Wholly Owned Subsidiaries in Korea

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Overview

The following is a discussion of the advantages and disadvantages when considering operating a wholly owned subsidiary in Korea. A number of key success factors to consider are also discussed below:

Advantages

- Maximum control of business:
    - Product quality
    - Financing (pricing, profits)
    - Company image
    - Management of company
- Maximum benefit from success of the company
- Maximum market intelligence - identify emerging opportunities
- Can provide better response to customers on product and quality issues

Disadvantages

- Dispatch of personnel essential, particularly at startup
- Highest manpower requirements (and related cost) (Expatriate managers are expensive. The American Chamber of Commerce in Korea estimates this cost to be as much as US$ 400,000 above salary)
- Qualified professional local management hard to find
- Maximum business risk and exposure
- High investment cost
- Perceived as impermanent establishment by many Koreans
- Long start-up time

Key Success Factors

- Must have a strong management team:
    - Must have a strong senior executive in Korea for startup and at least first three years to exert control.
    - Overseas Koreans often unsuccessful in Korea
    - Coordinator must be designated for insuring smooth communication between local entity and home office. They must be senior enough to command attention in the home office.
- Localize management from within the company to the extent possible
- Buy land (vs. lease) as it demonstrates permanence
- Constant interaction between local company and home office is important to instill and preserve 'corporate culture' and sense of 'belonging'
- Investment incentives for bringing high technology to Korea do exist but they require government approval delaying entry process and can risk exposing proprietary technology

Hyochang-dong, 5-23, Yongsan-ku, Seoul 140-896, Korea / 140-896 서울시 용산구 효창동 5-23
Tel: (822) 701-3222, Fax: (822) 701-9858, Website: www.ircltd.com