

# Establishing a Performance Oriented Culture

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### INTRODUCTION

A simple question about anticipated delivery time elicits a dissertation on preparations for university entrance exams. Although you specifically requested a H-P Laser Jet 2000, your assistant just delivered a Samsung clone “because its better”. Unexpected responses to situations or instructions puzzle foreign managers working in Korea, whether newly arrived or with years of experience. Bewildered by the apparent dysfunctional nature of their local organizations and frustrated that the management systems that worked well in North America, Europe or Southeast Asia generate unexpected results in Korea, they wonder why there are such major differences in the working environment. What, if anything, can a foreign manager do to succeed in Korea?

Discussions on this topic among Western executives too often become a liturgy of negatives. The objective of this article is to describe a few aspects of the working environment in Korea by explaining what it IS rather than what it IS NOT, and to identify some tools that can help a Western executive focus the local organization on performance and deliver results comparable to other operations worldwide.

**Constraints:** Western managers in Korea face a significant number of constraints that limit the portfolio of management tools available to them. Language is the most apparent and extensive handicap. Less obvious but more significant is a fundamentally different culture driven by unfamiliar values and priorities.

### KEY CHARACTERISTICS OF BUSINESS CULTURE

**Relationships:** Relationships are important in Korea. This truism is so readily accepted that few ponder its full implication. Although relationships are important everywhere, the difference is that in Korea, inter-personal relationships define virtually every aspect of behavior and take precedence over all other criteria.

Relationships are determined by family, high school, university, company, hometown, social organizations and military unit. Relationships are cultivated in social as well as professional activities so there is no separation of the private life and the professional.

**Social Animal:** Koreans are social rather than economic animals. Relationships determine those with whom one does business. Suppliers are selected on the basis of personal relationships on the (probably valid) assumption that the relationship will insure better price, service and support. One company moved its bank account

around Seoul, often suffering considerable inconvenience, following the career of a branch manager with whom there was a close personal relationship.

**Group Orientation:** Closely aligned with the importance of relationships is the group orientation of society (not to be confused with the Japanese style consensus mentality). There is a strong need to 'belong'. Korea abounds with a plethora of social organizations and business associations. Activities, both professional and private, tend to be group activities. The personal is subjugated to the communal.

**Loyalty:** Relationships develop over a long period involving a high level of investment in time and emotion. Loyalty is the result of fostering and preserving this valuable asset. In the organization, loyalty is revealed by behavior. For example, employee turnover is relatively low. On another dimension, when a senior executive moves within an organization, his key managers often follow him one-by-one over time (exposing loyalties within the firm).

**Self Sacrifice:** Success of the individual is dependent on the success of the group so it is quite rational to sacrifice self for the preservation of the group. Personal sacrifice for the good of the whole was dramatically demonstrated during the currency crisis of 1998. In many companies, employees took pay cuts to avoid layoffs, returned their bonuses to help belt tightening and purchased bonds or shares to support the firm. Employees are willing, even eager, to work long hours to overcome crises.

**Nationalism:** Nationalism is an extension of relationships and group orientation. Consumers purchase locally made products (even accepting lower quality for higher cost) to support local firms. Although individuals may prefer imported products, they will buy local out of self-sacrifice or out of fear of appearing disloyal. This national loyalty bolstered the country during the 1998 financial crisis when citizens donated gold contributing \$1 billion to foreign currency reserves. Employees working at foreign companies sometimes feel the stigma of being 'disloyal' for not supporting a local firm.

**Harmony:** Given the importance of relationships, harmony (within the group) is valued and there is a high level of conflict avoidance. Conflicts are resolved in back rooms rather than through public confrontation. Behavior that will cause public 'loss of face' (and therefore discomfort) will be avoided. Conflicts that bubble into the public arena tend to be between groups (or between factions in a group).

**Education:** The purpose of universities in Korea is not education but rather socialization. It is the relationships developed that will be all important 'out in the real world' rather than chemical formulas, rules of accounting or analytical processes. Performance and attendance in class are unimportant but serious effort is devoted to 'MT' (membership training – a euphemism for relationship building weekend trips and drinking bouts).

**Hierarchy:** Relationships fit a rigid hierarchy. The supreme authority of the king over two millennia was institutionalized by Confucianism and reinforced by 35 years of colonialism and a half-century of the 'imperial presidency'. Coupled with a strong system of mentors and loyal disciples, respect for seniority, an education system that breeds followers, and five decades of universal military conscription, society is vertically aligned.

**Patriarchic Management:** Companies are paternalistic with the 'owner' (i.e. founder) taking the role of the patriarch. In return for the hard work and loyalty of his 'subjects', the patriarch accepts obligations to care for his employees. The company is like an extended family, sacrificing together when times are hard and sharing the rewards when times are good. Thus, when the economy turned around in 1999 and 2000, many employees felt justified in expecting the company to compensate them for the pay cuts that they had (voluntarily) taken during the crisis.

**Logic:** Logic and logical behavior in Korea is likewise defined by relationships. Appropriate behavior, expected responses to situations, and arguments for persuasion all stem from relationships rather than from a fixed set of rules for organizing thought. There is no separation between the personal and the professional, between the office and office holder. Therefore, criticism of an individual's opinion or behavior is equivalent to criticizing the individual. Thus, the status of the speaker and his relationship to one's group are the key determinants of persuasion. Although puzzling to Westerners, behavior is predictable and rational to those who understand the relationships of the individuals.

**Values:** In the West, values such as truth, honesty, confidentiality and justice are considered absolute and, theoretically, are applied to rich and poor, friend and foe alike. However, in Korea, these values are situational rather than absolute, tempered by the all-important 'relationships' that define the social fabric. Society expects junior staff to 'spin' the truth to preserve the boss's '*kibun*' (harmony) rather than to tell him an unpleasant truth. Sharing vital information with a friend is more honorable than preserving the confidentiality of a client.

**Information:** Power is derived from the exclusive control of important information. Sharing information freely is an anathema; it is giving away one's power. Information is revealed to maximum effect to bolster the position of the individual or his group. Given that information promotes a specific purpose, frequently it is factually unreliable. Reports of meetings or events are seldom detailed and comprehensive.

**Status & Pride:** Given the importance of relationships, how one is viewed by others is a powerful driver – motivator and de-motivator. An individual is defined by his job. There is no separation between the personal and the professional. Thus, one's age, company, title, and university define social status.

**Impatience:** The most often quoted criticism that Koreans make of their own character is that they are always impatient and in a hurry. The urge to complete a task is far stronger than the need to do it well. Kudos derive from fulfilling a duty by completing an important task rather than from the quality of the output.

**Self Confidence:** Koreans tend to have a high level of self-confidence. Staff sometimes ignore or flagrantly disobey the instructions of their superiors, convinced that they know better. With unswerving faith in their own ability, individuals believe that the only possible outcome will be a better solution, earning themselves the admiration of the group.

**Summary:** Relationships define behavior:

- Social harmony takes precedence over company performance
- Protecting friends and supporting the group is the road to success
- Companies are run like families rather than for maximizing shareholder value

## THE RIGHT KIND OF EXPATRIATE MANAGER

Western executives are assigned to Korea with the expectation that they will achieve pre-defined performance targets. The challenge to create and maintain a results-oriented company will undoubtedly vary significantly depending on the history of the organization and the capabilities of previous executives. Newly acquired traditional operation will pose the greatest challenge.

Given that Western executives are accustomed to managing staff that are motivated by professionalism and performance, while Koreans are driven by personal relationships, this does not mean that skills learned in business school and honed in previous assignments are useless. Even with a very different cultural background and commercial environment, Korean employees have similar aspirations as Western employees: life, family, pride in company and job, success, security, and money. They want to be treated fairly, as human beings, as individuals of worth. The way people are treated drives the culture of the organization. When performance management is implemented properly, traditional companies can be transformed into efficient, successful and productive organizations.

**The Foreign Manager:** Successful companies are careful in the selection of executives to be sent overseas. Personality or character screening (of both executive and spouse) is a critical element of success. The attitudes foreign executives already working in Korea convey to incoming executives have a major influence on their attitudes. Frequent visits to Korea on short trips before transfer on a long-term assignment provide an opportunity to learn about the business and the people. Assigning several ex-pats to the local venture to support each other, especially during the start up phase, provides an important support network.

**Open Assignment:** The traditional ‘three-year-tour’ fixed assignment is one of the biggest obstacles to leadership. The behavior of both the executive and his staff are programmed around the fixed time scale. The executive is motivated to make decisions maximizing performance during his tour at the expense of long-term consequences. The local staff of many foreign invested companies have learned to ‘manage’ their ex-pat executives blocking the more unpopular initiatives by obfuscation, resistance and stonewalling, patiently waiting out his term. Open assignments force executives to consider the longer-term impact of decisions, as they may have to suffer the consequences. Defining a tour by specific performance objectives is an extremely powerful (and empowering) tool likely to encourage better performance by both the foreign executive and greater involvement by the local staff.

**At the Beginning:** Taking responsibility for local operations in Korea begins before one arrives. The most successful companies provide cultural training for executives (and their spouses) prior to their arrival in Korea, alerting them to differences and sensitivities. Learning the basics of the Korean alphabet, *hangul*, (which takes less than an hour) and a few simple expressions will win respect and provide confidence.

Once managers are *in situ*, the opportunities for expanding familiarity with the culture increase significantly. The American Chamber sponsors functions that offer forums for exchanging experiences with fellow expatriate managers. Cultural organizations like the Royal Asiatic Society provide lectures and tours aimed at exposing foreign residents to local culture. Most importantly, everyday experience dealing with one’s own staff is the best teacher.

Understanding local culture does NOT mean mimicking local management practices but it does allow Western executives to anticipate potential sources of resistance and to initiate change in a way more readily accepted by the staff.

**Leadership:** Given the hierarchical nature of Korean society, the head of an organization has considerably more authority, autonomy and responsibility than his counterpart elsewhere. Demonstrate leadership.

- Take responsibility for the performance of the company
- Do not abdicate leadership either intentionally or by omission
- Communicate the vision – where is the company going, what are key goals
- Demonstrate character, stick to your principles, be true to yourself
- Be firm in your actions, show your metal, make the tough decisions
- Use anger effectively – in the right way and at the right time.
- Continuously develop knowledge of your business, both globally and locally

**Communication:** Leadership requires communication at all levels of the organization. All channels of communication need to be utilized:

- Spoken Communication: Speak regularly with staff at all levels of the organization, one-on-one, in groups and together as a company. In particular, seek out opportunities to meet with middle managers. This is the group that

implements the decisions made by senior executives and is the leadership of the future. They are a tremendous source of insight into the workings of the company.

- **Written Communication:** Koreans are accustomed to directives and one-way communication. Some firms make effective use of newsletters and bulletins to encourage performance, communicate financial results and highlight successes and failures. E-mail and intranet have made this tool more practical, convenient and efficient than in the past. Wall posters and signs can effectively emphasize specific goals and campaigns.
- **Actions:** Be visible, Manage By Walking Around (MBWA). Visit the 'shop floor'. Speak with staff at all levels. Eat lunch in the cafeteria. Be seen in unexpected places. Top management presence should be palpable in the company.

**Verify Understanding:** Communication as achieved ONLY when your message is understood.

- **Listen:** Anticipate communication to take 4 to 5 times longer than in the West. Korean culture generates followers trained to sense what their superiors want and to conform to that opinion (*noon chi*). It discourages junior staff from speaking out. In foreign managed firms, language limitations exacerbate this problem. The foreign manager must strive to listen and be patient. Avoid the impulse to 'fill the gap' in conversation, learn to tolerate long silences. (The acceptable gap between speaking and response is longer in Korean than in Western languages.) Listening generates useful ideas, encourages 'buy-in' by the staff, warns against possible pitfalls and reveals potential sources of resistance.
- **Triangulate/Verify:** Even the most fluent English speakers are working in a foreign language. Miscommunication is frequent. Repeat messages using different expressions and different angles. Verify understanding through 'play back' or by observing how the message is communicated to others by your listener. Endeavor to understand the motivation behind statements that is often unrelated to the stated purpose.

## GENERATING RESULTS

**Performance:** In Western firms, proven leadership capabilities are a pre-requisite to achieving senior management positions. By contrast, in Korea, loyalty and longevity (relationships) are the key drivers. Senior executives in their late 40s and 50s have 'paid their dues' and are ready to enjoy the rewards. Rather than vehicles for change, they are 'coasting' towards retirement and have a vested interest in the status quo. This group is most often the greatest obstacle to change.

New ownership and new management offer opportunities for change. Demand senior executives take responsibility for leading the change. Insist that they enthusiastically support the company vision through their actions and leadership. Train them in the hitherto foreign skills of Western management practices and provide them with the tools to do their job but, in the end, demand performance.

Measure their progress. Hold them accountable. Ultimately, if they resist, if they can't or won't support the vision, replace them. (The difficulty of firing incompetent managers is grossly exaggerated.)

**Create Leadership:** Middle managers offer the greatest potential for change. Among their ranks will be a few young, bright, creative managers who are as stifled by the rigid hierarchy as Westerners. They will welcome the opportunity to deliver change. The expatriate executive's challenge is to identify the next generation of leaders among middle management, provide them with training, give them opportunities and mentor them. Promoting them without any training will generate carbon copies of the executives in place today.

- Establish change teams to take responsibility for achieving specific objectives.
- Shake up the organization by moving people around
- Challenge managers to be responsible for constant innovation.
- Weed out the individuals who resist change

**Performance Evaluation:** The most difficult and time consuming task of converting a traditional hierarchical organization to one driven by results is establishing a fair and effective system of performance evaluation. The culture of relationships leads to strong employees protecting weak ones; conflict avoidance leads to everyone getting top marks. The evaluation process will require extensive training throughout the organization. It must be carefully reviewed and monitored to insure that it is being used properly and not subverted by the politics (personal relationships) within the organization. In most companies, one must start from zero, defining performance criteria, designing performance evaluation tools, and teaching evaluation techniques.

**Rewards for Performance:** The traditional *ho-bong* compensation system is rigidly hierarchical with dozens of allowances for criteria unrelated to performance. Individual compensation is public knowledge. Rewarding superior performance is a key element of a performance driven organization so the traditional *ho-bong* structure must be replaced. Although there are no secrets in Korea, officially, the payroll must be kept confidential.

**Titles:** Hierarchical titles are closely linked with status and companies that have tried to eradicate them have discovered that they are pernicious. A more successful approach is to maintain hierarchical titles but overlay them with functional titles that describe the roles of individuals. Pay for performance will lead to younger employees receiving higher compensation than older ones, challenging the age based social structure of the company. Hierarchical titles provide a cost free face-saving tool for preserving harmony.

**HR Department:** Focus on evaluation, performance, leadership and the difficult cultural changes needed to convert a company to a Western, results oriented organization places a heavy burden on the HR function. HR is also the primary tool for conveying the company strategy to the major groups within the firm. Selection of

the right HR manager and establishing the right procedures will define the success of the change effort.

**Training:** Korea's industrial history spans three decades, while Japan's spans a century and the West's two centuries. The physical evidence of a modern society that is apparent everywhere bears witness to the tremendous economic progress Korea has made. However, many Westerners fall into the trap of assuming that the skills ('software') of modern business developed commensurately with the 'hardware'. Western assumptions about the skills mastered by an individual with a particular educational degree or professional background are frequently wide of the mark. Companies wishing to implement a Western performance oriented culture must implement training in several key areas and across the organization.

- Values: Western values of honesty and integrity, uniformly applied, without compromise
- Management: treating individuals fairly and evaluating them honestly
- Business skills: basic principles of profit & loss, focus on margins, systematic analysis of markets and competition
- Technical Skills: advanced technical training to supplement what was (not) learned in university

**English Training:** Language ability tends to be overemphasized when selecting employees for foreign owned firms at the expense of equally important professional skills. Nevertheless, in a multinational company, English competence is a pre-requisite to demonstrate performance, participate in global training opportunities, capitalize on the cross fertilization among international subsidiaries and access a global career path. English language training programs are strongly recommended.

## BUILDING RELATIONSHIPS

**Relationships:** Westerners will never develop the same kind or depth of relationships with Koreans as Koreans do with each other. Nevertheless, foreign executives CAN and MUST work to develop relationships, especially within the organization but also externally. Relationships are achieved through interaction at work, playing golf, joining clubs, sharing meals, consuming copious amounts of *soju*, working together, fighting, winning and losing. One executive interviewed for this project regularly plays golf with a group of salesmen that he fired for incompetence many years ago!!!

To develop relationships within the organization, first and foremost, be straight with people. Treat them fairly; communicate the good news and the bad, the comfortable and uncomfortable. Devote time to social occasions with small groups outside the office. Let your hair down, conform to some of the silly rituals, shake the empty *soju* glass over your head, exchange glasses, make a fool of yourself in the *noraebang* (karaoke) and hike up the mountain.

Relationships outside of the organization are a greater challenge. Commercially, the greatest value of external relationships is access. An introduction by a mutual friend short-circuits the relationship building process. If a good friend is close to, say, the president of Hynix, you will meet him today. Otherwise, it is an uphill struggle. (For important meetings, the introduction should be in person and your friend should accompany you to the meeting.) Relationships are not sufficient in and of themselves, they must be backed by good business or you embarrass yourself AND your friend who provided the introduction.

The best ways to extend your personal relationships are to make good business and to help others to build good relationships. Treat relationships as any other valuable resource, organize them, develop them, manage them and monitor them.

The culture in Korea is significantly different from our own, but behavior is predictable and the human spirit can be harnessed to achieve good performance. Results are achievable to the executive who strives to succeed within this environment.

*For the past 20 years, IRC has supported market entry and post-entry re-organization of Western invested organizations in Korea. This article was stimulated by the desire to cross check IRC's experiences with those of foreigners who had been working in Korea for many years. Ten Western managers with experience ranging from 3 to 20 years and managing between 5 and 1200 employees were individually questioned about the management tools that they personally used effectively to run their firms in Korea. The author is very grateful to these individuals who generously gave more than an hour of their time and frankly shared their experiences.*

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