Case Study - Organizing

Daewoo was founded in 1967 by its hardworking, relentlessly driven chairman Kim Woo-Choong. After its initial success in exporting textiles, the company expanded into trade, autos, machinery, consumer electronics, construction, heavy shipping, computers, telephones, and financial services, becoming Korea's fourth largest business group. it became a textile supplier for Sears, Christian Dior, Calvin Klein, and London Fog. it also engaged in a joint venture with General Motors (GM) to build the Le Mans car. However, labor and other problems limited car shipments. Chairman Kim's philosophy of hard work and the value placed in people were important factors in the firm's success. However, in the late 1980s and early 1990s, the company faced several problems. For one, Kim was concerned that, with the increasing prosperity of Koreans, the work force might lose the spirit of hard work. Moreover, there was growing discontent among younger workers and decreasing motivation. Through Kim's hands-off approach to managing, some of the companies in the Daewoo group went out of control. For example, in the unprofitable heavy shipping unit, he noticed many unnecessary expenses. The elimination of company-sponsored barbershops saved the company $8 million a year. In general, Daewoo's work force was young and well educated. In contrast to similar positions in many other Korean companies, top positions at Daewoo were occupied by managers with no family ties. Although Daewoo was a major company with its 91,000 employees, it was not dominant in any one industry. The strategy of being a supplier for major companies, such as Caterpillar, GM, and Boeing, may have led to opportunities being bypassed for becoming a major marketer of its own brands. Now in the 1990s, Kim was also looking at opportunities in Europe; for example, he formed a joint venture with a distribution company in France.

The massive restructuring had already shown some positive effects. Kim sold some steel, financial, and real estate units. The hands-off managerial style had been replaced by a hands-on style, resulting in re-centralization. Managers were “retired” or otherwise let go. Thousands of positions were also eliminated.

Things were looking better in 1991. The company lost money in 1988 and 1989 but made some profit in 1990 partly because of the sale of some major assets. The joint venture with GM registered a healthy growth. The company was also optimistic about the future of the new compact car Espero. Still, Daewoo had to cope with its labor costs and Japanese competition.

What looked good in the early 1990s dramatically changed in the latter part of that decade and especially in the years 2000 to 2002. In 2000, Ford planned to buy Daewoo Motor for some $7billion. However, the deal fell apart later that year. Moreover, the company went bankrupt in November 2000. Chairman Kim mysteriously disappeared. He liked to think big, and he also left behind the company with big debts. Several billion dollars were also unaccounted for. With Ford out of the picture, GM entered seriously into negotiations with Daewoo, which was once Korea’s second biggest car maker. On April 30, 2002, GM agreed to buy the bankrupt company, which was renamed as GM-Daewoo. What is in it if for GM? The acquisition is a key component of its global strategy. On the other hand, restructuring Daewoo is going to be a formidable task. The brand image has to be restored and the Korean market share of 10 percent (which was 37 percent in 1998) has to be improved. The product line also has to be reviewed and complemented with new models. Moreover, GM-Daewoo can expect difficulties with Korea’s aggressive unions.

<u>Questions:</u>

1. With respect to the above case, what were the advantages and disadvantages of a hands-off, decentralized management approach?
2. What were some of the controllable and uncontrollable factors in this case? How should Mr.Kim have responded to those factors?