CULTURAL NATIONALISM IN SOUTH KOREAN BUSINESS: THE CASE OF HAANSOFT SOFTWARE PRODUCTS

Nigel Callinan
Pusan National University

This paper explores the use of cultural nationalism and protectionism in business. It uses the example of a rivalry between two software companies offering word processing program and software solutions in South Korea. One of the products offered by a domestic South Korean company had an association with the Hangul writing system, which is an important part of Korea's cultural identity. The competing company was a North American multinational corporation (MNC) seeking to conduct a takeover of the local South Korean company. The research suggests that a local investment company may have leveraged consumer perceptions of American cultural imperialism in order to block the takeover, so that they could take control of the company instead.

South Korea is now a modern country with access to extensive information and communication technology (ICT) infrastructure and business systems. These systems involve a mix of domestically developed and international products. In some cases, domestically developed products end up in direct competition with international products aiming at the same industries. This can result in large multinational corporations (MNCs) directly pitted against local rivals that are solely dependent on the consumer base of their own country. This could be a mismatch because the MNC has a huge budget, marketing, and reach advantage, as long as their product has been localized successfully to suit the target market.

However, there are some strategies that countries and companies can use to try and protect themselves against the competition posed by the products and services of MNCs. According to Anthony D'Costa, one means to do this is through the use of trade barriers or technical barriers to trade

(TBTs) to restrict or limit access to a market.[1] This would take place at the government level. Another approach would be to encourage consumers and businesses to "buy local" by advertising the importance of supporting local businesses and employees or by portraying the MNC as a foreign threat to domestic industry or culture. The government or the domestic company can do this either together or separately in conjunction with the media. This strategy could be more effective if the brand of the domestic product can be associated with the cultural identity of the country.

A study by Taewon Suh and Ik-whan Kwon determined that consumer ethnocentrism is still an important factor when it comes to a reluctance to buy foreign products in South Korea.[2] Research has also been carried out on the idea of globalization as modern-day colonialism.[3] The perception of colonialism though globalization could constitute a potential barrier to market penetration for MNCs. The role of perceived American imperialism in South Korea has also been widely studied as the US has maintained a large military presence in Korea since the 1950s, and this divides opinions in South Korea on the influence of the US. A study by Gi-wook Shin noted a rise in anti-Americanism in South Korea in the 1980s and 1990s.[4] David Morley[5] and John Rowe[6] explored the blurred lines between perceptions of globalization and American cultural imperialism and determined that the two are often considered to be the same in certain countries.

This paper explores the rivalry between an American MNC, Microsoft, and a South Korean company called Haansoft[7] for control of the office

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1   Anthony P. D'Costa, "Looking Ahead at Economic Nationalism: Concluding Remarks," *Globalization and Economic Nationalism in Asia* (2012): 246.

2   Taewon Suh and Ik-whan G. Kwon, "Globalization and Reluctant Buyers," *International Marketing Review* 19, no. 6 (2002): 663–80.

3   Robert I. Westwood and Gavin Jack, "Manifesto for a Post-Colonial International Business and Management Studies: A Provocation," *Critical Perspectives on International Business* 3, no. 3 (2007): 246–65; Subhabrata Bobby Banerjee and Stephen Linstead, "Globalization, Multiculturalism and Other Fictions: Colonialism for the New Millennium?" *Organization* 8, no. 4 (2001): 683–722; Andreas Georg Scherer and Guido Palazzo, "The New Political Role of Business in a Globalized World: A Review of a New Perspective on CSR and Its Implications for the Firm, Governance, and Democracy," *Journal of Management Studies* 48, no. 4 (2011): 899–931.

4   Gi-wook Shin, "South Korean Anti-Americanism: A Comparative Perspective," *Asian Survey* 36, no. 8 (1996): 787–803.

5   David Morley, "Globalization and Cultural Imperialism Reconsidered," *Media and Cultural Theory* (2005): 30–43.

6   John Carlos Rowe, "Culture, US Imperialism, and Globalization," *American Literary History* 16, no. 4 (2004): 575–95.

7   Haansoft was rebranded as Hancom in 2010; however, to avoid confusion, their original company name is used throughout this paper.

productivity business area in South Korea. Frédérique Sachward,[8] Gil-sung Park et al.,[9] and Sang Mi Park[10] provided examples of protectionism based on the collusion between South Korean companies and the government in order to restrict market access for MNCs. Chuan-hoo Tan et al. used a game theory approach to analyze the rivalry between companies in the word processing area in Korea.[11] However, they did not explore the role of nationalism and cultural heritage. Youngmi Kim,[12] Sungwoo Kim and Michael Chesnut,[13] Haksoo Ko,[14] and Gi-wook Shin[15] discussed the perceptions of cultural imperialism by the US in South Korea but did not investigate the software area.

This study uses the research synthesis approach to investigate whether evidence exists to suggest that business and protectionist measures were used in this software area. The study will use qualitative data to determine if the available literature provides evidence that the South Korean government, media, and business leaders worked together to form a barrier to Microsoft through consumer manipulation using cultural heritage and nationalism.

History and Significance of the Hangul Language

The Korean script, Hangul, is distinct from other East Asian languages as it uses independently created alphabet blocks; whereas Japanese and the various Chinese writing systems are mostly based on ancient Chinese

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8   Frédérique Sachwald, "Globalization and Korea's Development Trajectory: The Roles of Domestic and Foreign Multinationals," in *Going Multinational: The Korean Experience of Direct Investment*, ed. Frédérique Sachwald (London: Routledge, 2001), 361–83.

9   Gil-sung Park, Yong Suk Jang, and Hang Young Lee, "The Interplay between Globalness and Localness: Korea's Globalization Revisited," *International Journal of Comparative Sociology* 48, no. 4 (2007): 337–53.

10 Sang Mi Park, "The Paradox of Postcolonial Korean Nationalism: State-Sponsored Cultural Policy in South Korea, 1965-Present," *Journal of Korean Studies* 15, no. 1 (2010): 67–93.

11 Chuan-hoo Tan, Xue Yang, and Heng Xu, "An Investigation of the Word-Processing Software Market War in South Korea: A Game-Theoretic Approach," *Information & Management* 47, no. 2 (2010): 96–101.

12 Youngmi Kim, "Digital Populism in South Korea? Internet Culture and the Trouble with Direct Participation," *Korea Economic Institute Academic Paper Series* 3, no. 8 (2008): 1–8.

13 Sungwoo Kim and Michael Chesnut, "Hidden Lessons for Developing Journals: A Case of North American Academics Publishing in South Korea," *Journal of Scholarly Publishing* 47, no. 3 (2016): 267–83.

14 Haksoo Ko, "Uncompetitive Deals," *Far Eastern Economic Review* 161, no. 33 (1998): 33.

15 Gi-wook Shin, *Ethnic Nationalism in Korea: Genealogy, Politics, and Legacy* (Stanford: Stanford University Press, 2006).

characters. As discussed by Hŭng-gyu Kim and Robert Fouser, this writing system allowed the Chosun monarchy to break the elitist grip that the powerful Yangban families had at the time on education and information due to the difficulties associated with learning more complex Chinese characters.[16] It also was a symbol of Korea's cultural independence from China during the many Chinese and Mongolian invasions and occupations of the Korean peninsula. Later the Hangul script was threatened during the Japanese colonization of Korea when Japan attempted to impose their writing and family name system on Korea in the late 1930s. This made Hangul a symbol of Korean national pride, independence, and patriotism.[17]

Research by Harald Haarman discussed the cultural significance of Hangul.[18] He explained that as Chinese culture dominated East Asia until the mid-nineteenth century, Hangul was seen as one of the ways in which Korean culture could be distinguished from Chinese. In addition, Iksop Lee and Robert Ramsey explained how the Hangul writing system became a key part of the Korean cultural identity under the Japanese empire.[19] Nahm-Sheik Park showed how Hangul literacy was pursued in the years following the Korean War as way to ensure continued independence.[20] An example of this was shown when Korea regained its independence at the end of World War II. A new national holiday called Hangul Day was established, which is held on October 9 to celebrate King Sejong's unveiling of the new characters.[21]

Early Digital Representations of the Hangul Language

Until the second half of the twentieth century, access to computers and word processing systems were limited in countries that used non-Romanized writing systems, as it was too expensive to justify investment in localized character input systems. However, as personal computer prices started to become more affordable in the late 1970s and early 1980s, the situation

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16 Hŭng-gyu Kim and Robert Fouser, *Understanding Korean Literature* (Armonk: M. E. Sharpe, 1997).

17 Youngsoon Park, "The Language of the Country" in *International Handbook of Reading Education*, eds. John Hladczuk and William Eller (Westport: Greenwood Press, 1992), 269.

18 Harald Haarmann, "The Emergence of the Korean Script as a Symbol of Korean Identity," *Contributions to the Sociology of Language* 65 (1993): 143–58.

19 Iksop Lee and S. Robert Ramsey, *The Korean Language* (Albany: SUNY Press, 2000).

20 Nahm-Sheik Park, "Language Purism in Korea Today," *The Politics of Language Purism* 54 (1989): 113.

21 Valentina Marinescu and Ecaterina Balica, "Audience Perceptions and Representations of Korea," *The Global Impact of South Korean Popular Culture: Hallyu Unbound* 89 (2014).

changed. The Korean language was excluded from many of the earliest attempts to display languages on computers, as it was considered to be a niche market for one country only. The breakthrough in displaying Hangul on computers came from within Korea. The person behind this achievement was Lee Chan-Jin, a former Seoul National University mechanical engineering student, in the late 1980s.[22] Lee quickly realized he had a good potential business with his creation, and on October 9, 1990, he established a Korean language word processing program as part of a company called Hangul and Computer. The owners later decided to change their company name first to Haansoft and then later to Hancom in 2010.[23] The company called the Korean language word processing program Hangul, or sometimes Ah-Rae-Ah Hangul in English.[24] Coincidentally, this was the same year that Microsoft first began to offer Korean language support through MS DOS and later Windows 3.0.[25]

Based on the ability of Ah-Rae-Ah Hangul to effectively display and edit Korean text, along with its symbolic significance, the new program moved into a strong market position. After its release in 1990, Ah-Rae-Ah Hangul reached sales of 1 billion won in 1991, before progressing to 10 billion won in 1993 by adding over 100,000 registered users.[26] One major advantage the new company had during this period was that Microsoft did not even have a branch in South Korea at the beginning of the 90s. Microsoft's first office in Seoul opened in 1992, but by this time the American company was already well behind in the desktop office software area in South Korea.

To compete with the success of Haansoft, Microsoft tried to create ties with the South Korean business and academic communities. In 1994, the CEO of Microsoft signed a source code licensing agreement with the Korea Advanced Institute of Science and Technology (KAIST), one of South Korea's top technical universities.[27] Then, in June 1997 he went to South

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22 Chuan-Hoo Tan, "Battle for Dominance in the Word-Processing Software Market in Korea-How and Why Microsoft Tipped the Market as an Entrant? Is it by Chance?" *PACIS 2004 Proceedings* 129 (2004).

23 "Company History," Hancom, accessed November 1, 2012, http://www.hancomoffice.com/.

24 Ah-Rae-Ah Hangul was later shortened to just Hangul and then incorporated into the Hancom Office Suite. To avoid confusion, Ah-Rae-Ah Hangul will be used throughout this paper.

25 "Korea Information Security Agency," Microsoft, accessed November 23, 2011, http://www.microsoft.com/en-us/news/press/2004/nov04/11-22KoreaPR.aspx.

26 Calvin Sims, "The Business World: How Korean Pride Rallied to Save a Software Maker," *The New York Times*, August 15, 1999, accessed November 23, 2011, http://www.nytimes.com/1999/08/15/business/the-business-world-how-korean-pride-rallied-to-save-a-software-maker.html.

27 "Korea's Bill Gates Surrenders to Microsoft: Financial Trouble," *The Korea Herald*, August

Korea again to deliver a presentation to the Chief Information Officer (CIO) Forum, organized by the Federation of Korean Information Industries.[28]

Meanwhile, the surge in Ah-Rae-Ah Hangul word processing program's usage continued, and by 1997 Haansoft had attained a 60 percent market share for domestic users. The success of the company was a source of pride in South Korea, leading to the software winning the media-voted Hit Product of the Year award for 1995, 1996, and 1998, the Thirteenth Venture Society Grand Prize of 1995, and the New Software Product Grand Award from the Association of Korean IT Industries.[29] All this attention meant that the CEO of Haansoft became a very high-profile figure in Korea. His status allowed him to branch out into the world of politics, and he even managed to win an election to become a member of the Korean National Assembly.

At the same time, Microsoft was the clear global leader in the industry with their flagship MS Word program, but they only had a 30 percent market share in South Korea for word processor usage. One technical difference between the products, which Haansoft used as part of their marketing campaigns, was that Ah-Rae-Ah Hangul was able to display over 11,000 combinations of the Korean language's phonetic characters, compared to Microsoft Word's 2,500.[30] The default file type of Ah-Rae-Ah Hangul was the HWP format, with the filename extension *.hwp. Early HWP files up to and including Hangul 97 could be opened with the Open Office Suite, but they had to be converted for Microsoft Word use. These conversions often resulted in formatting errors that made the files almost unusable and effectively forced users to purchase a copy of Ah-Rae-Ah Hangul to work with HWP files. Meanwhile, Ah-Rae-Ah Hangul was able to open MS Word files without conversions or formatting problems. This combination of the proprietary file type of Ah-Rae-Ah Hangul and its ability to open MS Word provided a business advantage to Haansoft that contributed to their dominant market share at the time.

18, 2003, accessed November 23, 2011, http://www.accessmylibrary.com/coms2/summary_0286-24117266_ITM.

28 Ryan Leganza, "Free Software in Korea: Part One - The Microsoft Connection," *Linux Today*, October 4, 1999, http://www.linuxtoday.com/developer/1999100400105NWLF.

29 Donald Kirk, "Local Company Draws Fire for Ceding a Market to Microsoft: Koreans Bristle at Software Deal," *The New York Times,* July 3, 1998, http://www.nytimes.com/1998/07/03/business/worldbusiness/03iht-hangul.t.html.

30 "Koreans Raise the Anti-Microsoft Standard Save our Software," *The Register*, July 24, 1999, http://www.theregister.co.uk/1999/03/24/koreans_raise_the_antimicrosoft_standard/.

Haansoft's Issues with Piracy and Microsoft's Attempted Takeover

In order to analyze the reaction to Microsoft's attempted takeover, a detailed overview of the factors that led to the move are presented here. On the surface, the market dominance looked like a huge success for Haansoft, but the figures masked a serious problem. As with a lot of the software of that era, the licensing and security systems were basic, and it was easy to pirate and copy the program. Furthermore, enforcement of intellectual property laws for software use in South Korea was also a relatively new area, so the legal route was often not a practical option. One of the Haansoft executives disclosed in a 1998 press conference that an estimated 80 percent of the software in use throughout South Korea at the time was pirated. Another issue was that Haansoft had unsuccessfully expanded into new business areas without first stabilizing the company's financial situation, which further stretched their finances. On May 13, 1998, the company defaulted on promissory notes worth KRW 250 million. On May 21, 1998, another arm of their business, Haansoft Service, also defaulted on its notes and could not pay employees' salaries for three months in a row.[31]

The financial problems at Haansoft became public in 1998 at the height of the Asian Financial Crisis, when the company disclosed that they had built up over US$10 million of debt and were on the verge of collapse.[32] A takeover by Microsoft at this time would have allowed them to attain a virtual monopoly of the Korean word processing market, so negotiations began between the heads of Microsoft Korea and Haansoft on June 8, 1998. According to the former Microsoft Korea General Manager, Lee Chan-jin of Haansoft had initially suggested selling the intellectual property rights to his word processor software since he needed operational funds.[33] Instead, Microsoft Korea's representatives proposed that Microsoft would like to invest in Haansoft and change the business strategy of the company. Haansoft showed an interest in this suggestion, so the next step involved forming a team led by the law firm Kim & Chang to arrange the details of the deal.[34]

31 Seungeun Bae, "On the Rebound," *Invest Korea,* last modified March 3, 2003, http://www.investkorea.org/InvestKoreaWar/work/ik/kor/bo/content_print.jsp?code=4020303.
32 Hyo Jeong Lee, "Calls to Boycott U.S. Goods Spread on Web," *JoongAng Daily*, March 4, 2002, http://koreajoongangdaily.joinsmsn.com/news/article/article.aspx?aid=1901090.
33 "Hancom: A Day of Reckoning." *The Chosun Ilbo,* December 15, 2000, http://english.chosun.com/site/data/html_dir/2000/12/15/2000121561221.html.
34 Kirk, "Local Company Draws Fire for Ceding a Market to Microsoft."

At a meeting held on June 15, 1998, in front of a large media audience, Haansoft and Microsoft Korea signed a Memorandum of Understanding (MOU) that confirmed the Korean company's plan to discontinue its Korean word processor software in return for Microsoft's investment. Around the same time, Microsoft's CEO was visiting South Korea and informed the South Korean president about his investment plans in South Korea, explaining that Microsoft actions would help the country out of its financial crisis. During the subsequent press conferences, the South Korean Information and Communication Minister made it clear that the government would never be involved in business activities. This was seen as a gesture to clear the way for Microsoft's investment. In order to project a positive profile for the company, Microsoft's Vice President also announced a US$77 million software donation to South Korean schools and institutions as part of a promotional tour.

Microsoft's offer of US$20 million investment in Haansoft was contingent upon the withdrawal of the Ah-Rae-Ah Hangul word processing program from the South Korean market. The US$20 million would then entitle Microsoft to 19 percent of the company, and they would steer the business in new directions, with Haansoft becoming a reseller for MS Products. According to Laxmi Nakarmi, a Haansoft PR executive announced that with the help of Microsoft's investment the company planned to move away from packaged software into the internet infrastructure business area.[35]

The Campaign to Save Hangul

The idea of a foreign company taking control of the word processing business in Korea's own language when the country was at a low point due to the financial crisis struck a nerve with the local media and government, and it inspired an immediate backlash. In 1998, the South Korean economy saw a 6 percent contraction in GDP. Conversely, Microsoft was at the peak of the software industry with a US$260 billion market valuation, which was not very far behind the value of the entire South Korean economy (US$317 billion in 1998). This also occurred just before the global dotcom crash that affected technology companies all over the world. Microsoft would have been

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35 Laxmi Nakarmi, "Pulling Back from the Brink. Korea's Software Giant Gets Internet-Ready Fast," *CNN Asia Week*, May 26, 2000, http://edition.cnn.com/ASIANOW/asiaweek/technology/2000/0526/tech.korea.html.

paying the equivalent of what it earned in two days in exchange for virtually complete control of the Korean word processing market.[36] The timing of the attempted takeover was significant as it coincided with a weakened South Korean economy, and bankruptcies or takeovers by international companies loomed over many domestic companies. Furthermore, the country faced pressure from the International Monetary Fund (IMF) over the economic restructuring package. There are connections between economic downtowns, xenophobia, and nationalism as explored by Peter Gourevitch[37] and Anthony Wimmer.[38]

In this environment, the Committee to Save Hangul Software was established on June 22, 1998, by local entrepreneur Lee Min-hwa who planned to protect Haansoft from foreign involvement. Lee Min-hwa was the founder of the Korea Venture Business Association (KOVA) in 1995 and the CEO of a successful medical devices company called Medison.[39] His new group was supported by over fifteen civic organizations, including the Hangul Society. Support from the Hangul Society was especially significant and symbolic because this organization was originally set up in 1912 during the Japanese colonization of Korea in order to preserve and promote the Korean writing system as part of the resistance movement. One of the Committee's announcements stated, "If Haansoft gives up Hangul software, it will be a tremendous loss for the country. The entire business will be taken over by Microsoft, and people will have to learn MS Word." The statement implied that the loss of ownership of the software would be something more than just a common business merger. The phrase "gives up" suggests that something was going to be taken away, and use of the word "country" suggests that it would affect the nation itself and not just their customers. The Committee attempted to connect the cultural value of the product and the nation itself in order to foster resistance.

The group explored alternatives to the Microsoft proposal. One proposition was to open the Ah-Rae-Ah Hangul program's source code and develop an all-Korean word processor product that could serve as its replacement. The leaders of the "Save Haansoft's Korean Software"

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36 Tae Gyu Kim, "Die-Hard Korean Software Maker Vows to Undercut MS," *The Korea Times*, June 18, 2012, http://www.koreatimes.co.kr/www/news/tech/2012/08/133_4956.html.

37 Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises* (New York: Cornell University Press, 1986).

38 Anthony Wimmer, "Explaining Xenophobia and Racism: A Critical Review of Current Research Approaches," *Ethnic and Racial Studies* 20 (1997): 17–41.

39 Ji-hyun Cho, "Digital Hospitals to Bolster Growth," *The Korea Herald*, November 21, 2011, http://eng.kohea.co.kr/pr_news/the-korea-heralddigital-hospitals-to-bolster-growth.

movement also met with Microsoft Korea's president to request that they back out of the deal.[40] The next step in the movement's campaign against Microsoft was to set up the Hangul Venture Company Committee, whose goal was to raise enough funds to keep Haansoft afloat and avoid the need for Microsoft's investment. Lee Min-hwa announced that "Lee Chan-jin and his staff must fight until the end" in a newspaper interview. He also presented a report suggesting that the cost to retrain all South Korean users on Microsoft software could surpass the US$14 million debt of Haansoft.[41] Meanwhile, South Korean newspaper editorials were published branding Microsoft's CEO as a colonialist. Also, in a survey of South Korean college students, it asked which celebrities they admired most, in which Haansoft's founder Lee Chan-jin placed second and the chairman of Hyundai came in first. In a media interview, the Haansoft founder said that the Hangul Venture Company Committee's aim was "flattering but unrealistic" and asked for more time to negotiate a deal with Microsoft and avoid bankruptcy.[42] The narrative of connecting Microsoft's CEO with colonialists of the past was a strategy to convince people of an association between the takeover of Haansoft and the perceived American cultural imperialism over Korea. In addition, the survey results suggested that the college students considered the Haansoft founder to be a national hero.

Haansoft and Microsoft Korea continued the takeover negotiations until July 16, 1998, in spite of widespread public opposition. This opposition began with discussions on online bulletin boards like Chollian, Hitel, Naunuri, and Unitel. The participants in these discussions came together and created a petition against the proposed takeover, gathering 13,000 signatures and endorsements from 120 organizations.[43] Moreover, the Korean Venture Business Association's (KVBA) fundraising campaign against the takeover was gaining steam. They reached out to both South Korean businesses and individuals for donation requests to protect Haansoft and managed to raise US$7.3 million, approximately two-thirds of which came from KVBA members and one-third from South Korean individuals. Despite these campaigns, talks continued, and representatives from Microsoft and Haansoft agreed to sign the final draft on July 20, 1998. Microsoft Korea also closed their offices for

40 Sims, "The Business World: How Korean Pride Rallied to Save a Software Maker."
41 Seong Byeon Kim, "Linguistic Nationalism of Korea in the Information Age: Political Economy of the 'Movement to Save Hangul," *Korean Political Science* 37, no. 1 (2003): 409–67.
42 "Hancom: A Day of Reckoning."
43 Jinsang Hwang, "Social Shaping of ICTs Standards: A Case of National Character Set Standards Controversy in Korea" (PhD diss., University of Edinburgh, 2005.)

two days because of the Constitution Day holiday starting on July 17.

Within Haansoft, internal conflict was brewing due to the high-profile campaigns against the deal. Haansoft Service's president turned against the Microsoft plan, and he persuaded a Haansoft director to join him.[44] Between them, they succeeded in forcing Haansoft's CEO to bow to public pressure and back out of the turnover plan at the last minute. They did not immediately inform Microsoft of their change in plans, and Microsoft's CEO was already enroute to South Korea to announce the deal at a prearranged press conference as part of a two-day promotional tour that included meetings with the South Korean president. The press conference was still held on July 20, 1998, but Haansoft's founder surprised the assembled reporters and Microsoft visitors by announcing his decision not to accept their investment offer.[45] Instead, they outlined their intention to go with the offer from the "Save Haansoft's Korean Software" movement and try to turn the company's finances around with their new backers.

As part of the powershift within Haansoft that led to the strategy change, the Haansoft founder, Lee Chan-jin, was forced to transfer to the position of CTO (Chief Technology Officer) from CEO, and on July 27, 1998, a replacement CEO was chosen. The new CEO's first action was to capitalize on the national pride movement that had been created by rebranding their word processing software and re-releasing it with the name "Hangul 815." The "815" referred to August 15, which was the day that Korea was liberated from Japanese colonial rule.[46] This name was symbolic and had nationalistic overtones because it drew parallels between Korea regaining independence from Japan and the software product retaining independence from American cultural imperialism. On October 19, 1998, the "Save Haansoft's Korean Software" movement officially dissolved as they announced that their campaign had achieved their goal.

Post-Agreement Problems for Haansoft

The company soon ran into more problems because some of the money

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44 Ilhyung Lee, "Culturally-Based Copyright Systems: The US and Korea in Conflict," *Washington University Law Quarterly* 79 (2001): 1103.

45 "Microsoft's Poke in the Eye from Korea," Computer Business Review, accessed November 30, 2011, http://www.cbronline.com/news/microsoft_gets_poke_in_the_eye_from_korea.

46 Nissim Otmazgin, "A Tail that Wags the Dog? Cultural Industry and Cultural Policy in Japan and South Korea," *Journal of Comparative Policy Analysis: Research and Practice* 13, no. 3 (2011): 307–25.

pledged by individuals towards the "Save Haansoft's Korean Software" campaign did not materialize. This meant Lee Min-hwa, the chairman of Medison, was forced to increase his investment to cover the shortfall, making him the largest shareholder of Haansoft. The company's new power base decided to restructure the company, aiming to refinance the company's debt and reduce its costs. Haansoft's workforce was reduced by 10 percent, and their unprofitable businesses, including publications, educational programs, and hardware distribution, were shut down. Research and development efforts were also significantly downsized.[47] However, these changes did not sit well with the Haansoft founder, and he left the company in 1999 along with a core group of engineers and developers.

In 1998, Haansoft participated in a national campaign to reduce software piracy in South Korea. The campaign encouraged businesses, organizations, and individuals to destroy pirated copies of their software and buy legitimate ones. To facilitate the purchases of legitimate copies, Haansoft cut their prices and began selling their software in places as diverse as banks and supermarkets. The campaign was a success, and the company managed to sell a record 700,000 copies. In August 1998, just one month after their failure to purchase Ah-Rae-Ah Hangul, Microsoft released a Korean version of Windows 98. However, they only managed to sell 27,000 copies in the first four days, which was more or less the same amount as the Windows 95 launch sale three years earlier, and was seen as a disappointing return.[48]

Another new strategy of Haansoft at the time was to expand into the internet business area. In 1999, the company opened a new portal website, Netien, and successfully conducted a KRW 10 billion takeover bid for the Hanulsarang chatting website, immediately gaining access to their 350 million user accounts. They further expanded their offerings by establishing an internet service sister company called Yecar. Haansoft's share price increased to KRW 40,000 in 2000 from its earlier junk valuation. Medison's investment of KRW 5 billion jumped up to KRW 120 billion, and their intervention was initially seen as a big success. However, since overexpansion was one of the main reasons Haansoft got into difficulties earlier, there was always the possibility of history repeating itself.

Microsoft decided that the best way to compete with Ah-Rae-Ah Hangul was to develop Microsoft Word's ability to display Korean characters,

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47 Ko, "Uncompetitive Deals," 33.
48 Josh Meier, "Microsoft Denies Korea's Request; Windows 98 Support To End July 2006," *Ars Technica*, December 15, 2005, accessed November 23, 2011, http://arstechnica.com/uncatego-rized/2005/12/5765-2/.

so they released a new version of Word 2000 in January 1999 that addressed this. Microsoft explained that Word 2000 could now display 11,172 Korean syllables, 1.6 million old Korean characters, and 27,000 Chinese characters, which now placed it technically ahead of Haansoft's Ah-Rae-Ah Hangul. In October 2000, Haansoft launched their rival Ah-Rae-Ah Hangul upgrade called Wordian. User reviews of the new program were largely negative, and many Korean customers decided to purchase Microsoft Word at this time. This came as a major blow to Haansoft. However, during this period, no civic movements emerged, as the problem was competition rather than an attempted takeover.

One of the reasons why Microsoft gained market share with Windows 2000 was because they gave large discounts for MS Office use to South Korean universities and schools. Student licenses for MS Office were often priced at around US$20 per head. This coincided with emerging internet licensing techniques that made it more difficult to distribute illegal software, which benefitted all software producers. One high-profile case illustrating the changing business environment was when a Seoul court fined the majority government-owned Korea Electric Power Corporation (KEPCO) KRW 10 million in 2000 for using pirated versions of Microsoft programs.[49]

However, the reduced academic prices also had a slightly negative outcome for Microsoft, as individual software buyers still had to pay the full price. The result was that Microsoft's own software resellers held public protests in Seoul against the company. Also, Haansoft accused Microsoft of using dumping tactics by selling software at 10 percent of the market price to certain user groups. This became a big public relations problem. The consumer sentiment problem was illustrated in mid-May 1999 when *The Korea Times* ran a story of a study that showed 87.2 percent of South Korean users indicated that the Windows operating system was "unsatisfactory" but had no choice other than to keep using it.[50]

Microsoft responded to the dumping accusations by claiming that they created the site license system to sell their software packages at reduced prices to Korean education customers to encourage the installation of genuine software with students. Microsoft then suggested that Haansoft was guilty of their own accusations because they reduced their prices to under US$10 for a one-year license of their program. The South Korean government reacted by saying they planned to open an investigation into

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49 Cho, "Digital Hospitals to Bolster Growth."

50 Sooyoung Cho and Youngshin Hong, "Netizens' Evaluations of Corporate Social Responsibility: Content Analysis of CSR News Stories and Online Readers' Comments," *Public Relations Review* 35, no. 2 (2009): 147–49.

business practices in the area. Facing mounting pressure, Microsoft had no choice but to relent and withdraw its campus license package before the legal decision by the South Korean government was published.[51] This was another setback for Microsoft Korea in their attempts to dominate the Korean office suite market, but it was not a complete disaster because they did manage to increase their market share.

The South Korean government was caught among pressures from consumers, organizations, and the software industry, along with the need to show the world that South Korea was open to foreign business in the wake of the financial crisis. Therefore, putting a full technical barrier to trade was not an option. However, by this stage, the government was fully aware of the cultural significance of the Ah-Rae-Ah Hangul program, and they tried to support the business. Consequently, the government openly promoted Haansoft's word processor by adopting it for a number of state-run agencies and schools.

However, behind the scenes, Haansoft was again having financial problems. The dotcom bubble was bursting globally, and their main investors from the Medison had run into financial issues with their own business. In 2000, the South Korean credit rating agency downgraded Medison's rating to the junk bond category, and this prompted the firm to attempt to sell its shares in Haansoft to raise funds. Initially, the shareholders approached South Korean companies, including LG Telecom, SK Telecom, and Daum Communication, but they could not make a deal. As a result, the value of Lee Min-hwa's Haansoft stock dropped from KRW 100 billion to KRW 25 billion. Then, Lee Min-hwa searched outside of South Korea in order to make a sale. On November 24, 2000, Medison opted to sell half of their Haansoft shares to Bicus Ballas, a subsidiary of Singapore Telecom, for KRW 22 billion.[52] After the sale, Medison was no longer the largest shareholder of Haansoft and was in fourth place behind Hong Kong's West Avenue (7.28 percent), South Korea's Moohan Technology Investment (5.84 percent), and Singapore's Bicus Ballas (5.53 percent).

However, there was no significant negative media reaction or public backlash to this purchase of shares by either the Singaporean or the Hong Kong companies. There were a few differences between the earlier offer by Microsoft and this investment. First, these investments were not from companies that offered a rival product to any of Haansoft's services. Therefore, it was not seen as a direct threat to the existence, operation,

51 Hankwon Kim, "Cultural and State Nationalism: South Korean and Japanese Relations with China" (PhD diss., American University, 2007).

52 Cho and Hong, "Netizens Evaluations of Corporate Social Responsibility," 147–49.

and cultural role of the Ah-Rae-Ah Hangul software. Moreover, the two non-Korean companies involved were from Singapore and Hong Kong. Singapore was previously a colony of the British Empire, so it has no connotation of potential cultural imperialism in South Korea. Hong Kong is a part of the People's Republic of China, and China does play a pivotal role in Korea's history. However, Hong Kong was a British concession until 1997, so their cultural association with Beijing from a Korean perspective may not be tied to Korea's historical relationship with China.

As explained earlier, Ah-Rae-Ah Hangul was based on a program design that was not fully compatible with Microsoft. After the new investment, Ah-Rae-Ah Hangul also dispensed with Open Office compatibility.[53] However, .hwp files could still not be opened directly by any other program without conversions and major formatting problems. During this time period, the use of digital documents and forms was increasing. Subsequently, local and regional governments in South Korea began supporting Ah-Rae-Ah Hangul by making mandatory online forms available exclusively as .hwp downloads. This meant, for example, all businesses and organizations who needed to file tax returns, fill in reports for local councils, or apply for government support had to get a copy of Ah-Rae-Ah Hangul.[54] This is another example of the government favoring one product. It could be considered as an example of a soft-trade barrier. It resulted in many organizations needing to purchase multiple word processing products in order to maximize their compatibility for both domestic and international operations. In most other countries, the option of a PDF document or even a web-based form would have been used, as it is considered to be a platform-neutral solution that would have no effect on competition in the industry.

Another one of the avenues that Haansoft ventured into during this time was UNIX, which aimed to create a Korean operating system and compete with Microsoft's Windows system. To do this, Haansoft established an affiliate organization called Hanscom Linux. In January 2002, the new affiliate announced that the South Korean government had procured 120,000 copies of the Hanscom Linux Deluxe 2.0, which came bundled with Ah-Rae-Ah Hangul. The government again favored Haansoft through procurement and extended the usage of Ah-Rae-Ah Hangul though bundling. However, this product did not turn out to be a success, so the Hanscom Linux development team was discontinued and merged back into Haansoft. While Haansoft was trying to find new business areas, Microsoft

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53 Hojung Kim and Yun Jeong Choi, "The Effect of Merger on Innovation: An Empirical Analysis in the Korean Software Industry," *National University of Singapore Review* (2013).

54 Tan, "Battle for Dominance in the Word-Processing Software Market in Korea."

continued to expand their Office Suite market share in South Korea without a huge success. In 2005, they encountered more problems when the Korean Fair Trade Commission (KFTC) followed in the footsteps of the European Union (EU) and launched an inquiry into whether the bundling of a media player and instant messenger services in Windows, along with the availability of Windows Media Services as an optional extra within the Windows server operating system, breached South Korea's fair trade regulations. Consequently, Microsoft was ordered to produce separate packages of Windows after reaching a US$32 million settlement with the South Korean government.[55] In this case, the role of nationalism was less clear, especially seeing it was in line with a similar result from the case in the EU. Therefore, there was no discussion of nationalism at this time.

Towards the end of 2010, the digital playing field started to change dramatically when cloud computing and mobile devices emerged. Haansoft reacted to the new landscape by forming new partnerships. The most significant was a 2010 deal with Samsung to provide Thinkfree Mobile services as a pre-installed android app on the Galaxy smartphone and tablets in many regions. Haansoft also created partnerships with other mobile device companies, including LG, Pantech, Qualcomm, ARM, and Toshiba.

Conclusion

This study explored the attempted purchase of the software product Haansoft Office Productivity Suite by a large MNC in South Korea. This was a unique case because the product itself was associated by name with one of the main symbols of Korean cultural identity: the Hangul writing system. In addition, the MNC seeking to purchase rights to the product originated from the US, which meant it could have been associated with perceptions of US imperialism by some Korean consumers.

Based on the available evidence, the media and some local interest groups perpetuated the cultural association of the product and the Hangul writing system in order to ensure that the takeover did not go through and provided an opportunity for a local venture capital organization to take control of the product. When the company got into financial trouble a second time, the next attempted takeover was not by an MNC with a rival product. Instead, it was by a non-Korean and non-American private investment group,

55 Joo-Seong Hwang, "Digital Divide in Internet Use within the Urban Hierarchy: The Case of South Korea," *Urban Geography* 25, no. 4 (2004): 372–89.

so it did not trigger cultural imperialism associations. Thus, the media and consumers did not react in the same way and the business deal progressed smoothly. This suggests that companies need to be aware of the local cultural implications of certain business deals and takeovers before making the decision to proceed, as they may have unexpected repercussions.