The Impact of Businesses in the World Development. A Strategically review of LG Electronics Company Internalization from South Korea into India.

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Abstract: It's obvious that business impact in the World development cannot be overemphasized. Hence internalization by companies as seen from South Korea LG Electronics into India enhanced development in the concerned countries, while the company own subsidiaries in parts of the World and contributes in the World businesses add to GDP and increase relationship of business in political cultural and ethical factors. While, factors as innovative and strategic model add value to trend of LG Electronics internalization transcend into India. While, Porter’s five forces was aid in the analysis of LG Electronics company position in India with market share of 41.2%, 37.9% and 34.1% respectively. On the other hand, Firm Specific Advantage (FSA’s) is with unique capabilities by gaining on advantages on rivals companies. While, Country’s Specific Advantage (CSA’s) Indian LG Electronics Company gain and achieved competitive advantages in industries location, productivity and services possible based on the country natural resources, labour force (population) and cultural values. However, the challenges in South Korean business includes: High level violation of ethics guiding work and performance, illegal price agreement with formation of cartel and collusions which are business ethical setback of World businesses in general.

Keywords: Business and Country’s Specific Advantage, Firm Specific Advantage, Development and internalization Strategies.

I. Introduction

Multinational Company (MNCS), this is companies which operates in several countries but managed from one (home) country. Most often, companies that derives quarter (25%) of revenue from operations outside its Home country (Business, DC). The company has subsidiaries' in different parts of the World with centralised global coordination, the company may acquire labour assets and resources available in the Host country and their decisions process may be from local, regional or global level depending on management, purpose with the aim of exploiting international environments to the benefits of both (Seun, 2009).

1.1 Brief History and Products of LG Company.

LG Electronics, Established in 1947 with Central headquarters in Seoul, Republic of Korea (South Korea) with a Population of 48,754, and area 38,032 sq.mi and Labour force 24.62 million official language Korean and English (US-DSD, 2001). The Former Gold Star Company Brand identity LIF’S Good; been a large structural company and functions high power products these are:

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Business Structure of LG Electronics; Source: Homepage of LG Electronics (www.lge.com).

1.2 LG Company Subsidiaries.

LG Company has 98 Subsidiaries, 19 Liaison, 117 Global operations and management with six design centres Worldwide (LG, 2012). These include: European Subsidiary in Germany, US, South East Asian, China, South Africa, UK, France, Brazil, India. These Subsidiaries’ are production Centres, while others are Marketing Centres. The US and North America Subsidiaries dominates the Market, of South Korean Chaebol company formed, Gold Star a giant Conglomerates; and a today World Market Leader LG (Arkinn, 2010).

II. Evaluation of Key Role Factors in Businesses.

2.1 Political Factor.

Political Stability is the first factor considered in establishing any business in a geo-political environment. LG started with an ancient history of South Korean Chaebol system. At independence from Japan in 1945, the government first formed a Free Market Economy which favoured large family systems of business called Chaebols (Conglomerates supported by government), been the origin of LG company. Other factors that favoured business in South Korea includes: Favourable government policies on exports and promotions, grant of simplified customs duties on industries, accumulation of infant industries excessive debts, imports policies restriction on FDI and favourable policies on R $ D for Koreans companies. (Varavatasanthi and Pinalsah, 2007).

Regulations and control of businesses in South Korea is influence by the government policies, because the success or failure of this business has consequence on the government. The supports given by government are judiciously used for the success of the business and the country. The success story of companies in South Korea is the supports of the government from long-established time; today 60% of South Korea GNP comes from largest companies in the country and LG (Victor, 2012).

2.1.1 Gross Domestic Product.

The following indices are true of South Korea 2010. Area (38, 0323 sq mil), Population (48,754,657), Workforce (24.62 Million), Purchasing Power Parity ($1.459%), trillion, Inflationary Consumer Price (2.9%), Unemployment rates (3.3%). Trade (2009) Exports ($363.5b) on telecommunication, equipment, computer, motor vehicle. Market: Major exports markets are China (23.2%), Japan (5.8%), Hong Kong (5.3%) and US (10.1%). While major importer to South Korea includes: China, Japan, Saudi Arabia and Australia. The Economy of South Korea is rank 14th in the World and 10th largest trading Nation in the World, acknowledge as a reformed and developed country in Asian (US-DSD, 2012).

2.1.2 Relationship.

South Korean an LG Company based, located and boundary with several countries such as China, Japan, and North Korea and confronted with Market challenge in selling its products. The economy of South Korea can’t be complete without emphasis on Chaebols, which all businesses emanates from and far 60’s the country was already growing up with business companies receiving supports from the government. The Korean
economy encountered one quarter negative growth recession during the 2008-2009 global melt down which slightly affect the economic growth and at early 2010 the economy revive owing to the trade involvement regional trade with China and Japan (RSB, 2010).


2.1.3 LG Company Challenges.

The South Korea Progressive economy, the bottom line is market is fierce with competition and rivalry, the dynamics of market, demand and supply of other competitor in the market, the restriction in the World economy, the changes in the Free Trade Agreement Policies, the international standardization constant changes. The policies of core technology acquiring and non-expansion of LG market are among the leading restriction market policies (Mung Woo Chun, 2008). South Korea is incapacitates in areas as: Inadequate expertise in information and Communication Technology to richly develop the organisation and economy in general. Inadequate of professional in biotechnology, use of biological processes in industrial production for example in development of insulin, vaccine production and Cultures films, Television Music (Mung Woo Chun, 2008).

III. Cultural Factors.

Culture is the total way of people’s life, their relationship with society, groups, organisations, private and public and their interactions with environment in general (CIA, 2012). South Korea culture is mostly depicting in their businesses and organisations. Turbulent period in history of South Korea independence from Japan which has influence their belief and tradition and made them live homogeneous Life with the features explained below:

3.0.1 Ki bun.

A way of life that that guides their behaviour’s in the society and organisations these comprises the mood, pride, mind and expression. Others include respects and work, harmonious living and the success or failure of business depends on the behaviour, states of the mind. Identifying this refers as Nun chi: which every employee most maintain. While Confucianism is an ancient philosophy of Koreans Culture and up to today still have influence in their organisations with a principle of moral life, respect for individual and adult, authority, loyalty, honour, pity for your next door neighbour and they lived Collective life in Society (CIA, 2012). Business Personal Relationship: Business succeed base on tie and relationship, sincerity, mutual trust, worthy and their businesses is accord and initiated by cultural values and support from the culture of Chaebo ls business based on respectful reports, mutual friendship, and strong ties to survive the business. Conclusively, respect of cultural affiliation and inclination to businesses in South Korea which LG Electronics belong is the basis for the company success today, the success of Asian business firms cannot be conclude without mentioning the South Korea Culture and chaebols. LG Company is the 3rd in Asian after Japan and China (CIA, 2012).

3.1 Ethical Factors.

Ethics are guides to one’s life it might be written formal, by organisation or guided by belief and customs to workers and management to aids conducts behaviours actions in accordance with primary values and ethical standard toward performance (Business, Dc). LG Company is not exceptional in the ethics of South Korea beliefs, value and code of conducts which conform with high moral values, superiority and obedience to Seniors and hierarchical in administration, “collective achievement” of group, high relationship better than
competitive setting and established norms because of the Confucian values which result to the Chaebols systems and LG enjoyed these values over years (Irwin, 2010).

While South Korea concentration today is on Improving Environmental Efficiency issue on Green Growth of Technology Application and Quality Life and Sustainability (US-DSD, 2012). The economy depend much on high energy use which LG company share large portion of the usage reducing and controlling the rate of emission which has become a challenge to the company and the country (Irwin, 210). While LG Green Ovation of carbon emission strategies planned called Green management strategic direction in a cyclical way (LG, 2012). The ethical challenges of South Korea business are: High levels of violation of ethics guiding work and performance, illegal price agreement are negotiated between companies and there is formation of cartel and collusions, which are ethical setback to the country in general (Irwin, 2010).

3.2 Innovation Factor.

The act of introducing, inventing an idea by either transmitting it into products or services in a format. It is also the process of doing something distinct and been inimitable, initiative in productivity or services (Business DC). LG Electronics has come a long way in its innovative strategy which played a key role in the company international business activity. The economy volume of LG sales has tremendously increased right from the period of its establishment in 1958, from the first radio innovative produced. LG proceeded by adding value to its employees and initiative strategy to produced it first radio in 1959 for the first time even at LG toddling stage, it uses its own parts to build radios. In both the company and electronics history of Korea industry. LG then even at a very low technology standard, but with R&D went ahead to make the components themselves. A decision that helped LG company up to today intensive resources investment in R&D is the foundation for the company’s rapid advancement in technology in the World of electronics today (Myung Woo Chun, 2008).

3.2.1 Strategic Models.

This are goals to achieve organisational objectives and by analysing the competitiveness of industry. The success and failures of business depends on the intensify strategy adopted. And this varies across industry, often high competitive industry; low return and low competitive high return (Adam, 2009). In evaluating an industry, the micro environment is considered such factors are: shareholders, customers, staff and competitors. Therefore, the strategic model I shall use to evaluating LG Company is the Porters Five Forces. These when critically analyse will expose the strategic position of LG company globally emphasis laid on South Korean based and internalized through FDI into India successful, with the consideration of the FSAs and the CSAs. These establish the development of LG Company World Wide from home based company to subsidiaries in other countries of the World and establish the international strategic level outcome.

IV. Porter’s Five Forces (LG Company Analysis)

Making business strategic decision for success, demand intelligible adoption and critical analysis.

Decisions among which is the Porter’s Five Forces which personified:

I. Rivalry among current competitors.
ii. Threat of new potential entrants.
iii. Threat of substitutes products/services.

4.1.1 Industry Rivalry.

Rivalry is a common force toward a competitive industry (Reuter, 2012). LG with its track of growth history over time has rivals in the industry which includes: Samsung, Apple, ZTE, and Nokia who are the main competitor in the industry. The industrial products like Samsung galaxy range phone, Apple iPad phone, are among substitute’s products. Also they are stronghold market experience by LG phones’ and this trapped LG company into a low margin profits on phone sales; As ‘‘Observed Hong Sung-ho’’ LG won’t be able to earn double digit profit margin in handsets as Apple and Samsung do’, (Reuter, 2012). LG LCD TV has Samsung is the main rival in the industry. Other competitors such as Nokia, Siemens, Sony, Philips, are lowering their prices to increase consumer’s purchases on the products and intensifying other marketing strategy to competitively stand in the market. LG products such as touch screen, remote-control, plasma Television etc. has less rivals in the market due to its high quality and warranty in the market. While LG strategy are innovation and capability based, this is mostly on R&D to avoid brand switching cost by customer and watching the psychology of market (Adam, 2009).

4.1.2 Potential Entrants.

LG products are cost intensive, new entrants are attracted into an industry with various considerations range from cost, barrier and strategy to adopt. LG as a leader in the industry, whilst enjoyed: economies of scale, differentiation strategy, advance technology, etc. While peers of intending entrants into the industry include: Motorola, ZTE, Huawei and their manufacturing competitiveness (Reuter, 2012) With technological advancement and to create an edge over potential entrants into the industry, LG recent model phone with technological advance batteries with 10 hours talk time and a stand by back up for one month. Other outstanding products over competitor are: latest soft touch, modernize micro oven, latest PLASMA, CDMA, Refrigerator etc. Competitive companies sprang in the industry such as index, fly shine, virgin and spice company (LG, 2012).

However, LG has high barrier to entry, because new entrant will need to involved in capital intensive, high investment in R&D, technology and marketing for high competition, invariably, LG has low threats of entry(Hubpages, 2012).

4.1.3 Threats of Substitutes Products.

LG substitutes are frequently release to the market by other competitors from other mobile manufacturers. For example iPad by Apple, galaxy by Samsung and are substitutes to LG smartphone. On Mobile phone LG has much competing rivalry products such as Nokia, lumia, Motorola 920, Motorola droid HD (Lewis, 2012). LG has fewer substitutes in Television/Audio/Video products such as LG home Theatre, led projector, systems blue ray. While Computer products and Appliances such as refrigerator, range oven washers AC. LG has an established R $D for expansion and differentiation of the market products (Lewis, 2012). However, the threats of substitutes in LG Company are low in products area as: Home Appliances: Range oven, Refrigerator, washing machines. Home Entertainment: LCD Plasma Television, Audio/Video, Home theatre systems, Led Projector. Air Conditioning and Energy Solution: Solar, Commercial AC. LG is Challenge of High Competition and substitutes in Mobil Communication: with 65% Competition from NOKIA, SAMSUNG, Apple and ZTE (Hubpages, 2012).


The persuasion of consumers to buy, patronise and to become a brand loyalist. And consumers can be individual, group or a company and bargaining itself depend on the type of company products, the elasticity of the products and the price (Mgt followers, 2012). LG products such as LCD Television, CDMA, Optimus G Phone, are qualitative with long life battery for phone and brighter and qualitative sharper picture over the Samsung flagship, galaxy S III, while on smartphone products Nokia and HTC suffered losses and thin margin profits over years now as consumers switch to Apple’s iPhone and Samsung galaxy (Reuter, 2012). These
products are available, standing with high bargaining confidence in the market. Samsung along is close in the appliances market with LG total of 13% shipment over its competitors in the world (Reuter, 2012). However, LG Televisions, monitors, notebook, pcs, LG Philips LCD provides full line up of large and wide LCDTV with S-IPS facilities with high patronage in the market. Other applications standout among its existing competitors (differentiation) owing to their innovation outstanding and modernize products design kick out the bargaining power of customers in the market on LG products (LG, 2009).

4.1.5 Bargaining Power of Suppliers.
LG produces quality products over its competitors, and at low cost rates, owing to its large nature and enjoy economies of scale from its suppliers. In 2008 LG lower it cost by 10% inline produces better quality products over its competitors which in reverse increases its market share cost competitiveness and supply capacity over its rivals (LG, 2009). LG has a low bargaining power of suppliers, which low threats from the power of suppliers. LG form formidable ties with suppliers, these enhanced their bound and they become equity holder with LG. This strategy become relevant to LG in line with these LG form a ties with suppliers, which prompt supply is guarantee and source of competitive price at advantage LG compare to its rivals as Samsung, Sharp, Motorola and Sony (LG, 2012) which no supplier would wish to loss a reputable organisation as LG.

V. LG Electronics Company South Korea, Internationalization into LG Electronics’ India.
5.1.1. Internationalization.
MNC Internationalization is the process which companies entered into foreign market, considering all the risk and obscure environment, the firm could encountered export and marketing cost and could use the services of specialised agents on international trade outside the firm. While at learning effects the firm becomes familiar with the foreign market and the internalization process become more secure and reduction in cost and more established streams production and export increases as the host MNC become familiar and set up more strategies. The host firm may use the country’s workers to engage in the local assembly, production and packaging, tackling variables as wages, cultural attitude, and workers expectation of the labour force (Rugman and Collison, 2012). Risk and cost are curtail when the host country generated knowledge and become familiar with the environment, by embarking on FDI, producing to sale in the host country or to re-export to home country. However, depending on the relative Country’s Specific Cost Advantage (CSAs), and Firms Specific Advantages (FSAs) of natural resources, less trade and imports restrictions and relative less labour cost or proprietary technology cause by R&D, core-competences, managerial or marketing activities, products differentiations trademarks or brand names, large size reflecting economies of scale( Rugman and Collision, 2012).

5.1.2. LG Electronics India, (LGEI).
5.1.3 Background.
LG Company established in India in 1997 as LG Electronics India (LGEI), a wholly-owned subsidiary of LG electronics South Korea and among the leading companies in consumer electronics in India with a turnover of US$1000 million and a market leader in colour TVs, micro ovens, washing machine, refrigerators, and ACs in India (LGEI,2008) posit that its market shares of 26.2%, 41.2%, 37.9%, and 34.1% respectively.

Geographical location of LGEI India.

5.2 Firms Specific Advantages (LGEI India).

These are unique capabilities that produces distinct output and organisation productivity that is inimitable by competitors and edge in fierce environment toward gaining competitive advantages on multiple of rivals. The strive for firms to utilizes its FSAs, can lead to FDI, the internalized LGE India possess Proprietary technology such as mobile computing devices, intensive R&D, which aided the company in improved and expanded products, taken preference over its rival Samsung and Nokia. LG manufacturing durable products based on the advantages for India market (B S E, 2011).

LGEI managerial expertise are some of the skills help the leadership role of LG India in it policies of consumer localise products and products line in both home appliances, premium branded image and household distribution which capture the masses, rural and cities consumers. These are among the strategies diverse by the first LG MD in India KwangRokim (B&E, 2011). While on Innovative skills to the organisation function of the firm, LG India initiatives and creative added value to the FSAs by launching of new technologies consumers electronic in India market and home appliances, innovative marketing and promotional appeals. LG entered innovative way to enter the cricket by sponsoring 1999 and 2003 World cup (LGEI 2008). Marketing derivatives LG market and strategies increased speedily, the company acquired total market share of 172.2% in India 2000. While realised Rs 16 billion turnover rate in 2010-2011 fiscal year (130%) sale over its rivals (B&E, 2011). The company adopted a low pricing strategy to meet the target of Indian rural market such as Sampoorna (TV), Cinephus economy products and generated $ 200 billion (Rs,8000 corore) revenue in 2007 and sales of 20,000 corore in 2011(Sunny, 2011). Research and Development. The company has set up a research and development in Bangalore India research analysis and strategies, products and services are produce based on the laboratory out, line of consumers and customised goods for exports to various countries (LGEI, 2008). While consumer patronage increases due to the company in tense spur throughout the year. In 2004 LG spent Rs 1.3 billion (5% of its revenue) was spent on promotion and advertising with an Indian company slogan to customers believing in honesty pricing policy, no Scheme, no gimmick, great products and honest prices’ which increases their market shares over Daewo,BLP,Sunny, Aiwa and M I T (LG, 2006). LG Electronics India differentiation of products and services strategies has added value and uniqueness to their company’s brand image. In 2001 the company manufacture an eco-friendly refrigerators and assembly for PC monitors. And it also established a manufacturing units at Pune India in 2004, and differentiates its products such as CTV range has a ‘’golden eye’’ technology, ACs ‘’with health air’’ system and micro wave oven with ‘’wave system’’ and targeted both rural and cities consumers and LG electronics Indian is a leader in these products (LG, 2008). Brand name is distinctive competences on firm’s products and differentiates products and services and valuable assets to satisfy consumers (Saxena, 2012).

However, LG Electronics in Indian is a large company and exports its products to about forty countries in the World and modification of product to fit the local consumer purchases and consumption in India. For example Hindi and regional India Language menus on Indian TVs and cricket game in CTVs (Singh, 2012). This creates privileges for larger productivity for the team high population of the country and less labour cost in utilizing the domestic workers, While the firm enjoyed high and qualitative productivity at low cost (scale large size reflecting economies of scale) based on brand and needs of the most rural consumers, “being global at heart” and satisfying local consumers taste with high revenue generation in a larger plant utilising minimum and efficient resources with effective results of internalization (Saxena, 2012). Though, efforts to be a leader in all the business areas has been a challenge as the company want to gain competitive advantages in all market shares. Other Competitors such as Samsung, Sunny, Nokia, Whirlpool, Hitachi and Voltas they competitively force LG market share down from 35% in 2006 to 28% in 2007 and 26.6% to 26.4% in air-conditioner and refrigerator and washing machine marginal market equally drop drastically in same year (LG, 2008).

VI. Country’s Specific Advantages (CSAs) (Indian).

Countries may be fortunate in particularity of specific advantages and this serves as source of strength and benefits to the country competitive environment to gain competitive advantages in industries locations, productivity and services. This fortunately endowed could be natural resources, labour force (population) and cultural values (Rugman and Collison, 2012). Indian is an Asia country with wide rich geographical position of Indian ocean, dense forest, and crude oil endowment and a reflective sunlight, wind and also, significant high population of 1,205,073,613 (July 2012 estimate) been a rapid developing nation with an open market economy with a GDP real growth rate of 6.8%, GDP purchasing power parity $4.42 trillion, while GDP per capita $3,700 (2011 estimate) LG Electronics is favoured by Indian country’s advantages of high labour force of 487.6 million and energy production of 880 billion kWh (2011 estimate) (Fact book, 2012). Though, India has tax impose and restriction system, but because they are open economy and emerging market the allowed company to be established. For example in 2008 government introduce a cut of 5% in the existing 10% excise duty on metal work used in the manufacturing of micro oven and other products timely enjoyed free trade by Indian government (B&E, 2008). The local and efficient manufacturing’s of localised products reduces cost...
as economies of scale and high quantity of products and reduce import duties of Indian policies on products (Singh, 2012).

6.1 The Conclusions.

The Company prospects are high and strategizing to be the global market leader in all its business areas by 2015. While anticipated revenue of $ 9 billion USD in 2015 that means at the growing period of 25 years in India over its home based South Korean LG which sales $ 7billion in Korean saturated based market (B&E, 2011). LG India has higher and positive perception of Indian country and Indian consumers at heart. LG intensified R&D to establish electronic commerce market in Indian country (LGEI, 2008).

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