# The Limits of Rapid Growth in an Embedded Market:

## *An Anthropological Account of the Cultures and Corporate Governance of a Venture Firm in Korea*

Seung-Mi Han

### Abstract

*This paper delineates the rise and fall of a Korean IT venture firm in the 1990s and early 2000s. Rapid growth of an IT firm symbolized the dreams of unrecognized engineering talents in Korean society without much individual remunerations within large organizations, but the culturally embedded market with much expectation of rebates, hierarchical business partnership, and egalitarian ethos made it difficult to protect and sustain their aspirations. Employee Stock Owners' Co-operative, suggested as an alternative to militant labor union and a new way of financial remuneration to employees, is examined in detail to see how cultural values are mobilized to account for different interpretations of the reality in the turbulent lifecourse of one courageous entrepreneurial firm.*

**Keywords:** Korean ventures, employee stock ownership, corporate cultures, corporate governance, egalitarian ethos, information technology firms, communication and leadership, anthropology of organization, monitoring role of financial institutions, government promotion of ventures

Seung-Mi Han is Associate Professor of Graduate School of International Studies at Yonsei University. She received her Ph.D. in anthropology from Harvard University in 1995. Her publications include "From the Communitarian Ideal to the Public Sphere: the Making of Foreigners' Assembly in Kanagawa Prefecture, Japan" (2004) and "Park Chung Hee and the Making of 'State Populism' in South Korea: the New Community Movement Re-considered" (2004). E-mail: smhan99@yonsei.ac.kr.

### Introduction: Why the Culture of "Venture" Firms?

When the Asian financial crisis hit the Korean economy in 1997, many firms suffered from a shortage of capital, but small- and medium-sized firms suffered the most. "Venture firms"[1] were the most vulnerable, weak as they were in financing and marketing. However, it was also these venture firms that held high hopes for the recovery of the Korean economy. Policy debates centered on ways of supporting technology-oriented small firms, not only as a means of providing jobs, but more importantly, as a way of molding a new model of the Korean economy that could blaze a new trail out of the crisis. Venture firms suddenly became the alternative to the inefficiencies of the conglomerate-centered "East Asian development model," a "new Korean dream for the young and aspiring." The years 1999-2000 also saw the peak of the IT venture boom in Korea, with 11,392 start-ups.[2]

Successful ventures began to receive the limelight as a signal of a paradigm shift, but others also suffered from mismanagement. Since the crisis was so overwhelming as to reinforce "technology nationalism," ventures were given an unsurpassable opportunity in 1998-2000. The KOSDAQ, which started in July 1996, also expanded rapidly from 1999, and saw a phenomenal growth from 5.5 billion won (1998) to more than 2,400 billion won (2000) in average daily transactions.[3]

From October 2000 until the end of 2001, however, a series of corruption scandals broke out. Named after the key venture capitalist of each scandal, Jeong Hyeon-jun scandal (Korea Digital Line), Jin

[1] Technology-concentrated start-ups, usually in the field of information technologies, were called "venture" firms in Korea. Hereafter they are referred to as "ventures."

[2] The government promised to boost the number of venture firms so as to make its target number 40,000 by 2005. But after the peak, its number continuously dwindled, 8,778 in 2002, 7,702 in 2003 and 7,433 in 2004. www.smba.go.kr/main/sub013/sub013.jsp. "Policies for the Promotion of Ventures" (December 24, 2004). After 2004, it gradually increased to reach 13,156 in 2007. www.venturein.co.kr.

[3] After the peak, it dwindled to 625 billion won in 2004. It was 1,763 billion won in 2006.

Seung-hyeon scandal (MCI Korea), Yi Yeong-ho scandal (G&G group), and Yun Tae-sik scandal (PASS 21) implicated politicians, bureaucrats at the Financial Supervisory Commission and the Ministry of Justice, prosecutors, and even National Intelligence Service employees. These pseudo-entrepreneurs tarnished the hard-won reputation of many solid companies and eclipsed the ambitious governmental plans of promoting IT ventures. The KOSDAQ index also fell drastically from October 2000.[4]

Applying ethnographic methods, this paper examines the case of Hanvit Systems (pseudonym, July 1991-2006),[5] a company that manufactured Internet access devices. Hanvit exemplified an extreme case of the rapid lifecycle of Korean ventures and the importance of the public sector both as policy-makers and clients to the ventures. Examining the cultures and business environment of ventures is critical towards understanding why a leading venture like Hanvit, which seemed to have succeeded in "the nationalization of the internet access device," disappeared.

Hanvit's CEO had been nominated as "the most representative Korean entrepreneur" by the *Korea Economic Daily* (October 18, 1999). Hanvit's market-value reached almost 1,000 billion won in 2000. Hanvit was also decorated for its industrial contributions in 2001. Nonetheless, when the IT boom went bust, Hanvit was hit hard. More evastating was its unexpected involvement in the corruption scandals, when a second investigation of the Yun Tae-sik scandal started in 2001; the Korea Development Bank (KDB) investment team, which had invested in Hanvit (March 1999), also invested in Yun's PASS21 project, and was charged with receiving free stocks from promising start-ups. All that received KDB investments were scrutinized. Hanvit was found to have given 500 free shares to KDB personnel upon their request (*JoongAng Daily*, April 3, 2002). Ironically, it was KDB that had initiated the "Hanvit Supporters' Association (1999)"[6] "to help the firm in the long term (Interview with IBK Capital personnel, November 1999)," but it was also KDB that ultimately devastated Hanvit. Further investigation also revealed that Hanvit had given rebates to Korea Telecom personnel in return for joining KT's network system-building project at the Ministry of Administration and Autonomy (*Korea Economic Daily*, April 15, 2002).[7]

This rather "unexpected" development—in the sense that a venture that endured years of hardship, financial stringency, and painful technology development processes could not overcome the structural pressures of the business environment—leads us to reconsider the idea of "corporate governance" and "corporate culture" debates in management studies in general.

First, it is not enough to "consider the rules that govern the relationships between managers, shareholders, and stakeholders of corporations" only, in order to "underpin market confidence, financial market integrity, and economic efficiency" (OECD Principles 2004, 1). Issues of corporate governance in management studies focus on the power and responsibilities of the board of directors, the rules governing takeovers, the role and influence of institutional investors, and the salary of chief executive (Salmon et al. 2000; Blair 1995). Important as they are, they do not address socio-cultural dynamics such as the politics of networking—school ties, ex-job ties from conglomerates, as well as military experience—or the enormous power imbalance that foreground the government-business alliance, as well as conglomerate-small business co-operation. Indeed, analyzing the wider business environment—i.e. the way socio-cultural values are mobilized in the customary practices of corporate business—is required, because the "market" itself is socio-culturally embedded

[4] http://kor.kosdaq.com/statics/month02_list01.jsp. Worldwide IT deflation since April 2000 was also a factor, but the scandals were a blow. After 2004, the IT industry began to recover.

[5] Hanvit was taken over (2004), de-listed (2005), and received a "ban from issuing new shares" by the Securities and Futures Commission.

[6] An institutional investors' monthly informal gathering, it consisted of people from KDB, KTB network, Korea IT Venture, IBK (Industrial Bank of Korea) Capital, and Korea Trust Investment.

[7] Two Hanvit employees were put behind bars for three months for this.

(Polanyi 2001; Firth 1963; Mauss 1967; Plattner 1985; Williamson 1985).

Second, although monitoring corporate decision-making by strengthening the board of directors (BOD) and auditors may help, one should also consider the company's stages of development; ventures have corporate governance dynamics different from the large, established firms. Also, during the 1990s-2000s, the state loomed larger in the "entrepreneurial" sector; and foreign direct investment in ventures was deliberately highlighted although the atmosphere surrounding ventures remained strongly nationalistic.

Third, by examining the "cultures" of technology-oriented ventures and the processes of how cultural symbols such as "solidarity" (*uiri* 義理) are reworked to express the employees' discontents towards top management, this paper argues that the assumptions of "company culture" in many organizational studies are not only too static, which prevents the understanding of business organization as a "negotiated order" (Wright 1994), but are also too narrowly limited to the notion of culture as "consensus," or "the formal organizational values and practices imposed by management as a 'glue' to hold the workforce together" (Deal and Kennedy 1982).

Fieldwork was conducted most intensively during the winter of 1999 and the summer of 2000.[8] The researcher was allowed to observe most workshops and the weekly executive meetings during the period. Occasional visits to the firm as well as meetings with Hanvit employees outside of the firm were made from 2003-2004 to follow up on changes that had taken place after the intensive fieldwork period. Sources for this paper also include newspaper articles, the websites of the KOSDAQ, Small and Medium Business Administration, as well as the data analysis, retrieval and transfer system at the Financial Supervisory Service.

[8] Other than the venture's name itself, financial institutions and conglomerates' names are not pseudonyms because they provide important background information.

## The History of Hanvit, the Impact of the Asian Financial Crisis, and the Venture Business Environment

Four former LG engineers established Hanvit in July 1991. Their first company was the Future System, which six other fresh graduates from the Korea Advanced Institute for Science and Technology (KAIST) joined. It succeeded in developing TC/PIP but since "the two organizational cultures were too different,"[9] they left and established Hanvit. At first, they worked on small commissioned projects to accumulate capital. They first earned public recognition when they succeeded in developing a VMEbus CPU board[10] and won a government prize.

During 1992-1993, Hanvit focused more on developing communication management devices (CMD). It bought a small factory (1992)[11] to strengthen its position at public project biddings, but when the government curtailed its budget for KT (1993), Hanvit suddenly lost the CMD market. In 1994, Hanvit chose to work with SsangYong Information & Communications Inc. in order to develop small routers; SsangYong was to develop software, and Hanvit, hardware. But when Hanvit delivered the hardware (1995), SsangYong added its software to it and began to mass-produce and sell "SsangYong routers." Hanvit did not sue the conglomerate partner, however, because "nothing was to be gained from the process" (Interview with a Hanvit employee, July 1999).

Bank loans were also extremely difficult to get. Co-founders put up their houses as collateral and borrowed money even from the company's landlord in return for shares (1995). Finally, Hanvit succeeded in developing the Terminal Server for the Ministry of Information and Communication (MIC) in 1995. It also succeeded in developing small routers, which Hanvit sold to KT through the LG consor-

[9] "LG people were familiar with the division of labor, but the KAIST people were more individualistic" (Interview in December 1999).

[10] One engineer started a spin-off in 2002 with this item. Korea Heavy Industries Inc. (privatized and merged with Doosan Heavy Industries in 2000) was its client.

[11] Five ventures shared a factory until 1996. The factory manager was also from LG.

tium.[12] MIC became an important "reference site" and helped Hanvit attract one billion won investment from the KTB Network (31,250 won per share, 1996). Hanvit also became a distributor of Xylan-U.S.A. through the CEO's university alumni network, which was quite profitable. Toward the end of 1995, when a few leading entrepreneurs created the Korea Venture Business Association to share their experiences and overcome structural difficulties, Hanvit was one of them.

First, as Hanvit lacked brand power, it was hard to sell "technology products." In fact, until the crisis, government procurements preferred foreign products for security reasons. Ventures had to look for a niche market that foreign firms had discarded for more profitable, higher-end technology markets.

Second, the relationships between start-ups and conglomerates were structurally skewed; conglomerates could become a buffer between ventures and public-project issuers,[13] alleviating possible excessive demands from the latter; however, with their deeper financial pockets and better facilities, they could also encroach upon the small start-ups' achievements.

Ironically, it was the crisis that opened "the public sector market" to ventures. When the crisis began, Hanvit had to entreat its angel investor for additional 0.6 billion won to avoid bankruptcy. However, concern about the nation's economy and the rapidly rising exchange rates helped; government procurements all turned to domestic products; subsidies and R&D funding were channeled fast to ventures. Suddenly, the *yin-yang* symbol from the Korean national flag, and a red pepper symbolizing a small domestic firm fighting against the Goliath-like foreign multinationals, were inserted into Hanvit's logo.

Throughout 1998, Hanvit relied heavily on "technology nationalism" (*gisul boguk)*, like many others. Indeed, harnessing nationalism into the market-share was a widespread phenomenon in Korea during the crisis. Even an "August 15th Cola" appeared, appealing successfully to domestic consumers by mentioning Liberation Day in order to beat other foreign mega-brands in the coke market. At the KT project biddings upon which Hanvit relied so heavily, it pleaded that Hanvit was a "venture," a "technology independence army" (*gisul dongnipgun*). In mid-1998, after months of no pay and laying off one-third of its employees (17 out of 60 people), Hanvit finally succeeded in signing a direct contract with KT for supplying small routers to build a nationwide communication network (Kornet), beating SsangYong and others, and eventually occupying 70% of the market. The mushrooming of the PC-room business increased router demands all the more, and KT rented the Hanvit routers freely to PC-rooms. Hanvit also succeeded in winning another 90 billion won project from the MIC for building a postal and financial transaction network.[14]

Governmental role in promoting ventures can never be emphasized too much. The "venture certification system" was one way of funneling "policy funding" to start-ups, but more critical was the exemption of college graduates with relevant sciences degrees from the military service if they worked at "certified" technology-oriented firms for 34 months.[15] It provided cheap, stable brainpower to the small unknown desperate workplaces, and was an indispensable factor in the drastic upturn of IT boom in the late 1990s.[16] Also, the government offered small ventures precious market credibility by becoming their "first" client.

[12] Until 1998, ventures had to form a consortium with conglomerates to apply for public projects.

[13] KT, the Korea Highway Corporation, the National Railroads, the army, local governments, and different ministries of the government are examples.

[14] "Only one lower official at the ministry survived the crisis. We talked and drank together, and I finally made him change the site's spec to fit ours" (Interview with an employee, September 1999).

[15] Now 24 months, it started in 1995 winter. "Cheap" and "bound," they were sarcastically called as "slaves."

[16] The existence of many talented yet ill-satisfied engineers who could not find as bright career futures as their management-major college classmates within conglomerates was another key factor for the boom.

On the other hand, the state's aggressive promotion of technology-oriented firms had negative effects; it created an environment similar to the construction industry, with all its embedded rent-seeking activities. Also, so-called "Korean-style guerrilla marketing" depended a lot on the successful formation and maintenance of personal networks, which forced the technology-oriented ventures to follow the customary practices of acquiring public projects. In a situation where private-sector market was virtually closed to ventures,[17] public projects were a limited good, and competitive bidding for them became an occasion for negotiating rebates.

> We've been trying to keep the company as transparent as possible. We even posted financial flow charts on the company intranet. But paying for illicit funds (*bijageum*) is the most difficult. I am afraid there might be many such occasions in the future (Interview with Hanvit executive before the Yun Scandal, November 1999).

For a firm like Hanvit, competing with large domestic conglomerates that had Network Integration (NI) and/or System Integration (SI) business was not easy. Cisco and 3 COM were much more difficult competitors. Nationalistic rhetoric was more a critical survival strategy than just an emotional appeal. When applying for public projects, instead of charging a consulting fee for advising on network solutions as other foreign firms do, many venturess offered "rebates" to the project-issuers as they could "design" particular "specs (specifications)" fit for particular firms' technology. Since the bidding was so unpredictable, Hanvit CEO declared, as early as August 1999 that its future lay not in public projects but in exports, even when Hanvit's income came mostly from public projects. Also, instead of stepping into the NI/SI business—which again requires good networks to design and sell successful solutions to the "sites"—they began to build a separate national distribution channel. However, Hanvit's internationalization efforts resulted in huge financial losses due to a lack of China expertise. Its efforts to build independent distribution channels also failed due to deferral of payment by local collaborators.

[17] Conglomerates usually allocated big projects to their affiliates.

## Problems of Rapid Growth and Issues in Corporate Governance

### *Growth Strategies and the Absence of Internal Control*

An even more formidable challenge for Hanvit was how to manage a rapidly growing organization amongst disputes. "Sharing profits" became a thorny issue, but managing an abruptly expanded organization posed challenge in itself. It took four years from 1996 to 1999 to double the employees from 30 to 60, but after the IPO (December 1999), it took only six months to grow to 150 employees. "Re-engineering" and "organizational innovation" became new slogans, and many experiments, such as empowering middle managers, were introduced.

Most seriously, conflicts between the research lab and marketing deepened.[18] The latter emphasized rapid research outcomes that can foresee changes in market demand, while the former argued for the accumulation of basic technology to enhance internal research capabilities. As Hanvit began as a research lab, no researcher was fired during the crisis, and their opinions were heard. R&D required time, and as researchers usually stick to particular projects and labs have hierarchical cultures, finding and recruiting appropriate researchers to expedite a specific project was difficult and risky. However, after the IPO, Hanvit's balance-sheets were scrutinized more often, and the management grew impatient for the internal research capabilities to grow. The ever-accelerating speed of changes in the IT market seemed to make strategic alliances in R&D imperative, be it M&A, cross-investment in partners' firms, or outsourcing. This new effort, led by the CEO and the marketing department, was a sea change:

[18] See Kathleen Gregory (1983) for different "occupational cultures" of a Silicon Valley firm.

> With the taste of money, people forgot how we developed technology. Instead, people tried to invest in other start-ups to get technologies and make money from their IPO's. Perseverance disappeared (Interview with a researcher, May 2004).

Instead of trying to solve problems together, employees began to blame others. The research lab blamed marketing for their pursuit of "easy money," whereas marketing blamed the researchers' inability to keep up with the market.

More problematic was that there was virtually no internal control system to check or support the CEO's decision-making. The CEO of the company strenuously tried to apply the new trends in business studies, for which he recruited experienced IT-marketing managers from conglomerates. However, the new executives only reinforced the existing cleavages within the firm; they never spoke up, partially because their recruitment conditions included "not encroaching upon each other's charisma" (Interview, March 2000).[19] But this made their costly existence groundless in the eyes of many employees.

Despite internal accusations for having lost a good window-of-opportunity for entering the switch market in late 1999 and early 2000, Hanvit's decision-making on strategic alliances was made fast, and without much discussion. A strategic alliance with Telemann in L.A., with wireless communication set-top boxes and satellite communication device technologies, was a case in point. Hanvit agreed to invest 24 billion won and became its controlling shareholder.

> How can Hanvit not return our two months' salaries[20] and yet invest 2 million dollars in another firm? (Interview with an employee, May 2000).

> Internal development is the best. . . . Outsourcing is the second, because we can learn technology. But investment in another firms doesn't teach us anything (Researcher's comment at a workshop, February 2000).

> Those who think that way should leave the firm. Insiders can be persuaded later, but deals fly away in the blink of an eye. We need "alliances." . . . I'm opposed to outsourcing, because it cannot build relationships; once the project is over, everything evaporates. However, "cross-investment" creates blood pledges. This is something that I, rather than Telemann, should cling to. We need wireless technologies for our future (CEO's comment at the workshop, February 2000).

Ideas about "strategic alliances" differed widely, but strikingly, there were very few public criticisms, despite the CEO's ardent efforts to encourage open discussions.

> The communication channel does exist. But if we speak up, the whole thing might go awry. That's what we're afraid of. Those who spoke up usually quit and established their own company (Interview with an employee, February 2000).

In fact, the CEO was concerned that although Hanvit changed from a struggling venture to a company of value, employees did not change accordingly, and were not ready to take initiatives. By contrast, employees believed that a venture was, by nature, something of which a CEO himself takes charge, with young, loyal workers following his leadership. If employees get too aggressive, they would indeed have to take the initiative and "establish one's own firm" or else, spin off from Hanvit as part of its strategy to create a nod in the "venture eco-system."[21]

[19] Many talented managers, recruited from outside, could not speak up, due to the charisma of the founder (Personal communication with a scholar-turned-businessman, May 2004).

[20] At Hanvit, bonuses (two months' salaries) were spread throughout the year. Reduced salary during the crisis meant no bonus.

[21] Proposed by a pioneering CEO of Medison (1985), it meant a loose network of many ventures in related areas with mutually beneficial cross-investment relationships. Although it signified a new Korean dream, many expansionist entrepreneurs went bankrupt in the rapid downturn of the KOSDAQ after the late 2000s.

> We don't have any "brakes" within the firm (Interview with Hanvit employee).

Emblematic of the slowly eroding solidarity of the firm as a technology-oriented venture, there were a growing number of "strategic alliances" that even the chief of the research lab or the members from Hanvit's Board of Directors came to know only after the deal was made.

Hanvit's CEO tried to make the most out of the rapidly expanding KOSDAQ by applying his new learning in business studies. But concepts such as "strategic alliance," "global marketing" or "transnational investment" were translated into "alumni networks" or simply "personal networks"—for example, someone whom he came across at state-organized functions of "entrepreneurs' nights"—in actual implementation. There was an expectation that personal networks in different fields[22] could be easily harnessed to Hanvit's overseas marketing and investment, but they did not.

One can argue that strengthening the BOD—strict rules for their qualifications and strengthening their power to authorize decisions—might have prevented critical failures. Conversely, that can be a large-firm centric and management centric bias since it is impossible for a technology start-up to have corporate governance centered on BOD, especially during its initial stages. In Hanvit's case, there were only a few "registered" BOD members (*deungjae isa*)[23] and BOD did not influence the day-to-day decision-making procedures. Even the institutional investors who were BOD members did not play proper monitoring role.

It was necessary for Hanvit to transform from a tightly-knit, closed circle of individuals to a more open, communicative entity absorbing information and expertise from outside. Indeed, there were "external" BOD members, like venture capitalists, an auditor and a management professor, but in reality they never participated in decision-making, "neither did they ever provide any valuable piece of strategic advice" (Interview with a Hanvit executive, July 2004). It would have been safer had there not been such easy reliance on "networks," but as an abruptly expanded firm that badly needed human resources without any institutional back-up,[24] little alternative existed. There was a clear recognition that the so-called owner system, i.e. too much reliance on CEO/owner's charisma, could have been a bottleneck for further development, and the empowerment of the organization as a whole, including BOD, was necessary to avoid it. However, not only was the delegation of power difficult, but the strengthening of new executives created conflicts.

> In the past, many things depended on individual feat. There were indeed "men of caliber." As we grew bigger, however, we had to systematize the organization, but a self-righteous leader was not enough to motivate employees. The leader tried to push through so many things against all odds because there was money. Teamwork was broken and I became too tired (Interview with a Hanvit employee, July 2004).

### *Structures of Ownership and the Role of Financial Institutions: the Culturally Embedded Market*

After a successful IPO, the critical question was how to charter the future course of the firm, technologically and financially, in a rapidly changing, competitive market. As Hanvit had been cash-strapped until 1999, the controlling shareholders (top management) had always been preoccupied with raising more capital by diversifying company stock ownership. Protecting the rights of minority share-

[22] New executives consisted of one from the Blue House, two from heavy-industry conglomerates, one from KBS, and two from the communication devices field.

[23] Those legally responsible BOD members were three co-founders, the CEO, the lab chief, and a researcher-turned-marketing chief. One KTB Network person was an "unregistered" member, who was replaced in 2000 by one KDB and one CDIB persons.

[24] Governmental subsidy abounded but no publicly managed resource pool for managerial advice existed.

holders, a hot issue in corporate governance studies in Korea, never actually constituted a problem at Hanvit. More serious challenge amid the rapid organizational expansion was the growing conflicts between shareholders and stakeholders, and the dereliction of duties by financial institutions. In order to understand the dramatic turn of events at Hanvit in 2004 whereby Hanvit's CEO and controlling shareholders changed, it is essential to examine the growing dissonance between the two forms of interests.

The use of stock options created not only a tension among the stakeholders—between the existing employees and the newly recruited, as well as between the "star" employees and the rest. But, it also incited old shareholders' fury that their own interests were not properly protected. For instance, the KTB Network, a venture capitalist that first invested one billion won in Hanvit (1996)[25] and extended another one billion in credit during the crisis, vehemently objected to the re-issuance of stock options in May 1999 at BOD meetings.[26] KTB did not have a full grasp of Hanvit's activities from the end of 1998 till May 1999 due to personnel changes,[27] so whenever Hanvit proposed stock issuance, it had always agreed. Accordingly, KTB's share shrank while other institutional investors'—Korea Development Bank (KDB), Korea IT Venture,[28] IBKCapital, Korea Trust Investment—increased. What angered KTB most was that the new shareholders paid a lot less. KTB therefore objected to Hanvit's plan because "stock options had already been 'distributed' to 80% of the employees in 1998."

> Institutional investors are all fake. We prepared their documents about us! Investment Committee members know nothing and don't even care. If they quit, they're no longer responsible for past investments. . . . In this situation if you know them through school ties, you have great advantages. Otherwise, they make an importunate demand, five times return at minimum (Interview with a former Hanvit executive, January 2000).

*Table 1. Ownership Structure of Hanvit in the Year 2000*

| | | |
|---|---|---|
| Total Number of Shares | Starting Point ( 1 January) | 12,000,000 |
| | Ending Point (31 December) | 24,000,000 |
| Face Value of Each Share (won) | Starting Point | 500 |
| | Ending Point | 500 |

| No. | Shareholders | Starting Point | Ending Point |
|---|---|---|---|
| | Minority Shareholders | 33.69% | 68.72% |
| 1 | CEO | 15.78% | 15.78% |
| 2 | Korea Development Bank | 9.18% | 1.53% |
| 3 | China Development Industrial Bank | 7.87% | 2.14% |
| 4 | Korea Trust Investment | 5.25% | 0.00% |
| 5 | KTB Network | 4.17% | 0.00% |
| 6 | Korea IT Venture Investment | 3.28% | 0.00% |
| 7 | Hanvit executive (co-founder) | 2.21% | 2.17% |
| 8 | KTB Most Fund #1 | 1.61% | 0.00% |
| 9 | IBK Capital | 1.31% | 1.08% |
| 10 | IBK Capital Investment Co-op #4 | 1.31% | 0.83% |
| 11 | Samsung Securities | 1.38% | 0.00% |
| 12 | Choong Eun Mutual Credit Union | 1.00% | 0.33% |
| 13 | Mr. Jo | 1.29% | 0.08% |
| 14 | Mr. Yi | 1.38% | 0.85% |
| 15 | Mr. Choe (BOD member, auditor) | 1.38% | 1.38% |
| 16 | Mr. Kim | 1.24% | 0.58% |
| 17 | CEO's wife | 0.33% | 0.33% |
| 18 | CEO's nephew | 0.33% | 0.33% |
| 19 | Employee Stock Owners' Co-op | 4.00% | 1.49% |
| 20 | Hanvit (Inc.) | 0.00% | 0.83% |

[25] Hanvit's loan grew rapidly from 1994, and by 1996 it reached 4.6 billion *won*.

[26] Another angel investor did not object to it.

[27] The 1996 KTB investor was Hanvit CEO's university alumni, and the investment was a "favor" before his resignation. "Favor" as it was, KTB made huge profits.

[28] KT's affiliate created to make a better use of profits from KT.

*Table 2. Ownership Structure of Hanvit in 2003*

| | | |
|---|---|---|
| Total Number of Shares | Starting Point (1 January) | 29,165,049 |
| | Ending Point (31 December) | 30,965,049 |
| Face Value of Each Share (won) | Starting Point | 500 |
| | Ending Point | 500 |

| No. | Shareholders | Starting Point | Ending Point |
|---|---|---|---|
| | Minority Shareholders | 85.30% | 88.16% |
| 1 | CEO | 9.08% | 8.55% |
| 2 | Mr. Jo | 0.07% | 0.06% |
| 3 | Mr. Yi | 0.69% | 0.32% |
| 4 | Mr. Choe (quit BOD) | 0.34% | 0.00% |
| 5 | Mr. Kim | 0.00% | 0.00% |
| 6 | CEO's wife | 0.35% | 0.33% |
| 7 | CEO's nephew | 0.10% | 0.00% |
| 8 | Employee Stock Owners' Co-op | 0.00% | 0.00% |
| 9 | Hanvit (Inc.) | 0.69% | 0.65% |
| 10 | Mr. Yi Y. I. | 0.07% | 0.00% |
| 11 | Mr. Roh (new BOD member) | 0.57% | 0.54% |
| 12 | Mr. Yu | 0.05% | 0.00% |
| 13 | Mr. Heo | 2.69% | 0.00% |
| 14 | Ms. Oh | 0.00% | 1.39% |

* Tables 1 and 2 were created based on Hanvit's 2000-2003 fiscal year tax teports.

Hanvit had always been soliciting institutional investors, but none besides KTB responded in 1998 even though the price was only the share's face value (5,000 won/share).[29]

> Nobody invested when we were really needy. When the Korea Development Bank (KDB) showed interest in early 1999, I was almost angry and raised the price quite a bit, and when others inquired, I raised it all the more. . . . With the 3 billion won from KDB, I cleared all debts. Some say I should have persisted for a higher price. But that's not true. It was only after August 1999 that we're relieved of the pressures for paying employees' salaries (Interview with CEO, October 1999).

Since KTB was adamantly against additional stock options, Hanvit brought in international investors instead, the China Development Industrial Bank (CDIB), since "foreign direct investment would help the internationalization of Hanvit," to which KTB would not oppose.[30] In fact, Hanvit had expected that CDIB could become a window to the Chinese and Southeast Asian markets, and even made CDIB a BOD member in February 2000. Nonetheless, CDIB sold most of its Hanvit stocks out of its 7.87% ownership before the fall of IT market in October 2000, and in 2001, it sold the rest 2.14% and cleared all relationships with Hanvit, making approximately 15 times its principal.

The other BOD member, Korea Development Bank (KDB), was no different. KDB sold most of its stocks in early 2000 (from 9.18% to 1.53% ownership). Worse, it became the epicenter of corruption scandals in 2001, since the KDB person on Hanvit's BOD was implicated in the Yun Tae-sik scandal. All other financial institutions—Korea Trust Investment, IBK Capital, Korea IT Venture, and Samsung Securities—sold most of their Hanvit stocks at peak prices in 2000, and left Hanvit completely by 2001.

Financial institutions can play a disciplinary role precisely because they pursue profits. However, it is remarkable that even Hanvit's BOD members and the "Hanvit Supporters' Association" members who had promised a long-term, mutually beneficial rela-

[29] The price went up as high as 82,000 won/share in February 2000.

[30] CDIB invested 3.5 billion won (50,000 won/share, approx. 3 million dollars) on 30 August 1999. Free issuance of new shares (*musang jeungja*) followed the next day, benefiting all existing shareholders. Additionally, the one-tenth split of Hanvit stocks took place on October 3, 1999. Employees were told that the split made stock options and Employee Stock Owners' Co-operative possible and enhanced the value of Hanvit by making the shares' transaction easier.

tionship never played a proper monitoring role. Hanvit CEO proudly mentioned in 1999 that "compared to other firms that became the prey of the so-called 'operational forces' (*jakjeon seryeok*),[31] ours is much safer because more than 40% of our stocks are held by institutional investors" (December 1999), but this was widely off the mark. Hanvit's faithful belief did not pay off. Financial institutions were undergoing a rigorous post-crisis reform, but equally true was the fact that even Hanvit's main bank, KB, cared for debts collection more than Hanvit's recovery from overseas investment losses; KB threw a fatal blow by selling off Hanvit stocks in early 2004.

> Some say bankers are not even as good as bar-hostesses. At both places, they treat you well when you have money. Penniless, the latter at least does not harm you, whereas the former stabs you in the back. . . . All they care is debt collection (Interview with an executive, July 2004).

Hanvit's business began to slow down from 2001, due not only to the worldwide slowdown in the IT economy, but also to the saturation of the market with advanced IT products. In a way, it was a backlash from the nationwide effort to recover from the Asian financial crisis; much money was channeled into the field and so many start-ups began to make similar products, using the open sources on the Internet responding to the rapidly changing technology market. New products were released every eight to nine weeks. The profit margins of Hanvit products quickly grew thin and the competitive advantages of new products did not last more than six to twelve months.[32]

It was at this point that Hanvit started the network integration business. Hanvit had been avoiding it because it required higher level of technology and a larger scale of business with many outsourcing partners but Hanvit had to meet sales objectives and publicize them regularly after IPO. Since overseas investment did not materialize and internal R&D could not catch up with the ambitious roadmap of the firm, the only way to meet market expectations was to buy other firms' products and sell them together with their own, even for lower profit margins.

> We're originally an Internet-access-device manufacturer, but we ventured into the NI business. There, you have to play big. Small players cannot survive. We increased personnel. The NI/SI business requires high technology, but for public-project biddings, what matters most is whether or not you belong to the inner circle with vested interests (Interview with a Hanvit executive, April 2004).

The Yun scandal (2002) was indeed detrimental since Hanvit's foremost client KT closed all deals in retaliation for Hanvit's alleged revelation of the fact that KT was also involved.[33] Hanvit's backbone-switch, which had cost five billion won was an item that only large institutions like KT could buy. Suddenly the market disappeared, and years of R&D efforts evaporated.

Since the end of 2002, Hanvit's capital loss grew sharply. If a venture finds itself in the red three consecutive years, it can no longer stay in the KOSDAQ. By the end of 2003, Hanvit's capital loss reached 80%, and the management decided a 15-fold capital decrease. Hanvit implored its shareholders.

> Since Hanvit had only about 10% of the shares and the decision required at least one-third of shareholders' agreement, employees visited individual shareholders one by one. We explained the situation and begged them to give us one more chance. We were already four months behind in salary, but since the new product was on its

[31] The artificial manipulators of stock prices.

[32] Second-hand Hanvit products were also in circulation. By 2003, routers and switches were sold almost one-eighth of their initial prices at 0.2 million won/piece.

[33] "KT had distributed different portions of the Ministries' network system to different firms to take care of. Then, the Ministry of Administration and Autonomy requested 'rebates,' which KT told us to pay. We had to create extra fund (*bijageum*). But it was not us who mentioned KT to the prosecutors. Still, it was us who took the responsibility" (Interview with a Hanvit employee, July 2004).

> way, we believed we could revive. Certain shareholders encouraged us warmly (Interview with a Hanvit employee, July 2004).

At the general meeting of shareholders in February 2004, some angry shareholders stood up and vehemently criticized management, but when Hanvit issued new stocks after the capital decrease, almost one billion won was raised again. This time, only individuals and foreigners, and no institutional investors participated.

And it was this time that the main bank sold all its collateral stocks. Hanvit could no longer get a letter of credit (LC) from the main bank, either. Without LC, Hanvit's newly developed IP phone could not be exported. And as the deadline for repaying the Venture Primary CVO[34] drew near, Hanvit management contacted an M&A company to find someone who could take over the firm. Toward the end of June 2004, the company was sold at the meager value of 0.4 billion won.

> We needed 42 million yen worthy of LC to export IP phones to Japan. We could have earned 4-5 billion won . . . . We should have managed money wisely after the IPO. Back then, however, everything was decided according to the logic of "rewarding shareholders." We were inexperienced, and those who flocked around our CEO dazzled him with sweet words. The free issuance of stocks was no good for Hanvit, but we did it again in February 2000, following the advice of sweet talkers . . . . We lost a good opportunity, but their timing was perfect. Soon, our stock prices fell in half, while the total number of Hanvit stocks doubled. We could no longer raise as much capital (Interview with a Hanvit employee, July 2004).

Noticeably, the split of stocks that had taken place right before the 1999 IPO already had multiplied the number of shares by ten times and reduced the price of each stock to one-tenth of its value. Moreover, the free issuance of stocks first in August 1999 and then in February 2000 quadrupled the total number of shares. Unlike in 1999 when prices bounced back, they never rebounded after 2000. Hanvit became numerically bigger but the controlling shareholders' position (the management) grew vulnerable.

### *The Employee Stock Ownership Plan in Sociocultural Perspective: Shareholders vs. Stakeholders*[35]

Board of Directors, rather than employees, is the focus of discussion in all corporate governance literature, but the latter is increasingly gaining attention when it comes to alternative forms of corporate governance, or ways to "humanize capitalism" (Gates 1999). Moreover, as the company does not always have "one shared culture," one has to consider both the cohesive and divisive functions of multiple cultures inside the firm (Gregory 1983) that criss-cross the management-imposed "corporate culture." In the case of Hanvit, this was "solidarity" as it was necessary to ask all Hanvit employees to endure the painful, rewardless technology development period. Why the Hanvit ESOC (*uri saju johap*) could not prevent take-over is a question wrongly posed; instead, one should ask why the Hanvit employees began to sell their stocks in spite of their own emphasis on "solidarity" which they mobilized so much in their harsh criticisms of the management, asking for egalitarian, proper rewards for everyone who contributed to the growth of the company. In Korea, a strong labor movement grew out of resistance toward authoritarian rule in the 1960s-1970s. Until the 1980s, ordinary citizens also held sympathy towards labor's efforts to better its position. However, with

[34] Hanvit used three-year-10 billion won government loan in 2001. The Kim Dae-jung government allocated several thousand billion won as "loan for operational funds" to promote ventures.

[35] Shareholder capitalism emphasizes that shareholders bear the burden of risks, unlike employees or creditors who are protected by contracts. By contrast, stakeholder capitalism put more emphasis on the latter. However, the two are not always mutually exclusive as more executives/employees receive stock options and participate in ESOP/ESOC.

democratization and the relative enhancement of the quality of life, the atmosphere changed from the mid-1990s, and there grew doubts as to whether radical social action was still legitimate. Discussions about the Employee Stock Ownership Plan (ESOP), or Employee Stock Owners' Co-operative (ESOC) emerged in the Korean Ministry of Finance and Economy out of skepticism against confrontational forms of labor movement, expecting that turning employees into shareholders would provide an alternative to the militant union activities.[36]

Whether or not ESOP/ESOC could improve the corporate governance of a firm requires extensive research of many Korean firms. Instead, this section delineates issues that besieged Hanvit's ESOC. It is necessary because eventually, corporate governance is about the effective control of the company, and the organizational problems that arose along with IPO certainly mattered in that regard.

Interestingly, although ESOC was meant to be a means to further "harmonious relations" between the management and employees,[37] it functioned more as a new kind of labor union. Its website, accessible only to ESOC members (excluding top management), turned out to be a place to share employees' inner feelings, rather than a place to discuss information on new IT trends as the CEO had hoped.

ESOC was not very helpful in guarding Hanvit from the takeover, either. Hanvit case was not a hostile takeover, but when the voluntary search for a new management took place in 2004, there was almost no stock left at Hanvit ESOC to exercise any influence in the deal; almost everyone sold everything right after the compulsory retention period (one year) was over. In other words, ESOC was good for rewarding the employees but was not useful for transforming corporate governance. It did not bring about any new leverage for the employee-turned-shareholders regarding the firm's future directions, nor could it stop the selling-off of the company during turbulent times.

The conflicts between shareholders and stakeholders became pronounced as IPO was perceived to be the one and only occasion for sharing profits. When Hanvit started out with a small number of engineers, there was no distinction between management and employees, let alone between shareholders and stakeholders. Rapid growth came only after several years of hardship. In fact, Hanvit had encouraged employees' stock ownership as early as in 1996, when KTB invested one billion won. Hanvit CEO negotiated with its main bank a "no-interests loan" for employees' stock purchase, but only a few bought 100 or 200 shares.

> What would the bank think of us? Our employees didn't participate much despite all my efforts! (Interview with the CEO, September 1999).

Then, in early 1998, Hanvit could not pay salaries for two months. Hanvit fired almost twenty employees, but allocated stock options—as much as 15% of all existing stocks—to those who remained. Stock options were distributed rather evenly, because it was more a compensation for lost salaries than an incentive. But none regarded this "future remuneration" as a proper form of salary-compensation.[38]

The first sign of cleavage appeared when KTB objected to the second round of stock options in 1999, and Hanvit CEO had to per-

[36] In Korea, ESOP was first introduced in 1968; companies could offer up to 10% of their new shares to its employees in times of IPO or issuing new shares. Unlike in the United States where ESOP is intertwined with pension system, the Korean ESOP/ESOC has been used as a means of remuneration. In 1988, the upper limit changed to 20% of new issues. In 1997, ESOP was transferred to be a part of the Stock Trading Law. In late 1999, the compulsory stock-retention period for ESOP members was reduced from three to one year. In 2001, the Basic Law for Workers' Welfare gave tax incentives to the firms for arranging funds for employees' stock purchase. ESOP/ESOC members' stocks are put in the trust of Korea Securities Finance Corporation during the retention period. In January 2005, ESOP members were allowed to buy stocks at a discounted price, whenever BOD or the general shareholders' meetings agree (http://www.ksfc.co.kr/saju. Now, www.ceso.or.kr).

[37] Hanvit BOD meeting Minutes, August 23, 1999.

[38] Hanvit stocks were 1,600 won/share during the Crisis although its face value was 5,000 won/share. The 1998 stock options price was 2,600 won/share.

suade employees from a shareholders' perspective. Hanvit management emphasized that it was none other than the employees themselves who refused to be part of the growing pie at first, and that when stock options were offered lavishly in 1998, nobody really appreciated it. Employees, on the other hand, emphasized they had borne the brunt of the crisis and this was indeed the time for "sharing profits," as IPO drew near. Second stock options took place one year after IPO in late 2000, but it was small-sclae, a lion's share of which was used for recruiting new executives, while employees had to share the remnants on the egalitarian principle of "entrepreneurial solidarity."

It was around this time that Hanvit ESOC, formed in August 1999, became a focal place to argue over what the company should offer to the employees; Hanvit had proposed to the employees, prior to IPO, the arrangement of a low-interest, long-term loan to purchase 60% of the stocks allocated to ESOC, but employees strongly requested that the loan cover all the costs and ESOC stocks be priced lower than the market price.[39]

> If the loan covers only 60% of the costs, we can also respond that we'll sell all our stocks after one year and quit. Stock option holders can sell everything and leave, too (Comments by an employee at an ESOC meeting, September 1999).
>
> Now you are also shareholders. You should think what's good for Hanvit. . . . You can be either my "partners," or my "employees." I will position myself according to your choice. You really don't know who your real friend is? I am the largest shareholder and if I bring out a certain suggestion at the shareholders' meetings, it has a higher chance of realization. Why do you antagonize me? Aren't you also happy because of the split? (Hanvit CEO at a company meeting, September 1999).[40]
>
> We did not know anything about the split beforehand. We did not even hear about the formation of ESOC beforehand, either. How can we make detailed requests if we don't know what's going on? (Interview with a middle-level manager, September 1999).

It was also at this time that several young employees who were critical for Hanvit's survival during the crisis simultaneously handed in their resignations. They did not show up at the company excursions, neither did they attend any ESOC meetings. Even some executives, while they were in a position to dissuade their subordinates from quitting, spoke strongly against the top management's decisions, because they felt deprivation compared to the "newly recruited" as well as to the "outside shareholders."

> It was promised that I'd be rewarded for my work. I worked really hard to win many public projects, but now, I am told to be considerate of others. I want to quit and study for a degree (Interview with a young marketing staff, October 1999).
>
> I stopped the young ones because they deserve remuneration. . . . The newly recruited always have more incentives. Stock option holders from the past are excluded from benefits in times of free stock issuance (*musang jeungja*).[41] Moreover, now, we can neither exercise our stock options, nor sell our ESOC stocks. Until when, on earth, should we tighten our belts? Why is it always the small number of short-term, outside investors, and NOT US, who benefit? (A comment by an executive, October 1999).

The antagonism against "short-term, outside investors," combined with the insecure feeling that stock prices would not be as high as the post-IPO peak when the compulsory retention period ended, made the employees push the top management even harder for better treatment

[39] Employees were infuriated having to buy Hanvit stocks at the market price.
[40] After the 1999 one-tenth split, the price bounced back quickly by 11 times.

[41] Hanvit mistakenly excluded stock option holders' portion in the 1999 free stock issuance. This was pointed out before the February 2000 shareholders' meeting discussing another round of free stock issuance The management acknowledged its mistake and formally apologized, asking those concerned to help this issue pass the shareholders' meeting in return for future compensation.

of ESOC. Further aggravating the "insiders' antagonism toward the outsiders" was the fact that whereas institutional investors could sell the increased portion from the free stock issuance,[42] ESOC members were recommended not to sell them. Finally, an ESOC general meeting was held in late October 1999, to deal with the complaints about the terms of the ESOC. Hanvit's Planning Department, calling the occasion as "an exercise for an investment relations presentation,"[43] let every employee sit according to the company entrance year, and visually displayed the pecking order, as it was an important criterion generating minimal difference in the distribution of ESOC stocks.

> At the ESOC meeting, I asked, shouldn't ESOC be supported more, because it would ultimately be ESOC that could defend Hanvit from a hostile takeover? However, our CEO was confident that no such occasion would happen (Interview with a middle-level manager, September 1999).

After several tugs of negotiations, it was decided that 20% of the new stocks issued at IPO would be allocated to ESOC at market price, with a company-loan covering all the costs with no interests for 14 months and a 5-year redemption period. ESOC members came to own 4% of all Hanvit stocks.[44] Characteristically, the way ESOC stocks were distributed was again egalitarian, promoting the "entrepreneurial solidarity" of the firm; 40% of these ESOC stocks were distributed evenly among all employees, although their length of service (40%) and job status (20%) were also taken into account. The management thought this ESOC arrangement was fair; all the more so as they were allocated before IPO, enabling employees, and not just outside shareholders, to benefit from the price rise made by the institutional investors. The management also thought that funding the loan for five years was already a sign of deep consideration.

> Nothing was possible had the shareholders tried to stop us. In fact, shareholders didn't oppose as they knew they would be beneficiaries, too. Because we were under time constraints, we couldn't hold shareholder meetings frequently, but still, they never objected. Later, some institutional investors tried to stop us when we attempted to exercise the maximum amount of stock options. At that time, the management really had to fight with the shareholders. . . . I think stock options are better means to reward employees, because employees have the option of not selling them even when the prices fall, but for ESOC, employees have to pay upfront and they may harbor resentment if prices fall (Comments by an executive, November 1999).

"Entrepreneurial solidarity" was emphasized at ESOC, partly because it was crucial for the management in their "fight against outsiders (shareholders)." But employees embraced the idea, too, because ESOC stocks were regarded as a membership fee and fetters from moving rather than a reward for individual employees' past contribution. Incidents surrounding those who quit right after the ESOC formation are the case in point. Since those who quit were legally permitted to sell their stocks immediately as outsiders, ESOC tried to make resignation a moral issue. On the ESOC website, some argued that quitters must give up 30% of all stock transaction profits, especially considering that they used company loans. To this, a young female employee[45] strongly objected; she argued that changing a workplace should not be an issue of "moral defect," because it is a matter of career planning rather than something decided by stock prices; should there be a penalty, "interest rates for the loan three times higher than the market rate, plus an immediate return of the principal" would be appropriate. Another female staff member in the Technology Department, who was also quitting for marriage, and

[42] As institutional investors dumped stocks in early 2000, a new law was promulgated in May 2000.

[43] Employees got angry as it was called this way.

[44] Even the new entrants received 4,000 stocks, when the average number of ESOC members' shares was 6,000.

[45] Capable as she was, she felt that she had been unduly criticized, which made her strongly resist the ESOC's requests.

whom the ESOC representative had also advised to give up all her shares,[46] supported her. Two young male quitters at Marketing Department were also advised the same way, but instead of exchanging arguments, they quit after immediately giving up their shares. Although the latter did so out of fear that they might not be able to move if they argued (Interview, January 2000), this incident revealed the group emphasis at ESOC and how it could inadvertently reinforce the bias against female workers as "ungrateful" and "selfish."[47]

"Entrepreneurial solidarity" was also emphasized when employees mentioned lifecycle/stages of ventures and argued for "timely profit-sharing."

> At first, money and passion unite people. "Real engineers as we are, let's do our best for four or five years and prove ourselves." Next, work unites people. A small number of engineers devote themselves to product development. . . . At venturs, young engineers' motivations are completely different from those found in the labs of large conglomerates, although the latter might retain 'better' engineers; at ventures, there are more expectations placed on them and they also know the rewards would be huge.
>
> Once you succeed, you really have to let money fly. That is essential as a sign of "camaraderie." Ventures are dangerous, because people are the most important resources, and if they turn sulky and leave, that's it. You also need to learn how to delegate work to the next generation, because it's hard for the same engineers to develop "hit products" successively (Interview with an engineer-turned executive, February 2000).

Not only a "continuous M&A" but also a "continuous spinning-off" has become a "handy" means to grow fast, because keeping the internal R&D engine at full speed all the time was almost impossible. Indeed, the Korean venture model grew curiously similar to that of large conglomerates with complex cross-shareholdings centering on a "mother-firm." The incessant growth and spinning-off of firms were dubbed as the "evolution of firms," a "natural process in the living corporate ecology." The difference, supporters of this model argued, was that it was for "the mutual benefits of firms in related core areas,"[48] whereas in large conglomerates, control of offshoot companies was the aim.

However, ventures did not have deep financial pockets, unlike conglomerates. Because of that, ESOC sometimes involuntarily became a means to make up for the shortage of capital. With the onset of IT deflation in late 2000, this ambitious experiment in expansion with limited financial resources faced enormous difficulty. Many ventures went bankrupt and changed hands. Worse yet, ESOC members of other ventures, whose IPO was later than Hanvit, ended up suffering huge losses.

Hanvit employees began to sell ESOC stocks right after the compulsory retention period was over in December 2000 (Tables 1 and 2). Many sold almost everything, following many outside shareholders. In other words, ESOC could not become a way of transforming corporate governance as the risk was just too high, although it did bring about some financial benefits to the employees.

> One would be a fool if s/he didn't sell his/her stocks. Even after the price began to fall, for about 20 more months, it was still 4-5 times higher than the price we bought them at (Interview with an employee, July 2004).

[46] She gave up hers but spoke up for her friend. Nonetheless, female workers' images were stained. A special personnel committee meeting was held to "judge" her s case, and since she had impeccable records for a long time, she was allowed to retain some of her rights.

[47] "After all, men know how to keep their honor" (Comments at Hanvit executive meetings, November 1999). In fact, they had nothing to lose compared to the female employees who worked longer.

[48] Chang and Shin argue (2003) that the "unrelated expansion" of large conglomerates was in fact crucially important for their survival.

## Conclusion

This paper illustrated the case of Hanvit, which started in 1991, a company that played a leading role in the Korean venture world for a decade, but was "taken over" in 2004 and finally ceased to exist in 2006. Since the late 1980s, many talented engineers started their own firms, and with the government promotion during the Asian financial crisis, it helped to create "IT Korea" both as a reality and as a dream. Unfortunately, however, strong government promotion of entrepreneurial activities provided a hotbed for corruption, and produced ventures' unexpected similarity to the construction industry firms. Considering that many engineers in Korean firms regard themselves as not properly treated,[49] the venture boom was a "rebellion of engineers" who felt neglected in spite of their technological expertise, and it was truly regrettable that some well-known venture capital firms were involved in corruption scandals.

Good corporate governance might reduce the risks of business failures, but it cannot by itself guarantee business success. The unstructured and loose corporate governance in venture capital firms was one of the reasons for Hanvit's abrupt collapse, but it also had a lot to do with the Korean IT business environment as a whole: 1) the absence of proper venture capitalist system whereby the potential of technologies can be systematically discerned; and 2) venture capital firms' reliance on the public sector as the market itself, i.e., a source of funding as well as the place to sell. Hanvit tried to overcome this limitation by internationalization, but its initial failures in China could not be recovered as even its main bank would not give it a second chance.

Especially problematic was the role of financial institutions. Although the relentless search for growth was primarily due to Hanvit's strategies, institutional investors never assumed the proper monitoring role. Rather, through their drastic sell-off of stocks at peak prices, they all expedited Hanvit's downhill spiral.

The Employee Stock Owners' Co-operative, along with stock options, turned employees into stock-owners, but the "ownership solution" could not solve the "corporate governance question," either, at least at Hanvit. Employee ownership did not bring about "a more open and inclusive capitalism," or "a more diffused capitalism that can give voice to and balance the competing interests within capitalism itself" (Gates 1999). It was exorbitant to ask employees to stick to company shares even as outside shareholders were able to nimbly adjust to market prices.

Another problem for the "ownership solution" in the Korean was that the "egalitarian ethos" had ailing effects on motivating the most talented and devoted. Entrepreneurship was interpreted more in terms of entrepreneurial group solidarity and egalitarian distribution of profits rather than individual risk-taking, contribution, and reward. Accordingly, not only community-based ESOC shares, but also individual-oriented stock options were distributed according to the egalitarian ethos, which dampened the aspirations of unrecognized talent even more.

[49] The relative lack of engineers as executives at large conglomerates or as high-level government bureaucrats, compared to business or legal profession majors, are well-known in Korea.

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