

Policy Resistance Case Study Focused on Government's Intervention in the Conflict between Big-box stores and Traditional market in Korea based on Systems Thinking Approach

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Abstract

Rapid expansion of big-box store in developing country caused typical archetypal change in market structure: Success to The Successful, because big-box stores armed with modernized infrastructure and management capability are absorbing the once customers of the traditional market like a black hole. Facing rapid change in market structure and surmounting pleas from traditional market merchants, government took an inevitable intervention with law regulating the big-box store's business and improving traditional market's competence building. Not so long, however, did government confront policy resistance from both sides: still ongoing polarization of both side's sales. This study articulates behavior over time of market structure with causal loop diagrams of which causalities are extracted from literatures. This study provides significant contribution to policy makers and traditional markets' merchants in other developing countries like India and China, as well as Korea.

Keywords: policy resistance, big-box store, Korea traditional market, systems thinking, Walmart effect

1. Introduction

Since early 1990s, the number of stores and sales volume in traditional markets have sharply declined. Not only meeting demand from customers, but traditional market is also a safety net for small merchants, farmers, and fishers. The whole society, later scholars as well, worried about the exponential decay of traditional markets. The government brought up the idea of regulating big-box stores and generous funding for traditional market infrastructure and marketing. In this context, problem symptom was the decline in number of stores and sales in traditional market. Then, government implemented ‘symptomatic solution’: regulating big-box stores and enormous aids to the traditional market. The more severe the problematic symptom appeared, the stronger the government regulated big-box stores and aided traditional market. However, various policy resistance occurred from different stakeholders.

Big-box stores¹ have been penetrating the world markets, providing customers with cheaper price. Gradual growth of Walmart in the United States and overseas has brought in mountainous studies on its impact, Walmart effect. Some studies revealed its positive effect such as increasing employment (Sobel & Dean, 2008), and offering lower price products, while other studies argued Walmart took jobs of small mom-and-pop store, resulting in a negative net employment effect (Zhanga & Leib, 2015). Compared to the developed countries, big-box store’s entrance into developing countries including Korea shows exponential growth. According to the statistics, big-box stores in Korea has exponentially grown from five stores in 1995 located only in the Seoul metropolitan area to 378 stores in 2011 through nationwide(Cho, Chun, & Lee, 2015).

Even though these large discount store, or big-box store, provided modern shopping infrastructure, attracting new small stores, franchised stores and even new job opportunities(Cho *et al.*, 2015), traditional market was heavily impacted to the extent of extinction. So, as the traditional market has undergone significant structural changes in conjunction with the rapid expansion of big-box store, the pressure on government for alleviating the structural downturn of traditional market was getting harder. However, none of the studies pertaining to Walmart effect or big-box store effect has focused on the government role or government intervention. Sometimes third party’s intervention like government policy gives positive impact on market players, but sometimes not. The feedback among Korean government, big-box store, and traditional market shows the typical dynamic behavior of policy resistance.

¹ Big-box store can be called by various names, such as large discount store (Cho *et al.*, 2015) and hypermarket (Zhang & Lei, 2015).

The remainder of this paper is organized as follows. Literature review provides past studies and backgrounds related to big-box stores and traditional market in Korea, and then structure analysis illustrates market structural change over time using causal loop diagrams, following various policy resistances and conclusion.

2. Literature Review

2.1 Polarization between big-box stores and traditional markets

In 1990s, traditional markets and small mom-and-pop stores dominated Korean retail sectors. After the first launch of big-box store called E-Mart in 1993 November, big-box stores with large initial capital have grown exponentially. In the year of 2000, the number of big-box stores compassed 100 stores. Within 20 years, the number of big-box stores grew up to be 450 stores (Korean Chain Store Association). On the other hand, traditional markets have undergone decay. In early 1990s, the stores were about 4,000 stores, but in 2010s, the stores declined to be 1,400 stores total (Korean Statistics). Polarization of sales as well as the polarization of the number of the stores, is shown in section 3. Summarized data is shown in figure 1.

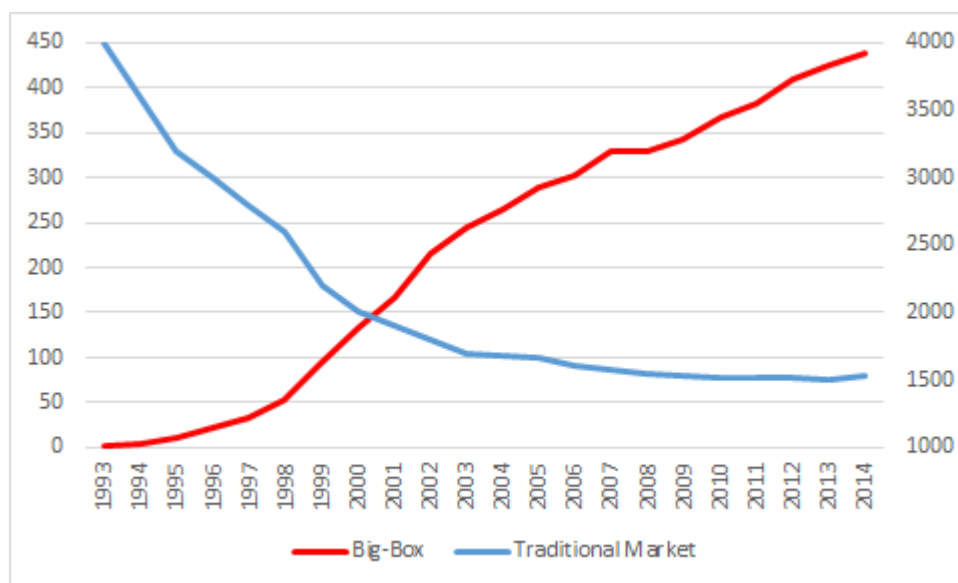


Figure 1. Polarization on number of stores

2.2 Regulation on Big-box Stores, 'Distribution Industry Development Act'

As shown in 2.1, the number and scale of big-box stores drastically grows, giving no time and opportunity for traditional market to defense. 'Distribution Industry Development Act' came into force on January 17, 2012. The act was designed to restrict the business activities of large discount stores to help struggling traditional markets and small mom-and-pop stores that lost a large number of customers to the large discount stores. The act of which nickname is Sunday Shopping Regulation offered a legal basis of mandatory off-days at big-box stores every other weekend (Lee, 2015).

'The Development Law of Distribution Industry' was rectified several times to obtain a goal of survival of traditional market. In 24th November of 2010, new entrance of big-box stores within the 500-meter range from traditional market preservation area has become illegal. In June 2011, the preservation ranges of traditional market enlarged to one kilometer. On 17th of January, 2012, the law

restricted business hours from midnight to 8 A.M., as well as obliged big-box stores to close once or twice a month. A year later, the regulation on the big-box stores strengthened; they should be closed from midnight to 10 A.M., and have day-offs twice a month on Sunday (Jung, 2015). Summarized laws developed over time are shown in Table 1.

Table 1. Government Regulation on Big-box stores (Source: Jung, 2015)

Date	Opening Regulation on Big-box stores	Operating Regulation on Big-box stores
2010.11	500m far from traditional market	
2011.06	1km far from traditional market	
2012.01		Business hour restrictions; 0-8 A.M. Mandatory off-days; once or twice a month. Agricultural and animal product 51%
2013. 01	Mandatory report on effects on community and cooperative plan with community	Business hour restrictions; 0-10 A.M. Mandatory off-days; twice a month on Sunday.

After the nationwide implementation of the act, many studies pointed out that Sunday Shopping Regulation ignored consumers' welfare and needs (Choi & Jeong, 2015). The negative effect of the regulation has also been studied. Jeong & Choi (2015) revealed that regulation caused 8.77% of sales decrease of big-box store. However, only fraction of the loss of consumption, about 19 percent, directly led to consumption in traditional market. Customers in big-box stores buy groceries of amount of seven days, not just for a day grocery. Instead of shopping on Sunday when the big-box stores are obliged to close, customers chose Saturday or waited for Monday to shop in big-box stores. In addition, sales loss of suppliers are estimated to monthly average of 161.4 million USD, among which 82.7 million USD occurred from agricultural and fishery sectors (Choi & Jeong, 2013).

2.3 Government Aid to Traditional Market, 'Special Act on the development of traditional markets and shopping districts'

The Korean government also enacted a law intended to provide support for traditional market. Government mainly tried to modernize a) physical infrastructure and b) business management. In order to modernize infrastructure, traditional markets built arcade, parking lots, and roads with the help of financial aid: 60% from government expenditure, 30% from local county expenditure, and 10% from merchants. From 2002 to 2010, total 1.8 billion USD was used to aid 835 traditional markets (Lee, E. J., 2014). For modernizing the business management, from 2005 to 2010, total 155 million USD was dumped to educate the merchants to improve management capabilities: educating merchants about marketing, service improvement and technology.

However, compared to the huge amount of expenditure, the effect was insignificant (Cho, 2014; Kim, Y., 2014; Lee & Lee, 2013; Lee, Y., 2014; Lim, 2014). Song & Kwon (2001) warned the negative effect of modernizing infrastructure stressing the losing competitive advantage of traditional market. So, Roh *et al.* (2006) emphasized the product value and entrepreneurial proactiveness; the

more proactive the merchants are, the higher business performances. In addition, the higher product value (quality) is the key resource for higher merchandising and brand publicity. Lee *et al.* (2011) also emphasized the merchants' self-leadership as part of the software innovation. Each merchant's self-leadership leads to innovating behaviors.

3. Structure Analysis

Success to the successful archetype is a special case of the relative achievement archetype. Action by one sector of an organization gains an initial advantage relative to another, possibly by some forms of external favoritism. The unintended consequence is a decline in outcome for another organization (Wolstenhlme, 2003). The system trap for success to the successful archetype is shown in figure 2.

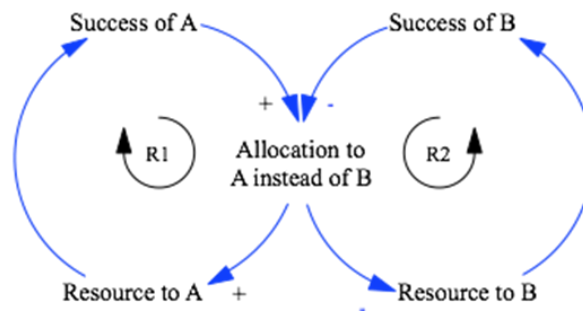


Figure 2. Success to the successful archetype

Conflict between big-box stores and traditional markets is the case of success to the successful archetype. Consumers have limited budget for consuming; consumers either have to shop at big-box stores or traditional market. Big-box stores had an initial advantage of large funds in the beginning phase. On the other hand, traditional markets which consisted of small merchants had little initial fund. The big-box stores earned higher profit, while traditional markets' profit declined, some shutting down the stores over the time. The basic structure between big-box stores and traditional markets is shown in figure 3.



Figure 3. Basic Structure between big-box store and traditional market

This paper reveals the causalities extracted from Korean newspapers, articles and reports between 2001 and 2015. The summarized causalities related to revitalizing traditional market are described in Table 2.

Table 2. Causality related to revitalizing traditional market

Reference	Major Causality	Loop
Kim, H.J. (2014)	Self-Innovation Efforts → Competitiveness of Traditional Market (+)	B3
Lee, H. (2015)	Sense of Crisis in Traditional Market → Legitimacy of Government Intervention(+)	B4
Lee, H. (2015)	Legitimacy of Government Intervention → Government Regulation on Big-box Stores(+)	
Choi & Jeong (2013)	Government Regulation on Big-box Store → Visitors in Big-box Stores (-)	
Cho, K. H. (2014)	Legitimacy of Government Intervention → Government Aid to Traditional market (+) Government Aid to Traditional market → Competitiveness of Traditional market (+)	B5

Trapped in the success to the successful archetype, big-box stores exponentially grew, while traditional markets exponentially decayed. As shown in 2.1, the number of stores was polarized. Not only the number of stores, but also the sales volume polarized. Traditional market sales declined from 33 thousand USD in 2005, to about 20 thousands USD in 2013 (Korean Statistics). Big-box stores sales soared from 24 million USD in 2005, to about 40 million USD in 2014 (Korean Statistics). The overall trend, behavior over time from 2005 to 2014 is shown in figure 4.

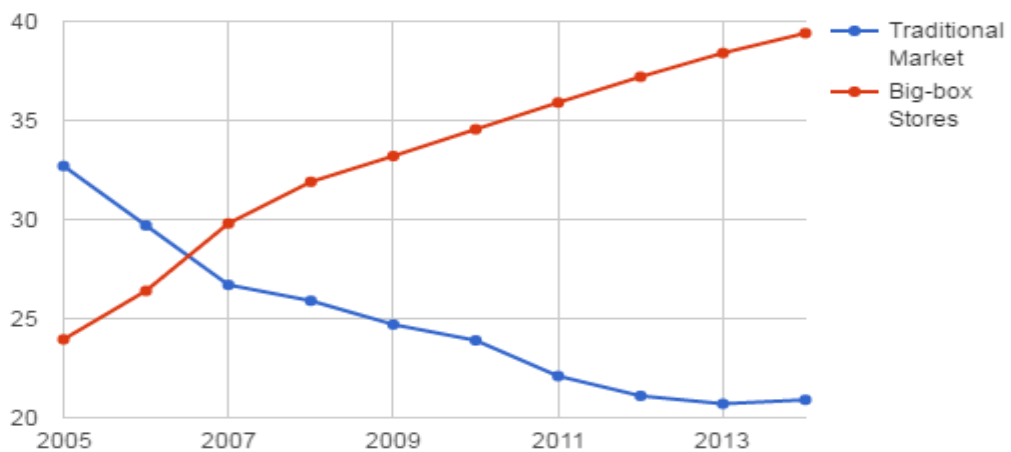


Figure 4. Polarization of Sales Volume

Decrease in visitors in traditional market brought sense of crisis in traditional market. Sense of crisis among traditional markets' merchants triggered themselves to put self-innovation efforts to their market. For instance, Joong-gok-Jae-il market sensed almost dying atmosphere of its market in early 2003. On November 2003, the merchants made a cooperative to strengthen its competitiveness. They invented a group coupon that gives customers 1 percent cashback. In addition, they collected a fund to build the arcade for the market which costed 300 thousand USD. Self-innovation efforts in traditional market did not directly or rapidly lead to competitiveness of traditional market. Delay 1 occurs, because traditional market needs time to build consensus among merchants and strengthen their competitive advantages. In case of Joong-gok-Jae-il market, only after five years, a lot of visitors came to the market, and earned total of 21.6 million USD in 2011. Causality loop containing sense of crisis in traditional markets is shown in figure 5.

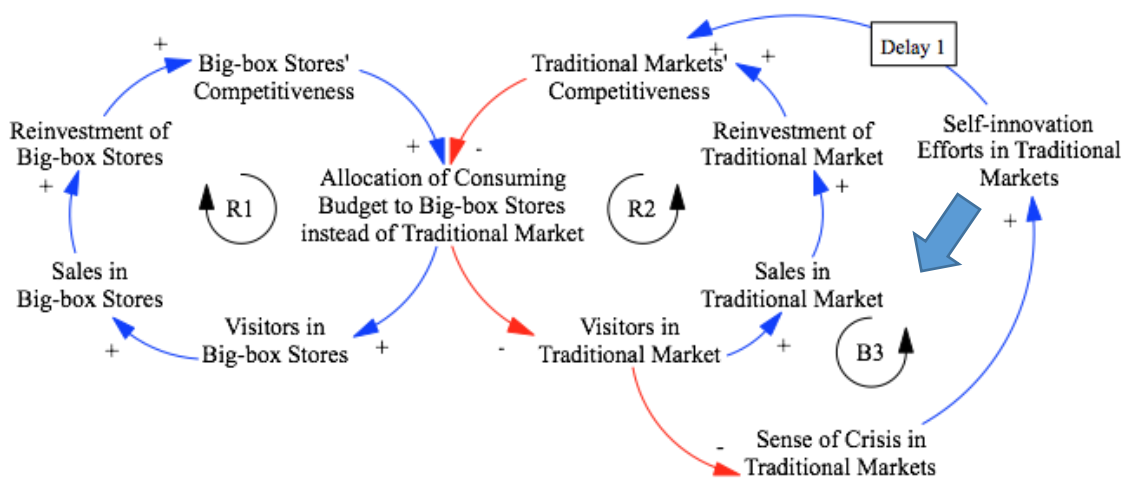


Figure 5. Endogenous effort of revitalizing traditional market

The polarization and the self-innovation effort in traditional markets have become a social, economic, and political issue, in terms of protecting the survival of merchants in traditional retail market. The more sense of crisis in traditional markets, the higher legitimacy of government intervention. The higher legitimacy of government intervention led to build regulation on big-box stores described in 2.2. Compulsory off-days in every other Sunday and limiting the working hours directly led to less visitors in big-box stores. Choi & Jeong (2013) revealed that average 8.77 percent of sales declined. The system with government regulation on big-box stores is shown in figure 6.

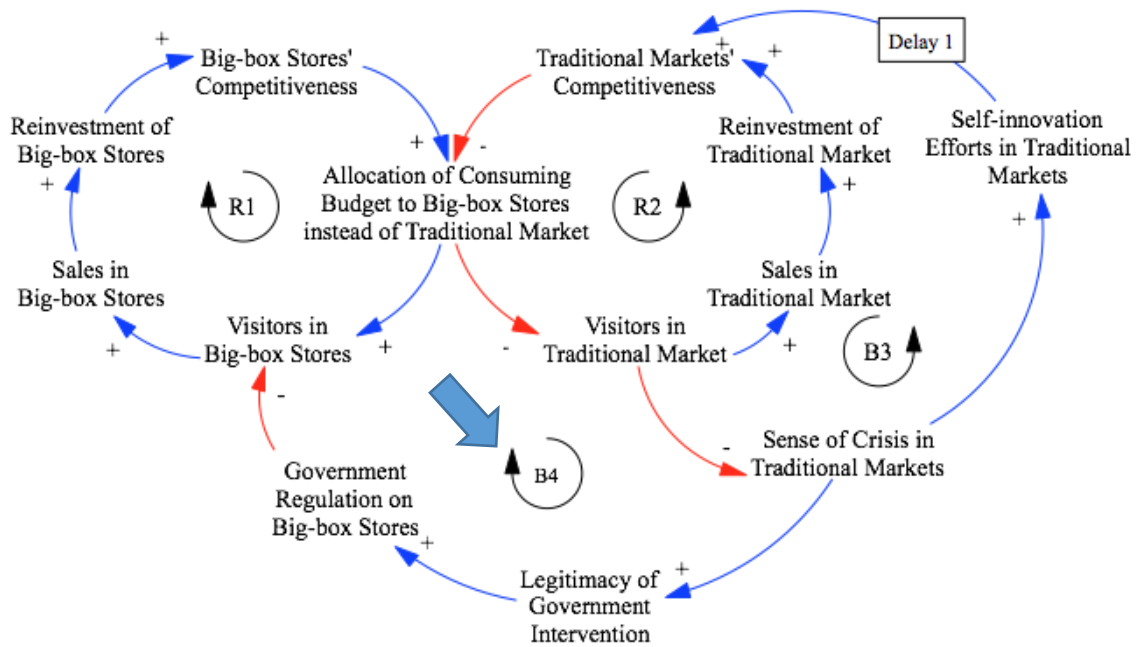


Figure 6. Government intervention on big-box store

In addition to the direct regulation on the big-box stores, government enacted the ‘Special Act to Foster Traditional Market’ in 2014. Government has aided modernizing infrastructure including building arcade and parking lots, modernizing management including management education, fostering merchant’s guilds, and promoting a joint enterprise including group purchase, group branding, and advertisement (Lim, 2014). The result was immediate as shown in Figure 7. Financial aid from the government directly enhanced competitiveness of traditional market.

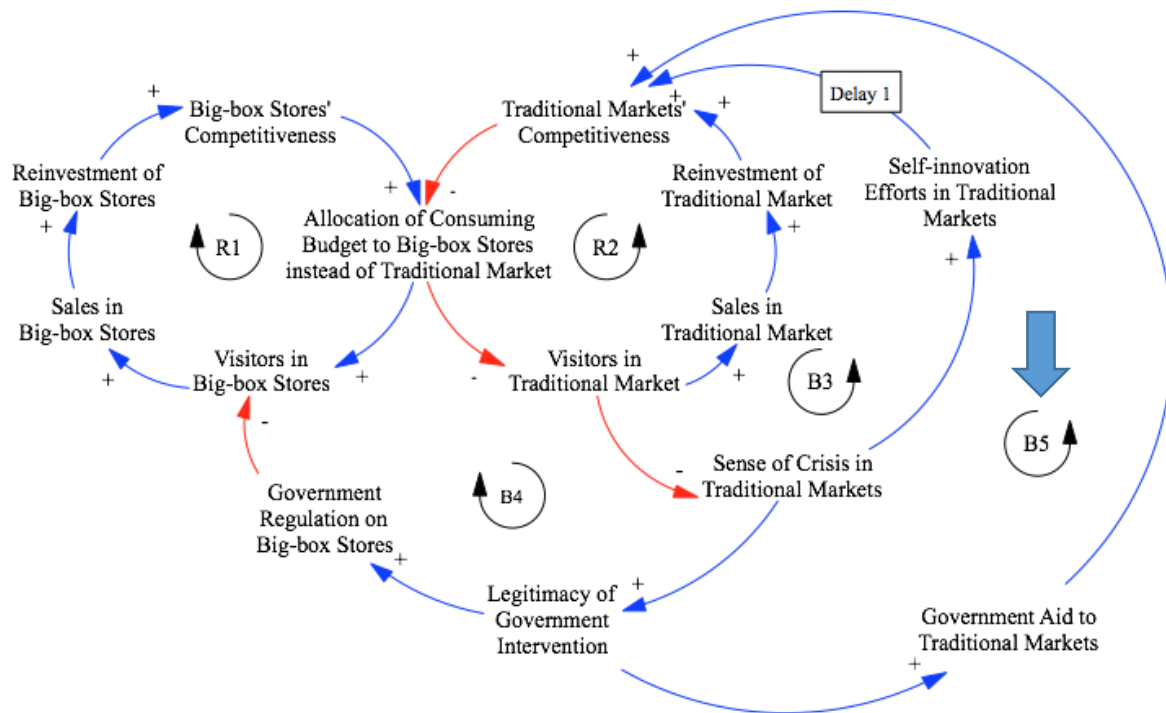


Figure 7. Government aid to traditional market

4. Policy Resistance

Policies may create unanticipated side effects; attempts to stabilize the system may destabilize it. These unexpected dynamics often lead to policy resistance, the tendency for interventions to be delayed, diluted, or defeated by the response of the system to the intervention itself (Meadows, 1982). The system responded to the intervention in ways the regime did not anticipate. Policy resistance arises because we often do not understand the full range of feedbacks operating in the system (Sterman, 2000, 5-12).

Government has tried to solve the problem of dying traditional market by regulating big-box stores and aiding traditional markets. These actions of government have altered the structure and state of the system as seen in section 3. Policies made by government gave rise several policy resistances: delay on effects, defeats from big-box stores suppliers, and too much policy reliance of traditional markets merchants. Summarized causalities related to policy resistances is shown in table 3.

Table 3. Causality of causing policy resistance

Reference	Major Causality	Loop
Kim, J. Y. (2013)	Sales of Big-box Stores → Sales of Suppliers (+)	B6
Kim, J. Y. (2013)	Sales of Suppliers → Legitimacy of Government Intervention (+)	B6

Mcivor (2013)	Sales of Big-box Stores → Employment in Big-box Stores (+)	B8
Jeong & Choi (2015)	Employment of Big-box Stores → Legitimacy of Government Intervention (+)	B9
Lim (2014)	Government Aid to Traditional Market → Self-Innovation Efforts (-)	R10

The first policy resistance occurred in suppliers of big-box stores. The decline in sales of big-box stores led to severe decline in sales of its suppliers. The impact of suppliers was even harsher, because big-box stores usually have a strong bargaining power over suppliers; in average, Korean big-box stores take 24 percent of margin and 55 percent of profit at maximum (Park, 2015). Suppliers of big-box stores protested in front of the government city hall, claiming to abolish the regulation. Monthly average sales loss of suppliers of big-box stores is estimated to be 161 million USD (Jeong & Choi, 2013). Likewise, the less sales of suppliers of big-box stores, legitimacy of government intervention declined. Summarized behavior occurred in supplier section is shown in figure 8.

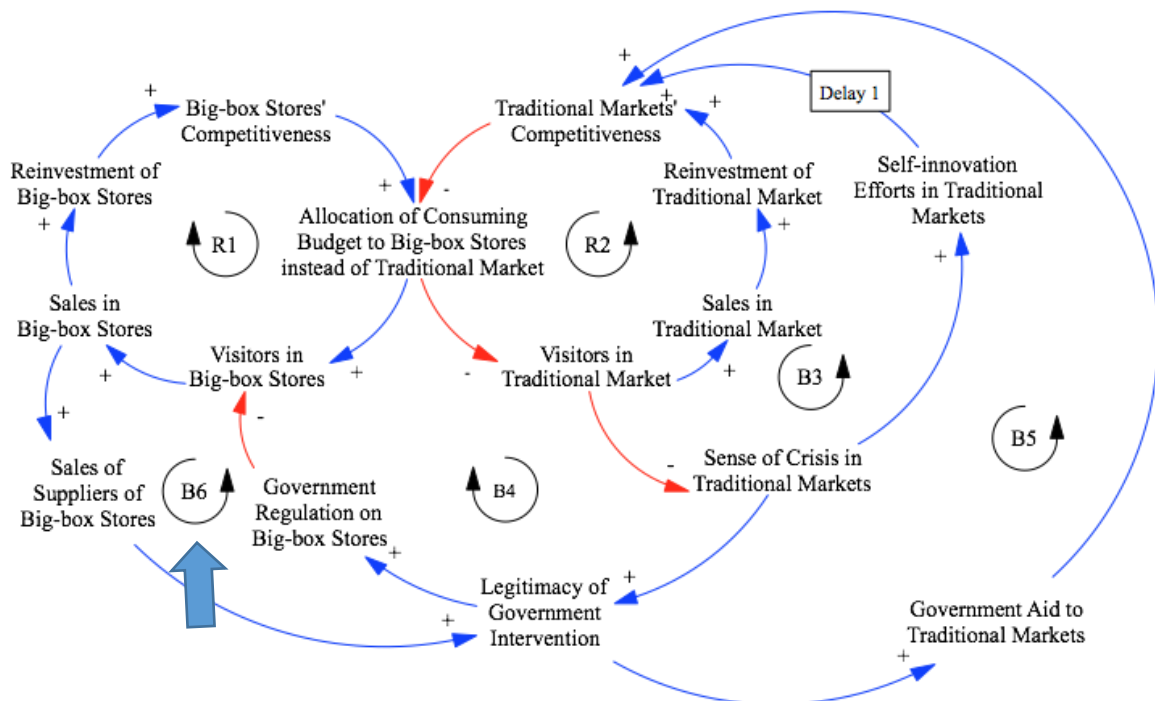


Figure 8. Policy resistance from Suppliers of big-box stores

The second policy resistance is the decrease in employment in the big-box stores sector. Chain Store Association prospected continuous regulation would lead to decrease in employment. According to the data of Ministry of Knowledge Economy, monthly sales in big-box stores are no doubt declining. Decline in sales, as well as overall recession, inevitably would bring about layoff (Mcivor, 2013). Decline in employment related to big-box stores also decreased legitimacy of government intervention. As shown in Figure 9, decrease in employment from decrease in sales of both big-box

stores and suppliers, and reinvestment, balance loop 7, 8, 9 occurs.

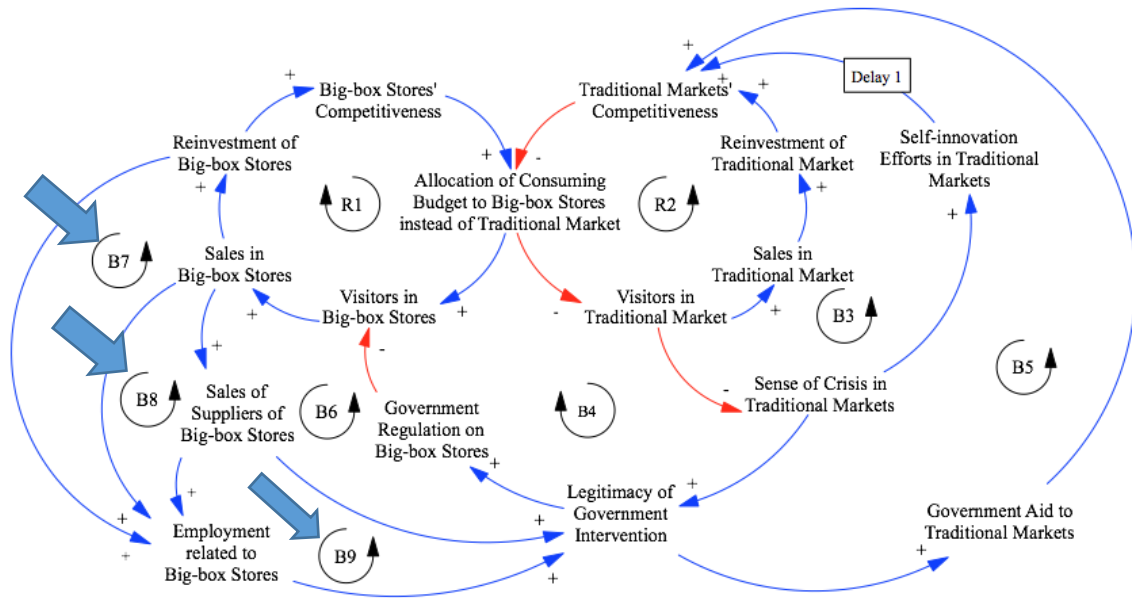


Figure 9. Policy resistance from employment related to big-box store

The last policy resistance in traditional market is estimated behavior in this archetype; the merchants too much depend on government's policies and aid, not striving to reboots the market by themselves. As shown in Figure 10, the delay 2 occurs between the aid and the self-innovation effort. Lim (2014) as well anticipated about the negative effect of government aid in that excessive government aid makes merchants depend on government aid rather than their autonomous innovation efforts. Although putting self-innovation effort takes time to build market competitiveness, it is the only way to escape this system trap.

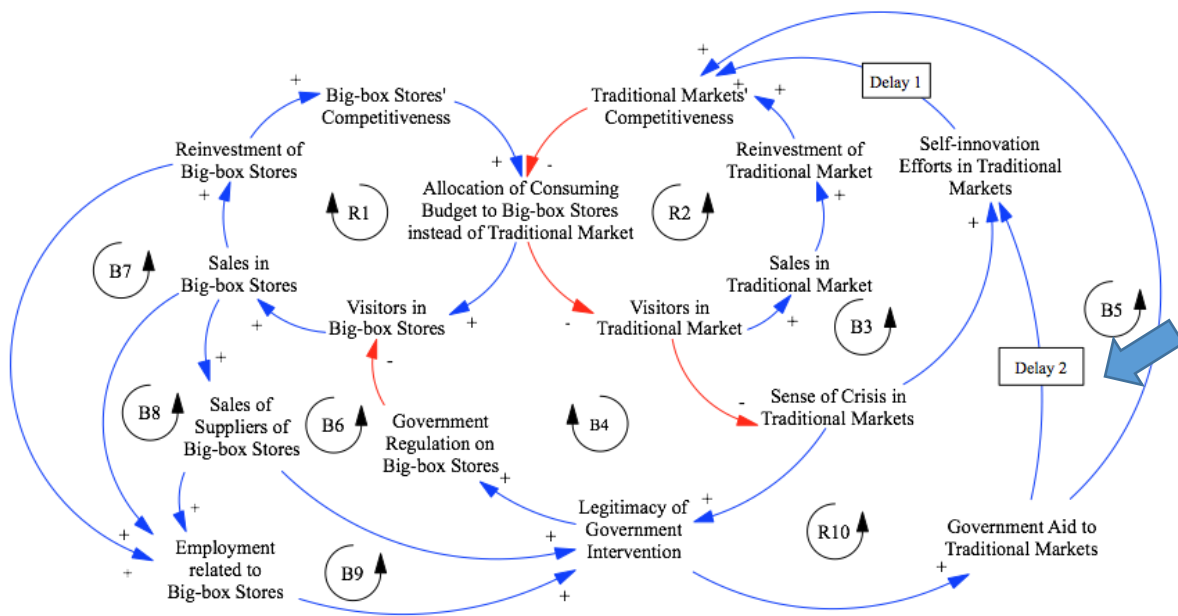


Figure 10. Policy resistance related to traditional market

5. Conclusion

The very issue of success to the successful structure between traditional market and big-box store has been controversial in Korea. Some advocated protecting traditional markets is essential in that they work as a social and economic safety net. Others, on the other hand, advocated the growing market shares of big-box stores, based on the free competition theory. Previous studies have mainly focused on how to revitalize the traditional markets and tried to find solutions for both traditional markets and big-box stores to coexist. Unlike previous studies that saw the phenomena between big-box stores and traditional markets as serious of events, this study analyzed the whole problem in perspective of structure, by using system thinking. In addition, previous studies about impacts of big-box stores to traditional markets were only dealt as a ‘Walmart Effect’, not embracing the big spectrum worldwide.

This paper could be insightful especially for a) policy makers in developing countries, and merchants in traditional market worldwide. Decision makers in developing countries like China and India, should not repeat the same policy resistances noticed in Korea. Besides, we want to encourage all merchants in traditional market to keep patient and put endless self-innovation efforts, which, we believe is the fundamental solution.

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