



Hankook Chinaware:

Confucianism and Filial Piety within Values-based Leadership

09/2017-6324

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The case was generously financed by the André and Rosalie Hoffmann Research Fund for Family Enterprise.

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The Present

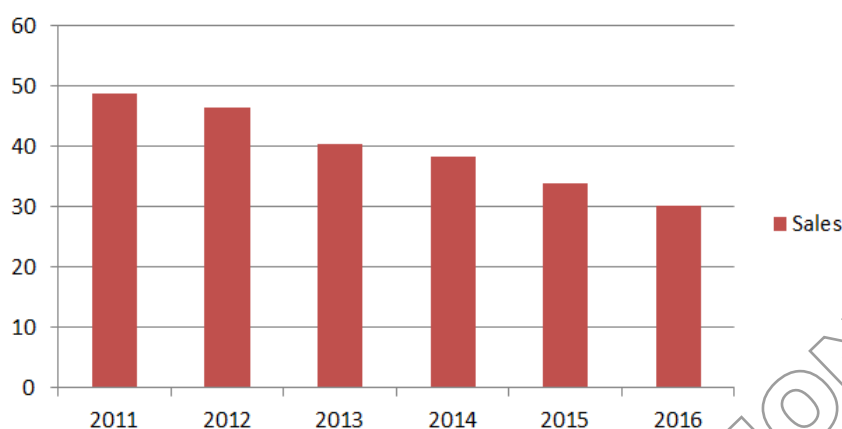
Hankook Chinaware is a family-run Korean company that has been producing high-quality porcelain tableware for the domestic and international market for more than 74 years. The company's products are sold in over 80 countries and commissioned by wealthy clients, including the British monarchy. For the 60th Diamond Jubilee celebrations of Queen Elizabeth II in 2012, Hankook Chinaware was an official supplier.¹

To compete against much older fine china makers like Wedgwood, which was established in England in 1759, the Korean firm has developed innovative product lines. In 2004, for example, it launched the Prouna line of luxury chinaware (a set of six dinner plates could cost up to \$300 and a vase up to \$20,000). Some pieces are individually decorated with Swarovski crystals and come with a certificate of authenticity.²

The Competitive Environment

Sluggish domestic demand in the past few years forced Hankook Chinaware to cut costs and reduce excess capacity in mid-2015. The company suspended production and operations at its plant in Cheongju, resulting in the lay-off of 400 employees, including staff and management, for the entire month of August. This was the first time that Hankook Chinaware had experienced a layoff (even a temporary one) in its 70 years of existence. Even at the height of the Asian financial crisis in 1997, the company had not laid off workers. "The decision was painstakingly thought out," said CEO Kim Young-shin. "We had never done such a thing before, even amid repeated hardships. That's the tradition inherited from our ancestors."³ While the company rehired the 400-strong workforce, it now outsources some of its production to low-cost countries like Indonesia.⁴

Sales in Korean Won (millions)



Sales decline at Hankook Chinaware by 30% between 2011 and 2016

- 1 Much of this case is based on a 2011 student report by Jaemin Lee, a former INSEAD doctoral candidate under the supervision of Morten Bennedsen.
- 2 <http://www.koreaherald.com/view.php?ud=20160807000042>, accessed 6 July 2017
- 3 *Hankook Chinaware head says we have no plan for restructuring*, Maeil Business Newspaper, 2 July 2017
- 4 *Imports hurt Korean chinaware makers*, Korea Times, 9 November 2012

Henceforth, the company has been fighting to survive. Its sluggish performance was largely attributed to South Korea's business downturn and a massive influx of foreign-made chinaware into the country.⁵ Revenues fell from KRW48.9 million in 2011 to KRW30.7 million in 2016, a decline of 37% in five years (see chart above).

Foreign competitors were gradually eating away at its market share on both ends of the spectrum. Chinese producers had begun to 'dump' tableware in Korea at prices so low that what was once a niche market with high margins has been transformed into a commodity market with little or no profitability. On the other end of the spectrum were high-quality imports from Europe that competed on brand names, such as Wedgwood. A Hankook Chinaware spokesman said, "Chinese tableware is really cheap and mostly sold at large discount stores. We just cannot compete with them price-wise. So, we have boosted the production of high value-added bone china targeting newly-wed couples and other value customers."⁶

The Past

Founded in 1943, Hankook Chinaware was started by Jong-ho Kim, father of the current president Dong-su Kim and grandfather of the current CEO Yong-shin Kim. Jong-ho Kim was born into an ancient noble family, the like of which play an important role in Korean culture. His ancestors were Confucian scholars who instructed students in the humanist traditions of this way of life. Jong-ho Kim had deeply internalized the principles of Confucianism and emphasized its teachings in his family life and business ventures.

In the early 1940s, Jong-ho Kim was running a small lumber mill when he decided to buy a pottery business on the verge of bankruptcy – thereby laying the foundations of Hankook Chinaware. He immediately set about revitalizing the culture of the firm by infusing the workplace with the spirit of Confucianism. He was particularly keen on the principle of filial piety, one of the key virtues emphasized by Confucianism.⁷

Filial Piety

Inspired by filial piety, Jong-ho Kim passed the core value down to his descendants and integrated its philosophy into the family business. Filial piety can cover a range of human behaviours that can be translated nicely from the individual to the team. It emphasizes respect for parents, elders and children, and expects its adherents to take care of these people in times of need. Filial piety also contains social norms within its teachings, expecting children to behave well in public places in order to reflect well on their family name and ancestors. In addition, filial piety introduced the notion of upholding fraternity among brothers to prevent disputes arising out of jealousy.

At the corporate level, it meant that adherents, whether supervisors or ordinary employees, should show respect for each other and their teams, as well as politeness and courtesy.

5 *Imports hurt Korean chinaware makers*, Korea Times, 9 November 2012, accessed 7 July 2017

6 *Ibid.*

7 Filial piety is translated as *hyo* in Korean and *xiào* in Chinese.

Adherents would also be expected to meet performance standards set by their firms, so that productivity levels can keep rising. In the end, this pillar ensures that staff can keep their jobs so as to ensure the material means necessary to support their parents and children.

PhD on hold

The values that Jong-ho Kim transmitted to his family and descendants affected many important decisions of the family and the firm going forward, although following Confucian principles was not always easy.

Dong-su Kim, the first-born son of the founder, cut short his education on behalf of family interests. He had initially hoped to earn a PhD in economics and indeed was accepted by a number of top schools in the world. A month after he sent out his applications, however, his father acquired a small pottery factory as part of a turnaround strategy to become a bigger player in the Korean market. Dong-su Kim immediately understood that his father would expect his support to integrate the new company and its employees into the larger organization. He put his PhD on hold, although he never lost sight of the value of higher education. Ultimately, the integration of the newly acquired company was a huge success.

As a private company, the Kim family owned the largest stake in the group of businesses. In keeping with good practice governance, a series of trusts were set up for all members of the family regardless of their employment in the company.

Two Sons

Dong-su Kim had two sons, Yong-shin Kim and Yong-mok Kim, both of whom joined the firm right out of school. In 2004, Dong-su Kim, age 73, handed over the business to his eldest son Yong-shin Kim, age 42 (who continues to run the firm today). Imbued with filial piety, the younger brother, age 39, accepted the succession choice without question. He knew his father had made the only choice open to him.

In one instance, their obedience to the principle of filial piety got in the way of recognition. In 1999, the President of Korea planned to bestow on Yong-shin Kim an award as the most successful entrepreneur of the year. When Yong-shin Kim heard about it, he recommended that his father receive the award. This was finally agreed, but when Dong-su Kim heard about it, he in turn recommended that his late father receive the award. In the end, the award went to another entrepreneur.

Asian Financial Crisis

During the Asian financial crisis in 1997, many privately held companies in East Asia (including South Korea) went bankrupt because they had borrowed too heavily. Although Hankook Chinaware managed to stay afloat, its main lending institution went out of business. At this difficult moment in the company's history, the second-generation leader Dong-su Kim, in a spirit of filial piety, invested his family's savings in the company to ride out the credit crunch, and asked his employees to do the same. When the crisis ended and the

company's fortunes revived, he repaid the principal plus interest. Henceforth, Dong-su Kim gave all employees an annual bonus, dubbed 'the filial piety incentive', in addition to the regular bonus they received. It was his way of saying that the family would never forget the sacrifices made.

The family also set up a scholarship fund for the children of employees to help them pay for university. Dong-su Kim set up a school where the teachings of Confucianism were taught. Graduates could apply for university scholarships and were given priority in the hiring process at Hankook Chinaware.

Senior Employees

In the spirit of filial piety, the family preserved a culture of respect for long-tenured workers at the Cheongju factory and their offspring. In 2009, the average age of workers at the facility was 50, significantly older than the average worker in Korea's manufacturing sector (37.5 years). In addition, many second-generation employees found work at the factory, having been given priority in the hiring process. Again, this reflected the role of filial piety in talent recruitment and retention. By recruiting second-generation potters with highly developed skills, the firm was able to develop a unique competitive advantage in the Korean market.

The company had become famous for its bone china, which requires a mastery of the craft of porcelain making. Staffordshire potters learned how to make bone china in late 18th century Britain as an alternative to translucent and delicate Chinese porcelain. One of the most well-known potters of this period was Josiah Wedgwood, who started his own business in 1759. He transferred his skills to his descendants, who ran the company for nearly 230 years until it was acquired by Waterford in 1986.

Making Bone China

Compared to other porcelain types – hard-paste and soft-paste porcelain – bone china is delicate yet strong enough to be practical for fine dining. It is highly appreciated by collectors and priced accordingly. However, manufacturing bone china requires sophisticated skills and knowledge in selecting materials and maintaining appropriate temperatures, which determine the delicacy of the production.

When Hankook started making bone china in the early 1970s, the manufacturing skills and knowledge required to produce it were in short supply on the shop floor. Knowledge of bone china required a huge investment in both time and money, i.e., it could only be learned through experience (not from a book). Apart from the investment, the company had to select technicians who were prepared to acquire skills through a process of trial and error, and willing to teach these skills to the next generation of potters.

Again, in a spirit of filial piety, the Kim family rose to the diverse challenges of making bone china, giving them a first-mover advantage in the domestic market. With an emphasis on respect for experienced employees, this principle was embedded in the organizational culture and provided guaranteed future employment for those labourers who agreed to learn new skills. By the early 1970s, technicians at Hankook Chinaware had accumulated enough

knowledge to start producing fine bone china, giving the company a domestic monopoly for the next 20 years. It was not until the 1990s that other potters in Korea caught up.

Acquiring Technical Skills

During the ‘golden years’ a number of technicians who had learned the art of making bone china reached the age of retirement, but not before they had instilled the company spirit and proudly transferred their knowledge and skills to their own children, who found jobs with the firm. In this way, the company optimized the return on the investment it had made years earlier, when it allowed the employees to take time away from production to learn new skills. This transfer of knowledge paved the way for future innovations in bone china production.

By extending the concept of filial piety to company management, the family and firm encouraged employees to engage in a relationship-specific investment by transferring their accumulated assets to their descendants who worked in the company.

Building a Network

The Kim family also developed strong social ties with local artisans. In Cheongju, where the firm was established, high-quality porcelain had been produced for more than a thousand years. Cheongju is proud of its potters who have been making porcelain with the jade green and white celadon glaze (called ‘greenware’) going back to the Koryo (Goryeo) dynasty which reigned from 918 to 1392, when their ancestors produced elegant pieces of celadon for the monarchy.

During the Japanese occupation of Korea from 1910 to 1945, many porcelain artisans were forcibly relocated to Japan, where they worked for the imperial family. It was this period that saw the theft of tens of thousands of cultural artefacts to Japan, many of them ceramic pieces.⁸ By the end of World War II, only 10 potters remained in the city. Most were designated national cultural artisans by the Korean government in recognition of their porcelain-making skills.⁹

Through charitable giving, the Kim family has financially supported many of these artisans and others like them since founding the business in 1943. By maintaining strong ties, it has built a network of highly-skilled independent potters who can be counted on for advice and support in new product development. This has helped the firm stay ahead of the competition for many years and has served as a key source of inspiration, such as in the modern development of celadon bone china that bears the distinctive jade-green colour of the original Korean celadon.

Leveraging the unique assets of the Kim family over six decades, Hankook Chinaware became one of the fastest growing tableware firms in Korea, driven by a culture emphasizing

8 https://en.wikipedia.org/wiki/Korea_under_Japanese_rule#Removal_and_return_of_historical_artifacts, accessed 7 July 2017

9 In providing financial support, the Korean government has designated national cultural artisans as those who possess skills for performing music, for making food, for producing artwork including pottery pieces, etc.

family and respect for elders, and a dedication to Confucianism for generations. The founder integrated Confucianism into the management of the firm, promoting a corporate culture of respect for experience and family ties, guaranteeing job security and providing employment opportunities to the next generation. These principles motivated employees to accumulate skills and tacit knowledge and transfer them to their children, and also translated into the building of a network of local artisans, who helped to develop new products, which boosted the growth of the business.

What Lies Ahead for Hankook Chinaware?

Hankook Chinaware had reached a turning point in its journey marked by falling sales and stiff competition from both low-cost Chinese discounters and high-quality luxury brands. To prevent further sales erosion, it needed to reach out to loyal customers offering them new reasons for buying their products. By bringing together its network of local artisans and its customer base, the Kim family hoped to amplify the country-of-origin effect that would help it compete with luxury Western competitors such as Royal Copenhagen and Wedgwood.

Questions for Discussion

1. Why is Hankook Chinaware in a difficult competitive environment?
2. How did the founder of Hankook Chinaware apply Confucianism to his private and professional life?
3. What is filial piety and why does it play an important role in family firms?
4. Why did the Asian financial crisis leave such a mark on the founder of Hankook Chinaware?
5. How are older employees treated at Hankook Chinaware?
6. How did Hankook Chinaware obtain a first-mover advantage in the production of bone china?
7. If you were the CEO of Hankook Chinaware, what short- and long-term strategies would you adopt to turn the company around?
8. In the face of fierce competition, can family firms sustain the same level of commitment to values-based leadership?