

**How the Nature of Ownership and Cultural Variables
in International Joint Ventures Affect the Shaping
of Business Strategies and Financial Performance
— A Comparative Case Analysis —**

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Abstract

The study analyzed a Korean case in which two commercial banks started their operation with different composition of ownership.

The study has shown that the different nature of the ownership generated different assumptions and values in the two banks, and these assumptions and values in turn played vital roles in the shaping of different strategies adopted in the two banks. The study has also shown that these different strategies were responsible for the different levels of organizational commitment of employees resulting in significant gaps in financial performance between the two banks.

The findings of the study should be used to caution researchers in organization science against conducting exclusively behavioral-or perhaps even exclusively strategic-empirical studies that focus on a narrow set of possible explanatory variables. Thus, the study argued that progress in the field of cross-cultural research could perhaps best be facilitated through more integrative research approaches that cross traditional methodological *and disciplinary* boundaries.

Background and Objective of the Study

Commercial banks in Korea prior to the 1980s were under government control, since the Korean economy was suffering from capital shortage problems. There were five major commercial banks; their efficiency was low, and they had unrecoverable loans. In order to cope with this situation and to help the national economy grow, the Korean Government in 1981 announced a new commercial banking policy, which allowed foreign investors to establish commercial banks in Korea. As a result of this policy change, two joint-venture commercial banks were created. One, a joint venture between a major American bank and several Korean corporations, was called the KorAm Bank; in it the American bank held the position of dominance. Almost simultaneously, a group of Korean businessmen with permanent residence in Japan, also got together to start a new bank in Korea. This bank was called the Shinhan Bank; it came under the influence of Japanese commercial culture.

The two banks began to compete in the same market by introducing innovative products, services, and management techniques to the Korean market. There soon emerged a gap between the two banks in financial performance. The gap continued to grow. The author of the present study became interested in the growing gap since the two banks shared many conditions in common (such as simultaneous start and competition in the same market place) except for the variables resulting from the different cultural background of their founders and the strategies taken in establishing and managing the two banks.

The objective of this study was: (1) to identify the differences between the two banks, and (2) to investigate how these differences affected the performance of the two banks. To identify the differences between the two banks, this study examined the nature of the ownership and culturally-inherited variables, such as the founders' assumptions and their values. To investigate how these explanatory variables affected the financial performance of the two banks, the study examined the roles these variables played in the shaping of employee commitment to the organization and the strategies adopted by the top managers.

The author based his study on published documents, manuals, and other

materials issued by the two banks: He also conducted *fact-finding* interviews, formal and informal, with scores of managers at various levels in the two banks. A hypothesis was adopted and tested.

The Nature of Ownership

In creating the KorAm Bank, 16 large Korean corporations joined together with the Bank of America. The Korean companies shared 50 percent of the stock. The largest block of stock owned by a single Korean corporation was 9 percent. The Bank of America owned the other 50 percent of the stock, and so it took control of the new bank.

A Korean economist with a doctorate from an American university became the first President and Chairman of the Board. The Bank of America nominated an American as the Executive Vice President and Vice Chairman of the Board. A managing director was named by the Korean side, and another American was appointed by the Bank of America to form the four-member Executive Committee which would make all final decisions on major corporate actions and guide the new bank's strategy.

The founder of the Shinhan Bank is considered to be Mr. Lee Hee-Geon. Mr. Lee was born in Korea in 1917. In order to escape from poverty, he left Korea at the age of 18 and traveled to Osaka, where he found various odd jobs to support himself. He worked hard to get himself through Meiji University in Japan, and devoted himself to organizing the Korean business society in Osaka. His aim was to help Koreans establish and promote their own businesses. Eventually he earned himself the nickname of "the Korean Godfather" in Osaka. In 1955 he managed to establish a credit union for Koreans in Osaka, and succeeded in developing this credit union into the second largest among its kind in Japan by the early 1970s. It was from this background that he was prepared to consider establishing a banking company in Korea when the market there opened.

Mr. Lee contacted many of his Korean friends in Japan and asked them to join him in this new venture in Korea. They saw that the Korean capital market offered a vast long-term potential. Patriotism also contributed to their willingness to invest their money in Korea. They said that they would

like to use their money, which they had earned with difficulty by overcoming Japanese racial discrimination towards Koreans, for the economic development of their fatherland. A score of major investors formed what they called a non-resident Board of Trustees, Mr. Lee Hee-Geon was designated as the Chairman of the Board, though he owned less than 2% of the stock. The Board of Trustees recruited a banking expert as the first president of the new bank, and the president in turn recruited senior managers having experience in commercial banking to work with him as the top management team.

The difference in the nature of ownership between the two banks was clear. In the case of the Shinhan Bank, there was Mr. Lee Hee-Geon asserting himself as the owner of the Bank, whereas at the KorAm Bank there were only top-level officials representing the interest of the Bank of America for their nominated terms. Mr. Lee Hee-Geon, even though his stock ownership in Shinhan was less than 2%, assumed responsibility for the long-term future of Shinhan. He volunteered to perform the '3D' jobs needed for the future of his bank. (3D stands for *Dirty, Dangerous, and Difficult* jobs in Korea. In banking, political lobbying, for example, is considered to be a 3D job.) At that time bank presidents in Korea were either nominated or recommended by the Korean Government. Mr. Lee lobbied the Korean Government to permit Shinhan to choose its own president. As a result of Mr. Lee's lobbying, Shinhan was able to select a banking expert as its president.

In contrast to Shinhan, KorAm had no one comparable to Mr. Lee Hee-Geon. Even though the Bank of America and their representatives owned 50 percent of KorAm, there was no one individual asserting ownership of KorAm as Mr. Lee had done. As a result, KorAm acquiesced to the Korean government in accepting as its president an economist, former government minister who had little experience in commercial banking.

Differences in Founding Assumptions

The differences in the nature of ownership of the two banks in turn led to differences in the assumptions of their top managers. KorAm, under BOA's

leadership, assumed that a successful bank should be staffed by the most competent and qualified people, who graduated of top-ranking universities in Korea, and that these highly competent individuals could be motivated by providing American-style economic incentives. KorAm formulated its incentive system as follows.

Seventy-five percent of annual pay increases would be based upon years of service with the bank. The additional 25 percent would be calculated based upon an evaluation of both group and individual performance like this:

1. First, of the total amount of money made available for pay increases in any given year 25 percent is set aside to be allocated on the basis of performance. (This was called 'bonus'.)
2. Second, all sub-units (or divisions and branches) are then evaluated on the basis of 'Excellent', 'Average', and 'Poor' Record System. Approximately one third of all sub-units in a particular classification fall into each group. The 'excellent' performing divisions are eligible to receive a bonus 20 percent higher than the average bonus for the bank as a whole. The middle ranking groups are eligible to receive an average bonus that is equal to the company-wide average. The 'poor' performing groups are supposed to receive a bonus which is 20 percent lower than the company-wide average.
3. Third, the heads of each division or branch in turn rate their individual employees using the same 'Excellent', 'Average', 'Poor' rating system. On the basis of this rating, the total bonuses allotted to that division are then distributed to each individual.

Thus the result of the group and individual ratings, when combined together, happens to range from $1.2 \times 1.2 = 1.44$ or 144% for an excellent performer in excellent-rated divisions to as low as $0.8 \times 0.8 = 0.64$ or 64% for a poor performer in poor-rated divisions. KorAm's founders believed that this incentive system would inspire the most competent employees to do their best for the bank, and that employees receiving low evaluations would either be motivated to work harder or they would leave the bank, making an opening for new qualified recruits.

KorAm's top managers also assumed that since they had recruited highly educated personnel, they would not need further training programs. As a result, KorAm did not establish any continuing education program.

In contrast, Shinhan assumed that a profitable and growing bank could be developed by recruiting individuals who in the interview process displayed a positive human spirit and a desire to help make Shinhan succeed. Candidates who had taken jobs right after high school because of poverty, but who had gone on to complete bachelors degrees by going to evening school while working during the day, were targeted for selection. These people were very often in situations where they were not fully appreciated by the companies they were currently working for. Furthermore, to ensure that these recruited people would fit well into the bank and would work harmoniously towards its goals and objectives, an intensive and comprehensive eight week training program was developed for all employees and all new recruits. The emphasis of this training was upon building feelings of warmth and closeness among employees, as well as a spirit of loyalty toward the bank and a desire to see it succeed.

As for its incentive system, Shinhan also evaluated employees, but the rewards given to those with an excellent performance rating were not part of the annual increases in compensation. To determine who had made an exceptional contribution during the year, supervisors were asked to recommend their outstanding employees to the President's office for recognition. The recommendations were based on the supervisor's rating of employee's attitude, relations with other employees, loyalty and hard-working spirit. Employee's who have been recommended by their supervisor received a personal letter from the President thanking them for their hard work, sacrifice and achievement. These employees also received some cash as an additional reward for them to use to take members of their work team out for celebration.

Differences in Values

The founders of Shinhan valued the long-term growth of their bank, while KorAm's founders valued immediate (short-term) profit from their banking

operation. In a country like Korea, where the supply of capital is short, the growth of a bank depends on the volume of savings deposits with the bank. In recognition of this reality, the Shinhan founders emphasized raising the volume of savings deposits. Shinhan founder's strategic emphasis on savings deposits can be seen in the questions asked of job applicants during the recruitment interviews. The central question was: "How do you think you can raise savings deposits with Shinhan?" Interestingly, the corresponding question at KorAm's recruitment interview was: "What college did you graduate from?" or "Can you speak English?"

Shinhan frequently held company-wide campaigns to raise savings deposits. There were many moving episodes that came out of these campaigns. Here is one of them. On a Christmas when Shinhan management asked its employees, "What do you (employees) want for Christmas presents from the bank management?" most employees' common answer to the question was "A pair of shoes, we have walked so many miles in search of new customers to raise our savings deposits that our shoes are all worn out."

While Shinhan was emphasizing the increase of savings deposits, the executive officers at KorAm Bank based their banking operation on the 30 million US dollars deposited by the Bank of America and exchanged into Korean money. They paid little attention to raising savings deposits from small and general customers. They even sent all the money received as dividends from KorAm to the US headquarters of the Bank of America. (The founders at Shinhan reinvested their dividends and proceeds back into Shinhan.) As a result, the volume of savings deposits as of 1994 was about 3 to 1 in favor of Shinhan. With this size gap and the economy of scale coming into play, the performance gap between the two banks continued to grow.

The long-term versus short-term differences in value orientation between the two banks could also be found in the strategies adopted by the two banks with respect to creating their branch networks. Shinhan founders viewed the expansion of branch networks as the most important vehicle for the growth of the bank in the long run. On the other hand, KorAm founders thought that opening a new branch required a substantial new investment which in turn could make the short-term profit unfavorable. Thus, KorAm designed a highly centralized organization which was appropriate to perform mostly wholesale or industrial banking. KorAm opened a few branches in

downtown Seoul where most major corporations were housed. But, these branch offices were only allowed to handle retail banking. Industrial or wholesale banking activities were supposed to be done at the headquarters. Most loan requests arriving at branch offices must be passed upstairs to the headquarters to be reviewed by Loan Appraisal Committee.

On the other hand, Shinhan planned primarily a retail banking system with a highly decentralized structure. At Shinhan the branch offices were allowed to perform both wholesale and retail activities including export and import financing. Thus, Shinhan's business strategy was to open as many branches as possible. Their headquarters' attitude was that "we, the headquarters, are here to support branch offices and not to control." It was up to the branch to do the job correctly and make a good decision. As a result, general customers found Shinhan much easier to do business with, a factor not unrelated to the long-term growth of the bank.

Another area where the contrast between this kind of long-term versus short-term orientation could be found is in loan policies. The KorAm's Loan Committee looked closely at past performance and the credit history of the firm asking for a loan. The concern in this case, like that of most Western banking institutions, was on whether or not the loan could properly be secured and on whether the individual or company would have adequate cash flow to service the loan on a timely basis. At Shinhan bank, on the other hand, the guiding principle was to loan on the basis of the long-term potential of the enterprise to which the loan was to be given. A venture with a determined and competent management team could receive a loan. Furthermore, Shinhan also provided substantial management services to the firms receiving loans. Special management courses and seminars were held for the firms to which funds had been loaned. Shinhan also arranged tours for the managers of their client firms to travel to economically advanced countries to help them learn about how similar enterprises were managed there and to have them see the newest process and product innovations.

Still another area of value orientation contrast was in the policy toward the real estate needed for business purposes. Shinhan preferred purchasing the real estate to renting it. This preference of Shinhan was quite natural, since it valued the long term optimization of the returns from its investment. In Korea, with the limited supply of usable land, investment in real estate

has been a sure and lucrative business in the long run. KorAm, on the other hand, preferred renting the real estate to purchasing it, because the investment in real estate did not produce profit in the current or short term.

Financial Performance

Data representing the financial performance of the two banks was collected from published bank information using government-mandated accounting and reporting procedures. As Table 1 shows, the financial performance data in terms of Return on Assets, Savings Deposits, and Net Profit per Employee are almost 3 to 1 in favor of Shinhan.

Table 1
Recent Three-Year Financial Performance of the Two Banks

Year	Bank	Return on Assets (percent)	Savings Deposits (billion \$)	Net Profit Per Employee (thousand \$)
1992	KorAm Bank	0.61	3.515	22.666
	Shinhan Bank	1.02	10.369	42.266
1993	KorAm Bank	0.30	4.583	10.000
	Shinhan Bank	0.93	14.119	42.400
1994	KorAm Bank	0.42	6.852	16.266
	Shinhan Bank	0.82	19.917	46.266

As we saw in previous sections in this paper, KorAm adopted an economic incentive system based on American-style individualism, whereas Shinhan fostered a stronger sense of corporate familism based on Oriental-style collectivism. It should be argued here that appropriate incentive systems would play important roles in shaping higher levels of organizational commitment of employees. Organizational commitment is defined as the extent to which a person has a strong desire to remain a member of the organization, is willing to exert high levels of effort for the organization, and believes and accepts the values and goals of the organization (Mowday, Porter, & Steers, 1982).

There are research findings which consistently suggest that committed workers play an important role in increasing organizational effectiveness through reduced turnover and absenteeism and through higher worker flexibility (Hunt, Wood, & Chonko, 1989; Mowday, Porter, & Steers, 1982). Committed employees are self-directed and motivated to work for the sake of the organization. They identify organizational outcomes with their personal success, and make conscious efforts to help the organization achieve its goals.

Lincoln and Kalleberg (1990) conducted an extensive cross-cultural study on organizational commitment. Their primary findings suggest that the high commitment of Japanese workers stems from the unique employer-employee relationship based on their collectivism culture. When these findings are applied to the present study, they suggest that Shinhan's collectivism approaches to inducing their employee commitment would have resulted in higher employee commitment than would be found at the individualism-oriented KorAm Bank. Thus, we hypothesize that:

Hypothesis : Employees at Shinhan Bank would be more committed to the organization than employees in KorAm Bank.

In order to test the hypothesis, we used a five-item version of the Organizational Commitment Questionnaire (OCQ) to assess relative employee commitment to the organization (Mowday, Porter, and Steers, 1981). The instrument package was translated into Korean and then back-translated into English to verify the accuracy of the translation.

Data collection procedures were identical for each bank. A total of two hundred employees were randomly selected from the two banks and asked to participate in the study. They received the questionnaire with a cover letter explaining the purpose of the study. Demographic data were also collected with respect to age, tenure, education, and level in the organizational hierarchy. All questionnaires were anonymous.

Of the initial sample, usable questionnaires were received from 170 employees, or 85% of the targeted sample. This total breaks down into 87 usable questionnaires from KorAm for an 87% response rate and 83 usable questionnaires from Shinhan or for an 83% response rate.

The hypothesis was tested using separate one-way ANCOVAs. The results of ANCOVAs are presented in Table 2

Table 2
ANCOVA Results for Employee Commitment

Variable	KorAm Bank		Shinhan Bank		F-test
	M	SD	M	SD	
<i>Organizational Commitment</i>	3.6	0.6	3.9	0.6	2.68*

Ns for KorAm Bank and Shinhan Bank are 87 and 83, respectively.

* $p < .001$

The hypothesis predicted that Shinhan employees would be more committed to the organization than KorAm employees. The prediction was confirmed ($F = 2.68$, $p < .01$).

Discussions

Hofstede (1984, and 1991) suggested that cultures could be distinguished along five dimensions: 1) *power distance*, representing the degree of inequality among people that the people of a culture consider normal; 2) *individualism-collectivism*, or the degree to which the people of a culture prefer to act as individuals instead of as group members; 3) *masculinity-femininity*, or the degree to which the people of a culture value assertiveness, performance, success, and competition over solidarity, maintaining warm personal relationships, service, and quality of life; 4) *uncertainty avoidance*, or the degree to which the people of a culture prefer predictability and structure in their life; and 5) *short-term vs. long-term orientation*, to represent a culture's orientation with either the future (long-term) or the present (short-term).

When Hofstede(1984, and 1991) applied this model to Korea, Japan, and the U.S., important differences emerged across the three countries, as shown in Table 3.

Table 3
Country Scores According to Hofstede's Value Survey Module

<i>Value Dimension</i>	Japan	Korea	U.S.A
Power Distance	54	60	40
Individualism	46	18	91
Masculinity	95	39	62
Uncertainty Avoidance	92	85	46
Long-term Orientation	80	75	29

Source: Hofstede (1984, 1991)

Note: Scores range from 1 to 100, with 100 being high.

According to Hofstede's data having relevance to our present study, Koreans tend to be high on long-term orientation, and low on individualism (that is, high on collectivism). On the other hand, Americans tend to be extremely high on individualism, and very low on long-term orientation. Other cross-cultural investigations using divergent methodologies have tended to support these general cultural descriptions for the three countries (Steers, Shin, and Ungson, 1989; Lincoln and Kalleberg, 1990; Abegglen and Stalk, 1985).

KorAm is a culturally heterogeneous organization in which two contrasting national cultures--individualism of the U.S. parent company and collectivism of the local (Korean) employees--meet together. Shinhan, on the other hand, represents a more culturally congruent organization in which two similar cultures--Japanese collectivism and Korean collectivism--are blended together. Our hypothesis confirmed that the degree of employee commitment was higher in culturally congruent Shinhan than in culturally heterogeneous KorAm. Cultural congruence in international joint ventures seems to play important roles in the shaping of the organizational commitment of employees. Researchers have noted that culturally-heterogeneous international joint ventures experience difficulties in controlling the attitudes and behaviors of their local employees (Geringer & Frayne, 1990 and Eisman, 1991). These control problems could possibly be alleviated if the parent

company managers understood the role culture plays in the shaping of organizational commitment of their local employees.

In the present study, we have also noted that the two banks had taken radically different strategies with respect to the number of branches opened, loan policies, and most of all the strategies regarding the volume of savings deposits. The performance gap between the two banks could have also resulted from the different strategies adopted by the two banks. Especially, Shinhan's long-term oriented strategy to raise the volume of savings deposits with their bank, together with the strategy to enlarge the number of branch offices, could be most attributable to the faster growth of Shinhan compared with KorAm.

The foregone argument is based on the following reason: In a developing country like Korea, business firms could draw the attention of the general public more easily with quantity-oriented strategies than with quality-oriented strategies. In other words, quantity precedes quality in the process of modernization. Korea has only a few decades of history in modernized business, thus, most business corporations in Korea became known to the public at first by the size or volume of their business. As a matter of fact, most well-known companies in Korea are still the bigger ones. Consequently, Korean people tend to feel safer or more comfortable when they do business with bigger corporations than with smaller ones. This is especially true in banking. Shinhan's starting strategy, emphasizing the long-term growth of the bank, was not only congruent with the long-term oriented cultural dimension of Korean managers at Shinhan, but also with the idiosyncratic behavior of Korean consumers in the market, preferring bigger banks to smaller ones.

Since 1990, KorAm management, in recognition of KorAm's lagging status with respect to Shinhan, has been campaigning vigorously to innovate their organization and management systems. KorAm also tried to revert to collectivism-oriented incentive systems, as well as to long-term oriented strategies. But with the economic principle of scale merit already in effect, it seems to be too late for them to keep up with Shinhan.

To summarize, the different nature of the ownership in the two banking firms in the present study engendered different assumptions and values of their top managers, which in turn produced the different approaches and

strategies the managers adopted. The different approaches and strategies in turn played a major role in generating gaps in employee commitment and in the financial performance between the two firms. In conclusion, firm performance appears in the present study to have resulted from a combination of culturally-determined variables *combined with* several strategic variables. Such a conclusion cautions us against conducting exclusively behavioral--or perhaps even exclusively strategic--empirical studies that focus on a narrow set of possible explanatory variables. Progress in the field of cross-cultural research can perhaps best be facilitated through more integrative research approaches that cross traditional methodological *and disciplinary* boundaries.

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