
Lotte: A Case Study on Market Entries Through Acquisition

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Abstract

The Lotte Group operates in 19 foreign countries and entered also the European market with acquisitions. The company owns a strong market position in South Korea and is also known as the “leading retailing company in South Korea” with a 10 % value share in South Korean retailing in 2012. Furthermore, the company owns a fast food chain with the biggest value share, and even outperforms Hyatt Hotels Corp., Wyndham Worldwide Corp. (Ramada), and Starwood Hotels and Resorts Worldwide (Sheraton) with its hotel chain Hotel Lotte Co., Ltd., and thus is the leading company in South Korea’s travel and tourism industry. Lotte Group’s unrelated diversification, mainly through acquisition, drives the basis of past, present and prospective success and is enforced through triple-helix support. If the conglomerate continues its expansion in Europe, branded divisions would only be found within hospitality or, less probably, in retail. The conglomerate grew through acquisition and it is most unlikely that it will attempt to convey its brand success to Western countries. Win-win growth through acquisition is more to be expected in Europe.

1 Introduction

Starting as a confectionary manufacturer in 1948 in Japan, Lotte Group developed into one of South Korea’s biggest conglomerates, also described as chaebol. The company founded by Kyuk Ho Shin employs about 69,000 employees from 78 businesses (Lotte 2014), expanded into various sub-businesses, and is now engaged in food, retail, tourism, finance, petrochemicals as well as construction.

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With its headquarters in Seoul and in Tokyo, the Lotte Group operates in 19 foreign countries and entered even the European market with acquisitions of, for instance, Cadbury's E Wedel branded confectionery from Kraft Foods in Poland, through which the company became the second largest confectionery business in Poland. The company owns a strong market position in South Korea and is also known as the "leading retailing company in South Korea" (Euromonitor International Ltd. 2013a) with a 10 % value share in South Korean retailing in 2012. Furthermore, the company owns a fast food chain with the biggest value share (46 %), and even outperforms Hyatt Hotels Corp., Wyndham Worldwide Corp. (Ramada), and Starwood Hotels and Resorts Worldwide (Sheraton) with its hotel chain Hotel Lotte Co., Ltd., and thus is the leading company in South Korea's travel and tourism industry.

To explain the success and the enormous expansion of the Lotte Group, this case study displays the current situation of the company by establishing a company profile, and analyzes the rise of the company with its growth development, business success strategies and its position in the home and the global market. Furthermore, potential future developments of the Lotte Group are discussed.

2 Company Profile

2.1 History

The Lotte Group was founded by Kyuk Ho Shin in 1948 in Japan, as a general confectionery manufacturer, and launched "Lotte Confectionery" in 1967 as its first facility in South Korea. Since then, Lotte developed into one of South Korea's largest food manufacturer with the establishment of subsidiaries within the food segment.

In the 1970s, the company expanded outside of the food business and launched companies within the tourism, retail, and petrochemical/construction/manufacturing segments.

In the 1980s, the Lotte Group succeeded in becoming one of the leading businesses in South Korea while it expanded into the high-tech industry with further subsidiaries and acquisitions.

After extending into various industries in the 1970s and 1980s, the Lotte group expanded within the 1990s to foreign markets such as Japan, China, other East Asian countries and the USA.

Further expansions within the six different segments, food, retail, tourism, petrochemical/construction/manufacturing, finance, and service/study/foundation, followed in the 2000s, as well as the entry into the European confectionery market with the acquisition of the Belgian chocolate manufacturer Guylian in 2008.

An additional acquisition in the European market was made in 2010 with the purchase of Cadbury's E. Wedel-branded confectionery from Kraft Foods in Poland.

The Lotte Group is generating a new in-country attraction with building of the 555 m high Lotte World Premium Tower in Central Seoul, which is to become the country's and OECD's tallest building and rank amongst the highest worldwide. Designed by the US-American Kohn Pedersen Fox, the tower will include various entertainment facilities as well as a hotel and office space in its 123 floors above street level (Post 2011; CTBUH 2014).

2.2 The Founders

Kyuk-Ho Shin, also known under his Japanese name Shigemitsu Takeo, was born on Oct. 4, 1922 in Ulsan, Korea, as the eldest of five children. After graduating from the Waseda University in Japan in 1946, Shin founded in 1948 the Lotte Co. Ltd in Japan, and established the Lotte Confectionary in South Korea in 1967. Since the Lotte Group is one of South Korea's business conglomerates, also called chaebol, all the subsidiaries of the Lotte Group are under the control of a single family. "Chaebol" literally means a group or party of wealth. Chaebol are associated with a certain management style that is based on Confucian values, and influenced by family relations, alumni, region, and the government (Chang 1988).

2.3 Employees

The Chairman-In-Chief and the Chief Executive Officer is the founder of the Lotte Group, Kyuk-Ho Shin. His son, Dong-bin Shin, functions as the Chairman of the Company (Fig. 1). The Lotte Group employs about 69,000 employees from 78 businesses (Lotte 2014) and further key employees are the Chief Executive Officers of each subsidiary of the Lotte Group. The recruiting process of future employees is influenced by the applicants' attended university and the regional origins. Management trainees within chaebol groups are usually recruited from prestigious universities and even applicants from certain regional origins, mainly the regional origin of the founders, are preferred due to similar personality traits and shared values (Chang 1988).

The various subsidiaries are divided into six different fields: food, retail, tourism, petrochemical/construction/manufacturing, finance, and service/study/foundation. The subsidiaries in detail can be seen in the product range.

2.4 Product Range

Starting within the food industry, Lotte Group subsequently expanded into various industries and developed into a conglomerate company that is engaged in retail, tourism, finance, petrochemicals, and construction. Figure 2 shows the various subsidiaries with their major businesses.

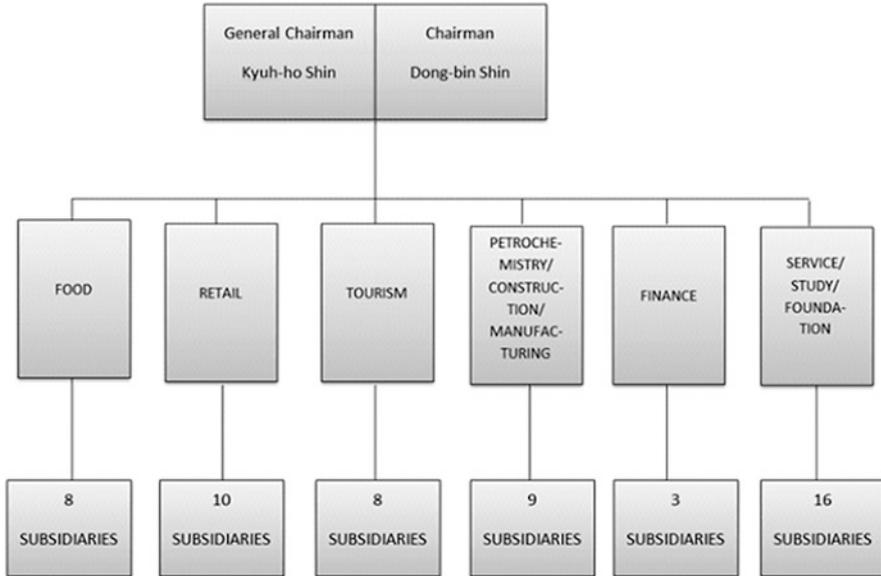


Fig. 1 Organizational chart of the Lotte Group (Lotte 2014)

2.5 Revenues

Figure 3 presents the distribution of the sales of the Lotte Group from the years 2010 to 2013. The retail sector achieved the highest sales with 37–41 % of all sales, followed by the petrochemical/construction/manufacturing sector with a range from 28 to 32 % of sales. The total sales improved yearly by at least 10 %.

Table 1 reveals the sales attributed to the Japanese Lotte Group and the South Korean Lotte Group, as well as the total sales.

2.6 Business (Success) Strategies

By examining the conglomerate's historic development, a clear direction towards diversification mostly through acquisition becomes apparent (Ansoff 1988). The drivers for this strategic preference are economies of scope, dominant logics, exploitation of superior internal processes and the prospective growth of market power as per Johnson and colleagues (2011), and these ideally result in positive conglomerate synergy which is dealt with in Sect. 3.1.

With Lotte Chilsung Beverage, Lotteria, Lotte Ham and Milk, and Lotte Samkang, the group maneuvered its way to become one of South Korea's biggest food manufacturers already in the 1970s. Only a couple of years later, Lotte Shopping was established and draws up one example of the conglomerate's successful vertical integration: downstream being its own supplier and upstream being

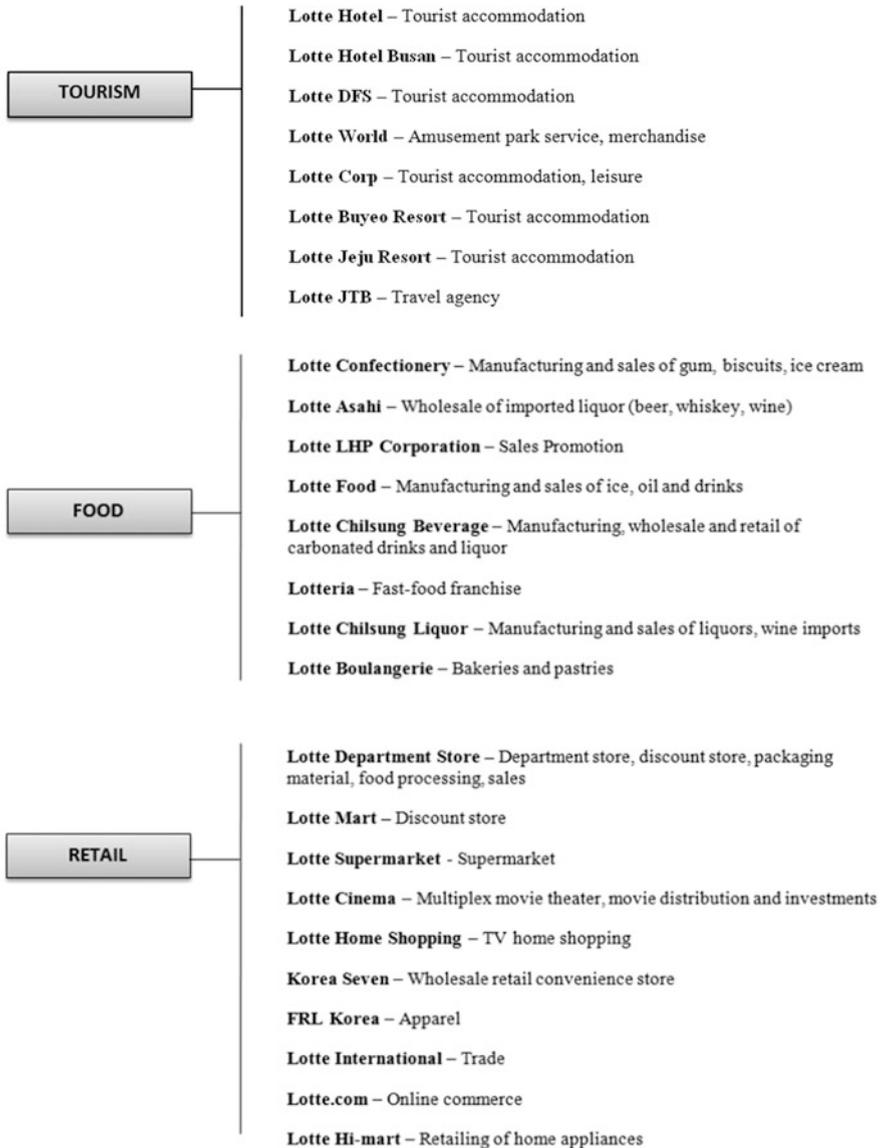


Fig. 2 (continued)

its own customer (Informa plc. 2013). Nevertheless, the results of the Lotte Group’s horizontal integration led to the so-called unrelated diversification which has been found to be the riskiest type of diversification, yet with possibly the most favorable outcomes for the stakeholders involved in the long run (Johnson et al. 2011).

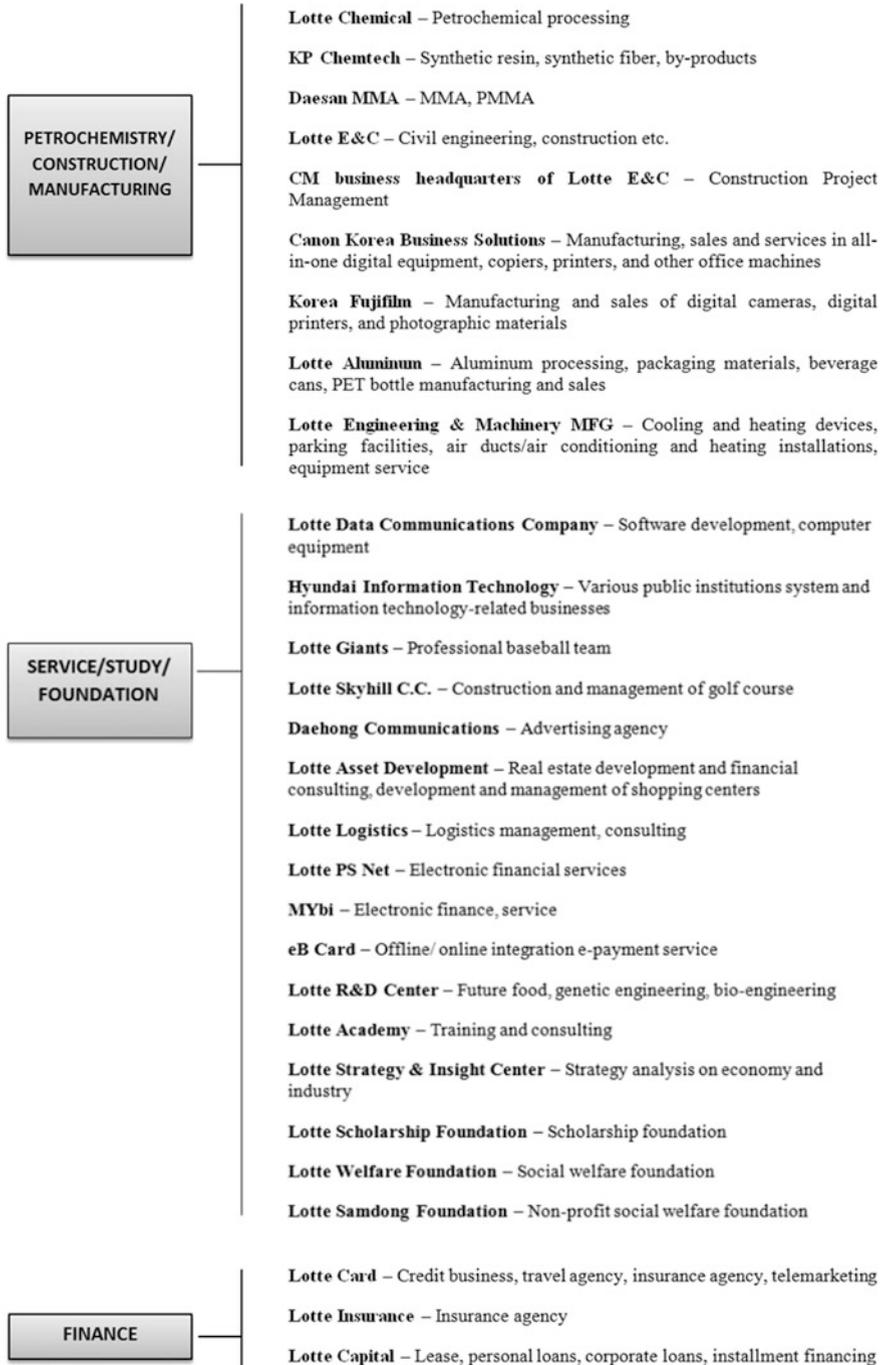


Fig. 2 Subsidiaries and businesses of Lotte Group (Lotte 2014)

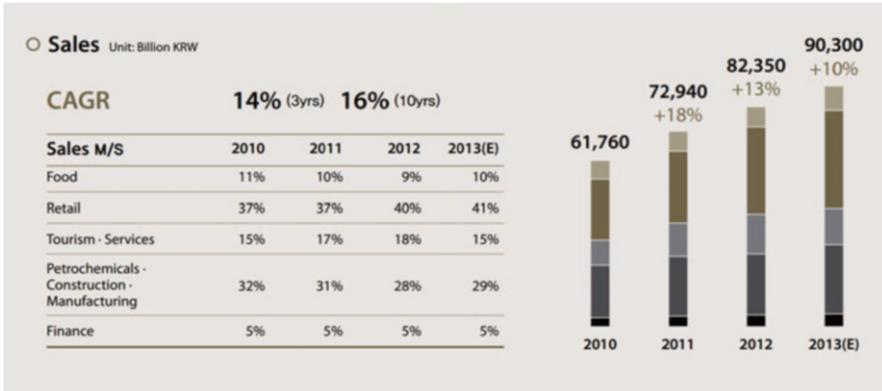


Fig. 3 Sales in percentages (Lotte profile 2013)

Table 1 Financial results of the Japanese and South Korean Lotte Group (Lotte 2014)

FY2012 Japan-South Korea Lotte Group financial results

Sales					
Business classification		Japan group (Unit: million yen)	S. Korea group (Unit: million won)	Total (1 won = 0.0708 yen) (Unit: million yen)	
Foods	Confectioneries	160,416	1,002,659	231,404	
	Frozen desserts	67,384	407,370	96,226	
	Beverage	–	1,916,297	135,674	
	Restaurant, etc.	63,504	1,879,214	196,552	
	Total	291,304	5,205,540	659,856	
Retail		–	22,238,430	1,574,481	
Tourism, service		270,481	4,295,925	574,632	
Chemical, construction		–	15,239,958	1,078,989	
Finance, investment		3146	4,190,204	299,812	
Total		564,932	51,170,058	4,187,772	

McKinsey & Co. examined Lotte Group and similar chaebol regarding their strategic motivation and found that 49 % of acquisitions were so called “step-out moves, [thus] completely unrelated to the parent companies’ existing activities” and the second slightly greater half “were about equally split between [...] category expansions into adjacent businesses and value-chain expansions that positioned the parent company up- or downstream from its existing business” (Fig. 4) (Hirt et al. 2013). Under the premise of experiences being colored by expectations, behavioral economist Ariely (2009) explains behavior of the organizational development of Lotte Group as “predictably irrational”. The conglomerate’s objective is to be affecting all parts of its customer’s lives. Such growth by unrelated diversification through acquisition might seem irrational, daunting and high risk in the first

Nearly half of the business entries made by top Asian conglomerates from 2000 to 2010 were unrelated to the parent companies' existing business.

Share of new businesses by type, for conglomerates¹ in China, India, and South Korea, 2000–10, %

100% = 274 business entries



¹For the top 10–15 industrial conglomerates by 2011 revenues in each country (35 conglomerates in total); excludes state-owned enterprises and financial conglomerates.

Fig. 4 Share of new businesses by type, for conglomerates in China, India and South Korea, 2000–2010 (in percentage) (Hirt et al. 2013)

place but, as aptly proven earlier, is to be expected in the future and has successfully paid off for the stakeholders involved thus far.

2.7 Quality and Innovation of the Product Range

We enrich people's lives by providing superior products and services that our customers love and trust (Lotte 2014).

As a leader in various South Korean industries, such as the food, tourism and retail industry, the Lotte Group strives to supply its customers with high quality products and services. The group has developed into one of South Korea's major business conglomerates that is able to offer premium products and services with the help of strict quality control, and innovative and differentiated services. For instance, Lotte Hotels & Resorts was rated as the best hotel in South Korea for the quality of customer service in 2013 and scored even higher than Hilton Hotels & Resorts and Westin Chosun Hotels (Korea Times 2013). Additionally, Lotte Hotel & Resorts is planning to open South Korea's first six-star hotel in 2014. Another fitting example for innovation and quality is the Lotte World Tower and Mall that will be South Korea's tallest skyscraper once it is completed.

3 The Rise of the Company

3.1 Growth Development

As delineated earlier, the Lotte Group consists of a variety of sub-groups and subsidiaries which easily cause the danger of self-divesting. In order to counteract negative ramifications, in 2010 the conglomerate established its executive office of win-win growth which directs the various strategies within the group to mutual support and growth of individual sales turnover. As one key performance index, win-win growth accounts for almost 15 % in executive assessment. The policy headquarters' criteria are conveyed by the educational framework "Growing Up Together", a curriculum every employee of the conglomerate ought to complete.

Lotte Group's major focus herewith lies on partnerships along the value chain incorporating suppliers and governmental institutions alike. In 2010, the head department for win-win growth outlined five overarching tasks to ensure prospective betterment of cooperation within the conglomerate and cooptation with third parties. By the fiscal year 2014/2015, the organization aims to improve the group-wide cash payment rate, to further expand its win-win growth fund size, to enlarge budgets in training, to maintain supplier satisfaction levels and to remain on an upward growth momentum on-year. In addition, the "strengthening [of] overseas partnership" has been highlighted already as a major goal in 2012/2013 (Lotte Co., Ltd. 2013).

MarketLine identified three outstanding strengths of the conglomerate that empowers the group to effectively grasp future market opportunities. One of Lotte Group's sub-groups is confectionery in which it remains South Korea's number one. With plants across the country and more than 200 categories of confectionery, dairy products and medicine, Lotte Confectionery managed to even launch premium products in dairy and medicine in a country with an average household net-adjusted disposable income of only 12,600 € per year, 68 % of the Dutch average (OECD 2014). The conglomerate's second backbone is its stand in the South Korean retail industry in which it also operates as number one, outperforming strong competitors such as Shinsegae Department Co., Ltd. through services offered in almost 20 department stores, 60 discounters and 140 supermarkets from Seoul to Busan to Jeju-do. As illustrated earlier, the conglomerate's paramount management focus is win-win growth, the outstanding results of which have been confirmed by MarketLine using the example of Lotte Group's petrochemical division. Whereas KP Chemtech provides the main substance needed for the production of PET, Lotte Chemical supplies additional ingredients for a joint inter-group cooperation with competitive pricing and innovative synergy (Informa plc. 2013).

3.2 Becoming a Brand?

Due to the many subsidiaries, such as Lotte Confectionary or Lotte Shopping, is it difficult to analyze whether Lotte itself is recognized as one big brand, or if the subsidiaries are brands their own. Still there are many indications of Lotte becoming a brand, or already being a brand at least within South Korea, as Lotte Department Store was given the title of the best retail brand of 2013 in South Korea from Interbrand, the world's largest brand consultancy (Interbrand 2013). The Lotte Group aspires to become one of Asia's top ten global groups with a brand value that is characterized by three different components: trust, originality, and pleasure.

Trust The Lotte brand is trustworthy of providing products and services of high quality as well as perfect management. Lotte stands for accuracy and honesty and provides safety in the environment, facility, and equipment.

Originality Lotte stands for originality, guaranteeing new and unique experiences with its modern and trendsetting products and services.

Pleasure Lotte, as a brand with various subsidiaries, provides the pleasure of an increased life quality through the purchase and consumption of its products and services.

Another indication of being a brand is the company's brand recognition with its universal logo, or corporate identity that is present on many products and services of the Lotte Group (Fig. 5).

The logo serves as a representative symbol that reminds consumers of the values associated with the company, the brand value. Furthermore, the Lotte Group advertises its products and services with commercials and celebrity endorsement, which additionally enhances brand perception and expectation, the way consumers perceive a brand, and what they expect from it. However, the Lotte logo and its name are mainly used for self-created businesses but not for acquisitions, where the company simply adopts the original brand's name and logo. Therefore, it is most likely that despite the expansion into the European market, the Lotte Group won't be recognized as a brand in Europe, because the company will acquire and adopt already existing brands.

Fig. 5 Lotte Logo (Lotte 2014)



LOTTE

3.3 Position in the Home Market

Due to the conglomerate's complex horizontal and vertical structures and the broad product range, a value share analysis of selected sub-companies has been conducted.

As per Euromonitor International Ltd. (2013a), Lotte Group's retail firm Lotte Shopping Co., Ltd. "remains the leading retailing company in South Korea" and held a 10 % value share in South Korean retailing in 2012. In addition, the conglomerate secured its pole position in department stores with a 39 % value share and in supermarkets with a 20 % value share. Since 2007, Toys "R" Us also contributes to Lotte Group's portfolio with a 36 % value share in 2012. With a 22 % value share in hypermarkets, Lotte Shopping Co., Ltd. ranks third in South Korea, yet its acquisition of the country's largest electronics retailing firm Hi-Mart Co., Ltd. is predicted to accelerate its success over the sub-company's major competitor Shinsegae Co., Ltd.

Only ranked behind Paris Croissant Co., Ltd., the conglomerate's consumer food service sub-firm Lotteria Co., Ltd. achieved a 2 % value share in this industry but remained South Korea's first fast food chain with a 46 % value share in 2012. The main contributions have been made by its franchised sub-brands Natuur, Krispy Kreme, TGI Friday's, Angel-in-us Coffee, and Lotteria. As mentioned earlier, the conglomerate repeatedly strengthens its home market position through horizontal integration as Lotteria's main suppliers are, amongst others, Lotte Chilsung Beverage, Lotte Samkang, and Lotte Boulangerie (Euromonitor International Ltd. 2014a).

Outperforming Hyatt Hotels Corp., Wyndham Worldwide Corp. (Ramada), and Starwood Hotels and Resorts Worldwide (Sheraton), Hotel Lotte Co., Ltd. leads South Korea's travel and tourism industry with an 11.2 % value share. In addition to accommodation, this sub-firm includes Lotte Group's duty-free shops and amusement parks, as well (Euromonitor International Ltd. 2014b).

With a 6 % value share, Lotte Chilsung Beverage Co, Ltd. ranks third in South Korea's market for alcoholic drinks and first in soft drinks with an off-trade value share of 32 %—ranging from 4.8 % up to 61.1 % with the company's energy drink brands (Euromonitor International Ltd. 2013b, c).

3.4 Position in the Global Market

With a value share of 0.3 % in packaged food worldwide, the subsidiary Lotte Confectionary Co., Ltd. only generates 6 % of its global sales outside of the Asia Pacific region. Even though it is the conglomerate's second-largest division, its divestment is predicted to increase cash flow and facilitate ROI on the Lotte Group's acquisition of the earlier mentioned Hi-Mart Co., Ltd. With acquisitions of Guylian and E. Wedel in 2008 and 2010, the conglomerate managed to improve its outlook in the Western European chocolate industry. According to Euromonitor International Ltd. (2010), Lotte Confectionary ranked second with 300 million US\$ behind Mars, Inc, which presented value sales of 550 million US\$ in Poland in 2010. Whereas the company ranked 23rd worldwide in 2007, its global stand in packaged food worsened to rank 26 in 2012, where it competes with Wilmar International Ltd. and Perfetti Van Melle Group.



Fig. 6 Global sales (Based on Lotte profile 2013)

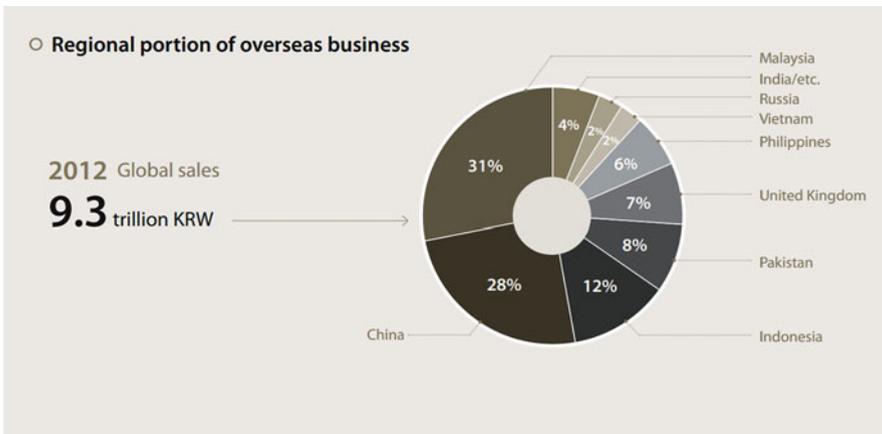


Fig. 7 Regional portion of overseas business (Lotte profile 2013)

With new hotels in Moscow/Russia, Tashkent/Uzbekistan, Hanoi and Ho Chi Minh City/Vietnam, and Tamuning/Guam, Lotte Group’s divisions in hospitality report global growth, especially in 2013 and 2014 (Interfax-America Inc. 2010; Lotte City Hotel Co., Ltd. 2013a, b; Lotte Hotel Co., Ltd. 2004, 2013).

Figure 6 presents the global sales distributed over different sections of the Lotte Group, and shows that global sales are rising continuously. The major global sales are made within the retail and the petrochemicals/construction/manufacturing sectors.

Lotte’s overseas business mainly operates within Asia, which can be seen in Fig. 7. Almost 60 % of all overseas business takes place either in Malaysia (31 %) or China (28 %).

4 Future Developments

4.1 What Are the Future Challenges/Problems to Overcome at Home and Abroad?

Future challenges can result from private ownership of the company due to its limited financing options. Privately-owned companies face significant disadvantages with regard to financing in comparison to publicly held companies which have more financial flexibility.

Further problems can occur due to the increasing reinforcement of regulations concerning bio-safety as well as drug and food approval processes which can result in increasing prices and might delay product launches. Expanding to a global, or to the European, market forces the Lotte Group to adjust its production processes and product quality to global or European standards. This can again lead to delays and increasing product prices.

The product prices might also be affected by the extreme competition on its current market, as well as its potential future markets. The market segments in which the Lotte Group is cooperating are characterized as highly competitive (Informa plc. 2013) with mainly large multinational companies competing. This can become especially problematic when the Lotte Group decides to brand its products and services outside of the Asian market. In general, it would become very challenging to launch “Lotte” as a brand within the highly competitive Western markets, where the Lotte Group is completely unknown.

4.2 Which Companies Are Its Competitors Now and in the Future?

Due to the many subdivisions of the Lotte group, the company has many current competitors as well as potential competitors. Therefore, other conglomerates such as Hyundai can be seen as competition, as well as other businesses that are active within any of the following sectors: food, retail, tourism, petrochemical/construction/manufacturing, finance, or service/study/foundation. Because of the high number of potential competitors, this section covers solely some current competitors of the segments food, retail, and tourism within South Korea as well as potential competitors within Europe.

Food Current competitors within South Korea of Lotte Confectionery, the parent company of the Lotte Group that is categorized under the Food segment, are Crown Confectionery Co. Ltd as well as Seoul Food Industrial Co. Ltd. Future competitors within the food segment, in case of a market entry in the European market, are multinational food and consumer goods companies such as the Swiss company, Nestle, and the Anglo-Dutch company, Unilever.

Retail For the different subsidiaries of the Lotte Group that are categorized under retail, the Hyundai department store Co. Ltd, as well as other big retail stores such as Homeplus Co. Ltd, for example, are the current local competitors.

Tourism Current competitors, as well as future competitors when expanding abroad, are big international luxury hotel chains such as Park Hyatt or Ritz Carlton, for example.

5 Conclusion

5.1 Why Did This Company Become So Successful?

South Korean conglomerates such as the Lotte Group are widely described as chaebol, “a family-controlled industrial conglomerate” (Merriam-Webster, Inc. 2014) with a great number of affiliated organizations in a great number of industries that highly contribute to the country’s economy (Murillo and Sung 2013). Already in 1988, Chang elaborated on the unique success factors of those all-industry conglomerates. First and foremost, Confucian business values underpin an occupational ethic of “hard work; respect on education; and family prestige and heritage” (Chang 1988) in all hierarchical levels. In addition, a favorable policy within the earlier mentioned triple helix context, as well as high extroversion and flexibility of the entrepreneurs involved, supported growth and expansion. Back in the 1990s, the so called K-S mark catapulted students directly into leading positions in South Korean chaebol, meaning a diploma from Kyunggi High School and Seoul National University (SNU). After the millennium, this definition has been expanded to the acronym SKY, which includes Korea University and Yonsei University in addition to the previously stated SNU (Card 2005).

Murillo and Sung (2013) identified the following key virtues of South Korean chaebol within the Lotte Group:

- Clear-cut vision developed by a charismatic leader
- Success in political lobbying
- Economically effective and aggressive entrepreneurship
- Sound management system, balanced between autocracy and group-orientation
- Risk aversion
- Agility of decision-making
- Long-term perspective thanks to family ownership
- Internal capital and labor market

Lotte Group’s unrelated diversification, mainly through acquisition, drives the basis of past, present and prospective success and is enforced through triple-helical support which was explored earlier in this chapter.

5.2 Is It Likely that This Company Will Become a World Brand?

The Lotte Group managed to positively infiltrate almost all aspects of South Korea's every day life. "Lotte" is a brand, an organization renowned for deeply rooted Confucian values, such as family and solidarity within East Asian cultural heritage. The analysis of the Lotte Group's international activities thus far indicates that, if the conglomerate continues its expansion in Europe, branded divisions would only be found within hospitality (e.g. Lotte Hotel Co., Ltd.) or, less probably, in retail (e.g. Lotte Shopping Co., Ltd.). The conglomerate grew through acquisition and it is most unlikely that it will attempt to convey its brand success to Western countries. Win-win growth through acquisition is more to be expected in Europe.

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