Introduction

Kakao is an information technology company in Korea. Its messaging application, KakaoTalk, is widely used, with 45 million of the country's 51 million people using it ("The True Face…"). Given that KakaoTalk has a market share of 94.4%, it is not an exaggeration to say that it is the application used by nearly every Korean. Recently, Kakao has been entangled in numerous issues due to its expansion strategies. The research question regarding this situation is, "To what extent Kakao's business expansion strategies are **ethical**, and how do the strategies impact its stakeholders?"

Ethics, in the context of business, refers to the moral principles and standards that guide behavior in the business world, including responsibilities to society, customers, and employees (Boyles).

Stakeholders are individuals, businesses, or groups affected by business decisions.

In this paper, 'impact' will be used as a term to describe the effect of business decisions on stakeholders' lives.

Kakao's expansion strategy, often referred to as its 'Octopus Feet-like Expansion,' and its manipulation of SM Entertainment's share price is controversial. Koreans rely on Kakao for much of their daily life in Korea. Therefore, it is important to investigate the extent to which Kakao's strategies are **ethical** and how they impact its stakeholders, including Korean users, as they experience the effects of their choices.

Methodology

To investigate this research question, *Triple Bottom Line*—a tool that assesses business performance in terms of profit, people, and the planet—will be used to analyze the **ethical** implications of their 'Octopus Feet-like Expansion' strategy and its **ethical** implications.

Next, *Branding*—a marketing technique designed to create a specific corporate image—will be used to explain legal risks and analyze the purpose behind Kakao's market manipulation of SM entertainment.

Finally, *Stakeholder Analysis*—a tool that identifies the position of stakeholders in the business—will be used to analyze how their strategies were **ethical** regarding their impacts on stakeholders.

Triple Bottom Line

The *triple bottom line*, developed by John Elkington, is a business concept that ensures businesses consider social and environmental impact, not just their financial performance (Kenton). Kakao's ethics regarding their 'Octopus Feet-like Expansion' strategies will be evaluated using profit and people as the key metrics.

Profit

KakaoTalk's 94.4% market share indicates that Kakao has effectively monopolized the mobile messenger industry. Leveraging its brand image, the company has expanded into numerous profitable industries.

For example, Kakao now has 158 affiliates, including applications for mobility, hair salons, and golf courses, a dramatic increase from just 20 affiliates in 2014 (SD #1). This strategy, referred to as 'Octopus Feet-like Expansion,' is a Korean term used to criticize large corporations that diversify into small markets through substantial capital. This approach demonstrates Kakao's focus on financial gains over other factors in the *triple bottom line*, ultimately not an **ethical** strategy.

An additional concern is that nearly half of Kakao's main affiliates are running at a deficit, revealing a focus on rapid expansion and market dominance over internal growth (SD #1). While investment is vital, the sustainability of this aggressive strategy is doubtful, as Kakao prioritizes market share over ethics without achieving true profitability.

People

Kakao's 'Octopus Feet-like Expansion' is making it difficult for small businesses to sustain themselves or enter the market, as they struggle to compete with Kakao's vast resources.

For example, KakaoT, a mobility app that connects taxi drivers with customers, gained popularity by offering convenience and initially being fee-free for drivers ("The True Face…"). However, after securing a significant market share, Kakao introduced fees for taxi drivers through 'smart calls,' following a penetration pricing strategy that raises prices after dominating the market ("The True Face…").

These practices have allowed Kakao to monopolize the mobility industry, where they now hold 92% of the market share ("The True Face…"). With fewer customers using traditional taxi-hailing methods, taxi drivers are forced to rely on KakaoT, despite the fees it imposes. This has reduced revenue for taxi drivers and negatively impacted existing taxi businesses.

The people and profit aspects of the triple bottom line show that Kakao's 'Octopus Feet-like Expansion' is **unethical**, monopolizing markets and stifling small businesses. This limits customer choices and harms small business growth. Additionally, internal inefficiencies make these aggressive expansions unprofitable, failing even by profitability standards.

Branding

Branding is a business strategy that builds the reputation of the brand which is important for the longevity of the business as it can build customer loyalty.

However, due to its 'Octopus Feet-like Expansion,' Kakao faces criticism for its revenue sources, as it relies heavily on the Korean market (SD #1). Unlike other conglomerates that earn foreign currency through international markets, Kakao's domestic expansion primarily harms small Korean businesses, damaging public perception.

To improve its image as a contributor to Korea's economy by earning foreign currency, merging with SM Entertainment was crucial for Kakao's image, as the entertainment sector is one of the few areas that can generate foreign revenue (SD #1). Kakao operates Kakao

Entertainment, which covers music, movies, and webtoons. Despite its many popular artists, it has not grown as other entertainment companies have, partly due to a lack of 'Super IP'—a concept where a single piece of content or character expands across multiple platforms (SD #2). SM Entertainment, with its international fanbase and valuable intellectual property, is an ideal partner for Kakao.

However, Kakao faces legal risks from its acquisition of SM Entertainment, which involved a bidding war with HYBE. HYBE initially offered 120,000 KRW per share, but as the market price rose, Kakao raised its bid to 150,000 KRW (SD #2). Under pressure, HYBE sold its shares, allowing Kakao to become the largest shareholder with 39.87% of SM's shares (SD #2). HYBE suspected that Kakao might have artificially inflated the market price, leading to legal challenges for Kakao executives. This practice is undoubtedly **unethical**, as it involves market manipulation through their capital. At worst, it could be considered an illegal act, leading to serious legal consequences for Kakao.

Kakao's merger with SM Entertainment reflects its effort to improve its image by supporting businesses that generate foreign currency. However, the potential use of illegal methods undermines this strategy and raises serious **ethical** concerns. According to Carroll's pyramid of CSR, businesses must first be profitable and legally compliant before addressing **ethical** responsibilities. While Kakao meets its economic responsibility, it fails to meet legal obligations, which are essential before **ethical** behavior can be considered. Therefore, Kakao's strategies cannot be deemed **ethical**, as they do not comply with legal standards.

Stakeholder Analysis

A *stakeholder analysis* is used to understand the position of each stakeholder. Stakeholders can divided into two categories: internal stakeholders, people within the organization, and external stakeholders, people outside the organization but impacted by its activities. Five stakeholder groups are analyzed: internal (Shareholders, Executives, and customers) and external (Union Labor and Community/Customers). Since every stakeholder has different perspectives on the Kakao crisis, it is important to understand their perceptions of Kakao during this situation and assess Kakao’s **ethical** impact on each stakeholder.

Executives

Executives hold significant power and influence, driving expansion strategies to maximize profits. However, they are also responsible for legal issues. For instance, Kakao’s CEO, BeomSoo Kim, and investment manager, JaeHyeon Bae, were arrested for manipulating SM Entertainment’s share price (SD #2). While the acquisition’s profitability is unclear, the **unethical** practices have damaged their reputations and caused Kakao’s stock price to drop from 170,000 KRW to 30,000 KRW, impacting both the executives' interests and the company’s future growth.

Shareholders

Shareholders are important for Kakao, as they provide investment for Kakao. On June 20, 2023, Kakao had over 1.99 million minor shareholders, holding 62% of its shares, but this number fell to 1.78 million despite a 4% increase in sales revenue (SD #4). Most shareholders are Korean citizens who also use KakaoTalk. The company’s declining brand image and unethical practices have eroded trust, causing a drop in both shareholders and stock prices. This highlights the importance of **ethics** in business: even if a company is profitable, **unethical** behavior can erode trust and limit long-term growth as investors and customers lose confidence.

Employees

Due to deficits from aggressive expansion, Kakao is cutting back on hiring and offering voluntary redundancies, creating anxiety among employees.

For example, Kakao Enterprise, an AI platform developer, has been unprofitable since its launch, with a 140.5 billion KRW deficit in 2022 (SD #3). Consequently, about 20 executives were dismissed, and voluntary resignations are being encouraged (SD #3). Similarly, Kakao Entertainment introduced the "Next Chapter Program," offering senior employees severance packages of up to 15 months' salary and a 5 million KRW bonus for those retiring by July 31, 2024 (SD #3). These programs put pressure on employees, leading to concerns about job security.

Union Labor

Union workers, including many Kakao employees, are concerned about the company's aggressive expansion. Kakao's deficits in new industries led to restructuring, placing the burden of failed ventures on employees. For example, SangYeop Baek, the CEO of Kakao Enterprise, resigned due to his role in the restructuring but was rehired as a part-time advisor with a salary, angering the labor union (SD #3). This situation highlights the company's failure to meet **ethical** obligations, leaving employees worried about job security, with some leaving for other companies.

Community/Customers

Most Koreans use KakaoTalk, making Kakao's decisions highly relevant to them. Kakao's aggressive expansion through low pricing creates barriers for small businesses and strengthens its market monopoly (SD #1). Initially, customers favored Kakao for its low costs and quality, but as Kakao dominates the market, customers face higher prices due to a lack of alternatives.

The stakeholder analysis reveals that Kakao's profit-driven strategy, ignoring long-term consequences, led to ethical issues. Aggressive expansion into small industries and the acquisition of SM Entertainment, while aimed at profit, ultimately damaged the company's value due to unethical practices.

Conclusion

By evaluating Kakao's operational strategies and their impacts on stakeholders, the answer to the question, "To what extent are Kakao's business expansion strategies **ethical**, and how do these strategies impact its stakeholders?" becomes clear. Kakao's business expansion strategies have proven to be largely **unethical**, and none of the stakeholders evaluated have benefited from these practices.

Kakao's "Octopus Feet-like Expansion" strategy led to monopolistic practices, which restricted opportunities for small businesses. As customers became aware of Kakao's

unethical behavior, its brand image suffered, resulting in financial deficits and job redundancies.

To restore its brand, Kakao acquired SM Entertainment, but **unethical** practices during the merger introduced legal risks, further damaging its reputation. This contributed to a significant decline in stock prices. No one benefited from this situation: executives and shareholders lost significant investment value, employees became concerned about the security of their jobs, and customers faced disadvantages as product innovation slowed due to the lack of competition.

Kakao's aggressive expansion, without considering long-term sustainability, weakened its internal stability. The company's failure to balance profit with **ethical** and legal responsibilities ultimately led to its downfall, underscoring the critical role of **ethics** in modern business success.

As a dominant conglomerate in Korea's messaging market, Kakao exploits its reliance by making unethical operational decisions, knowing most Koreans can't easily stop using the service. But how long can these practices be sustained?

Supporting Documentation

Supporting Document 1

"사랑받던 국민기업 카카오, 미움받게 된 이유" ["Why Kakao, Once a Beloved National Company, Is Now Facing Public Backlash"]. *YouTube*, uploaded by 지식한입 [Bite of Knowledge], 11 Nov. 2023, www.youtube.com/watch?v=rL5zhQpfogI. Accessed 1 Sept. 2024.

Supporting Document 2

Jo, MoonHee. "'무리한 인수' 알면서도…카카오는 왜 SM을 원했나" ["Why Did Kakao Pursue SM Despite Knowing the Risks of a Reckless Acquisition?"]. *Sisajournal*, 23 Oct. 2023, www.sisajournal.com/news/articleView.html?idxno=274796. Accessed 21 Aug. 2024.

Supporting Document 3

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Supporting Document 4

Won, Dayeon. "네이버, 카카오 나란히 빠졌지만…'저가매수'는 엇갈리는 이유" ["Internal Discontent Explodes Amid Kakao's Widespread Restructuring: Will Kim Beom-Su Respond to the Union's Letter?"]. *EDaily*, 19 June 2024, www.edaily.co.kr/News/Read?newsId=01125046638988960&mediaCodeNo=257&OutLnkChk=Y. Accessed 1 Sept. 2024.

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