Roots of failure at daewoo

In 1996, Daewoo " became the world's largest transnational entity among emerging economies (Kim 2008. P. 277). " At the end of 1999, the Daewoo Group " collapsed in spectacular fashion (Kim 2008. P. 273). " Daewoo had entered the American car market in the late 90s by leveraging its global success along with Korean rivals Kia and Hyundai. In May 2002, following General Motors decision not to acquire the assets of Daewoo in the United States, Daewoo Motor America filed for bankruptcy protection (O'Dell, 2002).

During four years of operations, Daewoo Motor America only sold 160, 000 cars (O'Dell, 2002) that then had uncertain warranty coverage and parts supply. Business failures are complex to analyze and are caused by a multitude of factors, but a look at Daewoo's leadership, management, and organizational structure indicated trouble. Leadership Kim Woo Choong is the Chairman and founder of Daewoo.

Other Korean chaebols, or conglomerates, like Hyundai and Samsung have transitioned leadership to second and third generation family members; however no family relations are in key positions at Daewoo (" Mr. Kim's one-man empire", 1996). Mr. Kim also shows " little sign [he] trusts his professional managers any more than his own family (" Mr. Kim's one-man empire", 1996, p. 56). " This leadership style does not provide for the independent decision-making required to run a multi-national corporation efficiently, nor does it provide any succession plan for Mr. Kim. An outsider may also question if the normal checks and balances exist within the company, or if Mr. Kim's decisions go unquestioned.

This could present a problem if the ethics of the leader are in question. In 1996, a total of 33 people were sentenced in Korea's massive corruption trials (Hardie, 1996). Among them was Kim Woo Chong, Chairman of Daewoo Group and Lee Kyung Hoon, chairman of Daewoo America. Mr. Kim received a straight two-year sentence and Mr. Lee was sentenced to 10 months for being found guilty of bribing former Korean presidents (Hardie, 1996). The political convictions were much harsher.

Former president Roe Tae Woo received a sentence of 22. years for treason, and former president Chun Doo Huan was given the death penalty (Hardie, 1996). Korea was trying to conform to western expectations for business conduct and these trials were examples to business leaders. Past practices, like bribery, were no longer acceptable. These men may have been singled-out for this trial because they were some of the worst past offenders. Management Daewoo's American management team does not appear to have carefully thought through the company's strategy for sales.

In 1998, the company started with an ambitious program to recruit college students for a viral marketing program and conduct business through company-owned distribution centers (Siano, 1998). By 2002, Daewoo had scrapped its innovative three-year maintenance program in favor of an $11 million national advertising budget (Rechtin, 2000) and sold most of its factory stores to independents (Rechtin, 1999). For a startup company, this is too much change in direction, and indicates poor planning by the management team.

When trying to build a national brand and break into such a competitive market, consistency of message is required. This left the American sales arm adrift with no good value proposition and vulnerable in the face of crisis. Organization Daewoo Group was organized as a chaebol, or conglomerate. The path to the rapid growth that Daewoo experienced was the purchase of distressed companies from the government, and then restructuring operations to return them to profitability (Kim, 2006). Daewoo never developed its holding company, Daewoo Corp, into a profit center.

It acted as a trading and finance company and could not support weaker affiliates in the time of crisis (Kim, 2006). The chaebol was large and was not integrated. It sprawled across 110 countries with 590 subsidiaries (Kim, 2006). The company also relied on debt for expansion. This left the chaebol vulnerable in economic downturns. The organizational structure developed by Mr. Kim was a house of cards that folded quickly in the Asian economic crisis. Conclusion Daewoo’s leadership, management and organizational structure provide early warning signs of business failure.

The questionable ethics and autocratic style of Mr. Kim make it easier to understand how Daewoo’s management orchestrated the largest financial fraud in history (Kim, 2006). The fraud was perpetrated by using the holding company to instruct affiliates to buy and sell assets at inflated prices and recording the gains, taking advantage of the large decentralized organizational structure. The American sales arm of Daewoo Automotive, with little clear direction and very little penetration into the American car market was then of little value in the breakup of the business.

Daewoo Motor America was the victim of poor leadership at the group level and bad planning by management. The organizational structure left them vulnerable to be separated from the sale of other assets of the Daewoo group. Daewoo Motor America's only recourse was bankruptcy protection. After setting aside sufficient funds to cover minimum warranty obligations, the company was liquidated. The roots of the failure were in decisions and circumstances beyond the American subsidiary.