

OECD Conference – Making Reform Happen – Luncheon Speech

“Reform: a Voyage of Searching for “Real Value”

Yongmaan Park / Chairman & CEO, Doosan Corporation

I. Introduction

Distinguished representatives of the OECD, honored guests, ladies and gentlemen,

I would like to begin by expressing my sincere appreciation to Mr. Gurria, the Secretary-General of OECD, Mr. Oh-Seok Hyun, the President of Korea Development Institute, and to the organizers of this prestigious international conference, for providing me with an opportunity to address the topic of private sector experience with reform. It is a great honor indeed.

Some of you may interpret my presence here today as evidence of my personal expertise on reform. I am not an expert. Rather, I am an ordinary businessman with aspirations to constantly effect change, in order to build a better future for my company and its stakeholders.

In this regard, I wish to share with you today the experiences of the Doosan Group in implementing reform. Through my talk, I hope that we will be able to reflect together on the relationship between the public and the private sectors in pursuing reform, as well as on ways to achieve reform in order to promote sustainable growth.

II. Doosan’s Experiences with Reform

Throughout its 114-year history, Doosan has faced numerous challenges posed by the changing political, economic and social environment. In the face of such challenges, Doosan has had to constantly reform itself in order to survive.

- The opening of a small fabric store in Seoul in 1896 marked the birth of Doosan as a company.
- In the 1950s and 60s, after the end of the Japanese occupation, Korea experienced a civil war and military rule. During this time, however, Korea embarked on the process of modernization. It was during this period that Doosan transformed itself into a modern corporation, through the acquisition of Oriental Brewery, an alcoholic beverage company in Korea.
- In the 1970s and 80s, the Korean economy underwent a period of industrialization and accelerated development, as state-owned financial institutions provided Korean corporations with easy access to credit in order to promote investment and growth. During this period, Doosan was able to achieve vertical integration in the beer business. Taking advantage of its position as an early mover in the market, Doosan also expanded its manufacturing capacity and pursued rapid organic growth, achieving a dominant 70% market share in the beer market in Korea.
- In the early 1990s, with the liberalization of the Korean economy, foreign companies entered the Korean market. This resulted in a rise of consumer standards and fierce domestic competition. During that time, Doosan fell into a vicious cycle of incurring debt to invest in facilities but not being able to translate such investments into adequate sales to service its debt. Such a cycle is actually a common problem for companies focused on domestic sales in developing countries that are undergoing economic liberalization. Doosan realized during that time that it would not be able to achieve its aspirations by looking solely to the domestic market. So while other companies in Korea were continuing to focus on sales growth, Doosan initiated a program of internal reforms in 1995, involving the sale of its beer operations and the purchase of Korea Heavy Industries, to improve its financial strength and to pursue businesses with global potential.
- Events that unfolded in subsequent years proved Doosan's strategy of reform to be wise. Korea became increasingly integrated into the global economy and continued to move toward global standards, as evidenced by its OECD membership in 1996. In addition, as a result of the Asian financial crisis starting in late 1997, the Korean economic landscape experienced drastic transformation. Financial institutions in Korea suffered from a sudden shortage of liquidity, and out of the 30 largest Korean corporations accounting for 60% of Korea's GDP, 17 became

bankrupt. In spite of these changes and challenges, Doosan, through its early program of reform, was able not only to survive but to establish a firm foundation for future growth.

III. Implications of Doosan's Experience

I believe there are three main lessons that may be drawn from Doosan's experience with reform.

1. The first lesson is that effective reform requires a willingness to part with legacy.

When Doosan initiated its program of internal reforms in 1995, Korea was experiencing a sustained period of growth. At the time, Korean companies had virtually no experience with selling or downsizing their core business operations. Korean companies were expected to provide lifetime employment for their employees, and Korean society placed a high value on passing down a legacy family business to the next generation.

In such an environment, no one understood why Doosan would want to dispose of its beer operations, which represented the core of its business and its legacy. In fact, some financial institutions even sought early repayment of their outstanding loans to Doosan, as it became conventional wisdom that Doosan would go bankrupt.

Despite such adverse public opinion, Doosan forged ahead with its transformation, becoming the first company in Korea to dispose of its core business. As the Asian financial crisis unfolded two years later, Doosan's foresight was proved to be correct.

With the proceeds from the sale of its beer business, Doosan purchased Korea Heavy Industries, and thereby transformed its business portfolio. The heavy industries sector offers significant potential for global expansion and will serve as a new manufacturing-based growth engine for Doosan.

In sum, the critical question for any program of reform, whether corporate or governmental, is whether it creates real value. Effective reform requires the willingness to look beyond nostalgic value, sunk costs and vested interests, and to make bold decisions based on hard facts.

2. The second lesson that may be drawn from Doosan's experience is that reform requires transcending conventional ways of thinking in terms of dichotomies.

In the corporate world, conventional dichotomies that tend to dominate management thinking are domestic sales versus exports, home markets versus overseas markets.

For example, companies in Korea and the rest of Asia typically follow a linear path to globalization, starting with exports from the home country, then establishing an overseas sales network, then building overseas manufacturing facilities, then establishing or acquiring overseas subsidiaries and finally dispatching staff from the home office to manage the overseas operations.

By taking such a home-country-centric approach, most Asian companies are unable to go beyond the export-centered approach to globalization.

However, in my view, true globalization requires the transcending of the dichotomy between home country and overseas markets. True globalization entails establishing a system of international division of labor that takes advantage of the comparative strengths of each component part of a global organization, thereby maximizing added value.

Doosan's aim is to become a truly global company by expanding its technology and market-share through global M&A and by establishing systems that meet global standards, including in the area of human resources.

Therefore, in order for future programs of reform to succeed, whether in the private or the public sector, they need to transcend national boundaries, in order to utilize human and material resources in a value-maximizing manner and to create a system of international division of labor and global networks that enhance efficiency.

3. The third lesson that may be drawn from Doosan's experience is that time is of the essence in successfully implementing reforms.

Any program of reform involves a race against time. For a company like Doosan, which is still playing catch-up in order to compete against industry-leading companies with advanced technology, the speed of reforms is critical.

In this day and age when information is disseminated on real-time basis, it has proved difficult for Doosan to close the gap with market-leading companies based on organic growth alone. Therefore, our strategy has been to accelerate reform through strategic M&A activities, even though such a strategy entails significant upfront costs.

The key to Doosan's rapid growth within a compressed frame has been to rely on strategic overseas acquisitions, to secure global competitiveness within the Infrastructure Support Business. For example, we acquired Mitsui Babcock in 2006 to obtain power generation technologies, Bobcat in 2007 to obtain the ability to manufacture small excavators, and Moxy Engineering in 2008 to obtain the ability to manufacture articulated dump trucks.

IV. Conclusion

In conclusion, in light of Doosan's experience, I believe that reforms are imperative for achieving sustained growth, both at a micro- and macro-economic level, and in this era of globalization, reforms need to be carried out based on a global platform. It is not an exaggeration to say that one of the primary missions of the OECD is to help implement such global reforms.

Reform aimed at creating "real value" is a necessary pre-requisite for enhancing competitiveness. However, meaningful reform in any area is a long and arduous process. It requires a shared vision that is arrived at through careful formulation and clear articulation.

In the corporate world, even if a company selects a business wisely, the company will experience decline if the relevant business sector declines. A successful company is one that can adapt to changing times and environments and constantly re-orient itself towards new growth areas. What makes this possible is competent personnel. In other words, the key to achieving effective reform is people. In keeping with our management philosophy that "people are the future," we at Doosan will continue to strive towards reform and transformation based on the two "G"s - "Growth of Business, Growth of People." Thank you.