might be found about the circulation of information through the networks constituting Korean business groups. This might provide help in understanding the level of networking as well as their mode of operation.

The methods that will be used to look for evidence will be similar to those used in other aspects of the quantitative research.

7.4.2.2. Methods of Searching for Partners

The fact that both partners are active in consulting information sources may be seen from the results in this section. Respondents were invited to state the extent to which they searched for partners and the extent to which partners searched for them. This was according to a five point scale.⁶⁴² The results were:

<i>Buyer (%)</i>	<i>5</i>	<i>4</i>	<i>3</i>	<i>2</i>	<i>1</i>	Average
You deliberately search	22.4	34.0	34.6	8.3	0.6	3.70
Suppliers contact you	32.7	34.6	22.0	7.5	3.1	3.87
Supplier						
You deliberately search	23.5	29.4	29.4	11.8	5.9	3.53
Buyers contact you	7.1	42.9	28.6	14.3	7.1	3.29

n = 171 - 178

Table 40. Methods of Finding Potential Suppliers (see Figure 27 below).

Although these results confirmed what might be expected, that suppliers contacted buyers to a greater extent than buyers contacted suppliers, what is perhaps more important is that they demonstrate the activity of both sides. This is not really surprising, given that it has already been shown that both partners are actively involved in the selection process. It would seem logical that to be involved in the selection process it is necessary to have sufficient levels of information on which to base decisions.

⁶⁴² The text of this was: all the time (5); fairly frequently (4); occasionally (3); rarely (2); never (1).

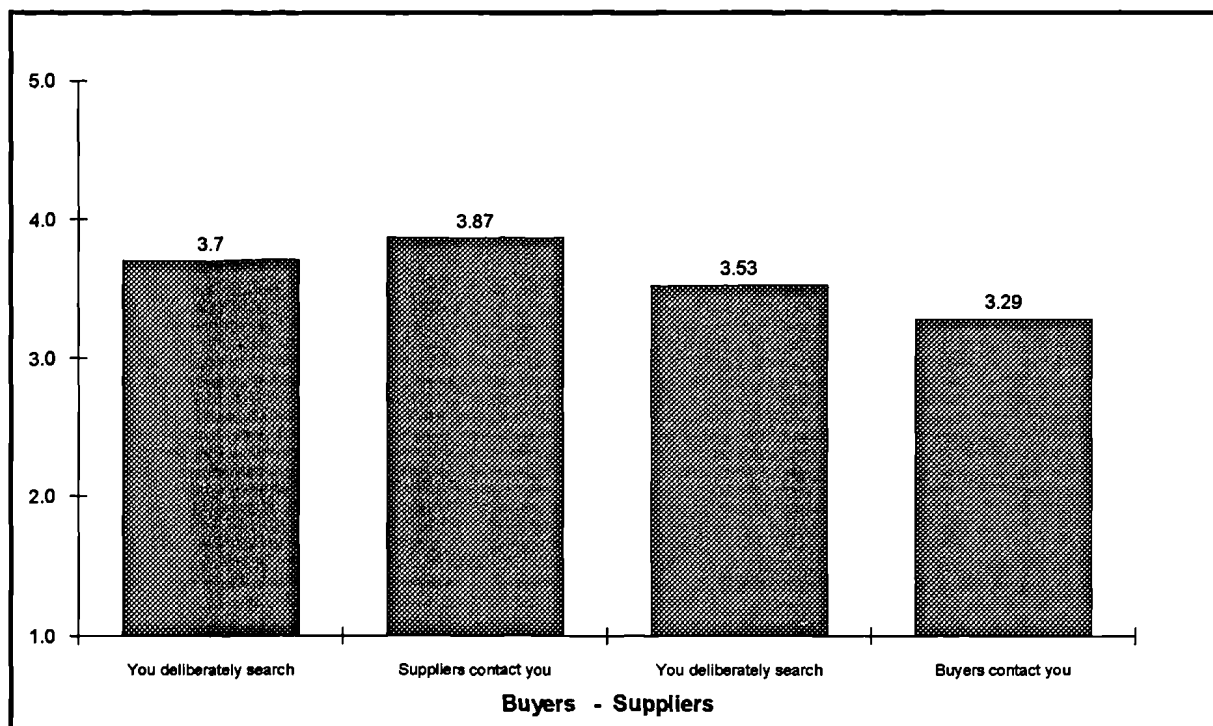


Figure 27. Methods of Finding Potential Partners.

7.4.2.3. Mode of First Contact

In addition to when generally seeking partners, respondents were also asked whether the particular relationship about which they were providing information was self initiated or partner initiated. Respondents were invited to comment on the relative prevalence of each according to a five point scale. The results of this question are as follows:

UK Buyers (%)	5	4	3	2	1	Average
You searched	19.7	23.6	24.4	1.6	30.7	3.00
They contacted you	20.5	29.5	23.5	4.5	22.0	3.22
Korean Suppliers						
You searched	18.8	68.8	12.5	0	0	4.06
They contacted you	6.7	33.3	26.7	26.7	6.7	3.06

n = 142- 149

Table 41. Mode of First Contact (see Figure 28 below).

In general, it can be seen that it is more common for suppliers to contact buyers / resellers than vice versa.⁶⁴³ These results indicate that:

⁶⁴³ The differences between industrial buyers and consumer product resellers were significant and are displayed in the following table:

They Contacted You (%)	All the Time 5	Fairly Frequently 4	Occasionally 3	Rarely 2	Never 1	Average
Industrial buyers	17.8	20.5	23.3	5.5	32.9	2.85
Consumer product resellers	23.7	40.7	23.7	3.4	8.5	3.68

n = 127 P = 0.00670

Table 42. Mode of First Contact by Buyer Type.

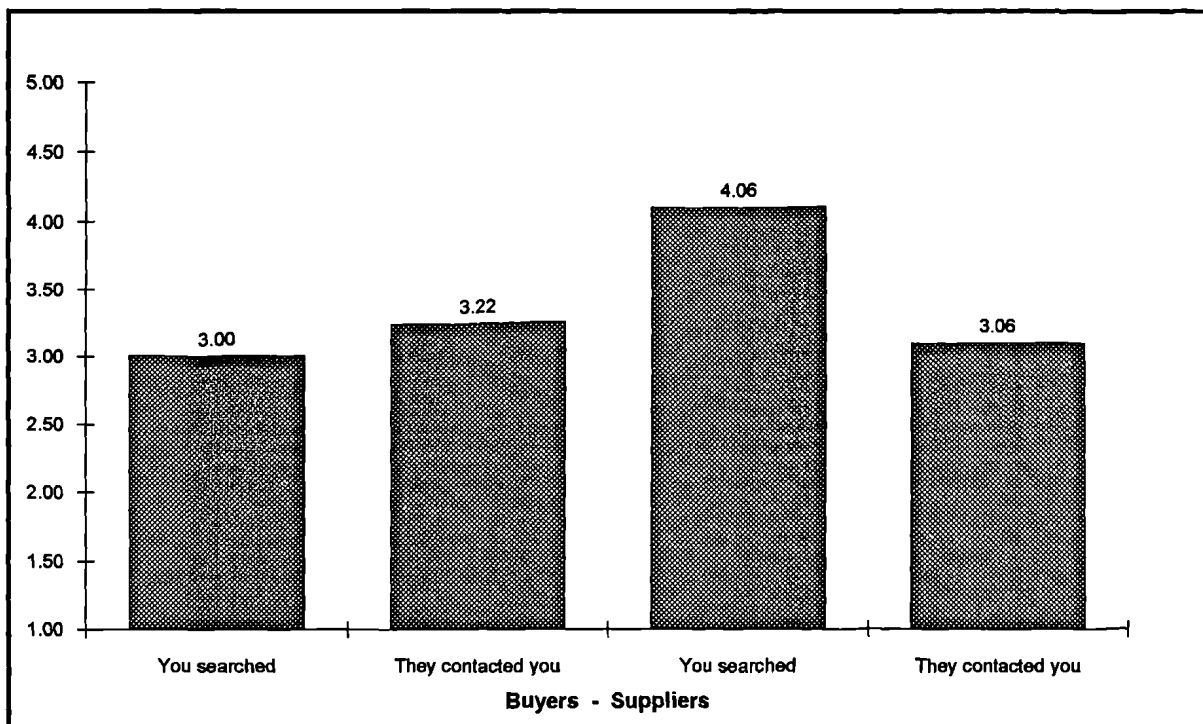


Figure 28. Mode of First Contact.

- (i) Korean suppliers are more likely to search for UK buyers than is the average when country of origin is disregarded.
- (ii) Korean suppliers appear to think that they contact UK buyers more often than UK buyers think that they are contacted by Korean suppliers.
- (iii) UK buyers seem to search generally for suppliers more frequently than they search for Korean suppliers.
- (iv) UK suppliers search for buyers more frequently than Korean suppliers do.⁶⁴⁴

In order to establish the levels of activity of both partners more definitely, the following research hypothesis was investigated:

These results show that consumer product resellers were more likely to be contacted by Korean suppliers than industrial buyers were. In other words, Korean consumer goods suppliers were more active than industrial suppliers were. This might also reflect that industrial buyers are more likely to contact potential suppliers with specific requirements than would be the case in consumer goods resellers markets. Additional analysis showed that this latter point is probably true: for example, some of those buyers who had never been contacted by suppliers had requirements for highly specialised computer software and hardware. Since industrial buyers were more likely to need customer specified products than were consumer product resellers. If this is so, the latter would be, consequently, more accessible and easily definable through media such as business and trade directories. In summary, they might simply be easier for suppliers to contact.

⁶⁴⁴ It may be of course that buyers are confusing the degree to which individual suppliers search for buyers and the total number of searching buyers.

Hypothesis 14. Not only do suppliers search for industrial buyers / consumer goods resellers, but industrial buyers / consumer goods resellers also deliberately search for suppliers.

The first step in exploring this hypothesis was to provide a breakdown of the results obtained for the previous two variables according to market type. This may be measured by means of a cross-tabulation, as Tables 43 and 44 below illustrate.

These results indicate activity by both partners in all sectors. Therefore, the null hypothesis can be rejected. Although activity was more obvious in industrial markets, there was also evidence that it happened in consumer goods resale markets. This is intuitively correct. Resellers are likely to conduct market research and have their own marketing strategies which will focus on likely demand for goods and services. Being aware of demand for products, they will search for suppliers who can satisfy it.

%	<i>Industrial</i>		<i>Consumer Goods</i>	
	You Deliberately Search	Suppliers Contact You	You Deliberately Search	Suppliers Contact You
All the Time	21.8	30.7	22.9	34.7
Fairly	36.8	30.7	30.0	38.9
Frequently				
Occasionally	31.0	21.6	40.0	23.6
Rarely	9.2	11.4	7.1	2.8
Never	1.1	5.7	0	0
n	87	88	72	70
p ⁶⁴⁵	0.0000	0.0002	0.0011	0.0001

Table 43. Searching for Suppliers and being Sought by Suppliers by Buyer / Reseller Type.

%	<i>Industrial</i>		<i>Consumer Goods</i>	
	You Deliberately Search	Suppliers Contact You	You Deliberately Search	Suppliers Contact You
All the Time	22.2	11.1	25.0	0
Fairly	11.1	55.6	50.0	20.0
Frequently				
Occasionally	33.3	22.2	25.0	40.0
Rarely	22.2	0	0	40.0
Never	11.1	11.1	0	0
n	9	9	8	5
p ⁶⁴⁶	0.8168	0.1888	0.6065	0.8187

Table 44. Searching for Buyers / Resellers and being Sought by Buyers / Resellers by Supplier Type.

⁶⁴⁵ The test of significance here is a univariate chi square test.

⁶⁴⁶ As well as not being significant, these results are questionable owing to the number of cells with an expected frequency of less than 5.

It might be thought that as comparative newcomers to the market, Korean suppliers would be more active in searching for partners than those from other countries (specifically the UK) would be.

In order to determine whether this was true, the following research hypothesis was examined:

Hypothesis 15. Korean suppliers are more active in searching for UK buyers than suppliers from other countries are.

The results of the ANOVA, in this case, did not offer any evidence that the null hypothesis can be rejected. However, there might be differences in terms of relationships which were not maintained.

7.4.2.4. Information Sources Consulted in Searching for Partners

The activity of both partners in searching for information has already been demonstrated. It is now necessary to investigate whether there is evidence for the differential and hierarchical use of information. This was attempted initially by an assessment of the extent to which actors consulted each of a number of information sources, according to a five point scale.⁶⁴⁷ The nature of the information sources consulted have already been described.⁶⁴⁸ The results of this are displayed in Table 39 below.

The most important factors for all respondents were business / trade directories and existing contacts, either buyers or suppliers. There were no significant differences

⁶⁴⁷ The wording of this was: very much (5); quite a lot (4); to some extent (3); not much (2); not at all (1).

⁶⁴⁸ An open question in the quantitative research confirmed that these were the most important information sources, although there was some suggestion that what respondents called "personal experience" might be a feature. Buyers and resellers most commonly nominated customers, word of mouth and trade directories and the press as being the sources they would most use, while suppliers nominated their business partners and, as mentioned above, personal experience. Certainly there is plenty to support the interaction and network approaches. Further analysis shows that trade directories were much more important in the industrial product buyers sector, with 38.0% of respondents consulting them compared to only 11.8% of consumer product buyers. Additionally, three quarters of industrial product buyers of computers used trade directories, while 58.3% of electrical consumer goods buyers relied on customer reports. It would appear, therefore, that marketing information networks were more prevalent in consumer products markets, since less emphasis was placed upon promotional material and more on the recommendations and reports of other actors.

between any of the groups in this respect. Although none of these information sources appears to be very important, it may be that there are other information sources which might be but which have not been investigated.

<i>Buyers (%)</i>	5	4	3	2	1	Average
Business / trade directories	16.9	26.6	25.3	18.8	12.3	3.17
Colleagues in your company	11.6	20.4	34.0	21.8	12.2	2.97
Companies who compete against you on only part of your activities	0.7	8.2	29.5	22.6	39.0	2.09
Companies who compete on most of your activities	2.0	13.6	25.2	12.9	46.3	2.12
Non competitors	2.0	15.0	34.0	25.2	23.8	2.46
Other sources (e.g. marketing agent, government bodies, etc.)	6.4	13.5	27.0	24.1	29.1	2.44
Your existing suppliers	10.0	29.3	32.0	19.3	9.3	3.12
Suppliers						
Business / trade directories	11.8	29.4	41.2	11.8	5.9	3.29
Companies who compete against you only on part of your activities	0	0	12.5	68.8	18.8	1.93
Companies who compete on most of your activities	0	6.3	12.5	43.8	37.5	1.87
Korean colleagues	6.3	6.3	6.3	62.5	18.8	2.18
Korean suppliers	0	0	6.7	60.0	33.3	1.73
Local employees	11.8	29.4	11.8	17.6	29.4	2.77
Non competitors	0	0	25.0	62.5	12.5	2.12
Other sources (e.g. marketing agent, government bodies, etc.)	0	12.5	12.5	75.0	0	2.38
Your existing buyers	6.3	25.0	31.3	25.0	12.5	2.87

n = 158 - 171

Table 45. Information Sources Consulted (see Figures 29 and 30 below).

Dividing these scores between industrial buyers / suppliers and consumer product resellers

/ suppliers produces the following results:

<i>Buyer (average scores)</i>	<i>Industrial buyers</i>	<i>Consumer product resellers</i>
Business / trade directories	3.33	2.97
Colleagues in your company	2.91	3.02
Companies who compete against you on only part of your activities	1.97	2.22
Companies who compete on most of your activities	1.99	2.28
Non competitors	2.60	2.29
Other sources (e.g. marketing agent, government bodies)	2.43	2.45
Your existing suppliers	3.06	3.13

Table 46. Information Sources Consulted by Buyer Type.

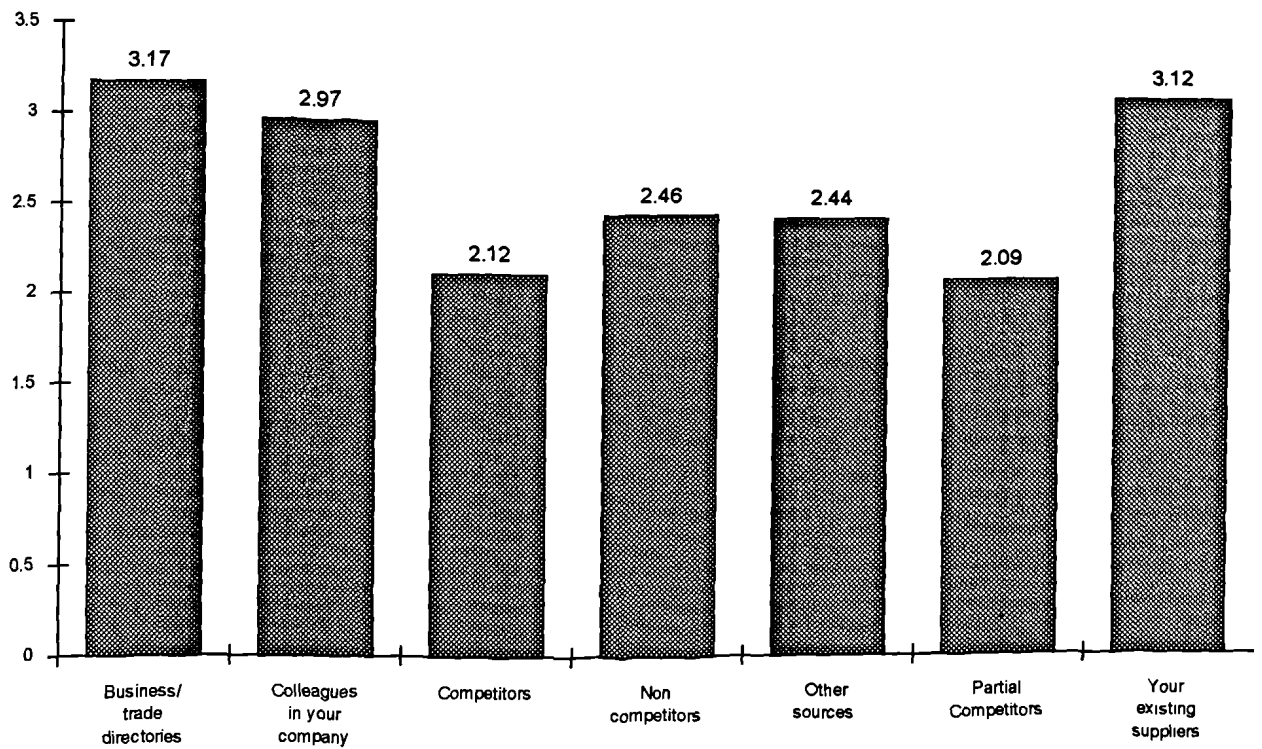


Figure 29. Information Sources Consulted: Buyers.

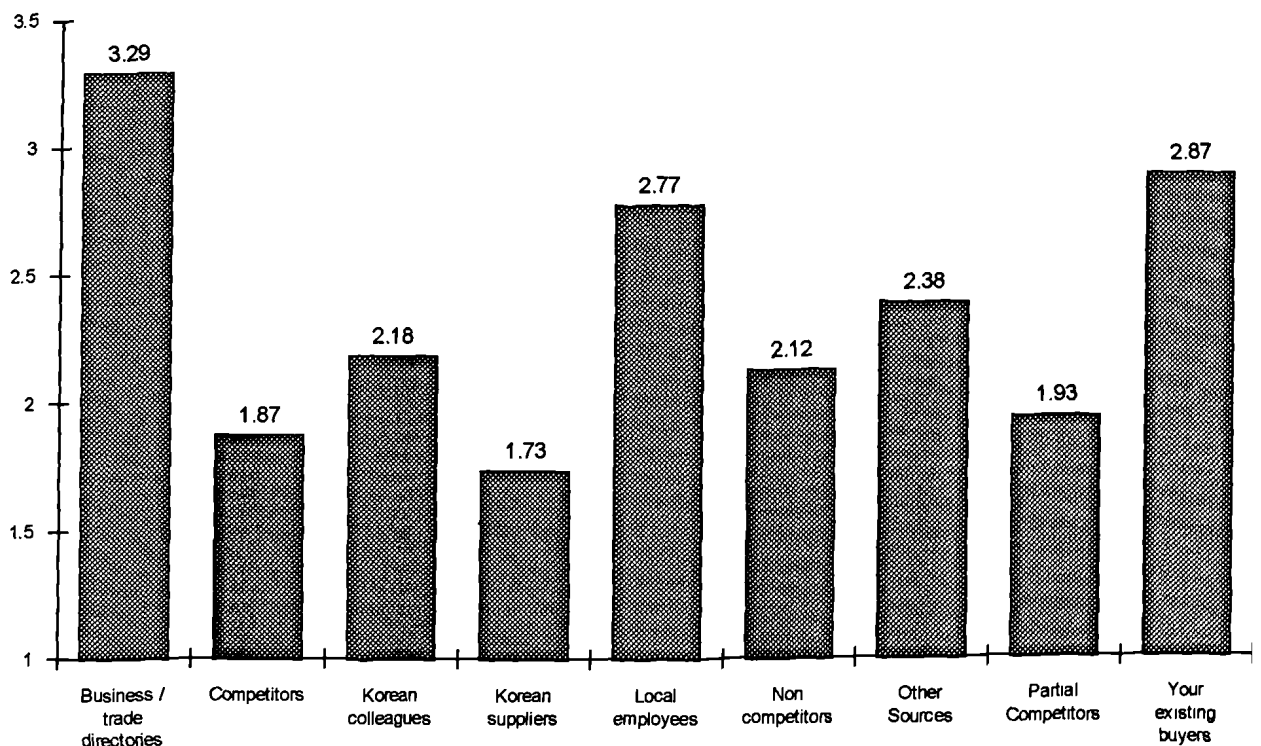


Figure 30. Information Sources Consulted: Suppliers.

It became apparent from these results that industrial buyers consulted business / trade directories and non-competitors far more frequently than did consumer goods resellers, who were in turn more likely to make use of full and partial competitors. Meanwhile,

consumer goods suppliers were more likely to consult a wider range of sources than were industrial suppliers, whose principal strategy was to make use of existing buyers.

<i>Supplier</i>	<i>industrial suppliers</i>	<i>consumer product suppliers</i>
Business / trade directories	3.00	3.63
Companies who compete against you only on part of your activities	1.78	2.14
Companies who compete on most of your activities	1.78	2.00
Korean colleagues	2.22	2.14
Korean suppliers	1.63	1.86
Local employees	2.11	3.50
Non competitors	2.00	2.29
Other sources	2.22	2.57
Your existing buyers	3.33	2.29

n = 158 - 174

Table 47. Information Sources Consulted by Supplier Type.

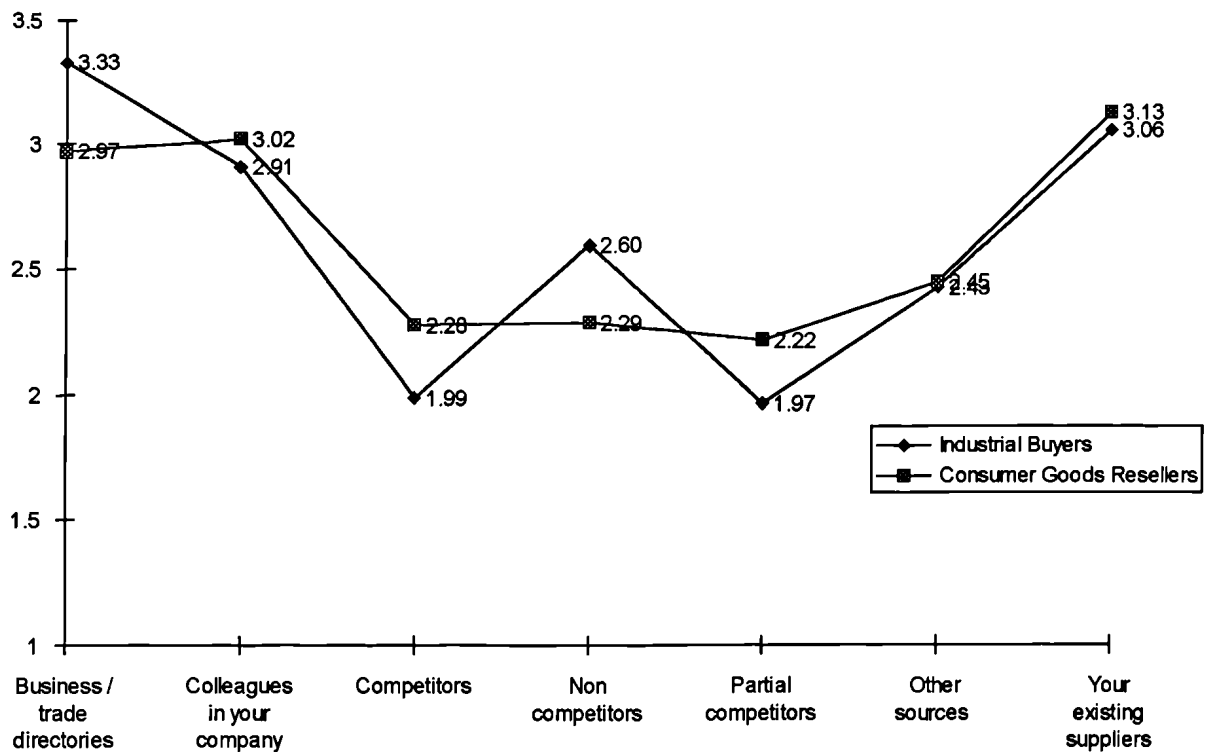


Figure 31. Information Sources Consulted by Buyer Type.

These findings support what has been said previously. Industrial buyers are more likely to have unique requirements and are less able to find direct competitors who have relevant information than resellers are. Consequently, their personal networks of information

sources are more likely to extend across sectoral boundaries than those of consumer goods resellers.

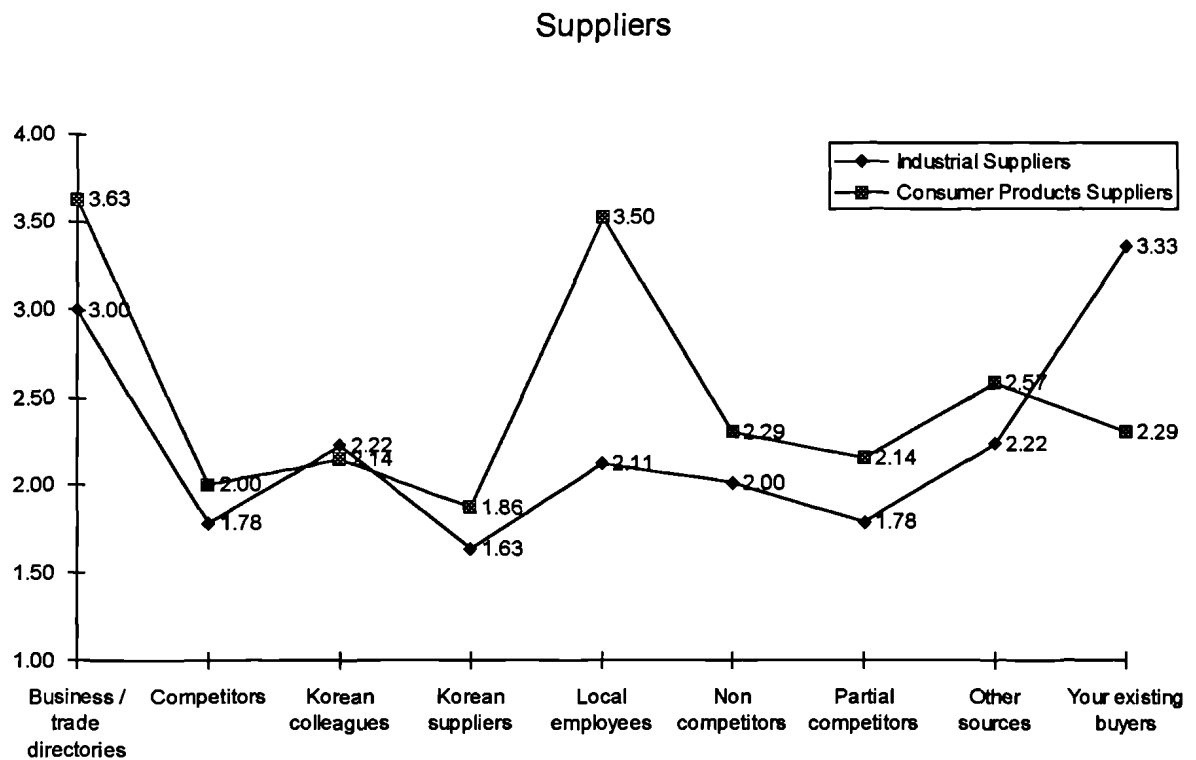


Figure 32. Information Sources Consulted by Supplier Type.

Industrial suppliers, meanwhile, look to increase business through extending links with existing clients, while consumer goods suppliers are looking for new partners. Both these strategies can act to increase market share. The difference is that market share is increased in industrial markets by greater penetration of the few, large actors while it is increased in consumers goods resale markets by penetrating a larger number of the comparatively less dominant actors.

This is evidence of differential and hierarchical uses of marketing information networks.

7.4.2.5. Information Sources Consulted

The previous section concerned the general consultation of information sources under no specific circumstances. The current section involves the extent to which information sources are consulted when searching specifically for a partner: for buyers, this means searching for a Korean supplier and vice versa.

Respondents gave their opinions with respect to each information source consulted.⁶⁴⁹

The results were:

<i>Sources for Buyers about Korean Suppliers (%)</i>	5	4	3	2	1	Average
Business / trade directories	7.5	15.0	21.8	17.7	38.1	2.36
Colleagues in your company	8.8	20.4	21.1	15.0	34.7	2.54
Companies who compete against you on only part of your activities	0.7	10.0	15.0	12.1	62.1	1.75
Companies who compete on most of your activities	1.4	7.9	16.5	10.8	63.3	1.74
Non competitors	4.9	11.2	18.2	13.3	52.4	2.03
Other sources (e.g. marketing agent, government bodies)	7.1	8.5	24.8	8.5	51.1	2.12
Your existing Korean suppliers	2.9	1.5	9.5	12.4	73.7	1.47
Your existing UK suppliers	4.8	10.2	23.1	17.0	44.9	2.13
Sources for Korean Suppliers about UK Buyers						
Business / trade directories	6.7	20.0	33.3	13.3	26.7	2.67
Companies who compete against you on only part of your activities	0	0	6.7	53.3	40.0	1.67
Companies who compete on most of your activities	0	6.7	0	60.0	33.3	1.80
Korean colleagues	12.5	25.0	18.8	31.3	12.5	2.93
Korean suppliers	0	6.7	26.7	33.3	33.3	2.07
Local employees	18.8	31.3	6.3	18.8	25.0	2.99
Non competitors	0	13.3	20.0	26.7	40.0	2.07
Other sources (e.g. marketing agent, government bodies etc.)	0	37.5	12.5	31.3	18.8	2.87
Your existing UK buyers	0	37.5	37.5	18.8	6.3	3.06

n = 151 - 177

Table 48. Possible Sources of Information (see Figures 33 and 34 below).

These results show lower levels of consultation than might be expected. Certainly, no sources appear pre-eminent. It is concluded, therefore, that actors do not often consult information sources to search specifically for partners.

The single source most frequently consulted is existing UK buyers for suppliers. This is followed, for suppliers, by local employees and Korean colleagues. As is the case for buyers / resellers, it is apparent that people (i.e. primary sources) are more commonly consulted than published (secondary sources). Although it may well be that people have better, more detailed and relevant information than is available from secondary sources,

⁶⁴⁹ A five point scale was used. The wording was the same as that described in footnote 647.

trusting people more invites the danger of relying on anecdotal and other non-rigorously obtained information.

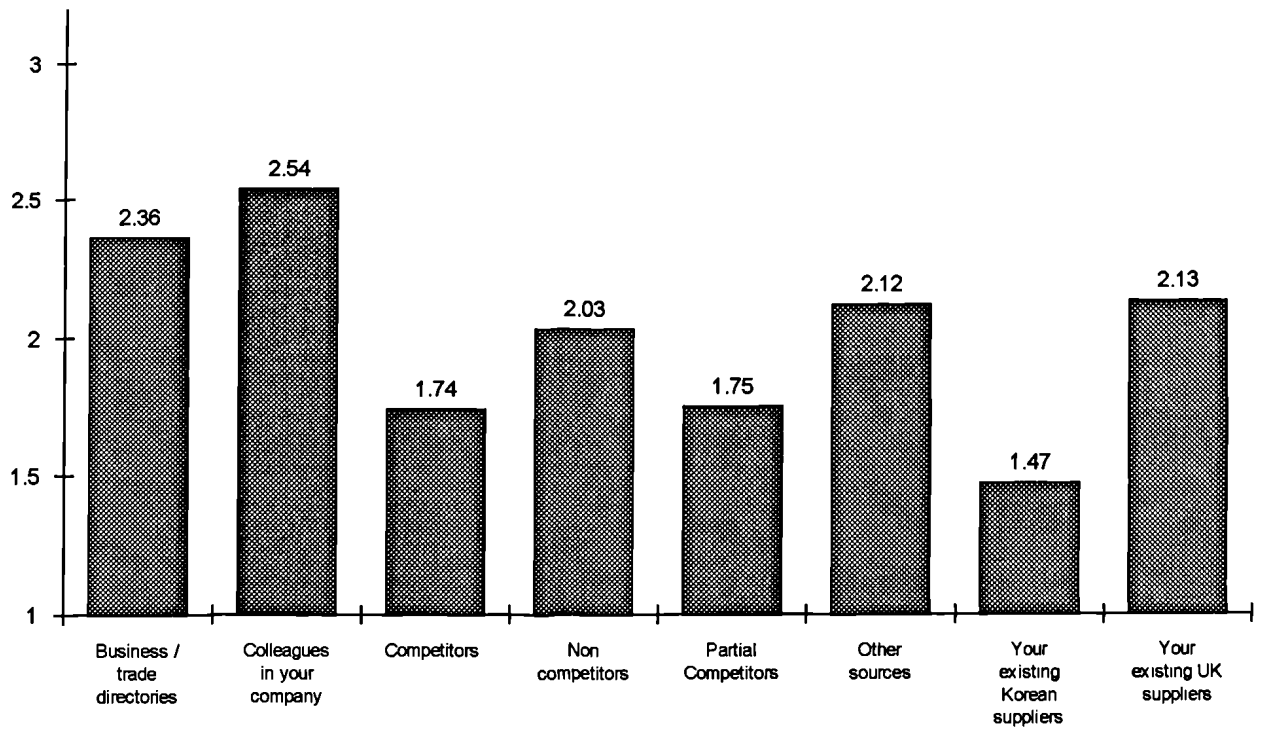


Figure 33. Possible Sources of Information for Buyers.

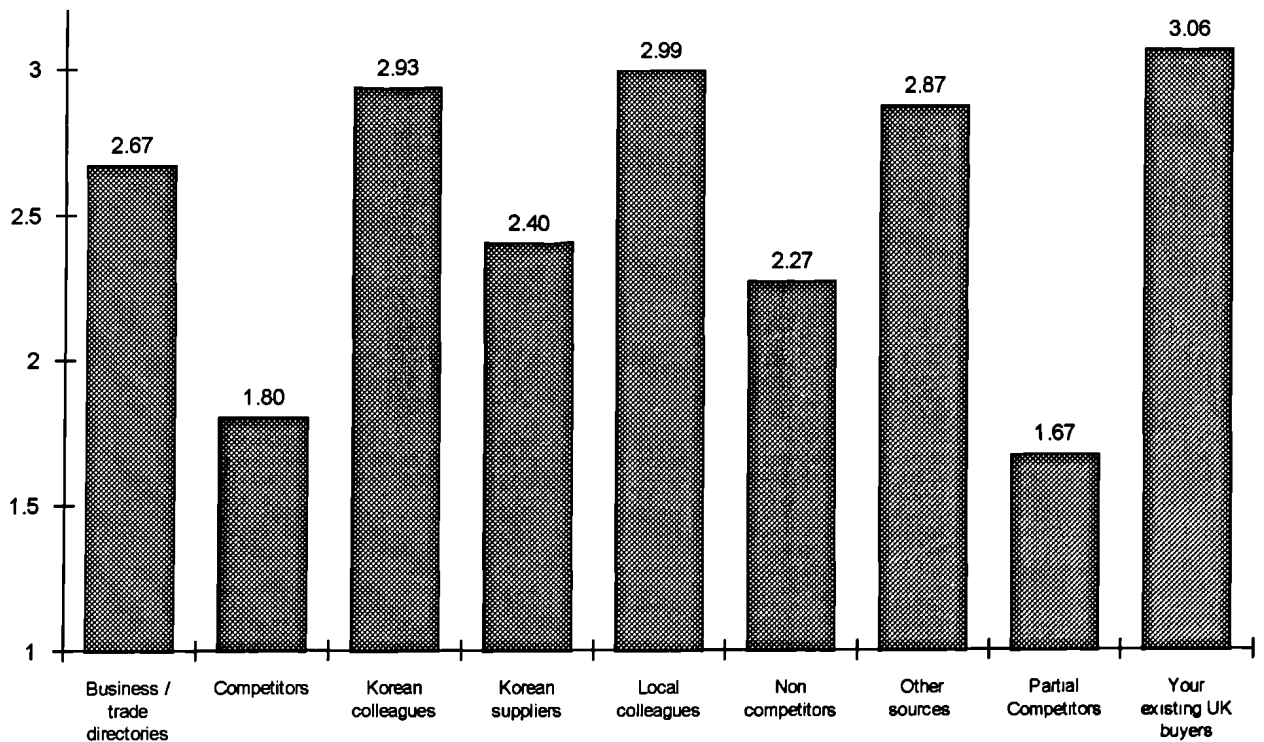


Figure 34. Possible Sources of Information for Suppliers.

Dividing the results by buyer type produces the following:

<i>(average scores)</i>	<i>Industrial buyers</i>	<i>Consumer product resellers</i>
Business / trade directories	2.54	2.14
Colleagues in your company	2.33	2.79
Companies who compete against you on only part of your business	1.64	1.89
Companies who compete on most of your activities	1.64	1.84
Non competitors	1.77	2.34
Other sources	2.27	1.94
Your existing Korean suppliers	1.36	1.75
Your existing UK suppliers	1.89	2.55

n = 137 - 147

Table 49. Possible Sources of Information by Buyer Type.

Colleagues in the company, existing UK suppliers and non competitors were all more important for consumer product resellers. Industrial buyers relied more on alternative sources, especially business / trade directories, which were the most frequently consulted of all information sources. The least frequently consulted source was existing Korean suppliers. This further indicates the comparative weakness of Korean companies in the market since it shows they are not integrated into existing information networks. This is an area of localisation which needs to be addressed.⁶⁵⁰

7.4.2.6. Do Personal Relationships Affect the Use of Information Sources?

It was suggested in Chapters 2 and 3 that there are competitive advantages to be gained from utilising existing relationships or at least from conceiving of these relationships as being resources which might be exploited. One of the ways of achieving this would be to use other actors as information sources. Qualitative research indicated that those

⁶⁵⁰ The only significant difference between buyer types was the frequency with which they consulted colleagues in their company. This was a source much more frequently used by consumer product resellers than by industrial buyers, as the following table shows:

%	<i>Very Much</i> 5	<i>Quite a lot</i> 4	<i>To some extent</i> 3	<i>Not much</i> 2	<i>Not at all</i> 1	<i>Average</i>
Industrial buyers	9.9	18.5	13.6	11.1	46.9	2.33
Consumer product resellers	7.6	22.7	30.3	19.7	19.7	2.79

n = 147 P = 0.00489

Table 50. Company Colleagues as an Information Source by Buyer Type.

It would seem likely that consumer product resellers would have a larger buying centre than industrial buyers and so it is, therefore, logical that colleagues would be consulted more frequently.

respondents who placed value on personal relationships did try to use them as resources in a variety of ways.

In order to investigate whether there was a relationship between the importance attached to personal relationships in conducting business and the degree of consultation of other actors as information sources, the following research hypothesis was formulated:

Hypothesis 16. The more likely that respondents are to use other actors as information sources, the more that they will find personal relationships important.

This hypothesis was not really borne out by the analysis. Buyers and resellers did not exhibit any significant variations in their use of information sources when tested in this way.⁶⁵¹ However, partial competitors are used differently by industrial suppliers⁶⁵² and local colleagues by consumer goods suppliers. There is no overwhelming evidence to show that personal relationships are important factors explaining the behaviour of actors in business.

7.4.2.7. Marketing Information Networks and Competitive Advantages

If marketing information networks offer competitive advantages to those using them, then partners selected more carefully should subsequently perform more satisfactorily. That is, there should be some correlation between consultation of other actors and subsequent performance. To investigate this area, the following research hypothesis was investigated:

Hypothesis 17. The more that other actors are consulted as information sources when choosing a partner, the better that partner will perform.

Evaluating this hypothesis required very many individual tests. All information sources suggested by the questionnaire were analysed. This was to explore whether there were differences between external actors and other types of sources. Statistically significant results were observed in a number of different cases.⁶⁵³ Although this yielded a partly confused picture, some conclusions are possible.

⁶⁵¹ One exception to this is the case of other sources when consulted by industrial buyers.

⁶⁵² The results of the Bonferroni MCA with respect to this result shows no clear picture.

⁶⁵³ The significant results were as follows:

For industrial buyers alone, the situation with respect to prompt delivery at first in terms of both non competitors and partial competitors showed that performance was likely to decrease as consultation of the information sources increased. However, the relationship is reversed for trustworthiness at first in terms of business / trade directories. That is, performance was seen to improve as consultation of directories increased. The situation with respect to trustworthiness at first in terms of full competitors was confused and no coherent interpretation of the results appears possible.

Factors rated at first:

Industrial buyers / consumer goods resellers combined

- product / service quality in terms of other sources (F probability = 0.0202);
- supplier's financing arrangements in relation to non competitors (F probability = 0.0476);
- and promotional support in relation to non competitors (F probability = 0.0124).

Industrial buyers alone

- on time delivery for both non competitors (F probability = 0.0335);
- on time delivery for partial competitors (F probability = 0.0282).

Consumer goods resellers alone

- product / service quality in terms of existing suppliers (F probability = 0.0163);
- personal relationship in terms of trade / business directories (F probability = 0.0221);
- business relationship in terms of colleagues in the company (F probability = 0.0409);
- business relationship in terms of other sources (F probability = 0.0241).

Industrial / consumer goods suppliers combined

- trustworthiness in terms of other Korean suppliers (F probability = 0.0281);
- trustworthiness in terms of competitors (F probability = 0.0210);
- business commitment in relation to other Korean suppliers (F probability = 0.0332).

Industrial suppliers alone

- trustworthiness in terms of Korean colleagues (F probability = 0.0476);
- trustworthiness in terms of business / trade directories (F probability = 0.0217);
- trustworthiness in terms of competitors (F probability = 0.0163);
- business commitment in terms of local colleagues (F probability = 0.0336);
- personal relationships in terms of competitors (F probability = 0.0039).

Consumer goods suppliers alone

- business commitment in terms of other Korean suppliers (F probability = 0.0290);
- personal relationship in terms of local colleagues (F probability = 0.0429).

Factors rated now:

Industrial buyers / consumer goods resellers combined.

- no significant variations.

Industrial buyers alone

- price compared to quality in terms of partial competitors (F probability = 0.0238)

Consumer goods resellers alone

- no significant variations.

For industrial / consumer goods suppliers combined

- trustworthiness in terms of other sources (F probability = 0.0413).

For industrial suppliers alone

- no significant variations.

Consumer goods suppliers alone

- business commitment in terms of other sources (F probability = 0.0322).

The results of the Bonferroni multiple classification analysis did not consistently show a linear progression indicating that the more that an information source was consulted, the better the performance according to that factor would be. While, for example, this was the case for industrial buyers and consumer goods resellers in respect of the suppliers financing arrangements at first and promotional support both now and at first in terms of non competitors, there was no such progression for product / service quality in terms of other sources.

For consumer goods resellers alone, the situations with respect to product / service quality at first in terms of both existing suppliers and other sources, as well as the business relationship at first in terms of other sources yielded confused pictures, with no simple or consistent interpretations possible.

For industrial suppliers alone, it is possible to state that the quality of the personal relationship at first decreased as the likelihood of consulting full competitors in searching for a partner increased.

For consumer goods suppliers alone, there was evidence to suggest that as the likelihood of consulting other sources increased, so the quality of the personal relationship now decreased. Similarly, as the likelihood of consulting non competitors in searching for a partner increased, so the quality of the business relationship now decreased.

While these results did not yield any immediately obvious pattern, it is possible to make a few comments about them:

- i) It was apparent that results more commonly reflected the performance of the partner at first rather than now. In other words, the use of different information sources in searching for partners could give some prediction of the likely performance of the partner since, if this were not the case, it would be expected that just as many significant results would relate to the situation now as at first;
- ii) There was more evidence linking the behaviour of buyer / reseller companies with information sources than for suppliers. This is intuitively correct insofar as suppliers will have undertaken more work searching for partners than vice versa;⁶⁵⁴
- iii) Finally, buyers / resellers indicated significant results almost only for non competitors or partial competitors while for suppliers there was evidence for the use of a wide range of information sources. Again, this would seem to be intuitively correct since it would be expected that Korean suppliers, newly entering the market, would be looking for a range of expertise in searching for appropriate buyers / resellers, having as yet not fully established the most efficient methods and systems for locating these companies.⁶⁵⁵ It was also noticeable that Korean

⁶⁵⁴ It has of course been demonstrated that both partners will be active in this process.

⁶⁵⁵ For those suppliers who felt that they had established effective information systems, these would not yet have been operational during the period with which this research is concerned.

suppliers were statistically less likely to consult external actors as information sources than UK buyers / resellers were. It seems likely that this is because the newcomer Korean companies had yet to discover who those actors in the various markets actually were.

Certainly it cannot be surmised from these results that the information sources used to search for partners can act as accurate and consistent predictors of the likely performance of that partner, once chosen. However, *the null hypothesis that the information sources consulted have no bearing on the performance of the partner can also be rejected.*

If buyers / resellers have created an effective marketing information network, then the network created by localising *chaebol* might well evolve along the same lines. The time necessary for this evolution could be reduced by studying the external actors relevant to target markets and initiating appropriate relationships with them. This might be handled by an intermediary or marketing agent.

However, it should not be assumed that the systems currently employed by buyers / resellers were the most efficient possible. The entry of Korean companies into the market allows for a re-evaluation of information sources. Opportunities exist both for discovering more efficient uses of information networks and in demonstrating that *chaebol* can be valuable additions to networks.

7.4.2.8. Differences between Buyer / Reseller and Supplier Marketing Information Networks.

The potential value of being part of a marketing information network has been established. It has been suggested that *chaebol* would benefit from operating similar networks to those buyers / resellers maintain. It is next necessary to examine the differences between supplier maintained information networks and buyer / reseller information networks. Since buyers / resellers are more established in UK markets than Korean suppliers are, it would be expected that they would have a better developed information network. Studying the differences, therefore, will help to suggest ways in which supplier networks could be improved.

One important dimension by which networks could differ is in the use of other actors. The literature review previously indicated that *chaebol* focus on intra-organisational links rather than inter-organisational links. It is possible to investigate whether this is manifested in the use of information networks by means of the following hypothesis:

Hypothesis 18. Buyers / resellers are more likely to consult other actors as information sources in searching for partners than their suppliers are.

Initial evaluation indicated that the research hypothesis is supported by a basic assessment of the situation.⁶⁵⁶ In order to test the null hypothesis more exactly, a variable was created which was constituted as a mean of the likelihood of consulting other actors; ANOVA was conducted on the result. A further variable was created to reflect the mean likelihood of consulting an external actor as an information source. Again, the results produced no significant results in either case and, hence, the *null hypothesis that buyers are no more likely to consult other actors when searching for partners than suppliers are cannot be rejected.*

A further measure of the degree if any to which Korean actors featured in UK information networks is whether UK buyers search for Korean suppliers with the assistance of information sources to the same extent that they would in searching for non-Korean suppliers. This is investigated by means of the following research hypothesis:

⁶⁵⁶ Initial evaluation of this hypothesis led to the production of the following table, which details average scores of the likelihood of the buyer / reseller or supplier consulting the relevant information source (5 indicates most likely while 1 denotes no such consultation):

<i>Average Score</i>	<i>Industrial Buyers</i>	<i>Consumer goods Resellers</i>	<i>Industrial Suppliers</i>	<i>Consumer Goods Suppliers</i>
Business / trade directories	3.33	2.97	3.00	3.63
Colleagues in the company	2.94	3.02	-	-
Competitors	1.99	2.28	1.78	2.00
Existing suppliers / buyers	3.10	3.13	3.33	2.29
Korean colleagues in the company	-	-	2.22	2.14
Local colleagues in the company	-	-	2.11	3.50
Non competitors	2.61	2.29	2.00	2.29
Other Korean suppliers	-	-	1.63	1.86
Other sources	2.43	2.45	2.22	2.57
Partial competitors	1.98	2.22	1.78	2.14
n	85	69	9	8

Table 51: Use of Information Sources by Buyer / Reseller and Supplier Type.
These results are not statistically significant.

Hypothesis 19. When searching for Korean suppliers, UK buyers will place different emphases on available information sources than they would in searching for other suppliers. This is also true for Korean suppliers searching for UK buyers.

As demonstrated previously, respondents in some cases considered information sources to be good for some areas and not for others. More specifically, certain sources were generally consulted in searching for Korean companies and hardly at all when looking more generally for UK suppliers. The null form of the research hypothesis here may be stated as:

H19₀ Buyers / suppliers will not place different emphases on various information sources when searching for partners and when searching more particularly for partners from a particular country (either Korea or the UK).

Preliminary investigation of this hypothesis entailed the examination of mean scores of the likelihood of consulting information sources when searching for a partner generally and when searching for one from the particular country under investigation (i.e. either Korea or the UK). Mean scores were calculated from the responses given to each factor, which were measured on a five point scale. These results are presented in Tables 52 and 53 below.

As has been described previously, buyers / resellers make less effort when searching specifically for Korean suppliers than when looking more generally. However, the situation for Korean suppliers is less clear cut.

One possible explanation for these tendencies is that buyers / resellers tended not to search for Korean suppliers at all, because they had no particular reason to search for a Korean company (or, indeed, a company from any individual country); this may be either because newcomers to the market are more likely to attempt to introduce themselves to the buyers / resellers or, else, that the country of origin of the supplier makes no real difference to the buyer / reseller.⁶⁵⁷

⁶⁵⁷ Determining whether this is the case might be best attempted by some different methodology.

<i>Average scores</i>	<i>Overall</i>	<i>Industrial Buyers</i>		<i>Consumer Goods Resellers</i>		
	Searching Generally	Searching for Korean Companies	Searching Generally	Searching for Korean Companies	Searching Generally	Searching for Korea Companies
Business / trade directories	3.17	2.36	3.33	2.54	2.97	2.14
Colleagues in the company	2.97	2.54	2.94	2.33	3.02	2.79
Competitors	2.12	1.73	1.99	1.65	2.28	1.84
Non competitors	2.46	2.03	2.61	1.77	2.29	2.34
Other sources	2.44	2.12	2.43	2.27	2.45	1.94
Partial competitors	2.09	1.75	1.98	1.65	2.22	1.89
Your existing Korean suppliers	-	1.47	-	1.36	-	1.62
Your existing suppliers	3.11	-	3.10	-	3.13	-
Your existing UK suppliers	-	2.13	-	1.89	-	2.42

n = 137 - 154

Table 52. Consultation of Information Sources when Searching Generally and for Korean Companies by Buyer / Reseller Type.

<i>Average scores</i>	<i>Overall</i>	<i>Industrial Suppliers</i>		<i>Consumer Goods Suppliers</i>		
	Searching Generally	Searching for UK Companies	Searching Generally	Searching for UK Companies	Searching Generally	Searching for UK Companies
Business / trade directories	3.29	2.67	3.00	2.78	3.63	2.50
Competitors	1.88	1.80	1.78	1.67	2.00	2.00
Korean colleagues in the company	2.19	2.94	2.22	3.33	2.14	2.43
Local colleagues in the company	2.77	3.00	2.11	2.67	3.50	3.43
Non competitors	2.13	2.07	2.00	2.33	2.29	1.67
Other Korean suppliers	1.73	2.07	1.63	1.89	1.86	2.33
Other sources	2.38	2.69	2.22	2.67	2.57	2.71
Partial competitors	1.94	1.67	1.78	1.44	2.14	2.00
Your existing buyers	2.88	3.06	3.33	3.11	2.29	3.00

n = 15 - 17

Table 53. Consultation of Information Sources when Searching Generally and for UK Companies by Supplier Type.

Consequently, while the information network may work well when searching generally for partners (or, at least, the buyers / resellers are accustomed to using it), it is not used with such success or frequency in searching for companies from different countries.

For suppliers, the results suggest that the information network was more effective when searching specifically for UK partners. Other networks may exist when searching elsewhere, although the research has not attempted to produce any evidence for this. An alternative explanation is that the network of sources is the only one that is known to the Korean suppliers (and even so may not be known fully). As a result, therefore, Korean suppliers will attempt to gain access by the only methods available for contacting UK buyers / resellers known to them.

Analysis of the research hypothesis by means of ANOVA indicates that there are significant results in the case of buyers / resellers.⁶⁵⁸ However, the Bonferroni MCA of these results shows that a similar pattern obtained. This was that the groups more likely to consult the individual information sources differed significantly from the other groups insofar as they would also consult the same information sources more often when searching especially for Korean suppliers.

In this case, therefore, *the null hypothesis that there is no difference in emphasis on information sources consulted when searching specifically for Korean / UK partners and when searching more generally cannot be rejected.*

Nevertheless, it was apparent that Korean companies, being comparative newcomers to UK markets, had not thus far managed to establish themselves fully according to the usual information sources. Awareness of the different information sources and the comparative frequency with which buyers / resellers consult them should be recognised by Korean companies and treated as a marketing opportunity.

⁶⁵⁸ These were:

- colleagues in the company (F probability = 0.0000);
- business / trade directories (F probability = 0.0000);
- partial competitors (F probability = 0.0000);
- competitors (F probability = 0.0000); and
- other sources (F probability = 0.0000).

7.4.2.9. Information Exchanged with Other Korean Companies

If, as has previously been stated, Korean companies form networks with the other members of their *chaebol*, then there should be evidence that they exchange information between each other in the way that other network exchanges take place.

The qualitative research produced mixed results in this respect. This might be a reflection of the different organisational structures adopted by Korean companies in the UK. Furthermore, the amount of authority granted to the localising company by the mother company varies to a considerable extent and this will affect information exchange to a similar degree.

In order to investigate this area by quantitative means, Korean respondents were asked what types of information were exchanged, with the following results:

	%
general information	41.7
when needing extra capacity	16.7
new markets	16.7
re buyer's credibility	8.3
everything	8.3
re unreasonable customers	8.3

n = 12

Table 54. Information Exchanged with Other Korean Suppliers

The low sample size that obtained here makes it very difficult for any valid observations to be made. However, it might be that the lack of any dominant answers in this case indicates that Korean companies had not become well established in the UK and, therefore, more organised forms of information exchange had not yet evolved. It might prove instructive if these results were to be compared with those concerning Korean networks on other countries.

Japanese companies, of course, have often had much longer to establish themselves in UK markets and, therefore, will be expected to have become settled within information networks. Furthermore, two factors tend to lead to Japanese firms mutually providing each other with greater levels of information than is common for *chaebol*. Firstly, the Japanese economy revolves around intricate networks of connections, both formally and informally, between different firms. This is arranged on an inter-organisational basis rather

than, as in Korean markets, an intra-organisational one. Secondly, Japanese firms tend to adopt non-adversarial attitudes towards each other. This is because they specialise within industrial sectors, whereas in Korea, *chaebol* seem to try to integrate companies in as many different (valuable) markets as possible.

7.5. Conclusion to Chapter 7

This chapter has sought to explore positioning in networks and the extent to which *chaebol* have become localised in UK markets and networks.

Korean companies perceived themselves to be generally in poor positions in that they suffer from being at the poor end of power dependency relationships. It was further shown that the importance partners attached to selection criteria was not matched by their counterparts' performance. In other words, performance seemed to be unsatisfactory. It has also been shown that only weak connections between cognitive positioning and length of relationship can be detected; that is, it is not clear that the quality of personal relationship affects opinions about the partner.

More generally, no evidence has been found to indicate that Korean companies are looking to maintain their foreignness as an active selling point.⁶⁵⁹ Hence, it may be assumed that localisation is the dominant factor in positioning.

It has been argued that marketing information networks act almost as a metaphor for the wider localisation process. Korean companies attempt to locate and gain access to local information networks in a similar way to the one they use when attempting to enter the foreign market more generally. It was hoped that observation and analysis of Korean companies' efforts with respect to marketing information networks would provide valuable insights into how they were coping with localisation more generally.

The evidence presented in this chapter indicates that:

- both partners are active in gathering information about potential partners;

⁶⁵⁹ More recently, advertising campaigns have focussed on the foreign nature of Korean companies and products and challenged viewers to question whether this is why they have not been buying Korean products.

- when gathering data about potential partners, actors differentiate between information sources and choose which to consult;
- buyers and resellers do not consult information sources to search specifically for Korean suppliers as much as they would do when searching more generally: it is suggested that this means buyers and resellers do not particularly search for Korean suppliers and this indicates a failure in the localisation process;
- there is no clear evidence that competitive advantages can be derived from marketing information networks. It seems likely that such advantages might exist but if so actors do not utilise them;
- a combination of factors including organisational structures, the character of relationships with their mother companies and their newness in UK markets means it has been difficult for Korean companies to develop channels for information exchange.

This evidence tends to show that Korean companies, as might perhaps have been anticipated, are still in the early stages of localisation. This is indicated by the lack of institutionalised channels for exchange and by the fact that other (UK) actors do not appear yet to accept them as full members of networks. Consequently, it is still possible to influence many important aspects of the localisation process, including the positioning of the company with respect to other network actors and the type and scope of links that are established. It is certainly apparent that UK actors were not expecting the entry of Korean companies, although in the case of some industrial organisational markets there are indications that the entry of Korean companies would be welcomed. This is shown by the fact that buyers will contact suppliers on some occasions with specific requirements. The research did not cover the subject of the attitude of UK rival suppliers but it is reasonable to assume that they would not wish to see additional competition and might be in a position to block the entrance of new actors into the network.

7.6. Conclusion to the Empirical Research.

7.6.1. Foreword

The chapters concerning the empirical research have been lengthy and full of detail. This is a complex subject and deserves to be treated properly. To help the reader, the current section is included. This is a conclusion to the empirical research which should highlight the principal findings of the research and discuss their relevance to the main concern of the

thesis. However, before that can begin, a few words are required about the limitations to the research.

7.6.2. Research Limitations

Expectations about the amount which any research project can add to understanding of a subject should be kept within realistic limits. Even when a conceptual basis for the subject has already been laid, as in the present case, it is not likely that a single project can verify or validate all its aspects. However, it is hoped that this thesis has at least improved understanding of Korean business in the UK and Korean marketing strategies generally.

This does not mean that every research hypothesis is definitely proved or disproved. Life is rarely that simple. If all aspects of marketing strategy could be explained and described definitively in a single thesis, the subject of marketing would have already become redundant.

7.6.3. Research Method

The quantitative research was conducted on the basis of a postal survey of both Korean suppliers and UK buyers / resellers. The response rate achieved and the quality of information gathered suggests that the method adopted was successful.

The buyers surveyed exhibited a range of differing demographic characteristics, occupying a variety of market sectors and being of different sizes and natures, from small commercial operations to large public sector organisations. The suppliers surveyed constituted an adequate representation of the presence of Korean suppliers in the UK, being members of larger business groups and undertaking various activities in a range of different market sectors.

7.6.4. Interpretation of the Results.

It has been claimed that this research has made genuine contributions to knowledge. These contributions will now be described with respect to the results of the empirical research.

1. The localisation process is examined in the light of Korean companies entering the UK.

Localisation has been described as the process by which Korean companies become involved in the networks of UK markets. This can be measured empirically through attempting to discern the networks in UK markets and whether there is any evidence that Korean companies can be seen to be participating in them. In addition, the ways that Korean companies are perceived will be important in describing how effective they have been in their localisation.

The research has shown that Korean companies tend to be perceived to be in the weaker position in relationships and to perform to a lower level than would seem to be required by the importance attached to selection criteria by their partners. Consequently, it may be assumed that localisation as not so far proceeded very well. This may be either because it has not been occurring very long or that it has not been effected very successfully. There may of course be a combination of both factors.

2. The possibility of marketing information networks is explored and evaluated.

It has been shown that both partners are active in searching for information and are discriminatory in their consultation of information sources. It is also apparent that actors will consult each other (albeit to varying extents) in looking to build an impression of potential partners. Hence, the features of a network appear to be present and it is assumed that networks exist. What is perhaps more significant is determining their relevance to the actors that are part of them. Certainly it did not appear that organisations were consulting information sources to a huge extent and it would, consequently, be wrong to think that networking is a vibrant part of everyday life. Moreover, there are very few indications that UK and Korean actors consult one another to any noticeable degree, although they will consult the actors within their own networks (i.e. UK companies consult other UK companies; Korean companies consult other Korean companies). Given the other findings that have been described, it is assumed from this that information networks will grow in importance as localisation becomes a more thorough process.

3. Not all marketing paradigms are equally useful in describing Korean business.

Enhancing the understanding of Korean business and marketing strategy in the UK has been attempted through the synthesis of different marketing paradigms described previously. It is difficult to state definitely whether more standard paradigms would have enhanced understanding to such an extent but it seems unlikely.

4. Relationships between Korean suppliers and UK buyers are investigated.

It has been shown that the relationships investigated tended to be characterised by the influence mostly held by the buyer / reseller, with suppliers in subordinate positions. In support of this, buyers and resellers tended to be more likely to consider that there had been problems with relationships and, generally, that their partners had not been ideal in various ways. The recession which was affecting UK companies at the time of the research tended to accentuate this situation on some occasions, with buyers concentrating strongly on price and being less willing to consider other attributes. It has also been shown that Korean companies have fallen between being high cost organisations featuring technological innovation (to which some aspire) and low cost, low technology suppliers (which many had been). This has led to some difficulties concerning their positioning in the various market sectors concerned.

5. The relative importance of tangible and intangible attributes are investigated in relation to selection criteria.

Both tangible and intangible factors are important as selection criteria. The more important criteria tend to be tangible and, indeed, it has been demonstrated that respondents considered tangible factors to be more important than intangible factors. However, in some market sectors it was apparent that rival suppliers can be almost indistinguishable in terms of tangible attributes and, in these cases, intangible factors will be decisive.

6. Market positioning is a process which constitutes a number of different criteria. These have not been fully explicated by either traditional or more recent approaches to marketing and purchasing.

Positioning was described as consisting of three dimensions: the structural, the hierarchical and the cognitive. In other words, positioning depends to a considerable extent upon the perceptions of other actors in the market. Consequently, the positioning effort consists of attempting to influence the opinions of others. It has been shown that the interaction and network approaches offer good paradigms for considering positioning in this way because they feature the exchange of resources so strongly. At the same time, they offer a much wider appreciation of what resources are.

7. The interaction and network paradigms of industrial marketing generally consider only industrial goods. This thesis explores the implications of extending this approach to consumer goods resellers and suppliers

If there were difficulties in extending interaction and network theories of marketing to consumer goods resellers markets then it seems likely that there would have been some indication of this in the empirical research. The indication might have been in terms of inexplicable or systematic differences in the results between the market types. Since this seems not to be the case, it is concluded that developing understanding of the paradigms with respect to covering consumer goods resellers markets is a realistic goal.

8. General Conclusion

8.1. Localisation

The main theme of this thesis has been localisation. That is, the thesis has examined the ways in which Korean companies have attempted to become localised in the UK and the degrees to which they have achieved their aims. The purpose of this study has been to find ways in which the Korean companies can improve their positions and, ultimately, increase their profits.

One issue that must be considered when trying to make recommendations on behalf of Korean companies is that the number of localising companies is comparatively small, localisation is a comparatively new process and a wide range of organisational structures might be adopted. There are, therefore, only very few companies in what might be considered to be comparable situations. This makes it very difficult to make general recommendations to a range of Korean companies, while making worthwhile recommendations to only one or two companies tends to require a greater degree of specific detail than can be provided in a work of this kind. Having said this, recommendations are still possible and worthwhile.

Companies wishing to become active in consumer goods markets may generally follow paths which have been thoroughly mapped, although they will of course still face barriers. However, this is much less true for industrial markets. While some progress has been made in terms of codifying and charting industrial, organisational or business-to-business marketing, no fully appropriate paradigms exist for these markets. Hence, there is no central model from which a systematic investigation can proceed. This situation is complicated by the position of Korean companies in the UK, especially those trading companies seeking to operate in possibly a large number of different markets.⁶⁶⁰ An examination of Japanese patterns of localisation is of only limited value since the industries involved, the competitive advantages pursued, the corporate culture and authority

⁶⁶⁰ It may be noted that, if Korean companies' roles as buyers and exporters from the UK had also been taken into account, the investigation would have been considerably more complex.

structures, the role and nature of management, the stage of industrialisation and the business environment are all different in the case of Korean business.

A further dimension to consider is the relationship between the localising office and the mother company. It was seen in that, although certain characteristics may remain similar, each Korean company in the UK, as in other overseas countries, operates under a different set of circumstances. For example, companies dealing only in industrial organisational goods markets such as shipbuilding and container production, might maintain only a small branch office, with perhaps two or three employees. The branch office's primary functions are to contact UK (and other European) buyers with a view to initiating a business relationship that will be conducted with the mother company in Korea but through the branch office, which deals with client liaison to some extent. That extent varies, with the exact amount being dependent upon the guiding strategy of the mother company. For Korean companies also dealing in consumer goods resellers markets as well as industrial organisational goods markets, there may be a much larger presence in the UK, with more Korean and local employees, some of whom may be active as sales representatives while others are needed to operate financing or other administrative functions necessitated by the range of activities being undertaken by the member companies of the business group.⁶⁶¹ There are other options open to Korean companies in terms of setting up in a foreign country. The precise nature of which options enable which possible activities is confused by the fact that there are no strict boundaries between the actual functions any particular manifestation might undertake.

As a result of this, Korean companies operate with often considerable freedom as to what they attempt to achieve. There are still considerable differences in time and space between the foreign subsidiary and the mother company which modern IT has not yet fully bridged. Consequently, foreign subsidiaries are often put in the position of determining how they conduct their own affairs. When sufficient executive power and resources had been delegated, this flexibility can work to the advantage of the localising company since it can

⁶⁶¹ It should be remembered that trading companies in the UK may be acting on behalf of a number of other companies, not all of whom might be members of the business group. It is possible that the Japanese form of network (i.e. inter-organisational rather than the intra-organisational nature of the Korean one) might help explain to some extent the greater success that Japanese companies have achieved in the UK.

use its local knowledge and contacts most effectively in the service of the mother company. However, this is not always the case, since degrees of direct control and intervention employed by the mother company will vary, as will the level of resources deployed. Hence, some foreign subsidiaries are obliged to act under orders which are not suitable to local conditions and others will be given considerable freedom to operate but lack the resources to do so appropriately.

In order more effectively to investigate the position of Korean companies in the UK, it has been necessary to consider certain aspects of marketing and purchasing which have not previously been thoroughly investigated. These include the need to consider supplying or selling centres and the comparative environmental and atmospheric interaction between Korea and the UK.⁶⁶²

8.2. Korean and Japanese Patterns of Localisation

It has been stated on several occasions that Japanese patterns of localisation, even though they preceded the apparently similar efforts made by Korean companies, can scarcely be compared with them. Indeed, the very great differences between companies from the two countries, in combination with the different environmental circumstances that each faced, means that it can actually be dangerous for *chaebol* to try to follow Japanese patterns. The danger arises from the inability of *chaebol*, as they are currently constituted, to enact the types of strategy that Japanese companies can, owing to different organisational structures. Although firms from both countries certainly value localisation, Japanese companies are able to pursue localisation by exploiting skills which are already present in the organisation because of consensus management and decentralised control systems. Owing to their generally highly centralised and authoritarian forms of management, this is not only unavailable to *chaebol* but was also considered, at least at the time of the research, to be unattractive. Indeed, there are suggestions that *chaebol* management have intended to invest in IT to ensure that management control can be spread throughout the organisation without the loss of autocracy.

⁶⁶² At least at the time that the research was conducted.

There are other differences between Korean and Japanese companies which are fundamental to the economic systems which gave rise to them and which detract from the feasibility of comparing localisation patterns. These include the variations between relationships instituted in the two countries, which are inter-organisational in Japan and intra-organisational in Korea. Further differences can be seen in divergent arrangements of factor endowments in the two countries, as well as variations in patterns of national competitive advantages which can have profound implications for the synergies and opportunities available through localising in particular locations.

Although, therefore, it may be possible to gain some insights from studying Japanese localisation in depth, it is concluded that these insights would be so hedged with caveats and ambivalence that it would detract from the overall purpose of the thesis.

8.3. Structure of the Thesis

The thesis has been arranged in three broad sections. The first section dealt with Korean business practice and marketing strategy. It was shown that the strategies followed by *chaebol*, in the UK and elsewhere, have been strongly influenced by the Korean government and by a number of different external factors. These factors have conditioned the size and structure of *chaebol*, the markets in which they operate, their targets and their attitudes towards relationships.

The second section, which includes Chapters 3 to 5, shows that the characteristic features of Korean business practice and marketing strategy described in the first section are not treated by standard marketing approaches wholly satisfactorily. It is further shown that certain newer approaches offer elements which are more suitable. However, it is concluded that a synthesis of a number of different approaches is the most effective means of investigating Korean business. This synthesis is then applied to the theoretical basis of the various aspects of the marketing strategies used by *chaebol*. This is to set the context for the empirical research.

The third section deals with the empirical research. It monitors the progress towards localisation by *chaebol* in the UK and the success of their marketing strategies generally.

Various recommendations are made concerning the ways in which *chaebol* undertake business in the UK, specifically with respect to positioning, marketing information networks and the types of relationships most advantageous in UK markets.

8.4. Themes Explored

Korean companies are not the same as western companies and nor are they the same as Japanese corporations. They need different methods. They are aided in their aims, which are to achieve localisation in foreign markets, by the following unusual structural features:

- organisations do not exist in atomistic isolation: Korean suppliers instead operate within a web of relationships connecting them to their mother companies, other member companies of the same group and external manufacturers. When business is contracted with UK buyers, then the buyers might be brought into contact with these other actors;
- both partners to an exchange are active in searching for suitable counterparts and express preferences through their choices with respect to the type of partner that they want and the effect that such a choice may have on their own positioning;
- the interaction between partners and potential partners, especially with respect to industrial organisational goods markets, indicates that each dyadic relationship is unique, although some conclusions can be drawn about relationships in classes.

The empirical research investigated many different areas. Some of the more interesting findings are as follows:

It was shown that both buyers and suppliers would prefer to maintain long term relationships where possible. Such relationships are not necessarily defined by buyers in terms of specific criteria so much as a state of mind or a deliberate decision that a relationship, once initiated, should be treated as long-term, with the implications that this has for commitment and the deployment of resources. Although personal relationships are generally considered to be important in conducting business, there is evidence that these are considered to be extraneous to the business itself and rather should be perceived as a convenient medium through which interaction between actors can take place.

Furthermore, it was indicated that the personal relationship depends upon the smooth operation of the business relationship. Especially for UK actors, therefore, problems with business will directly and adversely affect the quality of the personal relationship.

Relationships are initiated on the basis of both tangible and intangible factors: neither tangible nor intangible factors are necessarily decisive in themselves. However, when two or more possible partners cannot be differentiated in terms of the more significant criteria, then comparatively unimportant criteria can end up decisive.

In terms of marketing information networks, it was discovered that all parties are active in searching for partners and may have taken the first step in initiating a relationship. Other actors are consulted in searching for partners and in building an impression of potential partners, as are promotional media such as trade directories and governmental departments. While there is some suggestion that there may be connections between the method of searching for information about a partner and the subsequent performance of a relationship with that partner, this issue remains in need of future research.

Korean suppliers operate information networks intra-organisationally and also with other members of their business group, as well as, to a certain extent, with other Korean suppliers in overseas countries. However, the information network does not appear to include UK buyers to any great extent: similarly, the information networks in which UK buyers are active do not yet feature Korean suppliers very heavily. It is expected that as Korean companies penetrate the market more effectively and deeply, both they and UK organisations will come to figure more prominently in their counterparts' information networks.

It was claimed that market positioning should be seen in terms of three criteria: structural, hierarchical and cognitive. The structural criterion indicates the market sector and type in which the organisation operates; the hierarchical criterion reflects power relationships, illustrating the extent to which organisations enjoy objective advantages or disadvantages over other organisations; the cognitive criterion reflects subjective differences between organisations as perceived by potential partners and other organisations. It was discovered that there is some link between the length of the relationship and the partner's

cognitive position. Hence, it appears that positioning is to some extent determined by subjective factors. Naturally, this may work either to the advantage or the disadvantage of the perceived organisation.

The most common approach to localisation - or internationalisation - is to assume that it takes place in a linear fashion of increasing commitment in the market being entered. However, it has been shown that this does not properly describe the process as it is undertaken by Korean companies. This is partly because in some cases, especially industrial organisational goods markets, a small branch or liaison office is sufficient to handle all the activities required in the foreign country. Furthermore, group member companies which are manufacturers and which have their goods marketed abroad by a group member which is a trading company, may subsequently find it to their advantage to establish their own office or sales company in the overseas company. Consequently, the trading company may look to market goods from other companies, not necessarily belonging to the member group. It is apparent, therefore, that the localising company may undergo a number of changes, perhaps existing in more than one form and representing various different manufacturing companies. Furthermore, each product type or brand is likely to require different amounts and quantities of effort in order to be marketed efficiently. As a result, a linear progression is possible but is only one of a number of different options.

It has been established that the main purpose of the thesis is to seek ways to improve situation of Korean companies in the UK. In order to achieve this, it has been necessary to explore the areas detailed above, largely in order to develop a suitable model by which the position of Korean companies might be described. Having achieved this, it becomes possible to make some comments about strategy.

From the buyer's perspective, it is apparent that a greater emphasis on promotional support, especially those concerned with consumer goods resellers markets and, in many cases, more emphasis on personal relationships. This latter point is particularly relevant to those companies using UK employees as the principal sales force, as there would appear to be some problems in liaison between Korean and UK employees. In addition, there might

advantageously be a higher degree of concentration on product quality and innovation. As mentioned before, these are areas which are starting to receive more attention.

According to the opinions buyers gave about selection criteria, the area that *chaebol* should most urgently be addressed is that of price compared to quality. The previous policy of concentrating on price competitiveness, which was enabled by the very low labour costs previously obtaining in Korea, has more recently become less viable. However, the logical response of switching attention to the quality aspect is rendered problematic by the difficulties attendant upon the transfer of technology into Korea, which has not been a high priority previously for *chaebol* management and which has been retarded to some extent by certain of Korea's more important trading partners. As a result, it seems likely that it will be still several years before Korean companies can realistically hope to compete with, for example, Japanese or German companies in terms of quality or technological advances. At the same time, it would be expected that the continued rise of other Asian and Pacific Rim countries with highly competitive labour costs will further constrict the market spaces which Korean companies tend to occupy.

From a supplier's point of view, it is apparent that in many cases the subsidiaries feel that they could improve upon their efficiency and effectiveness through alteration of their relationships with their mother companies; such alteration might be manifested in more resources being granted to the subsidiary, the clarification of the relationship between the two and, depending upon the individual case, either more or less (or more informed) intervention by the mother company in the affairs of the subsidiary.

Trading companies are to a very great extent dependent upon the goods which they have to market. However, they are able to improve their general positions through such means as enhancing the information networks in which they operate. This implies ensuring that UK buyers and other organisations are included in the Korean company based networks and that they become active in the networks operated by their buyers and potential partners. In addition, since it has been shown that information sources are consulted to differing degrees by buyers, it would be advantageous to them to ensure that they are appropriately represented in such media. Although a number of suppliers felt that they had

developed systems which are more than adequate in coping with their needs in the foreign market, it is apparent that UK buyers do not attempt to contact Korean suppliers as frequently as they attempt to contact other suppliers. Hence, greater advertising and promotion generally should prove helpful in enabling buyers to be more active in initiating relationships with the suppliers.

Finally, the subsidiaries might be instrumental in helping to develop the notion of the business group as a network and, hence, facilitating the exchange of resources between the various points of the network. In many ways, the foreign subsidiaries act as boundary spanners, bridging the gap between the various Korean manufacturers and the UK buyers. This offers them the opportunity to act as the point of focus through which nodes in different networks may be linked together and to be involved in enhancing and strengthening the connections between those nodes.

8.5. Further Research Possibilities

Localisation processes undertaken by Korean companies in other countries and by the companies of other countries might also be examined in the context of the network approach in the attempt to discover whether the Korean approach varies appreciably when localising in different countries and whether the model presented here is of more general relevance.

Further research into marketing information networks might be able to determine the extent to which buyers and suppliers can feature in each other's networks. There might also be useful research in terms of the nature of information that is exchanged and the importance that actors place upon information gained in this way. A further avenue of research is provided by the investigation of relationships that has been presented here, since it may be that actors in other market sectors would behave differently.

It has been demonstrated that the interaction and network approaches may be applied to consumer goods markets, at least as far as Korean suppliers selling to UK consumer goods resellers is concerned. This implies that there are two important tasks that need to be addressed: firstly, the empirical basis upon which this conclusion has been drawn needs to

be broadened and, a less pressing matter, deepened; secondly, the conceptual basis for the new approaches should be considered in the light of the new possibilities enabled by the results of this thesis. It may be that the initial stage in this latter endeavour is primarily concerned with narrowing the newly discovered fields of investigation to more manageable proportions.

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Appendix 2: Detailed Results of ANOVA Tests

Hypothesis 2

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Importance of Personal Relationships in Doing Business</i>			
Period of Business Relationship	0.237	0.8911	0.4737
Period of Personal Relationship <i>(Industrial Suppliers Only)</i>	0.132	0.5269	0.6722
Period of Business Relationship	0.004*	1.400	00.3170
Period of Personal Relationship <i>(Consumer Goods Suppliers Only)</i>	0.046*	0.179	50.8400
Period of Business Relationship	0.171	0.4945	0.7111
Period of Personal Relationship	0.552	0.3445	0.7976

Hypothesis 3

Factor: Importance of Personal Relationships in Doing Business
(Industrial Buyers Only)

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Price	0.230	2.0745	0.1096
On time Delivery	0.193	1.6872	0.1758
Brand Reputation	0.222	0.3417	0.7952
Company Reputation	0.945	2.4552	0.0688
Supplier's Trustworthiness	0.043*	2.3351	0.0797
Supplier's Financing Arrangements	0.014	1.8434	0.1458
Promotional Support	0.022*	3.6322	0.0162*
Personal Relationship	0.866	17.954	0.0000*

(Consumer Goods Resellers Only)

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Product/Service Quality	0.001*	1.2117	0.3122
Price	0.296	2.4643	0.0697
On time Delivery	0.167	0.2807	0.8391
Brand Reputation	0.011*	0.8935	0.4492
Company Reputation	0.126	0.6686	0.5743
Supplier's Trustworthiness	0.767	0.1109	0.9535
Supplier's Financing Arrangements	0.900	0.5107	0.6763
Promotional Support	0.673	0.4535	0.7157
Personal Relationship	0.344	20.5504	0.0000*

Factor: Importance of Personal Relationships in Doing Business
(All Suppliers)

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Company Reputation	0.208	0.2275	0.8756
Trustworthiness	0.464	0.1529	0.9259
Market Leader	0.328	0.1502	0.9277
Financial Conditions	0.401	0.1933	0.8911
Ability to Sell	0.034*	1.9111	0.3515
After Service Capability	0.370	2.5764	0.1024
Personal Relationship	0.568	3.8235	0.0365*

(Industrial Suppliers Only)

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Company Reputation	0.185	0.0244	0.9760
Trustworthiness	0.231	1.2353	0.3554
Market Leader	0.412	0.2143	0.8130
Financial Conditions	0.240	0.2727	0.7703
Ability to Sell	0.231	6.4118	0.0324*
After Service Capability	0.279	5.2148	0.0598
Personal Relationship	-	8.1111	0.0197*

(Consumer Goods Suppliers Only)

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Company Reputation	0.310	0.5833	0.6569
Trustworthiness	0.615	0.2222	0.8766
Market Leader	0.015	1.5614	0.3301
Financial Conditions	0.615	0.3889	0.7681
Ability to Sell	0.121	0.1667	0.9136
Personal Relationship	0.015*	2.6667	0.1835

Hypothesis 4

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>BUYERS / RESELLERS</i>			
<i>Factor: Product/Service Quality</i>			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Product/Service Quality		0.1145	0.9772
<i>(Industrial Buyers Alone)</i>			
Product/Service Quality		0.6071	0.6587
<i>(Consumer Goods Resellers Alone)</i>			
Product/Service Quality		1.1598	0.3373
<i>Factor: Price</i>			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Price Compared to Quality		1.1094	0.3545
<i>(Industrial Buyers Alone)</i>			
Price Compared To Quality		1.1709	0.3303
<i>(Consumer Goods Resellers Alone)</i>			
Price Compared To Quality		0.9321	0.4306
<i>Factor: Brand Reputation</i>			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Brand Reputation		2.0630	0.0890
<i>(Industrial Buyers Alone)</i>			
Brand Reputation		1.1007	0.3625
<i>(Consumer Goods Resellers)</i>			
Brand Reputation		2.6928	0.0546
<i>Factor: Company Reputation</i>			

<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Company Reputation		1.1205	0.3494
<i>(Industrial Buyers Alone)</i>			
Company Reputation		1.3602	0.2561
<i>(Consumer Goods Resellers Alone)</i>			
Company Reputation		0.4309	0.7858
Factor: Supplier's Trustworthiness			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Supplier's Trustworthiness		0.9428	0.4414
<i>(Industrial Buyers Alone)</i>			
Supplier's Trustworthiness		0.6860	0.6040
<i>(Consumer Goods Resellers Alone)</i>			
Supplier's Trustworthiness		0.7365	0.5709
Factor: Promotional Support			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Promotional Support		1.3798	0.2445
<i>(Industrial Buyers Alone)</i>			
Promotional Support		0.7273	0.5764
<i>(Consumer Goods Resellers Alone)</i>			
Promotional Support		4.5634	0.0061*
SUPPLIERS			
Factor: Trustworthiness at First			
<i>(All Suppliers)</i>			
Trustworthiness	0.288	0.4939	0.6932
<i>(Industrial Suppliers)</i>			
Trustworthiness	0.667	0.8333	0.5304
<i>(Consumer Goods Suppliers)</i>			
Trustworthiness	0.117	0.0779	0.9264
Factor: Personal Relationship at First			
<i>(All Suppliers)</i>			
Personal Relationship	0.411	0.0070	0.9931
<i>(Industrial Suppliers)</i>			
Personal Relationship	0.259	0.3333	0.7290
<i>(Consumer Goods Suppliers)</i>			
Personal Relationship	0.079	0.0571	0.9452

Hypothesis 5:

Factor: Preference for a Long Term Relationship or to Play the Market.

Dependent Variable:

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Buyer Type	0.001	3.0336	0.0192*

Hypothesis 6:

Factor: Play the Market / Long Term Relationship

Dependent Variables

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
BUYERS / RESELLERS <i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			

Product / Service Quality	0.807	0.0977	0.9830
Price	0.088	0.3351	0.8540
On Time Delivery	0.119	3.4239	0.0103*
Brand Reputation	0.354	1.1158	0.3512
Company Reputation	0.207	1.9198	0.1099
Supplier's Trustworthiness	0.004*	4.0917	0.0035*
Supplier's Financing Arrangements	0.921	0.7111	0.5856
Promotional Support	0.451	0.5577	0.6937
Personal Relationship	0.626	5.1537	0.0006*
<i>(Industrial Buyers Alone)</i>			
Product / Service Quality	0.829	0.0831	0.9874
Price	0.080	0.5106	0.7280
On Time Delivery	0.022*	3.3441	0.0137
Brand Reputation	0.149	0.4851	0.7466
Company Reputation	0.065	1.0704	0.3765
Supplier's Trustworthiness	0.108	2.0535	0.0943
Supplier's Financing Arrangements	0.658	1.0410	0.3914
Promotional Support	0.083	0.4642	0.7618
Personal Relationship	0.835	4.1978	0.0038*
<i>(Consumer Goods Resellers Alone)</i>			
Product / Service Quality	0.080	0.4696	0.7579
Price	0.089	2.3326	0.0646
On Time Delivery	0.162	0.5720	0.6838
Brand Reputation	0.046*	0.5699	0.6854
Company Reputation	0.321	1.0926	0.3674
Supplier's Trustworthiness	0.003*	2.6401	0.0414
Supplier's Financing Arrangements	0.143	0.2351	0.9176
Promotional Support	0.256	0.1191	0.9752
Personal Relationship	0.351	0.9582	0.4364
SUPPLIERS			
<i>(All Suppliers)</i>			
Company Reputation	0.854	6.4223	0.0105
Trustworthiness	0.067*	1.2711	0.3110
Market Leader	0.371	0.1414	0.8694
Financial Conditions	0.158	1.0866	0.3642
Ability to Sell	0.025*	2.0733	0.1627
After Service Capability	0.834	2.3151	0.1380
Personal Relationship	0.365	0.4374	0.6543
<i>(Industrial Suppliers Only)</i>			
Company Reputation	0.032*	3.0488	0.1220
Trustworthiness	0.091	0.0000	1.0000
Market Leader	0.005*	0.7500	0.5120
Financial Conditions	0.000*	1.5714	0.2826
Ability to Sell	0.316	1.7059	0.2591
After Service Capability	0.445	1.7321	0.2682
Personal Relationship	0.438	1.2553	0.3504
<i>(Consumer Goods Suppliers Only)</i>			
Company Reputation	0.899	0.4687	0.5191
Trustworthiness	0.744	5.2500	0.0618
Market Leader	0.156	0.1875	0.6801
Financial Conditions	0.058	0.0129	0.9132
Ability to Sell	0.744	0.0268	0.8754

After Service Capability	0.573	2.1818	0.1901
Personal Relationship	0.489	0.0211	0.8892

Hypothesis 7

Factor: Preference for Long Term Relationship or Playing the Market.

Importance of Personal Relationships in Doing Business

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>(Industrial Buyers and Consumer Goods Resellers Together)</i>	0.006*	8.5934	0.0000*
<i>(Industrial Buyers Alone)</i>	0.015*	4.7872	0.0016*
<i>(Consumer Goods Resellers Alone)</i>	0.250	3.7370	0.0084*
<i>(All Suppliers Combined)</i>	0.085	0.2059	0.8163
<i>(Industrial Suppliers Only)</i>	-	2.7778	0.1400
<i>(Consumer Goods Suppliers Only)</i>	0.273	0.3281	0.5476

Hypothesis 8:

Factor: Definition of a Long Term Relationship

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Product/Service Quality	0.159	0.4167	0.7964
Price	0.493	0.6757	0.6098
On Time Delivery	0.015*	1.0497	0.3835
Brand Reputation	0.699	1.8331	0.1253
Company Reputation	0.472	1.2802	0.2802
Supplier's Trustworthiness	0.137	0.6739	0.6110
Supplier's Financing Arrangements	0.497	0.7927	0.5317
Promotional Support	0.782	4.7642	0.0012*
Personal Relationship	0.388	0.2680	0.8982
<i>(Industrial Buyers Alone)</i>			
Product / Service Quality	0.474	0.2479	0.9102
Price	0.179	0.6936	0.5985
On Time Delivery	0.207	0.8883	0.4747
Brand Reputation	0.178	1.2139	0.3113
Company Reputation	0.247	1.5395	0.1986
Supplier's Trustworthiness	0.254	0.6310	0.6418
Supplier's Financing Arrangements	0.545	0.6258	0.6455
Promotional Support	0.729	2.2884	0.0670
Personal Relationship	0.297	0.6108	0.6561
<i>(Consumer Goods Resellers Alone)</i>			
Product / Service Quality	0.368	0.2500	0.9087
Price	0.055	0.2785	0.8909
On Time Delivery	0.195	0.2314	0.9198
Brand Reputation	0.327	1.1672	0.3333
Company Reputation	0.532	0.7994	0.5298
Supplier's Trustworthiness	0.178	0.4961	0.7386
Supplier's Financing Arrangements	0.044*	0.1411	0.9662
Promotional Support	0.160	1.4400	0.2308
Personal Relationship	0.019*	0.6367	0.6382

Hypothesis 9

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Definition of a Long Term Relationship</i>			
<i>(All suppliers Combined)</i>			
Company Reputation	0.216	3.1111	0.0667
Trustworthiness	0.607	1.7231	0.2153
Market Leader	0.103	1.1525	0.3679
Financial Conditions	0.105	4.5455	0.0238*
Ability to Sell	0.123	2.4766	0.1113
After Service Capability	0.185	1.3004	0.3232
Personal Relationship	0.618	0.6964	0.5719
<i>(Industrial Suppliers Only)</i>			
Company Reputation	-	3.5662	0.1090
Trustworthiness	-	2.5000	0.1768
Market Leader	-	0.7917	0.5027
Financial Conditions	-	12.2656	0.0118*
Ability to Sell	-	2.1875	0.2077
After Service Capability	-	1.2143	0.3872
Personal Relationship	-	0.4063	0.6863
<i>(Consumer Goods Suppliers Only)</i>			
Company Reputation	0.680	3.4091	0.1144
Trustworthiness	0.872	0.3000	0.6036
Market Leader	0.023*	0.346	20.5778
Financial Conditions	0.563	0.0652	0.8070
Ability to Sell	0.220	7.5000	0.0338*
After Service Capability	0.451	0.5455	0.4881
Personal Relationship	0.013*	4.687	50.0736
<i>Factor: Period of Business Relationship</i>			
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Product / Service Quality Now		0.4760	0.7533
Price Compared to Quality Now		0.5583	0.6933
On Time Delivery Now		2.6244	0.0374*
Supplier's Trustworthiness Now		0.7228	0.5777
Supplier's Financing Arrangements Now		0.1555	0.9602
Promotional Support Now		1.3894	0.2413
Personal Relationship Now		0.5839	0.6748
Business Relationship Now		0.2949	0.8809
<i>(Industrial Buyers Alone)</i>			
Product / Service Quality Now		0.2226	0.8804
Price Compared to Quality Now		1.9108	0.1347
On Time Delivery Now		0.0624	0.9794
Supplier's Trustworthiness Now		0.7832	0.5069
Supplier's Financing Arrangements Now		2.2483	0.0910
Promotional Support Now		1.7713	0.1607
Personal Relationship Now		0.2783	0.8409
Business Relationship Now		0.6368	0.5936
<i>(Industrial Buyers Alone)</i>			
Product / Service Quality Now		0.6921	0.6004
Price Compared to Quality Now		1.9108	0.1347
On Time Delivery Now		0.0624	0.9794

Supplier's Trustworthiness Now		0.7832	0.5069
Supplier's Financing Arrangements Now		2.2483	0.0910
Promotional Support Now		1.7713	0.1607
Personal Relationship Now		0.2783	0.8409
Business Relationship Now		0.6368	0.5936
<i>(Consumer Goods Resellers Alone)</i>			
Product / Service Quality Now		0.6921	0.6004
Price Compared to Quality Now		1.5988	0.1868
On Time Delivery Now		1.9221	0.1189
Supplier's Trustworthiness Now		0.8207	0.5172
Supplier's Financing Arrangements Now		1.3438	0.2657
Promotional Support Now		1.2237	0.3114
Personal Relationship Now		1.7593	0.1489
Business Relationship Now		1.1258	0.3529
<i>(All Suppliers)</i>			
Trustworthiness Now	0.349	7.9286	0.0035*
Business Commitment Now	0.636	3.1379	0.0653
Personal Relationship Now	0.685	1.9589	0.1741
Business Relationship Now	0.000*	3.9615	0.0355*
<i>(Industrial Suppliers Only)</i>			
Trustworthiness Now	0.124	1.7059	0.2591
Business Commitment Now	0.422	1.7500	0.2519
Personal Relationship Now	0.787	0.0769	0.9669
Business Relationship Now	0.124	1.7059	0.2591
<i>(Consumer Goods Suppliers Only)</i>			
Trustworthiness Now	-	4.4286	0.1265
Business Commitment Now	-	2.428	60.2426
Personal Relationship Now	-	1.0000	0.5000
Business Relationship Now	-	4.7143	0.1175
Factor: Period of Personal Relationship			
<i>(All suppliers)</i>			
Trustworthiness Now	0.014*	3.4561	0.0462*
Business Commitment Now	0.226	3.5059	0.0521
Personal Relationship Now	0.007*	1.8510	0.1895
Business Relationship Now	0.050*	4.1920	0.0265*
<i>(Industrial Suppliers Only)</i>			
Trustworthiness Now	0.367	2.9630	0.1364
Business Commitment Now	0.320	3.7464	0.0946
Personal Relationship Now	0.004*	1.4198	0.3047
Business Relationship	0.367	2.9630	0.1364
<i>(Consumer Goods Suppliers Only)</i>			
Trustworthiness Now	0.133	3.6531	0.1578
Business Commitment Now	0.133	1.9388	0.3001
Personal Relationship Now	0.133	0.7143	0.6056
Business Relationship Now	0.133	3.8980	0.1466

Hypothesis 10

Factor: Period of Business Relationship

	Levene	F Ratio	F Probability
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
Company Position		1.3001	0.2728

Brand Position	0.4375	0.7813
Overall Reputation (<i>Industrial Buyers Alone</i>)	0.3171	0.8662
Company Position	2.3505	0.0788
Brand Position	1.5887	0.1988
Overall Reputation (<i>Consumer Goods Resellers Alone</i>)	0.7405	0.5310
Company Position	2.5655	0.0468*
Brand Position	1.1065	0.3621
Overall Reputation	1.5014	0.2127

Hypothesis 11

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
Factor: Period of Business Relationship (<i>All Suppliers</i>)			
Company Position	0.426	1.7500	0.2101
Brand Position	0.826	3.6190	0.0455*
Overall Reputation (<i>Industrial Suppliers Only</i>)	0.991	2.8571	0.0815
Company Position	0.422	0.2500	0.7865
Brand Position	0.080	0.7073	0.5299
Overall Reputation (<i>Consumer Goods Suppliers Only</i>)	0.422	0.2500	0.7865
Company Position	-	2.4286	0.2426
Brand Position	-	2.7143	0.2170
Overall Reputation	-	1.2857	0.4206
Factor: Period of Personal Relationship (<i>All Suppliers</i>)			
Company Position	0.420	1.6121	0.2398
Brand Position	0.596	2.7500	0.0829
Overall Reputation (<i>Industrial Suppliers Only</i>)	0.765	1.8547	0.1888
Company Position	0.009*	1.1656	0.4097
Brand Position	0.009*	2.4728	0.1766
Overall Reputation (<i>Consumer Goods Suppliers Only</i>)	0.009*	1.1656	0.4097
Company Position	0.122	1.5714	0.3597
Brand Position	0.133	2.1837	0.2689
Overall Reputation	0.133	1.9388	0.3001

Hypothesis 12

Factor: Importance of Personal Relationships in Doing Business

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
BUYERS / RESELLERS (<i>Industrial Buyers and Consumer Goods Resellers Combined</i>)			
Colleagues in Your Company	0.392	1.1084	0.3478
Business / Trade Directories	0.993	2.1481	0.0966
Your Existing Suppliers	0.706	1.2412	0.2970
Non Competitors	0.421	0.6443	0.5878
Partial Competitors	0.845	0.4881	0.6911
Competitors	0.711	0.6430	0.5886

Other Sources	0.616	0.9436	0.4215
<i>(Industrial Buyers Alone)</i>			
Colleagues in Your Company	0.799	0.8629	0.4639
Business / Trade Directories	0.645	2.1293	0.1029
Your Existing Suppliers	0.476	0.4192	0.7397
Non Competitors	0.049*	0.6425	0.5900
Partial Competitors	0.651	0.9406	0.4254
Competitors	0.207	0.2744	0.8437
Other Sources	0.004*	3.5909	0.0176*
<i>(Consumer Goods Resellers Alone)</i>			
Colleagues in Your Company	0.873	1.3600	0.2629
Your Existing Suppliers	0.452	1.0670	0.3696
Non Competitors	0.579	0.0776	0.9719
Partial Competitors	0.282	0.6867	0.5635
Competitors	0.267	1.7689	0.1620
Other Sources	0.944	1.4591	0.2348
SUPPLIERS			
<i>(All Suppliers)</i>			
Korean Colleagues	0.605	0.5215	0.6756
Local Colleagues	0.001*	0.6274	0.6101
Business / Trade Directories	0.696	1.6244	0.2319
Existing Buyers	0.004*	1.5765	0.2464
Korean Suppliers	-	3.5689	0.0507
Non Competitors	0.724	1.3592	0.3021
Part Competitors	0.136	1.0968	0.3882
Competitors	0.556	0.8621	0.4812
Other Sources	0.494	0.4819	0.7010
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.352	1.6222	0.2734
Local Colleagues	0.185	2.6585	0.1490
Business / Trade Directories	0.468	0.7241	0.5227
Existing Buyers	0.412	0.8571	0.4705
Korean Suppliers	-	1.5006	0.2666
Non Competitors	0.630	0.0000	1.0000
Part Competitors	0.352	9.8000	0.0129*
Competitors	0.185	1.1951	0.3657
Other Sources	0.352	0.2000	0.8240
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	0.000*	1.4286	0.3882
Local Colleagues	0.310	8.0000	0.0364*
Business / Trade Directories	0.002*	0.5039	0.7000
Existing Buyers	-	5.8571	0.0903
Korean Suppliers	-	1.8571	0.3119
Non Competitors	-	2.4286	0.2426
Part Competitors	-	0.7143	0.6065
Competitors	-	3.0000	0.1955
Other Sources	0.458	0.8571	0.5489

Hypothesis 13

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>(Industrial Buyers and Consumer Goods Resellers Combined)</i>			
<i>Factor: Product / Service Quality at First</i>			
Colleagues in Your Company	0.400	1.3688	0.2489
Business / Trade Directories	0.653	0.3241	0.8614
Your Existing Suppliers	0.966	1.1077	0.3555
Non Competitors	0.199	0.6252	0.6454
Partial Competitors	0.911	0.5847	0.6742
Competitors	0.586	0.8303	0.5081
Other Sources	0.755	3.0232	0.0202*
<i>Factor: Product / Service Quality Now</i>			
Colleagues in Your Company	0.609	0.6320	0.6405
Business / Trade Directories	0.081	0.6248	0.6456
Your Existing Suppliers	0.944	0.9444	0.4405
Non Competitors	0.330	1.6810	0.1582
Partial Competitors	0.106	0.8898	0.4721
Competitors	0.094	0.9292	0.4492
Other Sources	0.004*	0.5275	0.7157
<i>Factor: Price Compared to Quality at First</i>			
Colleagues in Your Company	0.427	0.6721	0.6125
Business / Trade Directories	0.252	0.3087	0.8718
Your Existing Suppliers	0.237	0.4637	0.7622
Non Competitors	0.048	0.789	20.5341
Partial Competitors	0.441	0.6138	0.6535
Competitors	0.096	0.7521	0.5583
Other Sources	0.145	0.7513	0.5589
<i>Factor: Price Compared to Quality Now</i>			
Colleagues in Your Company	0.839	1.2674	0.2862
Business / Trade Directories	0.040	1.638	10.1682
Your Existing Suppliers	0.825	0.7441	0.5636
Non Competitors	0.498	0.8541	0.4991
Partial Competitors	0.830	1.4242	0.2997
Competitors	0.937	0.5370	0.7088
Other Sources	0.647	0.2881	0.8852
<i>Factor: On Time Delivery at First</i>			
Colleagues in Your Company	0.325	1.2214	0.3048
Business / Trade Directories	0.339	1.0938	0.3621
Your Existing Suppliers	0.822	1.0445	0.3867
Non Competitors	0.493	0.2183	0.9279
Partial Competitors	0.505	1.7292	0.1473
Competitors	0.003*	2.9422	0.0228*
Other Sources	0.030*	0.1831	0.9468
<i>Factor: On Time Delivery Now</i>			
Colleagues in Your Company	0.273	0.9227	0.4531
Business / Trade Directories	0.474	2.3545	0.0571
Your Existing Suppliers	0.254	1.8811	0.1177
Non Competitors	0.163	0.4346	0.7834
Partial Competitors	0.140	1.1755	0.3249
Competitors	0.271	1.2774	0.2825
Other Sources	0.015*	0.7794	0.5407

<i>Factor: Trustworthiness at First</i>			
Colleagues in Your Company	0.536	0.5536	0.6967
Business / Trade Directories	0.233	0.7634	0.5508
Your Existing Suppliers	0.937	2.3051	0.0614
Non Competitors	0.081	0.0529	0.9947
Partial Competitors	0.402	0.8626	0.4884
Competitors	0.598	0.8868	0.4738
Other Sources	0.249	0.1651	0.9557
<i>Factor: Trustworthiness Now</i>			
Colleagues in Your Company	0.879	1.1183	0.3508
Business / Trade Directories	0.021*	2.1340	0.0799
Your Existing Suppliers	0.775	0.9017	0.4650
Non Competitors	0.568	1.9244	0.1102
Partial Competitors	0.339	0.3197	0.8644
Competitors	0.889	0.4679	0.7592
Other Sources	0.006*	0.7991	0.5280
<i>Factor: Supplier's Financing Arrangements at First</i>			
Colleagues in Your Company	0.434	0.4934	0.7406
Business / Trade Directories	0.784	1.5315	0.1971
Your Existing Suppliers	0.619	0.1453	0.9648
Non Competitors	0.223	2.4814	0.0476*
Partial Competitors	0.112	1.5003	0.2065
Competitors	0.652	0.2352	0.9180
Other Sources	0.661	0.6694	0.6145
<i>Factor: Supplier's Financing Arrangements Now</i>			
Colleagues in Your Company	0.728	1.4462	0.2231
Your Existing Suppliers	0.755	0.4661	0.7605
Non Competitors	0.328	0.9155	0.4576
Partial Competitors	0.228	0.5109	0.7278
Competitors	0.530	0.2730	0.8949
Other Sources	0.095	1.1708	0.3277
<i>Factor: Promotional Support at First</i>			
Colleagues in Your Company	0.675	0.8374	0.5040
Business / Trade Directories	0.028*	1.0574	0.3805
Your Existing Suppliers	0.022*	2.1974	0.0734
Non Competitors	0.604	3.3386	0.0124*
Partial Competitors	0.788	1.0608	0.3789
Competitors	0.638	0.6970	0.5954
Other Sources	0.479	1.4187	0.2320
<i>Factor: Promotional Support Now</i>			
Colleagues in Your Company	0.176	0.4506	0.7718
Business / Trade Directories	0.012*	1.6653	0.1623
Your Existing Suppliers	0.110	0.8590	0.4908
Non Competitors	0.438	0.2474	0.9107
Partial Competitors	0.474	0.6634	0.6186
Competitors	0.629	0.9278	0.4503
Other Sources	0.017*	0.7592	0.5540
<i>Factor: Personal Relationship at First</i>			
Colleagues in Your Company	0.604	0.0573	0.9938
Business / Trade Directories	0.486	2.0721	0.0877

Your Existing Suppliers	0.933	1.4887	0.2090
Non Competitors	0.061	0.1813	0.9477
Partial Competitors	0.422	1.0681	0.3749
Other Sources	0.271	2.0798	0.0872
<i>Factor: Personal Relationship Now</i>			
Colleagues in Your Company	0.317	0.9006	0.4657
Business / Trade Directories	0.891	1.3101	0.2693
Your Existing Suppliers	0.405	0.5348	0.7104
Non Competitors	0.670	0.4828	0.7483
Partial Competitors	0.707	0.5586	0.6931
Competitors	0.744	0.5264	0.7165
Other Sources	0.347	0.2941	0.8813
<i>Factor: Business Relationship at First</i>			
Colleagues in Your Company	0.474	0.2995	0.8779
Business / Trade Directories	0.724	0.1475	0.9638
Your Existing Suppliers	0.345	1.6533	0.1645
Non Competitors	0.372	0.5709	0.6842
Partial Competitors	0.709	1.3949	0.2392
Competitors	0.233	2.1613	0.0768
Other Sources	0.156	1.0610	0.3787
<i>Factor: Business Relationship Now</i>			
Colleagues in Your Company	0.368	1.5989	0.1784
Business / Trade Directories	0.819	1.2558	0.2905
Your Existing Suppliers	0.404	1.5619	0.1881
Non Competitors	0.242	0.8147	0.5180
Partial Competitors	0.821	0.0351	0.9976
Competitors	0.622	0.6265	0.6444
Other Sources	0.024*	0.0941	0.9842
<i>(Industrial Buyers Alone)</i>			
<i>Factor: Product / Service Quality at First</i>			
Colleagues in Your Company	0.800	1.6449	0.1716
Business / Trade Directories	0.923	0.3815	0.8212
Your Existing Suppliers	0.512	0.3595	0.8367
Non Competitors	0.090	0.1339	0.9694
Partial Competitors	0.112	1.2619	0.2929
Competitors	0.369	0.7141	0.5850
Other Sources	0.866	0.6401	0.6357
<i>Factor: Product / Service Quality Now</i>			
Colleagues in Your Company	0.979	0.1582	0.9241
Business / Trade Directories	0.741	1.5959	0.1971
Your Existing Suppliers	0.750	1.2142	0.3104
Non Competitors	0.579	1.1356	0.3403
Partial Competitors	0.767	1.3162	0.2758
Competitors	0.748	0.3123	0.8164
Other Sources	0.106	0.7933	0.5017
<i>Factor: Price Compared to Quality at First</i>			
Colleagues in Your Company	0.121	0.8803	0.4551
Business / Trade Directories	0.231	0.4824	0.6955
Your Existing Suppliers	0.149	1.0916	0.3577
Non Competitors	0.096	0.3325	0.8091
Partial Competitors	0.032	2.571	20.0607
Competitors	0.102	2.3767	0.0769

Other Sources	0.151	0.7088	0.5500
<i>Factor: Price Compared to Quality Now</i>			
Colleagues in Your Company	0.751	0.4498	0.7722
Business / Trade Directories	0.134	2.3435	0.0721
Your Existing Suppliers	0.745	0.9671	0.4308
Non Competitors	0.264	0.3992	0.8086
Partial Competitors	0.090	3.0086	0.0238*
Competitors	0.273	1.3538	0.2590
Other Sources	0.389	1.3482	0.2612
<i>Factor: On Time Delivery at First</i>			
Colleagues in Your Company	0.092	2.1192	0.0867
Business / Trade Directories	0.164	0.5258	0.7171
Your Existing Suppliers	0.184	0.6661	0.6175
Non Competitors	0.124	2.7679	0.0335*
Partial Competitors	0.152	2.8903	0.0282*
Competitors	0.118	2.5019	0.0501
Other Sources	0.059	1.5631	0.1939
<i>Factor: On time Delivery Now</i>			
Colleagues in Your Company	0.716	1.1188	0.3547
Business / Trade Directories	0.191	2.3779	0.0599
Your Existing Suppliers	0.172	1.2184	0.3110
Non Competitors	0.737	0.7848	0.5390
Partial Competitors	0.653	1.3016	0.2786
Competitors	0.326	0.7668	0.5507
Other Sources	0.020*	0.3005	0.8766
<i>Factor: Trustworthiness at First</i>			
Colleagues in Your Company	0.199	0.9982	0.3984
Business / Trade Directories	0.464	0.8989	0.4457
Your Existing Suppliers	0.419	2.0035	0.1206
Non Competitors	0.461	0.6289	0.5987
Partial Competitors	0.021*	3.2689	0.0261
Competitors	0.696	1.4545	0.2343
Other Sources	0.442	0.0910	0.9647
<i>Factor: Trustworthiness Now</i>			
Colleagues in Your Company	0.764	0.8645	0.4894
Business / Trade Directories	0.043*	1.2641	0.2917
Your Existing Suppliers	0.328	0.3245	0.8607
Non Competitors	0.780	1.0801	0.3729
Partial Competitors	0.003*	0.9860	0.4211
Competitors	0.023*	0.8537	0.4963
Other Sources	0.024*	0.8982	0.4701
<i>Factor: Supplier's Financing Arrangements at First</i>			
Colleagues in Your Company	0.936	0.4279	0.7879
Business / Trade Directories	0.062	2.1051	0.0900
Your Existing Suppliers	0.293	0.1144	0.9770
Non Competitors	0.070	0.5136	0.7260
Partial Competitors	0.206	1.4837	0.2180
Competitors	0.614	0.3655	0.8323
Other Sources	0.288	0.5245	0.7181

<i>Factor: Supplier's Financing Arrangements</i>			
<i>Now</i>			
Colleagues in Your Company	0.918	0.7315	0.5740
Business / Trade Directories	0.137	1.9060	0.1204
Your Existing Suppliers	0.315	0.3764	0.8246
Non Competitors	0.753	0.1508	0.9619
Partial Competitors	0.463	0.4386	0.7802
Competitors	0.354	0.4867	0.7454
Other Sources	0.030*	1.2603	0.2960
<i>Factor: Promotional Support at First</i>			
Colleagues in Your Company	0.403	1.1712	0.3318
Business / Trade Directories	0.108	0.1299	0.9710
Your Existing Suppliers	0.144	1.3502	0.2608
Non Competitors	0.607	0.5779	0.6797
Partial Competitors	0.918	0.5641	0.6895
Competitors	0.322	0.5399	0.7069
Other Sources	0.376	1.3783	0.2518
<i>Factor: Promotional Support Now</i>			
Colleagues in Your Company	0.808	0.6424	0.6342
Business / Trade Directories	0.029*	1.0546	0.3860
Your Existing Suppliers	0.229	1.8849	0.1309
Non Competitors	0.947	0.1912	0.9422
Partial Competitors	0.982	0.7726	0.5470
Competitors	0.417	0.9154	0.4606
Other Sources	0.257	0.3386	0.8509
<i>Factor: Personal Relationship at First</i>			
Colleagues in Your Company	0.542	0.3964	0.8106
Business / Trade Directories	0.464	0.3652	0.8327
Your Existing Suppliers	0.847	2.1282	0.0856
Non Competitors	0.357	0.0428	0.9965
Partial Competitors	0.199	1.4247	0.2347
Competitors	0.779	0.9016	0.4678
Other Sources	0.010*	1.5371	0.2011
<i>Factor: Personal Relationship Now</i>			
Colleagues in Your Company	0.425	0.5698	0.6854
Business / Trade Directories	0.978	0.5494	0.7000
Your Existing Suppliers	0.667	0.4771	0.7524
Non Competitors	0.124	1.5108	0.2081
Partial Competitors	0.552	1.4647	0.2222
Competitors	0.366	0.4741	0.7546
Other Sources	0.187	1.2869	0.2838
<i>Factor: Business Relationship at First</i>			
Colleagues in Your Company	0.745	0.5254	0.7174
Business / Trade Directories	0.778	0.0561	0.9940
Your Existing Suppliers	0.441	1.6183	0.1785
Non Competitors	0.586	0.2249	0.9237
Partial Competitors	0.257	1.5546	0.1959
Competitors	0.178	1.3559	0.2579
Other Sources	0.056	0.8237	0.5145
<i>Factor: Business Relationship Now</i>			
Colleagues in Your Company	0.333	1.1993	0.3182
Business / Trade Directories	0.828	0.9116	0.4617

Your Existing Suppliers	0.371	0.6582	0.6230
Non Competitors	0.186	0.8974	0.4702
Partial Competitors	0.608	0.9869	0.4205
Competitors	0.276	0.8223	0.5153
Other Sources	0.007*	1.4815	0.2175

Hypothesis 14

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Trustworthiness at First</i>			
<i>(All Suppliers)</i>			
Korean Colleagues	0.009*	2.4921	0.1144
Local Colleagues	0.293	0.3155	0.8140
Business / Trade Directories	0.002*	0.6337	0.6073
Existing Buyers	0.688	1.3234	0.3163
Korean Suppliers	0.059	4.6292	0.0281*
Non Competitors	0.000*	3.6194	0.0489*
Part Competitors	0.334	1.2795	0.3295
Competitors	0.241	4.9133	0.0210*
Other Sources	0.020*	0.6442	0.6013
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.667	5.5556	0.0476*
Local Colleagues	0.530	1.0185	0.4582
Business / Trade Directories	-	8.3333	0.0217*
Existing Buyers	0.204	1.8627	0.2534
Korean Suppliers	0.049*	2.4167	0.2067
Non Competitors	0.150	2.7778	0.1499
Part Competitors	0.023*	1.8889	0.2493
Competitors	0.286	9.5752	0.0163*
Other Sources	0.150	0.3086	0.8189
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	1.0000	0.4648
Local Colleagues	0.018*	0.1262	0.8848
Business / Trade Directories	0.513	1.7007	0.2921
Existing Buyers	0.029*	0.0937	0.9131
Korean Suppliers	0.153	2.1429	0.2642
Non Competitors	-	-	-
Part Competitors	0.084	0.3750	0.7155
Competitors	0.153	1.0714	0.4455
Other Sources	0.269	0.2857	0.7656
<i>Factor: Trustworthiness Now</i>			
<i>(All Suppliers)</i>			
Korean Colleagues	0.190	0.6726	0.5865
Local Colleagues	0.085	0.3537	0.7874
Business / Trade Directories	0.438	1.5135	0.2613
Existing Buyers	0.315	0.3110	0.8171
Korean Suppliers	0.050*	2.8261	0.0929
Non Competitors	0.260	3.4660	0.0545
Part Competitors	0.518	0.0759	0.9717
Competitors	0.265	0.5258	0.6736
Other Sources	0.005*	3.7500	0.0413*
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.140	1.1295	0.3232

Local Colleagues	0.132	0.5500	0.4825
Business / Trade Directories	0.408	0.5676	0.4758
Existing Buyers	0.211	2.5455	0.1546
Korean Suppliers	0.356	0.4286	0.5370
Non Competitors	0.762	2.0323	0.1970
Part Competitors	0.317	0.0110	0.9196
Competitors	0.075	1.8595	0.2149
Other Sources	0.011*	1.2963	0.2924
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	0.1667	0.9106
Local Colleagues	-	0.3061	0.8215
Business / Trade Directories	-	2.5325	0.2327
Existing Buyers	-	0.2778	0.8405
Korean Suppliers	-	2.1667	0.3313
Non Competitors	-	0.8333	0.5859
Part Competitors	-	0.1667	0.9106
Competitors	-	1.3333	0.4557
Other Sources	-	2.7143	0.2170
Factor: Business Commitment at First			
<i>(All Suppliers)</i>			
Korean Colleagues	0.000*	3.2491	0.0638
Local Colleagues	0.017*	2.0637	0.1587
Business / Trade Directories	0.256	0.3871	0.7644
Existing Buyers	0.030*	0.1415	0.9330
Korean Suppliers	0.379	4.3503	0.0332*
Non Competitors	0.000*	0.6769	0.5841
Part Competitors	0.111	0.1415	0.9330
Competitors	0.002*	0.3622	0.7816
Other Sources	0.002*	1.1667	0.3629
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.001*	1.4565	0.3321
Local Colleagues	0.001*	6.3889	0.0336*
Business / Trade Directories	-	0.3333	0.8026
Existing Buyers	0.000*	0.1244	0.9417
Korean Suppliers	-	1.1667	0.4262
Non Competitors	0.000*	0.0000	1.0000
Part Competitors	0.002*	0.2047	0.8890
Competitors	0.000*	0.5556	0.6667
Other Sources	0.000*	1.2963	0.3721
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	2.6667	0.1778
Local Colleagues	0.210	0.8910	0.3885
Business / Trade Directories	0.753	0.2795	0.6196
Existing Buyers	-	3.5556	0.1324
Korean Suppliers	0.116	11.1111	0.0290*
Non Competitors	0.116	4.0000	0.1161
Part Competitors	0.116	0.4444	0.5415
Competitors	0.541	2.4000	0.1963
Other Sources	0.106	1.6327	0.2574
Factor: Business Commitment Now			
<i>(All Suppliers)</i>			
Korean Colleagues	0.055	0.8354	0.5021

Local Colleagues	0.296	1.3604	0.3017
Business / Trade Directories	0.481	1.1777	0.3591
Existing Buyers	0.217	0.2872	0.8337
Korean Suppliers	0.298	0.4029	0.7541
Non Competitors	0.286	2.0952	0.1590
Part Competitors	0.245	0.1019	0.9573
Competitors	0.167	0.5102	0.6834
Other Sources	0.214	1.8152	0.1985
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.292	0.5135	0.6225
Local Colleagues	0.038*	0.9189	0.4486
Business / Trade Directories	0.564	0.2927	0.7563
Existing Buyers	0.311	1.0909	0.3944
Korean Suppliers	-	2.1875	0.2077
Non Competitors	0.357	1.0909	0.3944
Part Competitors	0.340	0.0769	0.9269
Competitors	0.156	0.8393	0.4771
Other Sources	0.004*	1.0000	0.4219
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	0.089	0.3750	0.7155
Local Colleagues	0.417	0.4490	0.6669
Business / Trade Directories	0.392	0.9143	0.4710
Existing Buyers	0.089	4.8750	0.1141
Korean Suppliers	0.153	2.1429	0.2642
Non Competitors	0.153	0.4286	0.6859
Part Competitors	0.089	0.3750	0.7155
Competitors	0.089	3.0000	0.1925
Other Sources	0.032*	9.1429	0.0322*
Factor: Personal Relationship at First			
<i>(All Suppliers)</i>			
Korean Colleagues	0.097	1.6959	0.2246
Local Colleagues	0.458	2.0313	0.1707
Business / Trade Directories	0.178	0.9078	0.4275
Existing Buyers	0.873	0.2316	0.7967
Korean Suppliers	0.066*	1.9551	0.1877
Non Competitors	0.339	2.6557	0.1109
Part Competitors	0.797	1.4937	0.2635
Competitors	0.440	3.6659	0.0572
Other Sources	0.008*	0.7831	0.4774
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.062	1.8372	0.2385
Local Colleagues	0.454	0.2448	0.7903
Business / Trade Directories	0.032*	2.2683	0.1874
Existing Buyers	0.162	0.8919	0.4580
Korean Suppliers	0.011*	4.5312	0.0754
Non Competitors	0.002*	2.1429	0.1985
Part Competitors	0.787	1.9231	0.2263
Competitors	-	16.1111	0.0039*
Other Sources	0.004*	1.0000	0.4219
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	0.089	0.3750	0.7155
Local Colleagues	0.301	7.1429	0.0429*

Business / Trade Directories	0.198	0.2857	0.7656
Existing Buyers	0.544	0.2000	0.8288
Korean Suppliers	0.544	0.2000	0.8288
Non Competitors	0.089	1.8750	0.2963
Part Competitors	0.089	0.3750	0.7155
Competitors	0.089	3.0000	0.1925
Other Sources	0.284	0.0260	0.9745
<i>Factor: Personal Relationship Now</i>			
<i>(All Suppliers)</i>			
Korean Colleagues	0.370	0.3563	0.7074
Local Colleagues	0.320	0.7065	0.5114
Business / Trade Directories	0.437	1.5526	0.2485
Existing Buyers	0.230	0.3287	0.7261
Korean Suppliers	0.037*	3.6220	0.0619
Non Competitors	0.655	1.5429	0.2533
Part Competitors	0.675	0.0718	0.9311
Competitors	0.247	0.5743	0.5778
Other Sources	0.362	3.8040	0.0501(B)
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.363	0.2222	0.6517
Local Colleagues	0.932	0.6460	0.4480
Business / Trade Directories	0.408	0.5676	0.4758
Existing Buyers	0.456	0.0293	0.8690
Korean Suppliers	0.744	0.0268	0.8754
Non Competitors	-	0.0000	1.0000
Part Competitors	0.729	1.2963	0.2924
Competitors	0.075	1.8595	0.2194
Other Sources	0.051	0.7778	0.4071
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	0.1667	0.8538
Local Colleagues	-	0.4845	0.6480
Business / Trade Directories	-	2.8571	0.1696
Existing Buyers	-	0.6250	0.5931
Korean Suppliers	-	4.1667	0.1362
Non Competitors	-	0.7500	0.5443
Part Competitors	-	0.1667	0.8538
Competitors	-	0.0000	1.0000
Other Sources	-	4.1905	0.1044
<i>Factor: Business Relationship at First</i>			
<i>(All Suppliers)</i>			
Korean Colleagues	0.080	0.3408	0.7963
Local Colleagues	0.732	0.0684	0.9757
Business / Trade Directories	0.689	0.5333	0.6681
Existing Buyers	0.913	0.1415	0.9330
Korean Suppliers	0.160	1.1849	0.3641
Non Competitors	0.001*	2.2000	0.1455
Part Competitors	0.434	1.5016	0.2684
Competitors	0.331	1.1136	0.3852
Other Sources	0.002*	1.5522	0.2520
<i>(Industrial Suppliers Alone)</i>			
Korean Colleagues	0.138	0.1389	0.9325
Local Colleagues	0.348	0.0292	0.9924

Business / Trade Directories	0.128	0.9420	0.4864
Existing Buyers	0.429	1.1240	0.4227
Korean Suppliers	0.041*	0.8095	0.5511
Non Competitors	0.012*	1.1905	0.4022
Part Competitors	0.310	0.5556	0.6667
Competitors	0.133	1.3194	0.3659
Other Sources	0.000*	1.2963	0.3721
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	0.1667	0.8538
Local Colleagues	-	0.3061	0.8215
Business / Trade Directories	-	0.9429	0.5187
Existing Buyers	-	0.0455	0.9562
Korean Suppliers	-	0.6250	0.5931
Non Competitors	-	0.7500	0.5443
Part Competitors	-	0.1667	0.8538
Competitors	-	2.5000	0.2296
Other Sources	-	0.3506	0.7938
Factor: Business Relationship Now			
<i>(All Suppliers)</i>			
Korean Colleagues	0.147	0.7108	0.5656
Local Colleagues	0.224	0.5478	0.6591
Business / Trade Directories	0.448	1.9130	0.1813
Existing Buyers	0.442	0.5482	0.6596
Korean Suppliers	0.056	2.0042	0.1774
Non Competitors	0.465	6.0133	0.0112*
Part Competitors	0.381	0.6747	0.5854
Competitors	0.155	0.5650	0.6493
Other Sources	0.022*	1.6364	0.2331
<i>(Industrial Suppliers Only)</i>			
Korean Colleagues	0.140	1.1295	0.3232
Local Colleagues	0.132	0.5500	0.4825
Business / Trade Directories	0.408	0.5676	0.4758
Existing Buyers	0.211	2.5455	0.1546
Korean Suppliers	0.356	0.4286	0.5370
Non Competitors	0.762	2.0323	0.1970
Part Competitors	0.317	0.0110	0.9196
Competitors	0.075	1.8595	0.2149
Other Sources	0.011*	1.2963	0.2924
<i>(Consumer Goods Suppliers Only)</i>			
Korean Colleagues	-	0.4444	0.7470
Local Colleagues	0.083	0.1429	0.9279
Business / Trade Directories	0.133	7.3265	0.0681
Existing Buyers	0.000*	0.0889	0.9596
Korean Suppliers	-	1.2222	0.4795
Non Competitors	-	-	-
Part Competitors	-	0.4444	0.7470
Competitors	-	2.0000	0.3505
Other Sources	0.562	0.4857	0.7159

Hypothesis 16

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Buyer Type</i>			
Number of New Suppliers	0.660	2.0981	0.1496
Number of Discontinued Relationships	0.113	1.6425	0.2022
<i>Factor: Supplier Type</i>			
Number of New Relationships	0.187	0.0929	0.7650
Number of Discontinued Relationships	0.596	0.2206	0.6453

Hypothesis 17

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Type(All)</i>			
Importance of Personal Relationships in Doing Business (All Buyers Combined)	0.234	0.6709	0.5710
<i>Factor: Colleagues in Your Company</i>			
Colleagues in Your Company	0.273	8.0008	0.0000*
<i>Factor: Business / Trade Directories</i>			
Business / Trade Directories	0.034*	10.1454	0.0000*
<i>Factor: Your Existing Suppliers</i>			
Your Existing UK Suppliers	0.243	2.1200	0.0818
Your Existing Korean Suppliers	0.340	0.2449	0.9123
<i>Factor: Non Competitors</i>			
Non Competitors	0.003*	8.2662	0.0000*
<i>Factor: Partial Competitors</i>			
Partial Competitors	0.294	19.6710	0.0000*
<i>Factor: Competitors</i>			
Competitors	0.333	17.1316	0.0000*
<i>Factor: Other Sources</i>			
Other Sources	0.140	9.1916	0.0000*
<i>Factor: Korean Colleagues</i>			
All Suppliers	0.000*	9.2576	0.0021*
Industrial Suppliers	0.008*	3.3333	0.1352
<i>Consumer Goods Suppliers</i>	-	-	-
<i>Factor: Local Colleagues</i>			
All Suppliers	0.018*	2.8281	0.0775
Industrial Suppliers	0.098	2.4910	0.1748
Consumer Goods Suppliers	-	10.9286	0.0856
<i>Factor: Business / Trade Directories</i>			
All Suppliers	0.022*	3.4195	0.0522
Industrial Suppliers	-	-	-
Consumer Goods Suppliers	-	1.7778	0.3798
<i>Factor: Existing UK Buyers</i>			
All Suppliers	0.096	1.0115	0.4244
Industrial Suppliers	0.207	4.1870	0.0786
Consumer Goods Suppliers	0.153	2.1429	0.2642
<i>Factor: Korean Suppliers</i>			
All Suppliers	0.611	3.7060	0.0501
Industrial Suppliers	0.064	1.0156	0.4264
Consumer Goods Suppliers	-	3.1111	0.2527
<i>Factor: Non Competitors</i>			
All Suppliers	0.624	1.0553	0.4071

Industrial Suppliers	0.012*	1.1905	0.4022
Consumer Goods Suppliers	0.153	0.4286	0.6859
<i>Factor: Part Competitors</i>			
All Suppliers	0.503	1.0337	0.3853
Industrial Suppliers	0.941	0.7778	0.4071
Consumer Goods Suppliers	-	0.1667	0.8538
<i>Factor: Competitors</i>			
All Suppliers	0.248	4.4211	0.0364*
Industrial Suppliers	0.202	4.4138	0.0663
Consumer Goods Suppliers	-	-	-
<i>Factor: Other Sources</i>			
All Suppliers	0.001*	1.6364	0.2331
Industrial Suppliers	0.053	0.5556	0.6007
Consumer Goods Suppliers	-	6.4286	0.0804

Hypothesis 18

	<i>Levene</i>	<i>F Ratio</i>	<i>F Probability</i>
<i>Factor: Supplier Type</i>			
You Search	0.885	0.0007	0.9791
Suppliers Contact First	0.000*	4.7631	0.0306*
You Deliberately Search	0.420	3.2124	0.0755
They Contacted First	0.001*	12.1247	0.0007*

Appendix 3. Questionnaires Employed for the Quantitative Research.

(a) Questionnaire for Buyers / Resellers

Survey of Suppliers and Buyers Relationship

Please complete this questionnaire by ticking the appropriate numbers or by writing your responses in the spaces provided.

Section 1- About you and your company's business pattern

1. How important to you is each of the following features in choosing a potential supplier?

e.g. Very important(1) Fairly Important(2) Average(3) Not very important(4)
Not important(5)

Product/service quality	(1)	(2)	(3)	(4)	(5)
Price	(1)	(2)	(3)	(4)	(5)
On time delivery	(1)	(2)	(3)	(4)	(5)
Brand reputation	(1)	(2)	(3)	(4)	(5)
Company reputation	(1)	(2)	(3)	(4)	(5)
Supplier's trustworthiness	(1)	(2)	(3)	(4)	(5)
Supplier's financing arrangements (e.g. credit, loan, etc.)	(1)	(2)	(3)	(4)	(5)
Promotional support	(1)	(2)	(3)	(4)	(5)
Personal relationship	(1)	(2)	(3)	(4)	(5)

2. (a) On balance do you tend to deal with the same suppliers over a long period of time or play the market?

Long-term relationship (1) (2) (3) (4) (5) Play the market

(b) How would you define a long-term relationship in terms of years?

_____ years

(c) How important are personal relationships in doing business?

e.g. Very much(1) much(2) moderate(3) A little(4) None(5)

(1) (2) (3) (4) (5)

(d) If you do have long term relationships with certain suppliers why have these lasted so long? (Please tick all appropriate statements.)

(1) Limited choice of alternative suppliers. ()

(2) Part of same group as you. ()

(3) Technical innovator. ()

(4) Lowest price. ()

(5) You trust suppliers. ()

(6) Good personal relationship. ()

(7) Other reasons. ()

Please state

3. In most organisations several people are involved in selecting suppliers, who are the key persons in your company? (e.g. functional titles)

4. On average how many new suppliers are signed up in a financial year?

Section 2 - The Suppliers who have supplied/serviced your company

5. (a) How do you usually find out about potential/present suppliers of?
(Irrespective of country of origin)

e.g. All the time(1) Quite frequently(2) Occasionally(3) Rarely(4) Never(5)

You deliberately search. (1) (2) (3) (4) (5)

Suppliers contact you. (1) (2) (3) (4) (5)

(b) When you search, what information channels do you use?

e.g. Very much(1) Quite a lot(2) To some extent(3) Not much(4) Not at all(5)

Colleagues in your company (1) (2) (3) (4) (5)

Business/Trade directories (1) (2) (3) (4) (5)

Your existing suppliers (1) (2) (3) (4) (5)

Other buyers ; e.g.

a) non competitors (1) (2) (3) (4) (5)

b) companies who compete against you on only part of your activities

(1) (2) (3) (4) (5)

c) companies who compete on most of your activities

(1) (2) (3) (4) (5)

Other sources (e.g. marketing agent, government bodies, etc.)

(1) (2) (3) (4) (5)

Section 3 - Your opinion about present Korean supplier

6. (a) What sort of products/services do you buy from?

(b) How long has your company had a business relationship with them?

_____ (years)

(c) How long have you personally had a business relationship with them?

_____ (years)

(d) They are your main supplier ()

one of several, equally important, suppliers ()

or a minor supplier ()

(Please tick one.)

7. Who in your organisation gets involved when dealing with them? (e.g. functional titles)

8. (a) When you first began doing business with them what was their image in the market?
- e.g. Very good(1) Fairly good(2) Average(3) Fairly poor(4) Very poor(5)
- | | | | | | |
|--------------------------|-----|-----|-----|-----|-----|
| Product/service quality | (1) | (2) | (3) | (4) | (5) |
| Price compare to quality | (1) | (2) | (3) | (4) | (5) |
| Company reputation | (1) | (2) | (3) | (4) | (5) |
| Brand reputation | (1) | (2) | (3) | (4) | (5) |
| Trustworthiness | (1) | (2) | (3) | (4) | (5) |
| Promotional support | (1) | (2) | (3) | (4) | (5) |
- (b) Where did you get this sort of information about them?
-

9. (a) To what extent did you use the following information sources in building an impression of them?

e.g. Very much(1) Quite a lot(2) To some extent(3) Not much(4) Not at all(5)

Colleagues in your company	(1)	(2)	(3)	(4)	(5)
Business/Trade directories	(1)	(2)	(3)	(4)	(5)
Your existing U.K.suppliers	(1)	(2)	(3)	(4)	(5)
Your existing Korean suppliers	(1)	(2)	(3)	(4)	(5)

Other buyers ; e.g.

- | | | | | | |
|--|-----|-----|-----|-----|-----|
| a) non competitors | (1) | (2) | (3) | (4) | (5) |
| b) companies who compete against you on only part of your activities | (1) | (2) | (3) | (4) | (5) |
| c) companies who compete on most of your activities | (1) | (2) | (3) | (4) | (5) |

Other sources (e.g. marketing agent, government bodies, etc.)

(1)	(2)	(3)	(4)	(5)
-----	-----	-----	-----	-----

- (b) How did your first contact with them come about?

e.g. All the time(1) Quite frequently(2) Occasionally(3) Rarely(4) Never(5)

You searched.	(1)	(2)	(3)	(4)	(5)
They contacted you.	(1)	(2)	(3)	(4)	(5)

10. Just like marriage, relationships between buyers and sellers tend to be a mixture of good and not so good, what's more, these things tend to change through time. Please indicate how they performed on the following dimensions at first and how they perform now.

e.g. Very good (1) Fairly good (2) Average (3) Fairly poor (4) Very poor (5)

Product/service quality

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Price compare to quality

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

On time delivery

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Trustworthiness

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Financing arrangements

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Promotional support

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Personal relationship

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Business relationship

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

11. How would you describe them now in terms of their U.K. market position on the following?

e.g. The leader (1) Among the strongest (2) Middling (3) Quite weak (4) Very weak (5)

Company position (1) (2) (3) (4) (5)

Brand position (1) (2) (3) (4) (5)

Overall reputation (1) (2) (3) (4) (5)

12. Dealing with people from another culture can be problematic, does this Korean supplier has different attitudes towards business from you?

Yes()

No()

If yes, please explain

13. Have there been any misunderstandings between you and them about what is expected of them?

Yes()

No()

If yes, please describe

14. Have there been any other difficulties while you have been trading with them? If so, please describe.

15. Can you suggest changes that they could make which would lead to an expansion of their business with your company?

16. Have you had dealings with other Korean suppliers?

Yes() No()

If yes, have these relationships been problematic?

Yes() No()

Section 4- Yourself and your Company

17. Finally, would please supply us with a few details about yourself and your company? (These are purely for statistical purposes.)

(a) The name of your company

(b) Your position in the company

(c) How long have you been with the company?

_____ years

(d) What is the nature of your company's business? (Types of product/service transacted)

(e) Is your company part of a group? Yes() No()

(f) When was your company established? _____ (year)

(g) How many employees have you got? _____

(h) In round figures, what is your company's annual turnover?

If possible, _____ 1988, _____ 1989, _____ 1990

Thank you for completing our questionnaire. The information you have given will be used purely for research.

Do you want feedback? Yes() No()

(b) Questionnaire for Suppliers

Survey of Suppliers and Buyers Relationship

Please complete this questionnaire by putting a tick against the appropriate numbers or by writing your responses in the spaces provided.

Section 1- About you and your company's business pattern

1. How important to you is each of the following features in choosing a potential buyer?

e.g. Very important(1) Fairly important(2) Average(3) Not very important(4)
Not important(5)

Company reputation	(1)	(2)	(3)	(4)	(5)
Trustworthiness	(1)	(2)	(3)	(4)	(5)
Market leader	(1)	(2)	(3)	(4)	(5)
Financial condition	(1)	(2)	(3)	(4)	(5)
Ability to sell	(1)	(2)	(3)	(4)	(5)
After-service capability	(1)	(2)	(3)	(4)	(5)
Personal relationship	(1)	(2)	(3)	(4)	(5)

2. (a) On balance do you tend to deal with the same buyers over a long period of time or play the market?

Long-term relationship (1) (2) (3) (4) (5) Play the market

(b) How would you define a long-term relationship in terms of years?

_____ years

(c) How important are personal relationships in doing business?

e.g. Very much(1) much(2) moderate(3) A little(4) None(5)

(1) (2) (3) (4) (5)

(d) If you do have long term relationships with certain buyers why have these lasted so long? (Please tick all appropriate statements.)

- (1) Limited choice of alternative buyers. ()
- (2) Part of the same group as you. ()
- (3) Market leader. ()
- (4) Good co-operation. ()
- (5) You trust buyers. ()
- (6) Good personal relationship. ()
- (7) Other reasons. ()

Please state _____

3. In most organisations several people are involved in selecting buyers, who are the key persons in your company? (e.g. functional titles)

4. (a) On average how many new buyers are signed up in a financial year?
(Please base your answer on the past 3 years)

(b) On average how many business relationships are discontinued in a financial year?

Section 2- The Buyers who have engaged in business with your company

5. (a) How do you usually find out about potential/present buyers of?
(Irrespective of country of origin)

e.g. All the time(1) Quite frequently(2) Occasionally(3) Rarely(4) Never(5)

You deliberately search (1) (2) (3) (4) (5)

Buyers contact you (1) (2) (3) (4) (5)

(b) When you search, what information channels do you use?

e.g. Very much(1) Quite a lot(2) To some extent(3) Not much(4) Not at all(5)

Colleagues in your company

Korean (1) (2) (3) (4) (5)

Local employees (1) (2) (3) (4) (5)

Business/Trade directories (1) (2) (3) (4) (5)

Your existing buyers (1) (2) (3) (4) (5)

Korean suppliers (1) (2) (3) (4) (5)

Other suppliers: e.g.

a) non competitors (1) (2) (3) (4) (5)

b) companies who compete against you on only part of your activities

(1) (2) (3) (4) (5)

c) companies who compete on most of your activities

(1) (2) (3) (4) (5)

Other sources (e.g. marketing agent, government bodies, etc.)

(1) (2) (3) (4) (5)

Section 3 - Your opinion about present U.K. buyer

6. (a) What sort of products/services you sell to?

(b) How long has your company had a business relationship with them?

_____ (years)

(c) How long have you personally had a business relationship with them?

_____ (years)

- (d) They are your main buyer ()
 One of several, equally important, buyers ()
 Or a minor buyer ()

(Please tick one.)

7. Who in your organisation gets involved when dealing with them? (e.g. functional titles)

8. (a) When you first began doing business with them what was their image in the market?

e.g. Very good (1) Fairly good (2) Average (3) Fairly poor (4) Very poor (5)

Company reputation	(1)	(2)	(3)	(4)	(5)
Trustworthiness	(1)	(2)	(3)	(4)	(5)
Financial condition	(1)	(2)	(3)	(4)	(5)
Ability to sell	(1)	(2)	(3)	(4)	(5)
After-service capability	(1)	(2)	(3)	(4)	(5)

(b) Where did you get this sort of information about them?

9. (a) To what extent did you use the following information sources in building an impression of them?

e.g. Very much(1) Quite a lot(2) To some extent(3) Not much(4) Not at all(5)

Colleagues in your company

Korean	(1)	(2)	(3)	(4)	(5)
Local employees	(1)	(2)	(3)	(4)	(5)
Business/Trade directories	(1)	(2)	(3)	(4)	(5)
Your existing U.K.buyers	(1)	(2)	(3)	(4)	(5)
Korean suppliers	(1)	(2)	(3)	(4)	(5)

Other suppliers: e.g.

a) non competitors (1) (2) (3) (4) (5)

b) companies who compete against you on only part of your activities

(1) (2) (3) (4) (5)

c) companies who compete on most of your activities

(1) (2) (3) (4) (5)

Other sources (e.g. marketing agent, government bodies, etc.)

(1) (2) (3) (4) (5)

(b) How did your first contact with them come about?

e.g. All the time(1) Quite frequently(2) Occasionally(3) Rarely(4) Never(5)

You searched (1) (2) (3) (4) (5)

They contacted you (1) (2) (3) (4) (5)

10. Just like marriage, relationships between buyers and sellers tend to be a mixture of good and not so good, what's more, these things tend to change through time. Please indicate how they performed on the following dimensions at first and how they perform now.

e.g. Very good(1) Fairly good(2) Average(3) Fairly poor(4) Very poor(5)

Trustworthiness

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Business commitment

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Personal relationship

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

Business relationship

At first (1) (2) (3) (4) (5)

Now (1) (2) (3) (4) (5)

11. How would you describe them now in terms of their U.K. market position on the following?

e.g. The leader (1) Among the strongest (2) Middling (3) Quite weak (4) Very weak (5)

Company position (1) (2) (3) (4) (5)

Brand position (1) (2) (3) (4) (5)

Overall reputation (1) (2) (3) (4) (5)

12. Dealing with people from another culture can be problematic, does this U.K. buyer has different attitudes towards business from you?

Yes()

No()

If yes, please explain

13. Have there been any misunderstandings between you and them about what is expected of them?

Yes()

No()

If yes, please explain:

14. Have there been any other difficulties while you have been trading with them? If so, please describe.

15. Can you suggest changes that they could make which would lead to an expansion of their business with your company?

16. Have you had dealings with other U.K. buyers?

Yes()

No()

If yes, have these relationships been problematic?

Yes()

No()

Section 4- Yourself and your Company

17. Which channels do you use for the distribution of your products/services?

18. What is your marketing strategy?

19. What is your company's situation in the British market?

20. What is the market situation of your industry sector in Britain?

21. What sort of information do you exchange with other Korean suppliers?

22. Finally, would you please supply us with a few details about yourself and your company? (These are purely for statistical purposes.)

(a) The name of your company

(b) Your position in the company

(c) How long have you been with the company?

..... years (headquarters and other subsidiaries)

..... years (U.K. subsidiary/branch)

(d) What is the nature of your company's business? (types of product/service transacted)

(e) Is your company part of a group? Yes() No()

(f) When was your company established?

..... year (headquarters)

..... year (U.K. branch office)

..... year (U.K. sales Ltd.)

(g) How many employees have you got?

_____ (headquarters)

_____ (U.K. subsidiary/branch: Korean)

_____ (U.K. subsidiary/branch: Local people)

(h) In round figures, what is your company's annual turnover?

1988, _____ 1989, _____ 1990, _____ (headquarters)

1988, _____ 1989, _____ 1990, _____ (UK subsidiary / branch)

Thank you for completing our questionnaire. The information you have given will be used purely for research.

Do you want feedback?

Yes()

No()

Appendix 4: Letter Included with the Research Instrument

H.Y.Byun/Research Student

Dear Mr ,

The growth of international trade-transactions between organisations in different countries brings all sorts of advantages to both buyers and sellers in terms of economic advantage. However, at least in the early stages and perhaps beyond of relationships between people of different national trading backgrounds can cause problems.

I am a postgraduate student in the Management School at Hull University. I am a Korean national and am engaged on research into the history of relationships between U.K. customers and Korean suppliers.

Consequently, I would be most grateful for your assistance in completing the enclosed questionnaire. Please note that, should you be prepared to assist me in this way, your comments will be treated with absolute confidentiality.

Yours sincerely,

Hyun-Young Byun