

Spectre of old-style corruption unnerves South Korea

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THE assembly workers here are models of industrial efficiency, rolling out a gleaming new car every 57 seconds.

But the ultimate test of their company's mettle comes now: their boss, the charismatic chairman of Hyundai Motor Co, is in jail, accused of the old-style corruption this rapidly modernising nation hopes to leave behind.

With the formal indictment on Tuesday of Chung Mong-koo, 68, after his arrest last month, the mighty Hyundai industrial group has been thrown into near paralysis, forcing it to postpone construction of factories in West Point, Georgia, and the Czech Republic.

More importantly, the corruption charges at Hyundai and a similar investigation earlier this year at Samsung are raising questions about the management of Korean companies just as some join the top ranks of global corporate players.

Chung's indictment on bribery charges also casts doubt on how much South Korea has changed its once-closed and collusive economy, spotlighting one of the most controversial legacies of the nation's economic miracle: the control of huge swathes of the economy by a few wealthy and secretive families.

"Samsung and Hyundai are the crown jewels in the Korean economy," said Lee Dong-gull, former vice-chairman of South Korea's Financial Supervisory Commission. "They are too precious just to be in the hands of single families."

South Korea has watched as the heads of Hyundai and Samsung have come under investigation on suspicion of buying political influence and inventing elaborate schemes to retain family control of their empires. Prosecutors dropped the case against Samsung's chief due to inadequate evidence but charged Chung with misappropriating hundreds of millions of dollars from group companies.

Chung is awaiting trial. If found guilty, he faces a life sentence though experts say four or five years is more likely.

His arrest has left Hyundai in disarray. Routine operations are continuing and a vice-chairman has been appointed as Chung's stand-in. But employees and analysts say big decisions are stalled as managers wonder what to do.

Analysts said Hyundai's reliance on Chung reflected the extent to which its companies relied on family leadership and the failure to groom managers or an independent board capable of making big decisions. Asked if the group could keep functioning without Chung, analysts were pessimistic.

"It is impossible," said Lim Chai-gu, an analyst at Kyobo Securities in Seoul. "These companies don't run on professional management. Even now, important decisions have to be run by Chung as he sits in jail."

Hyundai is not alone. Earlier scandals at Samsung and other groups have highlighted the paradox of South Korean companies boasting cutting-edge products and efficient daily operations but run as family assets.

Spokesmen for the various groups say the controversy is unfair. They point to the groups' remarkable success as proof that the founding families are competent stewards and should not be vilified. The Chungs, for example, turned a small car repair shop that it opened in Seoul in 1945 into the Hyundai group, with 40 companies and 85 trillion won, or \$120 billion, in sales last year.

But critics say family controlled groups are far too clannish, closed and corruption-prone.

The problems have their roots in the years after the 1950-52 Korean War, when military governments focused scarce capital and technology into a few hands. This spawned family run enterprises that grew into huge industrial combines known as chaebol. Today the chaebols dominate almost all business sectors.

The Bank of Korea says the 30 largest chaebols account for 40 per cent of the nation's \$US1.2 trillion (\$1.6 trillion) economy.

"I have no problem with the daily operation of these companies, which is very modern," said Kim Sunwoong of the Centre for Good Corporate Governance. "I even have no problem with the family ownership. The problem is that there's currently no oversight of what the family does. Is the family running the companies for the interest of all shareholders, or just themselves?"