

How Can Non-Chaebol Companies Thrive in the Chaebol Economy?

非财阀公司如何在财阀经济中生存？

-公司层面营销战略的分析-

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Abstract

While existing literature has focused extensively on the strengths and weaknesses of the Chaebol and their ownership and governance, there have been few studies of Korean non-Chaebol firms. However, Lee, Lee and Pennings (2001) did not specifically investigate the competitive strategies that non-Chaebol firms use to survive against the Chaebol in the domestic Korean market. The motivation of this paper is to document, through four exploratory case studies, the successful competitive strategies of non-Chaebol Korean companies against the Chaebol and then offer some propositions that may be useful to other entrepreneurial firms as well as public policy makers.

Competition and cooperation as conceptualized by product similarity and cooperative inter-firm relationship respectively, are major dimensions of firm-level marketing strategy. From these two dimensions, we develop the following 2×2 matrix, with 4 types of competitive strategies for non-Chaebol companies against the Chaebol (Fig. 1.). The non-Chaebol firm in Cell 1 has a “me-too” product for the low-end market while conceding the high-end market to a Chaebol. In Cell 2, the non-Chaebol firm partners with a Chaebol company, either as a supplier or complementor. In Cell 3, the non-Chaebol firm engages in direct competition with a Chaebol. In Cell 4, the non-Chaebol firm targets an unserved part of the market with an innovative product or service. The four selected cases such as E-Rae Electronics Industry Company (Co-exister), Intops (Supplier), Pantech (Competitor) and Humax (Niche Player) are analyzed to provide each strategy with richer insights.

Following propositions are generated based upon our conceptual framework:

Proposition 1: Non-Chaebol firms that have a cooperative relationship with a Chaebol will perform better than firms that do not.

Proposition 1a: Co-existers will perform better than Competitors.

Proposition 1b: Partners (suppliers or complementors) will

perform better than Niche players.

Proposition 2: Firms that have no product similarity with a Chaebol will perform better than firms that have product similarity.

Proposition 2a: Partners (suppliers or complementors) will perform better than Co-existers.

Proposition 2b: Niche players will perform better than Competitors.

Proposition 3: Niche players should perform better than Co-existers.

Proposition 4: Performance can be rank-ordered in descending order as Partners, Niche Players, Co-existers, Competitors.

A team of experts was constituted to categorize each of these 216 non-Chaebol companies into one of the 4 cells in our typology. Simple Analysis of Variance (ANOVA) in SPSS statistical software was used to test our propositions. Overall findings are that it is better to have a cooperative relationship with a Chaebol and to offer products or services differentiated from a Chaebol. It is clear that the only profitable strategy, on average, to compete against the Chaebol is to be a partner (supplier or complementor). Competing head on with a Chaebol company is a costly strategy not likely to pay off for a non-Chaebol firm. Strategies to avoid head on competition with the Chaebol by serving niche markets with differentiated products or by serving the low-end of the market ignored by the Chaebol are better survival strategies.

This paper illustrates that there are ways in which small and medium Korean non-Chaebol firms can thrive in a Chaebol environment, though not without risks. Using different combinations of competition and cooperation firms may choose particular positions along the product similarity and cooperative relationship dimensions to develop their competitive strategies—co-exister, competitor, partner, niche player. Based on our exploratory case-study analysis, partner seems to be the best strategy for non-Chaebol firms while competitor appears to be the most risky one. Niche players and co-existers have intermediate performance, though the former do better than the latter.

It is often the case with managers of small and medium size companies that they tend to view market leaders, typically the Chaebol, with rather simplistic assumptions of either competition or collaboration. Consequently, many non-Chaebol firms turn out to be either passive collaborators or overwhelmed competitors of the Chaebol. In fact, competition and collaboration are not mutually exclusive, and can be

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pursued at the same time. As suggested in this paper, non-Chaebol firms can actively choose to compete and collaborate, depending on their environment, internal resources and capabilities.

Keywords: Chaebol, Non-chaebol, Firm-level marketing strategy, Competitive strategy, Co-exister, Partner, Competitor, Niche-player

摘要

现有的文献广泛的关注财阀以及他们的所有权和支配权的优点和弱点, 但是几乎没有关于韩国非财阀公司的研究。然而, Lee, Lee and Pennings (2001)并没有特别的探讨在韩国国内市场非财阀公司为求生存而对抗财阀公司的具有竞争力的战略。本文的研究动机是通过四个探索性案例的研究, 韩国非财阀公司对抗财阀公司的成功的竞争战略和提出的建议可能会对其他的企业以及公共政策制定者有所帮助。

从产品相似性和公司内的合作关系分别定义竞争和合作的概念。从这两个方面, 我们开发了以下 2×2 矩阵, 为非财阀公司对抗财阀公司提供四种竞争战略。在小组1的非财阀公司在高端市场对财阀公司让步, 但在低端市场有“我也是在低端市场”的产品, 同时承认在高端市场的财阀。在小组2, 非财阀公司以供应商或互补企业的身份成为财阀公司的合伙人。在小组3, 非财阀企业从事与财阀直接竞争。在小组4, 非财阀企业的目标, 以产品创新或服务填补目标市场空白点。我们选择的4个公司分别是E-Rae电子企业公司(共存方), Intops(供应商), Pantech(竞争对手)和Humax(小众市场成员)。通过分析这4个案例, 相互提供更丰富的洞察力战略。

基于我们的概念框架, 提出下列假设:

假设1: 与财阀公司有合作关系的非财阀公司比没有合作关系的公司表现得更好。

假设1a: 共存方会比竞争方表现得更好。

假设1b: 合伙方会比小众市场成员表现得更好。

假设2: 与财阀公司的产品没有相似性的公司比有相似性的公司表现得要更好。

假设2a: 合伙方比共存方表现得更好

假设2b: 小众市场成员会比竞争方表现得更好。

假设3: 小众市场成员应比共存方表现得更好。

假设4: 按绩效的降序排列依次是合作者, 小众市场成员, 共存方, 竞争方。

一组专家按照我们4组的分类把216家非财阀公司分类。用SPSS统计软件中的简单方差分析来检验假设。结果发现, 与财阀公司有合作关系的以及提供与财阀公司不同的产品或服务比较好。很明确的一点是, 平均来说, 若要对抗财阀公司中获利, 其战略是成为合伙人(供应商或组成部分)。直接与财阀公司硬碰硬的竞争是要付出极高代价的战略, 而这种代价不是非财阀公司能负担得起的。避免与财阀公司迎面竞争的战略是用不同的产品服务于利己市场, 或是服务于被财阀公司忽视掉的低端市场。这些战略是比较好的生存战略。

本文说明在财阀环境中, 韩国的中小型非财阀公司有一些方法可以生存, 尽管不是没有风险。根据不同的竞争组合, 合作的公司可以根据产品相似性以及合作关系的维度来选择定位从而制定自己的竞争战略。例如共存方, 竞争对手, 合伙人, 小众市场成员。根据我们的探索性案例分析, 合伙人对非财阀公司来说可能是最好的战略, 而竞争者则是有很大风险的。小众市场成员

和共存方处于中间, 但前者比后者要好。

很多中小型企业的管理者只是用简单的, 不是合作就是竞争的观点来审视市场的领导者-典型的财阀。结果, 很多非财阀公司变成被动的合作者或被自己的竞争对手财阀所击败。事实上, 合作和竞争并不是互相排斥的, 是可以同时被追求的。正如本文所建议的, 非财阀公司可以根据他们的环境, 内部资源和能力灵活的选择合作和竞争。

关键词: 财阀, 非财阀, 公司层面的营销战略, 竞争战略, 共存方, 合伙人, 竞争对手, 小众市场成员

I. Introduction

A Chaebol is a South Korean business conglomerate, a single large corporation or a group of loosely connected separate companies sharing the same name. In either case, they are almost always owned, controlled and managed by the same family. Since the 1960's, aided by government policies, Chaebols developed new industries, markets and export production and, by the 1990s, helped South Korea become a Newly Industrialized Economy (NIE) with a standard of living comparable to industrialized countries (Steers, Shin and Ungson 1997). In this process, Chaebols became powerful organizations in the South Korean political economy. During the Asian financial crisis beginning in 1997, the weaknesses of the Chaebol system were exposed. Chaebols had over-invested in production capacity and the downturn in demand seriously hurt their performance. They had also diversified into many business areas outside their core competencies. Many Chaebols had taken on huge amounts of debt to finance their expansion but could not service this during the crisis. Of the 30 largest Chaebols, 11 went bankrupt between July 1997 and June 1999. Investigations exposed corrupt practices by the Chaebol including fraudulent accounting and bribery (Economist 2006). The ten largest Korean Chaebols along with their annual revenues are listed in Table 1.

Table 1. Ten Largest Chaebols

Chaebol	Revenue (Billion USD)*
Samsung	89.1
Hyundai Automobile	61.6
SK	52.9
LG	50.8
Lotte	15.1
Hanjin	14.6
Hyundai Heavy Industries	12.3
GS	5.9
Kumho	5.0
Hanhwa	4.3

Source: Korea Exchange Press Release, April 4, 2006

* Converted by Korean Won (KRW)/US Dollar (USD) = 1,000/1.00

After the Asian financial crisis, government policy encouraged banks to revamp their lending practices and offer credit to small and medium Korean firms (Economist 2003). New sectors in the domestic market, such as telecommunications, video games and internet services, flourished due to entrepreneurial efforts of small and medium firms. While existing literature has focused extensively on the strengths and weaknesses of the Chaebol and their ownership and governance (Campbell and Keys 2002), there have been few studies of Korean non-Chaebol firms. Lee, Lee and Pennings (2001) is a notable exception. However, they do not specifically investigate the competitive strategies that non-Chaebol firms use to survive against the Chaebol in the domestic Korean market. The motivation of this paper is to document, through four exploratory case studies, the successful competitive strategies of non-Chaebol Korean companies against the Chaebol and then offer some propositions that may be useful to other entrepreneurial firms as well as public policy makers.

II. Conceptual Framework

Our conceptual framework is based on the idea of cooptation (Tsai 2002; Brandenburger and Nalebuff 1996; Hamel, Doz and Prahalad 1989), which says that firms both compete and collaborate with each other to gain competitive advantage. The framework is also motivated by Lee, Lee and Pennings (2001) who proposed that the performance of Korean technology startups can be explained by their internal capabilities based on the Resource Based View (RBV) of the firm (Wernerfelt 1984), and external capabilities based on social capital theory (Gabbay and Leenders 1999; Granoveter 1985).

We see two major dimensions of competition and cooperation (Lado, Boyd and Hanlon 1997) along which non-Chaebol firms vary in their strategic orientation towards the Chaebol. The first is the competitive dimension of product similarity. Some companies compete directly with the Chaebol by offering similar products or services, others minimize competition by practicing product differentiation in their offerings (Kotler and Keller 2007). Product differentiation is based on a firm's capabilities and competencies, consistent with RBV, according to which above normal return may be earned by effective utilization of a firm's resources to gain competitive advantage (Chandler and Hanks 1994; Mahoney and Pandian 1992). The second is the cooperative dimension at the level of the firm—does the non-Chaebol firm have a cooperative relationship with the Chaebol or not? Some firms consciously develop a cooperative relationship with the Chaebol, while others are indifferent or hostile. This dimension is consistent with social capital theory (Gabbay and Leenders 1999), which holds that firms can leverage external relationships for competitive advantage. Competition and cooperation as conceptualized by product similarity and cooperative inter-firm relationship respectively, are major dimensions of firm-level marketing

strategy. From these two dimensions, we develop the following 2 x 2 matrix, with 4 types of competitive strategies for non-Chaebol companies against the Chaebol.

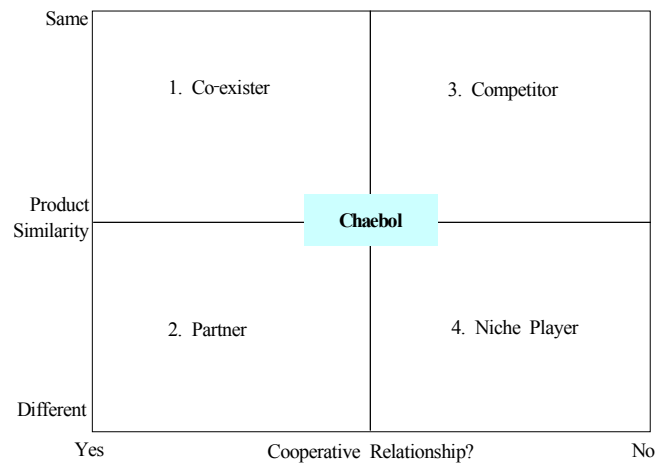


Fig. 1. Conceptual Framework of Competitive Strategies

The non-Chaebol firm in Cell 1 has a “me-too” product for the low-end market while conceding the high-end market to a Chaebol. In some cases such firms may buy components from a Chaebol, in other cases firms may act as a sub-contractor to a Chaebol on large contracts. In this way the non-Chaebol firm is able to co-exist peacefully with a Chaebol. In Cell 2, the non-Chaebol firm partners with a Chaebol company, either as a supplier or complementor. Complementors are third party firms whose products or services add value to a Chaebol's offerings (Brandenburger and Nalebuff 1996). The non-Chaebol firm's fortunes, then, are closely tied to those of a Chaebol. In Cell 3, the non-Chaebol firm engages in direct competition with a Chaebol. This is a risky strategy because the firm has to bear the brunt of the Chaebol firm's power in the marketplace. The non-Chaebol firm needs to be much faster and smarter than a Chaebol to be able to compete with more limited resources. In Cell 4, the non-Chaebol firm targets an unserved part of the market with an innovative product or service. Because the size of the market is small, the Chaebol firm is not interested in it and the niche player can survive and thrive. Later, if the niche grows, it may attract the attention of a Chaebol firm, which may decide to enter the market. This happened, for example, in the digital MP3 player market in Korea. iRiver pioneered this niche but was later followed by Samsung and others.

III. Case Studies

We provide richer insight into each strategy with a case study of a specific Korean non-Chaebol company in each cell. Data for these case studies were obtained primarily from secondary sources such as company reports, newspaper and

magazine reports, security analysts' reports and books. Interviews with company executives, security analysts and journalists helped supplement the secondary data. The four selected case companies are E-Rae Electronics Industry Company (Co-exister in Cell 1), Intops (Supplier in Cell 2), Pantech (Competitor in Cell 3) and Humax (Niche Player in Cell 4).

3.1. E-Rae Electronics Industry Company (Co-exister, Cell 1)

In 1993, E-Rae Founder and CEO Jung Moon-Sik visited the CEBIT information technology trade show in Hanover, Germany and saw a huge opportunity in the cell phone market. Though E-Rae did not have the resources to get into cell phone manufacturing, Jung decided to get into manufacturing cell phone battery chargers and hands-free equipment for automobiles. The company learned to reduce costs by outsourcing the manufacturing and the sales to smaller Korean companies. Profit margins were thin due to severe competition and E-Rae needed new avenues for growth. Jung wanted a stable customer so he kept visiting Hyundai Electronics over a period of 3 months and offered them free samples of his battery charger. At first, Hyundai Electronics ignored Jung because they had not heard of E-Rae. But impressed by his persistence a Hyundai employee tried his sample and it worked fine. The same employee provided Jung with the specifications of the battery charger that Hyundai needed but without any guarantees to purchase the product. Jung took the risk and made 4000 battery chargers for Hyundai without a firm order. Luck favored Jung because Hyundai was having some technical problems with their current battery charger and decided to try the E-Rae product. The product passed the test. E-Rae became an official supplier to Hyundai Electric in 1996 and reached revenues of 8 billion KRW that year.

CEO Jung bought an LCD monitor company (Seo 2005) when most monitors were heavy and thick. He believed flat monitors would replace the heavy ones. He bought LCD components from Samsung Electronics and assembled them using E-Rae technology. The price of these LCD panels was cheaper than those from Samsung and LG by about 30%. From 2002, E-Rae initiated aggressive sales to the PC Bang (Internet retail outlets offering consumer games and services), a market ignored by Samsung and LG, and sold more than 80,000 LCD monitors (Ju 2005). In 2003 the company recorded more than 100 billion KRW (about 1 billion USD). E-Rae could co-exist with Samsung and LG because, although the products were the same, they served different ends of the market.

3.2. Intops Company (Partner Cell 2)

In 1984, Intops began supplying plastic components for wired home telephones to Daewoo Electronics and Samsung Electronics. In 1988 Intops provided parts to Samsung

Electronics for the first Korean cellular phone (SH-100) and started a cellphone business. During the 1990s and 2000s, Intops developed many innovative technologies such as twin-cylinder technology, which enabled it to produce products with more than two colors in one mold. It also developed multi-cavity molding technology, which enabled it to produce more units of product than a single cavity mold. Gas molding and compression technology also enabled it to produce stronger and slimmer products. Intops also lowered product defects below 1% in 2003 (Kim 2003). With their advanced technology, Intops impressed Samsung and the companies forged a stronger relationship. With the explosion in the domestic cellphone market and Samsung's domination of it, Intops' revenue grew rapidly as a key supplier. Intops revenue from cellphone cases grew from 7.5 billion KRW in 1998, to 224.9 billion KRW in 2005. (Intops annual report 2005). Intops' success is clearly tied to Samsung's success but this is the result of a close partnering relationship based on advanced technology, product quality and trust.

3.3. Pantech (Competitor Cell 3)

Pantech started making pagers in 1992. The pager market was growing rapidly and Pantech did well because it made well-designed products. Pantech saw the technology trend shift from pagers towards digital mobile phones. In 1997 Pantech produced its first CDMA mobile phone. The CDMA phone had good quality, so in 1998 Motorola invested 17.5 billion KRW in Pantech and became its second largest shareholder (Choi 1998). This strategic alliance gave Pantech access to Motorola's advanced technology as well as its global sales network. With Motorola's help Pantech's revenue grew from 35.8 billion KRW in 1998 to 226.6 billion KRW in 1999 and this growth was sustainable over the next few years. In 2004 Motorola sold its 16.4% equity stake in Pantech (Moon 2005). Pantech invested two billion USD in marketing its own 'Pantech' brand in 2005 but did not generate much brand awareness (Kim 2006). The company could not produce any hit models to compete with BlueBlack by Samsung and RAZR by Motorola. It laid off 1200 employees in 2006, could not pay off its debt (Lee 2007), and started "Workout", a process to rehabilitate a financially distressed company. Pantech has been allowed to continue in business but it will reduce the number of its phone models from 50 to 25 and focus on smart phone products for high-end markets in US and Japan (Lee 2007).

Pantech's history reflects the risks involved in competing head on with Chaebol companies like Samsung and LG in domestic and overseas markets. It is possible for a non-Chaebol firm to succeed in this environment provided it can spot market and technology trends early. It may be advantageous for Korean non-Chaebols to form early strategic alliances with non-Korean companies to better compete with the Chaebols in the domestic market, the way Pantech did

with Motorola.

3.4. Humax (Niche-Player Cell 4)

In 1995, Samsung got an order from the Australian Broadcasting Company for digital satellite set-top boxes. Samsung asked Conin (the predecessor company to Humax) if it could develop and deliver this product. Conin accepted the order even though it had neither the resources nor the knowledge to develop set top boxes. Conin exited all its existing businesses, such as Karaoke players and factory automation, and focused all the company's resources on the digital set top box. In 1997, due to the Asian Currency crisis, Conin barely escaped bankruptcy (Byun 1993). The company realized it could not be dependent on a single large customer like Samsung. So, it decided to sell its product under its own brand, Humax, through general distribution channels when the predominant channel for set top box manufacturers was to sell through big broadcasting companies. In 1998, the company changed its name to Humax, the same as the brand name. A new, better quality set top box was developed and marketed in Europe through general distribution channels. The new product experienced rapid growth in this channel (Byun 1993). As time went on, the Humax brand became known for good quality. In 2003, Humax announced that the company would sell Digital LCD TVs. Unlike other LCD TV makers whose users have to buy a separate set top box, Humax LCD TVs would have a set top box integrated into the TV, providing enhanced value (Lee DJ et al 2005). Humax reached its breakeven point and TV revenues were expected to reach about 20% of total revenue in 2006.

Humax initially was an OEM supplier of digital satellite set top boxes to Samsung and found this to be a risky strategy. It enjoyed greater success with its own brand of set top boxes in general distribution channels that were ignored by the larger manufacturers. Being a niche player can be a viable strategy to compete against the Chaebol. However, a niche doesn't last forever so the non-Chaebol firm has to be creative and adapt to find new niches every few years. Flexibility in the face of environmental dynamism is called for (Kim and Ji 2007).

3.5. Propositions

Based on our conceptual framework and the above case studies, we now draw performance implications on how Korean non-Chaebol firms could compete better with the Chaebol. Our conceptualization of performance in this paper is long-term performance of the company, in the 1 - 3 year time frame, as manifested in financial indicators such as profitability or return on equity for shareholders. The literature on co-competition (Brandenburger and Nalebuff 1996), social capital theory (Gabbay and Leenders 1999), and educational psychology (Kohn 1992) says that cooperation in any kind of human activity, including business, should produce better results than

competition. This is because cooperation helps expand the size of the market opportunity whereas competition just divides the existing market among the different players. This gives rise to our first proposition.

Proposition 1: Non-Chaebol firms that have a cooperative relationship with a Chaebol will perform better than firms that do not.

Proposition 1 could be applied at each level of product similarity in Figure 1. This gives rise to our next two propositions.

Proposition 1a: Co-existers (Cell 1) will perform better than Competitors (Cell 3).

Proposition 1b: Partners (suppliers or complementors) (Cell 2) will perform better than Niche players (Cell 4).

Porter (1980) says that when competing products are the same, rivalry is more intense and the industry is less attractive for new investment. Differentiated products command price premiums and higher profit margins than non-differentiated products (Kotler and Keller 2007). Abell (1980) recommends that entrepreneurial firms use a differentiation strategy in entering growth markets. Differentiation may come from incremental or radical product innovation (Moon 2008). Therefore, the second implication of our framework (Figure 1) is that non-Chaebol firms whose products are different from what a Chaebol offers should perform better in the marketplace than non-Chaebol firms that have the same products as a Chaebol. Thus:

Proposition 2: Firms that have no product similarity with a Chaebol will perform better than firms that have product similarity.

Proposition 2 can be applied at each level of cooperation in Figure 1. This gives rise to our next two propositions.

Proposition 2a: Partners (suppliers or complementors) (Cell 2) will perform better than Co-existers (Cell 1).

Proposition 2b: Niche players (Cell 4) will perform better than Competitors (Cell 3).

Combining the logic of Propositions 1a, 1b, 2a and 2b, we can infer that Partners in Cell 2 should perform the best and Competitors in Cell 3 should perform the worst of the four cells. To resolve the ambiguity on the relative performance of Co-existers in Cell 1 versus Niche Players in Cell 4 we turn to some empirical research on Korean technology startups. Lee and Lee and Pennings' (2001) concept of entrepreneurial orientation encompasses three dimensions of innovativeness, risk-taking and proactiveness. Innovativeness is the ability of a startup to generate new ideas, experiment in R&D and launch new products and services. Risk-taking is the propensity of a startup to commit large resources to uncertain and novel businesses. Proactiveness is the startup firm's first mover

actions towards market opportunities. Lee, Lee and Pennings (2001) found empirical support for a positive relationship between entrepreneurial orientation and technology startups' performance. Yoo, Suh and Lee (2009) found a positive relationship between entrepreneur's market orientation and relationship orientation on the one hand and business performance on the other. Niche players in Cell 4 are likely to be more innovative, risk-taking and proactive than co-existors in Cell 1. Therefore, we can infer that niche players in Cell 4 should perform better than co-existors in Cell 1. This is also consistent with marketing theory, which says that niche players in unserved markets should have better profit potential than me-too products in low-end markets (Kotler and Keller 1997). This gives rise to our next proposition below.

Proposition 3: Niche players (Cell 4) should perform better than Co-existors (Cell 1).

Combining the logic of Propositions 1a, 1b, 2a, 2b and 3, we have our final proposition below.

Proposition 4: Performance can be rank-ordered in descending order as Partners (Cell 2), Niche Players (Cell 4), Co-existors (Cell 1), Competitors (Cell 3).

IV. Data Analysis

One of the fastest growing industrial sectors in Korea is electronics and telecommunication. We picked this industry for

Table 2. Chaebols in Telecommunications and Electronics

Chaebol	2005 Revenue (Billion USD)*
Samsung Electronics	57.4
LG Electronics	23.7
KT	11.8
SK Telecom	10.1
LG Philips LCD	8.8
KTF	6.0
Hynix	5.7
Samsung SDI	5.7
LG Telecom	3.5
Samsung Electro-Mechanics	2.2
Dacom	1.1
LG Micron	0.7
Hansol LCD	0.6
Hyundai Autonet	0.4
Dongbu Electronics	0.3
KTH	0.1

Source: Fn-guide, August, 2006

* Converted by Korean Won (KRW)/US Dollar (USD) = 1,000/1.00

our empirical tests because it has many non-Chaebol companies as well as larger Chaebol companies. According to the Korean Stock Exchange, in addition to 16 Chaebol companies (Table 2), there are 254 non-Chaebol companies in "electronics parts, sound, visual, communication equipment" sector and the "telecommunication sector," which constituted our sample. From this sample we had to delete 38 companies that were multi-sector classified and had a very small part of their revenue from this sector, or were pending bankruptcy, or for which three contiguous years of data (2003-2005) were not available. Data from these three years was chosen because they were past the volatility of the Asian financial crisis and the dot com boom and bust. After this we were left with 216 non-Chaebol manufacturing companies in the electronics and telecommunications sector.

A team of experts was constituted to categorize each of these 216 non-Chaebol companies into one of the 4 cells in our typology (Figure 1). The four Korean members of the team included a Ph.D researcher, two business journalists working for a national economic daily newspaper, and a doctoral student majoring in business strategy. Each member read the report, Spring Analysis of Publicly Traded Companies (Maeil Business Newspaper 2006), which contains brief explanation of the companies and simplified financial statements. Each member independently categorized each of the 216 companies into one of the 4 cells in Figure 1 (co-exister, partner, competitor, niche player). Most of the company categorizations converged across team members, a few did not. For those companies that lacked convergence, team members discussed their individual categorizations and provided additional information until all members were persuaded about a specific category, which was the final one used in the analysis. The breakdown of sample companies classified by the above procedure is: Partners 126, Niche Players 54, Co-existors 16 and Competitors 20.

For each company in the sample, we obtained financial information from the Fn-guide, a Korean financial information service company (<http://fnguide.com/>). The simple measure of performance that we used to test our hypotheses was average return on equity (ROE) over the three-year period 2003-2005. The accounting formula used by Fn-guide for ROE is net profit / equity capital expressed as a percentage. If a company makes losses, ROE could be negative.

Simple Analysis of Variance (ANOVA) in SPSS statistical software was used to test our propositions. Results are presented in Tables 3 - 10. In these tables, we compare the average ROE during 2003-2006 (%) across various cells in Figure 1. Results in Tables 3 - 10 provide statistical support for all of our propositions except Proposition 1a and Proposition 3. Although the latter were not statistically supported, the Means in Table 4 and Table 9 are in the right direction as predicted. Overall findings are that it is better to have a cooperative relationship with a Chaebol and to offer products or services differentiated from a Chaebol. The lack of statistical support for 1a and 3 may be due to small sample

sizes in some cells and is a limitation of this study.

Table 3. Proposition 1 Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
1 & 2	142	7.7	24.267	.000
3 & 4	74	-16.5		
Total	216	-6		

Table 4. Proposition 1a Not Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
1	16	-21.7	1.332	.257
3	20	-40.2		
Total	36	-31.9		

Table 5. Proposition 1b Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
2	126	11.4	17.314	.000
4	54	-7.7		
Total	180	5.6		

Table 6. Proposition 2 Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
2 & 4	180	5.6	38.257	.000
1 & 3	36	-31.9		
Total	216	-6		

Table 7. Proposition 2a Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
2	126	11.4	22.393	.000
1	16	-21.7		
Total	142	7.70		

Table 8. Proposition 2b Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
4	54	-7.7	8.953	.004
3	20	-40.2		
Total	74	-16.5		

Table 9. Proposition 3 Not Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
4	54	-7.7	2.132	.149
1	16	-21.7		
Total	70	-10.9		

Table 10. Proposition 4 Supported

Cell (Figure 1)	Number of Firms	Average 3-year ROE (%)	ANOVA F-statistic	Significance
2	126	11.4	19.033	.000
4	54	-7.7		
1	16	-21.7		
3	20	-40.2		
Total	216	-6		

From Table 10 it is clear that the only profitable strategy, on average, to compete against the Chaebol is to be a partner (supplier or complementor) (Cell 2). Firms in all the other cells in Figure 1 are making losses, on average, although the relative loss decreases from Niche Players (Cell 4) to Co-exister (Cell 1) to Competitor (Cell 3). Competing head on with a Chaebol company is a costly strategy not likely to pay off for a non-Chaebol firm. Strategies to avoid head on competition with the Chaebol by serving niche markets with differentiated products or by serving the low-end of the market ignored by the Chaebol are better survival strategies. The benefits of partnering for Korean firms are well documented in the literature and this study's results are consistent with that literature (Kim and Song 1998).

V. Discussion

This paper illustrates that there are ways in which small and medium Korean non-Chaebol firms can thrive in a Chaebol environment, though not without risks. Using different combinations of competition and cooperation firms may choose particular positions along the product similarity and cooperative relationship dimensions to develop their competitive strategies—co-exister, competitor, partner, niche player. Based on our exploratory case-study analysis, partner seems to be the best strategy for non-Chaebol firms while competitor appears to be the most risky one. Niche players and co-existers have intermediate performance, though the former do better than the latter.

It is often the case with managers of small and medium size companies that they tend to view market leaders, typically the Chaebol, with rather simplistic assumptions of either competition or collaboration. Consequently, many non-Chaebol firms turn out to be either passive collaborators or

overwhelmed competitors of the Chaebol. In fact, competition and collaboration are not mutually exclusive, and can be pursued at the same time. As suggested in this paper, non-Chaebol firms can actively choose to compete and collaborate, depending on their environment, internal resources and capabilities.

Our findings offer some public policy and managerial implications. The Chaebol has been regarded as the most fundamental problem in the Korean economy, primarily because they have dominated the domestic market for too long (Chang 2003). It is well documented, for example, that Hyundai grew into a powerful Chaebol with the help of Government protection against foreign competition (Guillen 2000). Government must play a proactive role in strengthening the institutions that foster competition against the established Chaebols (Rajan and Zingales 2003). It should design policies and programs that encourage creativity, innovation and entrepreneurship. Only then will Korea evolve into the next stage of being a healthy, vibrant economy made up of diverse organizations of varying sizes (Ferguson 1988; Gilder 1988).

Although this paper has focused on how Korean non-Chaebol firms can compete against the Chaebol, we believe the conceptual framework and propositions also apply to entrepreneurial firms in other newly industrialized countries that share political-economic characteristics with Korea, or more generally to entrepreneurial firms in any country that have to compete against a dominant firm in a particular industry.

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