

The Ethical Challenges at Hyundai Corporation

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ABSTRACT

This case addresses the ethical issues related to Hyundai Corporation. The case presents a chronological dateline highlighting the illegal and unethical activities that took place by the top managers and specifically the CEO and Chairman of the Board, Chung Mong-koo. In addition, ethical issues related to the role of Korean chaebols or family run conglomerates will also be addressed in this case. This paper coincides with the theme of justice and sustainability in the global economy since Hyundai is a global corporation and the focus on ethical issues addresses the issue of justice and long term sustainability of the organization.

Keywords: *Corporate Ethics, Fraud, Top Management*

INTRODUCTION

The origins of current business practices in South Korea originated after the Korean War in 1953. The governments ruling South Korea determined that the quickest way to recover from the devastation of the war was to allow the concentration of scarce capital and technology to take place among only a few family run companies. It was believed that this would be the most efficient use of the scarce resources. The net result was the formation of family run conglomerates which had deep rooted control of its numerous subsidiaries as well as having strong business connections with its various suppliers and government officials. These all encompassing companies were called chaebols and became the dominant corporate structure of the largest companies in South Korea. Korea's 30 largest family-run companies account for almost 40 percent of Korea's total economy (Fackler and Lee, 2006).

The challenges at Hyundai started with the death of the founder, Chung Ju Yung in 2001. During the previous year leading up to his death, Chung had started breaking up the Hyundai empire and giving the pieces to his children. Three of the six surviving sons, Chung Mong Koo, Chung Mong Hun and Chung Mong Joon, continued to battle for the assets of the Hyundai empire after their father's death. Chung Mong Koo was given control of Hyundai Motors and Chung Mong Joon was given control of Hyundai Heavy Industries (Kirk, 2001).

THE ETHICAL CHALLENGES START

In August 2003, Chung Mong Hun died of an apparent suicide when he jumped from the 12th of from the corporate headquarters of Hyundai Asian. Mr. Chung was facing charges of making an illegal payment of \$100 million to the North Korean government so that the North Korean leader, Kim Jong II, would meet with the president of South Korea, Kim Dae Jung. Shortly after the meeting took place, Kim Dae Jung received the Nobel Peace Prize. Mr. Chung continued to have close business relations with North Korea and Hyundai was accused of making \$400 million in payments to North Korea in exchange for receiving contracts to build various projects in North Korea including a tourism enclave, an industrial park, various dams, an airport, telecommunication facilities and a power generation station (Brooke, 2003).

In April 2006, the chairman of Hyundai Motors, Chung Mong-Koo was charged with embezzling corporate funds through fraudulent accounting. In addition, he was also accused of agreeing to deals that were questionable from Hyundai's perspective, but greatly benefited himself and his son who controlled the Kia automobile company. It was

alleged that Chung accumulated \$100 million from various subsidiaries and put it into an account that was used to bribe government officials in order to receive favorable contracts. The investigation started in the previous month when a lobbyist and former Kia director, Kim Jae Rok was charged with receiving money from companies in exchange for using his influence to help the companies. Hyundai was accused of giving Mr. Kim money in exchange for guarantees that Hyundai would be the winning bidder for various construction contracts. After chairman Chung was charged, he left South Korea for the United States and the Korean government put a traveling ban on his son, Chung Eui Sun, who was the president of Kia Motors (Associated Press, 2006). Less than two weeks after the initial charges were announced the South Korean government announced that the investigation had been broadened to include the vice chairman of Hyundai Motors, Kim Dong Jin. Mr. Kim was responsible for financial decisions for the company along with being a key aide to the chairman. This was not the first time in which Mr. Kim had been involved in a criminal investigation. Mr. Kim had been convicted and was given a suspended jail sentence for a 2003 investigation related to Hyundai Motors giving bribes to candidates during the South Korean 2002 presidential election. Mr. Kim was eventually given a presidential pardon for his criminal actions of 2002 (Bloomberg News, 2006).

TOO BIG TO GO TO JAIL

In response to the charges, Chairman Chung Mong-Koo offered to pay one billion won (\$1.1 million) to charities as part of an apology for his illegal actions. Mr. Chung commented, “we bow our heads to say that we are sorry for failing to fulfill our social obligations” (Noon, 2006). Hyundai’s vice-chairman stated, “we deeply apologize for not taking social responsibility and causing concerns to the public...We will fully co-operate with the ongoing prosecutors’ investigation and humbly accept the outcome” (Jung-a and Fifield, 2006). In addition, Hyundai pledged to establish an ethics board of directors committee which would be composed of outside directors and external experts to make the actions of Hyundai more transparent (Jung-a and Fifield, 2006).

In February 2007, Chairman Chung was sentenced to three years in prison for “illegal and antimarket practices” but was allowed to stay out on bail during the appeal process. The judge stated that he could remain out of jail in order to “minimize the impact on the economy.” The response by a spokesperson at Hyundai was that “Chairman Chung will remain at the helm of management, but his room for maneuvering will be curtailed by today’s sentence...The verdict means that he will have one leg tied in a legal battle at a time when he has to run with both legs for the company”(Sang-Hun, 2007).

In September 2007, the Appellate Court in Seoul granted a suspension of Chung’s three year prison term for embezzlement and breach of trust. The judges were concerned that the Korean’s economy would be negatively impacted if Chung remained in jail. Chung had promised that if he was allowed to be freed he would donate \$1 billion to local charities. The court had determined that Chairman Chung was too valuable to the economy of Korea to be locked up in jail. Hyundai Motor group generates approximately seven percent of the value of all the Korea’s annual exports (Jung-a, Betts and Hill, 2007).

In December 2007, former Hyundai CEO Lee Myung-bak denied allegations that he was involved with a stock manipulation case from a company he started in 2000. The prosecution had to drop the investigation when they were not able to obtain enough evidence to warrant criminal charges (Choonsik, 2007). In February 2008, Lee was sworn in as the new president of South Korea. In March 2008, Chung was re-elected as the Chairman of Hyundai Motors. In 2008, Chung Mong-Koo was ranked as the second richest person in Korea by *Forbes* magazine with a net worth of \$2.8 billion. His brother, Chung Mong-Joon who controls Hyundai Heavy Industries, was ranked first with a net worth of \$3 billion (Kitchens and Ho, 2008).

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