



CEO's Workshop Building the CEOs  
Toolkit to Achieve Peak Performance

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An Ethics Toolkit for CEOs:  
The Power of Ethical (Jeong-do) Management—  
the Korean Experience

**Jeong-do Management**

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# Jeong-do Management



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## | . The Cooperative Identity

### ★ Identity ( 正體性 , 참모습)

- ▶ Cooperatives = the movement + the management
- ▶ The Movement → the endeavor for changing the society to the desirable way together

### ★ Cooperatives' the problem to be solved

- ▶ The early period → Economic movement for the better life
- ▶ The 21st century  
→ To improve the quality of life continuously

### ▶ 1980. 27<sup>th</sup> ICA Conference Dr. A.F.Laidlaw

Credit Crisis → Management Crisis → Ideology Crisis

### ▶ Ideology Crisis ⇒ Distortion of the original purpose

The enemy of the cooperative ?

Selfish Mind

Dependent  
Mind

■ **To define the value of Co-operative**

**1995.ICA. Statement on the Co-operative Identity**

■ **The Co-operative Identity ?**

**The definition of Co-operative,**

**The value of Co-operative,**

**The principle of Co-operative**

■ **Why did they define the cooperative identity ?**

◀ **They needed value criterion of the value of cooperative.**

## ◀ How do we follow the Co-operative identity?

- ▶ The **desirable** purpose of organizing credit union
  - ★ Return to the Core → CU's original purpose
  - ★ The core value of CU is “**the member**”
    - The focus of discussion is the member

- ▶ We need to follow our true business
  - ★ To obtain competitiveness in our true business
  - ★ To satisfy members' needs

- ▶ To harmonize with moral value and management techniques
  - ★ To harmonize with moral value and management techniques with the CU identity



# Moral Hazard

IMF Crisis ~ Dec. 31, 2003

327 CUs were closed

- ▶ **Deepening competition rashly**
- ▶ **Moral hazard due to Depositor Protection Fund**
- ▶ **The management violated the regulation**
- ▶ **To invest high risky assets due to de-regulation**



**▶ It is urgent to improve directors and staff's behavior**

- ▶ Return to the original purpose for overcoming crisis**
- ▶ Directors and staff who are responsible for the business respective of legal responsibility should manage the credit union.**
- ▶ Breaking directors and staff's moral hazard for overcoming crisis**
- ▶ Improving old management skill and habitual practice**
- ▶ Strengthening directors and staff's management competency**

## II. The Crisis and Overcoming of S&L Association in the USA

### S&L Association's Bankruptcy (1980-1988)

Year	Bankruptcy	Forced M&A	Voluntary M&A
1980	11	21	63
1981	34	54	215
1982	73	184	215
1983	51	34	83
1984	26	14	31
1985	54	10	47
1986	65	5	45
1987	59	5	74
1988	190	6	25

*FDIC & Earth, The cost of US Savings & Loan Crisis*

◀ **The result of S&L crisis : Decreased No. of S&L from 4,592 S&L in 1980 to 2,328 S&L in 1988 → The biggest financial crisis after the Great Depression due to drain depositor protection fund in 1986**

# II. The Crisis and Overcoming of S&L Association in the USA

## Causes of crisis(1980-88)

Economic Crisis  
Reaganomics

An uncomfortable atmosphere
Deepening competition among financial institutions
High interest and high fluctuations
Deregulation
Moral hazard due to depositor protection fund
The management violated the regulation
Decreasing the value of real estate
Interest relations with politicians
Late reaction of the competent institutions

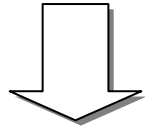
## Reaction for overcoming crisis

<b>The Financial Institution Reform, Recovery and Enforcement Act of 1989</b>
Changing financial supervision system
Resolution Trust Corp.
Office of Thrift Supervision (OTS)
Decreasing risk of depositor protection fund
Strengthening regulation
<b>Re-structuring</b>
▶ Decreasing the cost
▶ Customer satisfaction management
▶ Sound management
▶ Earnings management system
▶ Strengthening risk management
▶ Organized arrangement of management resources
▶ Economics of scale

# III. The Failure of Commercial Banks in the USA in 1980s

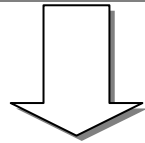
**Financial Liberalization,  
Liberalization of interest rates**

- Deepening competition
- Strengthening capital regulation



**Dis-intermediation**

- Dis-intermediation of large enterprises
- Moving from savings to MMF



**Raising : interest rate competition for market share**  
**Investment : High risk, high return**

- Interest rate of MMDA is 1% higher than MMF interest rate
- Increased loans for real estate



**The failure  
In 1980s**

**A rapid increase of insolvency**  
**A rapid increase of bankruptcy**

# III . The Success of Commercial Banks in the USA in 1990s

## The endeavor of banks

- ▶ ① High interest margins
- ▶ ② Increasing commissions received : Charged for financial service
- ▶ ③ Decreasing the cost through management rationalization :
  - Office innovation, enlargement of delivery channel
- ▶ ④ Concentrating core business & withdrawal of non core business

The endeavor of banks  
and external factors

The take-off  
stage in 1980s

- To settle junk bond
- Increasing reservation

## External factors

- ① Low interest rate policy of FRB
- ② Increasing earning through long-term bonds
- ③ Smooth macro recovery : Decreasing junk bond

## IV. The Future Management Plan of CUs

Jeong-do Management

**Ethical Management  
(Morality)**

**Transparency Management  
(Transparency)**

**Revenue Management  
(Benefits)**

**Sound Management  
(Soundness)**

Continuous works for the future

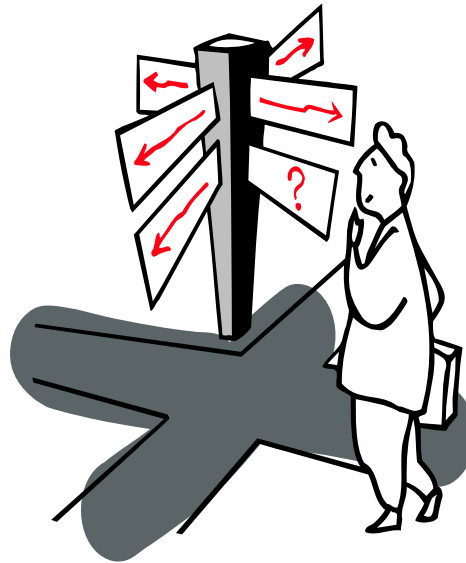
## IV. The Future Management Plan of CUs

### 1. Ethical Management

‘Fast. and not  
in principle’



‘Slow. but  
in Principle’



‘Core value ?’



‘Member  
management’

- The value of cooperative

- CU's original purpose

- Trust is everything

## ▶ Pulmu CU – Rule based Management

The oath  
of directors

★ The biggest organic town in Korea , Medical care and dis-infection

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Assets 20.3B

Net capital 11.2%, ROA 1.3%, Loan-deposit ratio  
90.0%, NPL 0.7%

\*NPL → Non performing loan

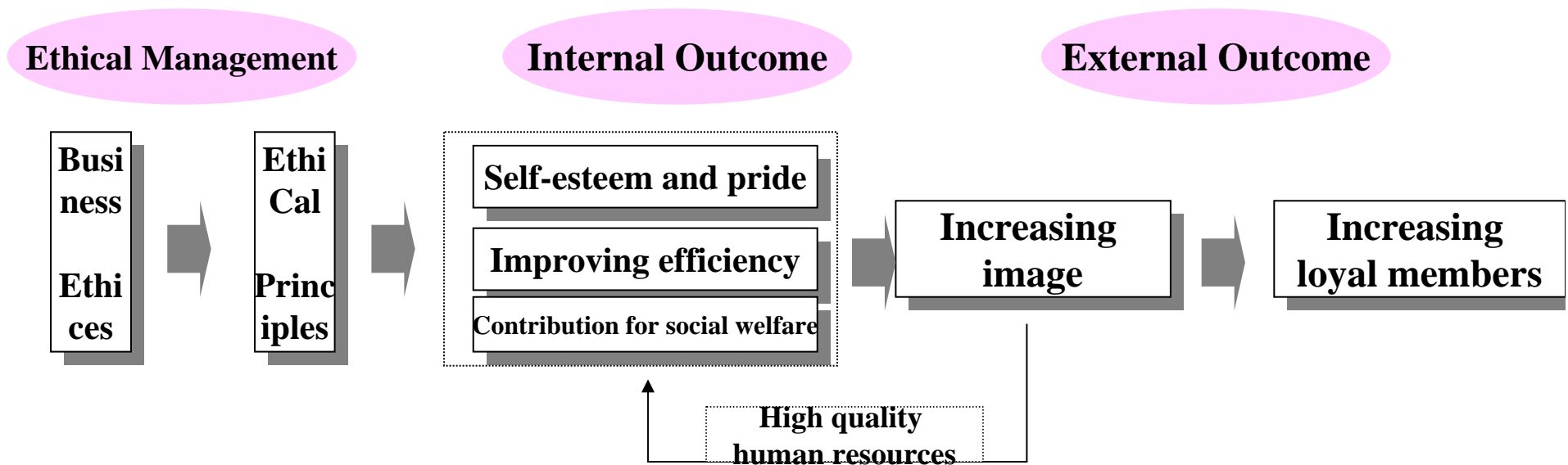


## ► No Trust, No Growth

### ■ Fortune Magazine in the USA

- Fortune respectable 1,000 corporations – **Top 10 corporations : average earning ratio : 41.5%**
- S&P 500 Index : average earning ratio of corporations : 31.0%**

### Ethical Management and Business Outcome



► The staff of credit unions should have strong ethical mind because we work for economically and socially underprivileged members.

# Ethical Management is the Basic of Business

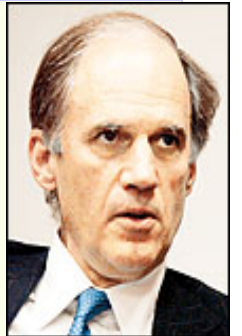
■ **Ethical management is the basic demand in the market economics.** (Donna J. Wood, Chair-Professor of Business Ethics, University of Northern Iowa)

■ **For sound America, we should be back original Character Ethics.**  
- **Sincerity, diligence, honesty** (Stephen R. Covey)



■ **The most powerful and respectable financier in the Wall street's history, JP Morgan**

“The first reason of my success is not economic credit but character credit.”  
“I will not have business relations with incredible person although he gave me the bond of God.”



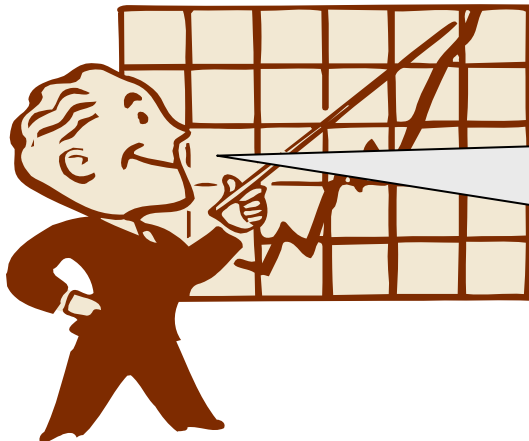
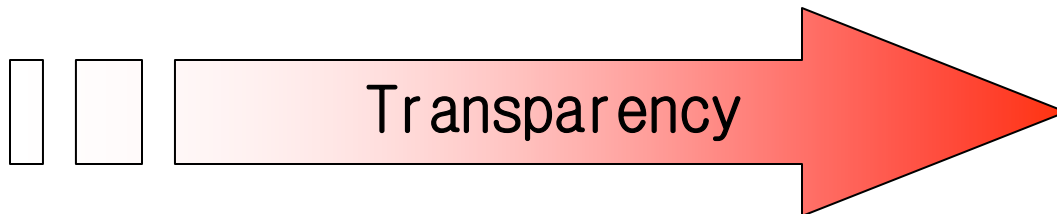
## **◀ Customers want our responsible action**

- ▶ **Human beings may make a mistake because they are not perfect. Therefore, customers don't want perfect service.**
- ▶ **However, if we show our truth through solving difficulties and mistakes transparently, customers will be impressed.**
- ▶ **If we hide and ignore our mistakes, customers will not forgive.**

# The Future Management Plan of CUs

## 2. Transparency Management

**How do we make our organization to win a victory?**



**When an organization is getting complicated, all information should be opened.**

## ▶ How do credit unions obtain transparency?



How to obtain transparency

- ▶ Opening management information(Tongyeong Bokeum CU, Naju CU), Strengthening the public announcement policy
- ▶ Internal check system(Mokpo CU - loan deliberation and review system)
- ▶ Internal supervisor and external auditor
- ▶ Strengthening relationship with members ⇒ education, activity, and so on (Daegu Chilgok CU – an informal gathering for discussion per community etc.)

# The Future Management Plan of CUs

## 3. Revenue Management

### ■ To follow our true business

▶ Let's do what we can do it originally (**Field management**)

▶ Close relationship of retail finance → ★ **CU's strength**

★ **Doing business in the niche market**

### ▶ **Strengthening loan business**

⇒ Loan business is CUs' **original earning resources**

⇒ Developing loan products for **members' needs**

### ▶ **Changing loan underwriting & collection management**

⇒ ★ **repayment ability**

# The Future Management Plan of CUs

## 3. Sound Management

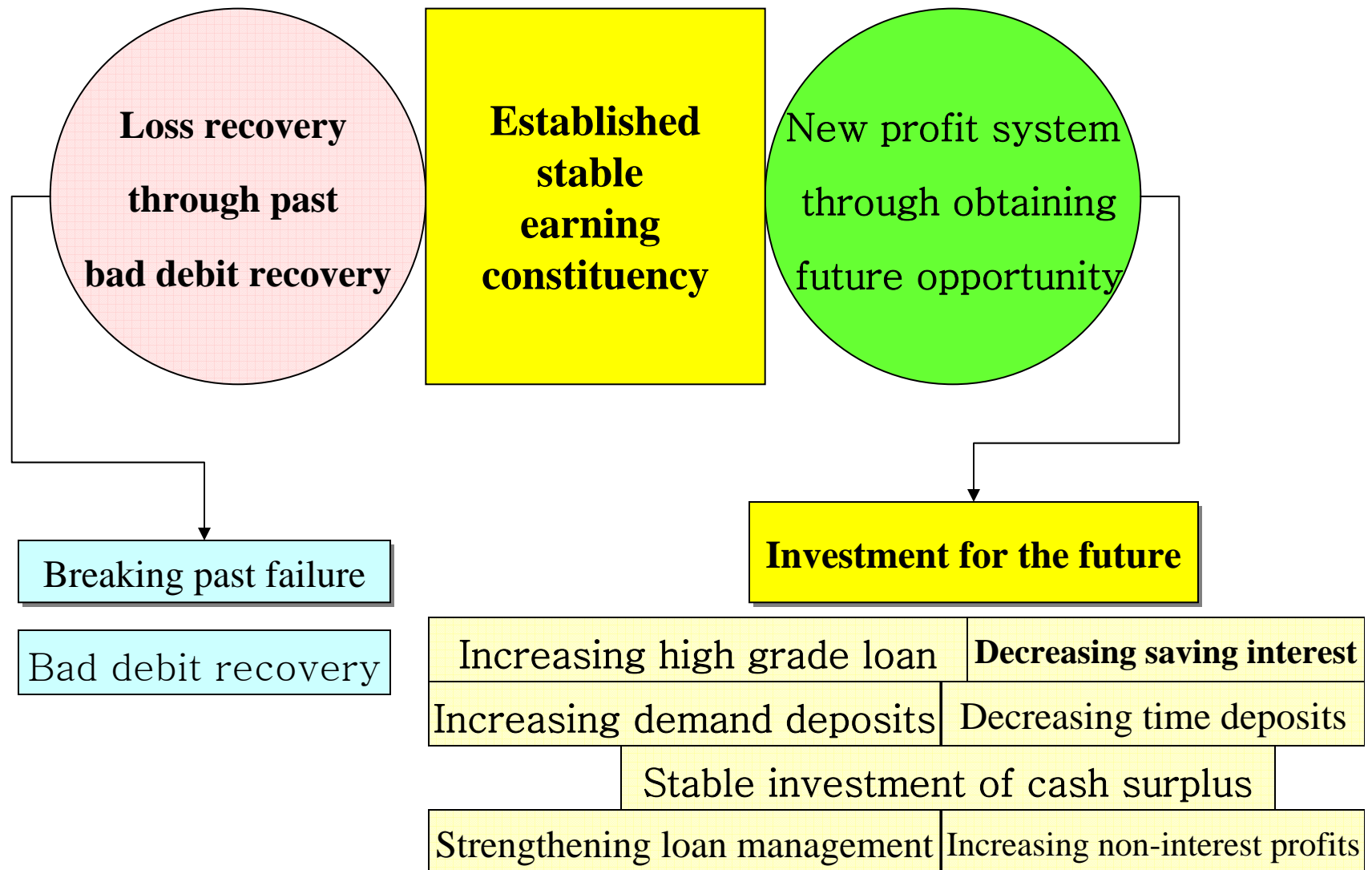
► **To establish a continuous and stable earning constituency is related to viability.**

⇒ **To establish a earning system through close relationship with members**

► **Not growth without profits but getting earning system with efficiency**

⇒ **Statistical data focused on total assets just cause satisfaction of directors and staff**

# Stable Earning Constituency

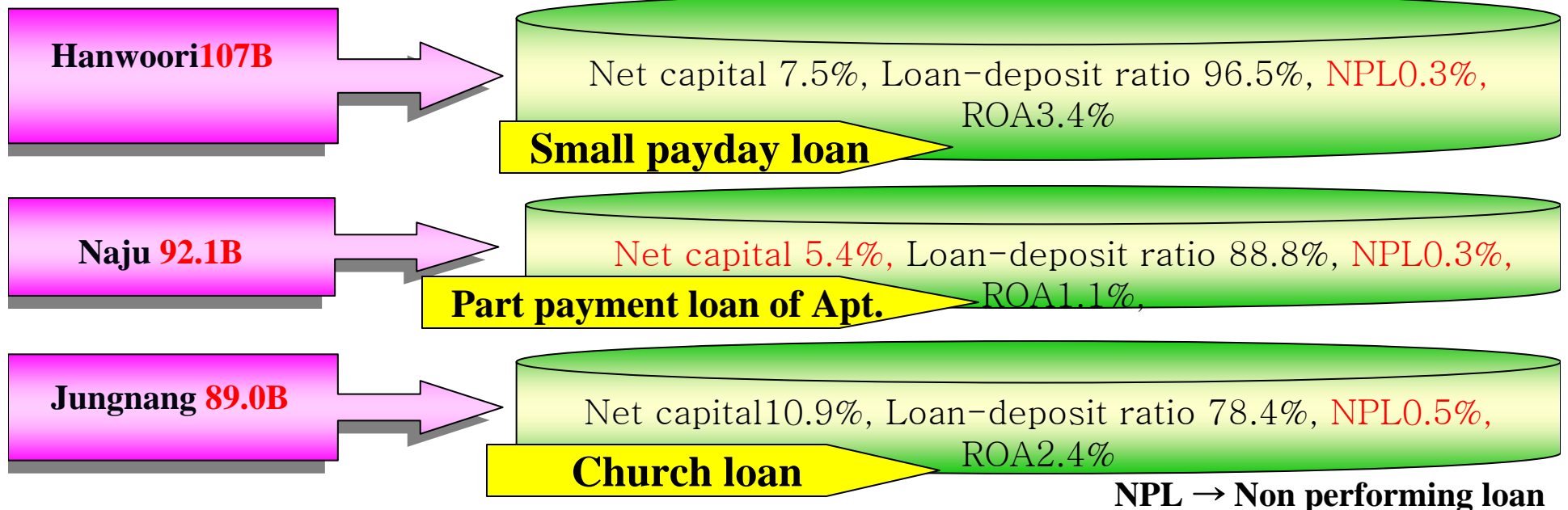




## STP Strategy

- ▶ Segmenting
- ▶ Targeting
- ▶ Positioning

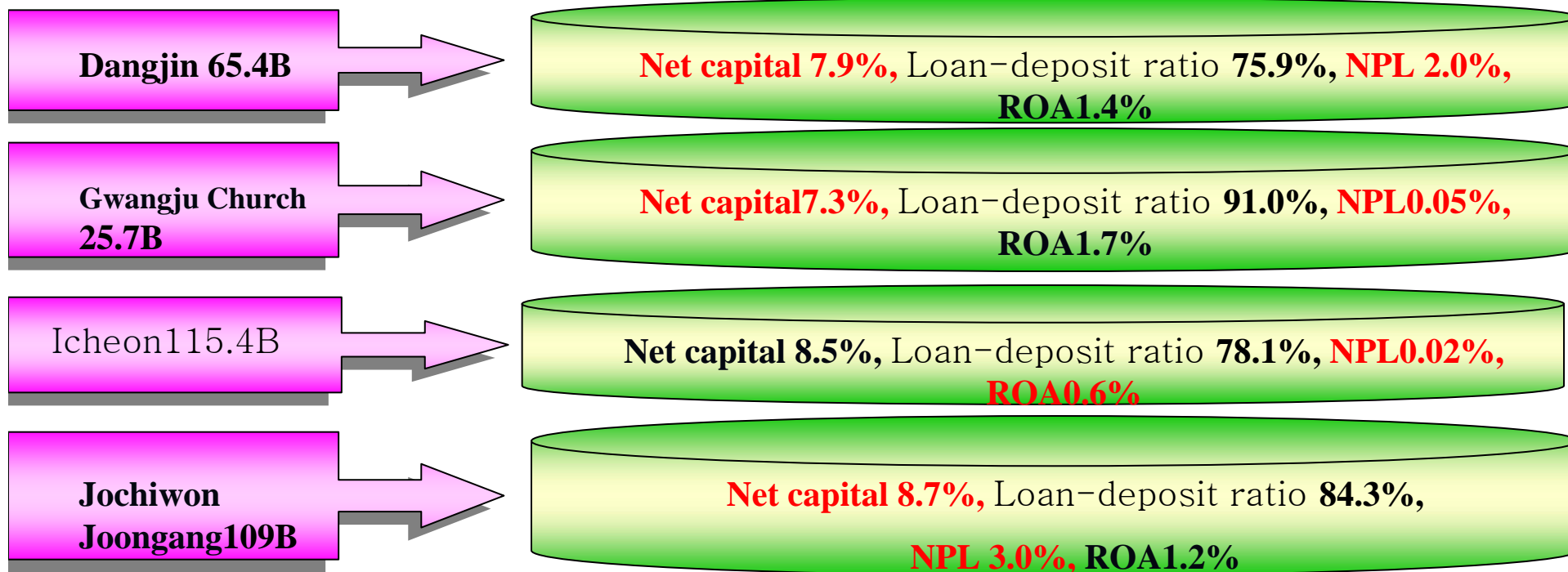
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## ▶ How to get the Character of Retail Finance

- Prior occupation to Market. Increasing speed
- **Dynamic price** generation – Service differentiation
- Demand > Supply → Economic of scale
- **Demand < Supply** → Transparency and efficiency

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\* NPL → Non performing loan

► These CUs lost the function of cooperative

•2007.6.30

**DS 34.9B**

Net capital -6.2%, **Loan-deposit ratio 19.5%**, NPL19.5%,  
**ROA-5.0%**

**JS13.1B**

Net capital 2.4%, **Loan-deposit ratio 24.6%**, NPL0.5%,  
**ROA0.17%**

**SD26.8B**

Net capital 0.23%, **Loan-deposit ratio 37.0%**, NPL 3.2%,  
**ROA 0.06%**

**KJ11.5B**

Net capital -1.1%, **Loan-deposit ratio 32.7%**, NPL 0.99%,  
**ROA -0.36%**

\*NPL → Non performing loan

# The Future Management Plan of CUs

## 4. Sound Management

### Prevention unexpected loss

▶ Establishing risk management mind of directors and staff prior to building risk management system

▶ Cutting risk concentration

⇒ No high amount of loan and saving, no high risk investment

▶ Not short and one time profit

★ But continuous and long term profit



A bank rejected  
0.1% bonus interest

\*According to the research of FSS, financial consumers' most important point is the stability of financial institute when they select their financial institution.

**Stable management for protecting  
members' wealth and maximizing the value**



- ▶ **Decreasing high interest and lopsided saving and deposits**
  - ▶ **Decreasing lopsided loans and bad debit**
  - ▶ **Stable invest of cash surplus**
- ⇒ **Improving asset management for soundness**

◀ **Principle management**

Chungju  
Yahyun  
65.8B



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**Net capital 5.6%,** Loan-deposit ratio **72.3%, NPL 0.5%,**  
**ROA0.8%**

\* **NPL → Non performing loan**

## ► The way for continuous growth

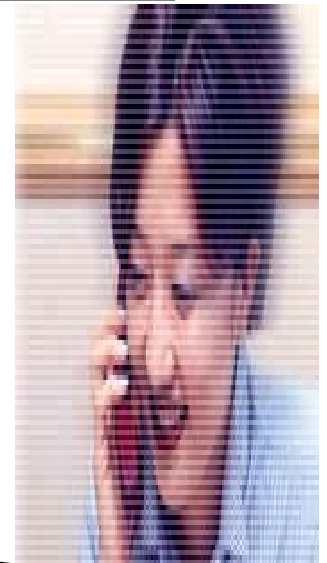
1. Borrowing is the last way.
2. Create members' demand
3. Getting business relation with ethical management company.
4. Predict the total sales this year.
5. Don't spend too much marketing cost.
6. Do market research for new business.
7. Develop products for niche market.

## 5. Respect Management for Member's Dignity and Satisfaction

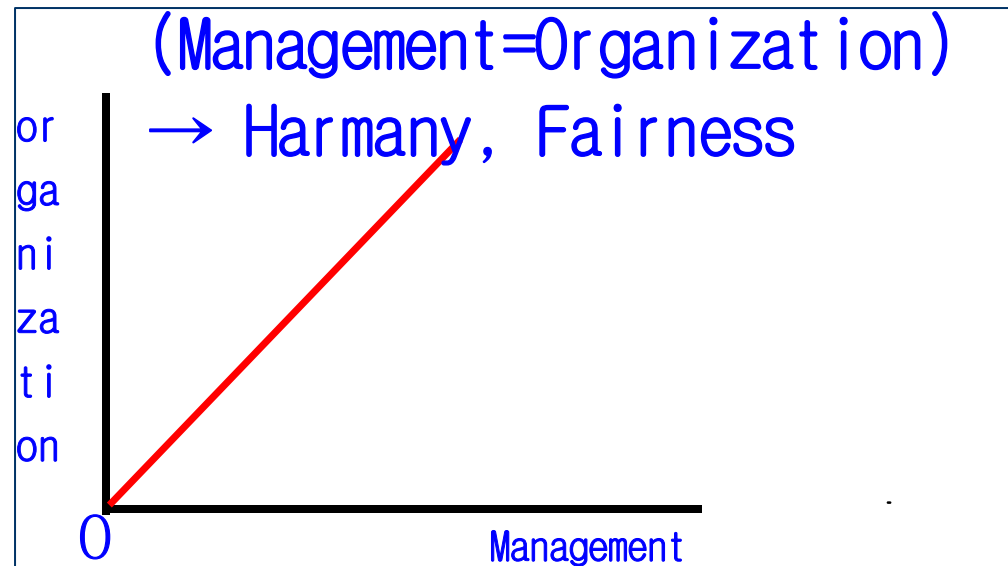
- ▶ **The core value of CU is “the member”**
  - ▶ **If we lose members, we lose everything.**
- “Making and practicing the attainable aim  
after listening members’ needs and demand**

**Shin Heon, Vice CEO Lotte Department store**  
**customer = lover**

**The member is the lover ...**



## ► Harmonize the movement and the management



■ Harmonious and fair credit unions will grow and continue

■ CUs should have different merits



# The crisis of managing members ?

## ▶ Best way for managing members

- ⇒ ① Providing high quality service ② Selling products at suitable price  
③ **Don't break off business relations**

▶ Make relationship with members with great efforts

▶ It is not efficient way to make compulsory relationship.

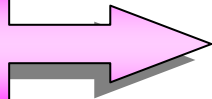
▶ When members have the loyalty to a CU, the CU has the reasons.

★ Belief(Safety) ★ Convenience(quickness) ★ Kindness ★ The loyalty of members is growing when members satisfy CUs' fair and basic business relations.

## ◀ Give the power to the staff who meets members directly

- ▶ People forget customers' needs and demand when they get higher position.
- ★ Respect sound judgment of the staff who meets members directly.
- ▶ When the staff decides by himself and is evaluated by the result, the business is growing smoothly.

Kyunggi  
Gwangju 974B



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**Net capital 4.7%,** Loan-deposit ratio **82.2%, NPL 0.2%** ROA  
1.2%

- ① Money collection work is circulated to different staff every six months.
- ② **Calls to 5 members per day / explanation products to 3 members per day**
- ③ Kind consultation ④ No loan by personal consideration
- ⑤ Small events with substantiality not big events
- ⑥ The core and principle ⑦ Distribution flower seeds to 3,000 members per year

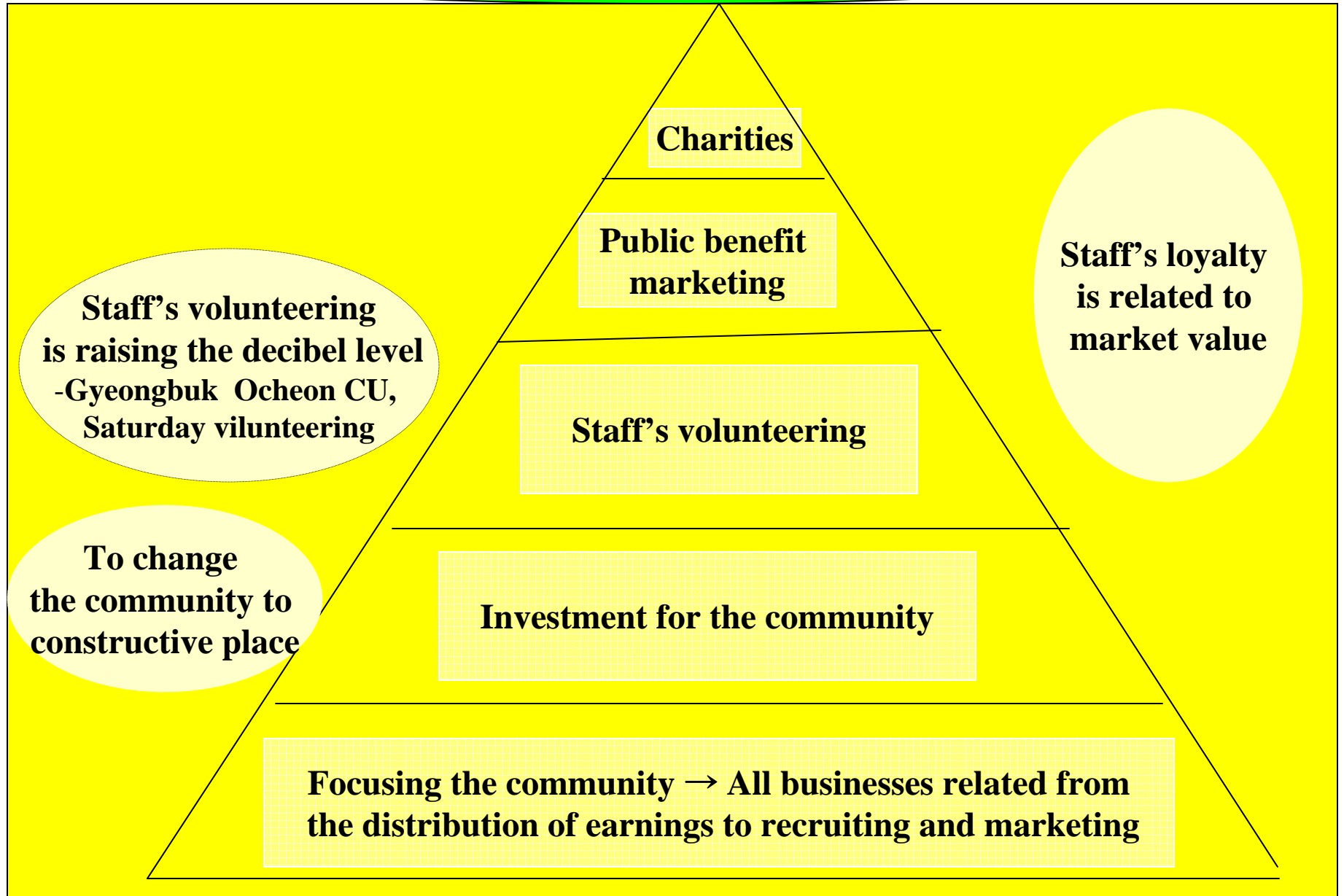
## **6. Building a Sense of Belonging as a Member of the Society**

**The value of the community is important  
to internal and external CUs**

- ▶ **We should think CUs are not a part of market but a part of community**
- ▶ **Most consumers prefer the enterprises which serve the community.  
USA67%, England86%, Auatralia73%, Italia75%**
- ▶ **The meaning of CUs' welfare business → Volunteering of the staff,  
Investment to the community, and so on.**

**CUs give the staff the opportunity  
for serving the community and  
improving their character.**

# Relationship with the community



**The most strong person is someone who has his vision**

When credit unions  
practice jeong-do management and  
do activities for the development of  
the community and the nature,

Credit unions  
are held in respect

**CU**

**Love Volunteers**

# **V . 80% of the Management is Human Resources**

**Suitable staff is  
not cost but capital**

## **◀ Leaders maintain the differentiation of credit unions from cooperation**

- Leaders harmonize the movement and the management**
- When the CU keeps two characters, the CU will grow and continue**

## **◀ Upbringing and recruiting professional managers**

- ★ Shortage of professional managers**
- ★ Necessary to invest for professionalism of internal human resources**
- ★ Amateur managers without responsibility will fail**

## V. 80% of the Management is Human Resources

◀ Invest long time for recruiting.

★ Check the reputation of the candidate over twice.

★ Share organizational culture.

→ “**Acceptance of organizational culture**” is share the vision especially the core value.

★ Educate new employee in the beginning.

**Acceptance of organizational culture** is started from recruiting .

★ Educate all staff.

★ Creating work with education.

An illustration featuring two men in business attire climbing a large, 3D red arrow that points diagonally upwards and to the right. The arrow is set against a light blue background with a white grid pattern. One man, wearing a yellow shirt and blue tie, is at the base of the arrow, reaching up. The other man, wearing a light green shirt and purple tie, is higher up the arrow, reaching down towards the first man. A small speaker icon is located at the bottom left of the illustration.

**Looking for the unexpected  
development ...**

**See change as an opportunity.  
An organization need to get the energy without  
fear.**

**- GE, Jack welch -**

**CUs should provide all information to members  
clearly and honestly  
and respect members' dignity.**



# Biodata

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## **Academic Background**

Chongju University Graduate School  
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## **Career**

Lecturer, College of Law, Chongju University  
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