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SKMS

SK MANAGEMENT SYSTEM



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Video clip about the purpose
and core contents of the revision

Preface

SKMS was first established in 1979 so that all SK People can understand the true nature of sound corporate management and work to improve the standard of business management at SK. With the establishment of the SUPEX Quest in the 1990s and the introduction of the happiness of stakeholders and system management in the 2000s, SKMS has contributed significantly to the growth of the SK Group by responding proactively to a changing environment.

Recently, the business environment has been shifting in a way that is difficult to predict as competition becomes fiercer, and industries and technology are continuing to evolve at an ever-faster pace. Furthermore, the scope and operating methods within the SK Group are becoming considerably more diverse and complex than ever before.

In order to respond appropriately to these changes in the business environment, SKMS has been revised in a way that preserves and upholds the core philosophy of SKMS and at the same time aims to improve its implementation in each individual SK Company.

This revision clearly expresses the purpose and significance of forming and developing the SK Community by redefining the SK Group, each SK Company and SK People.

In the Management Philosophy, it states that the happiness of stakeholders should be pursued by SK People themselves and emphasizes the importance of the Culture of SUPEX Quest through Voluntarily & Willingly Brain Engagement (VWBE), in order to enhance the happiness of stakeholders.

In the Implementation Principle, the SUPEX Goal and Business Plan, as well as the Internal Environment for the SUPEX Quest, are simplified to allow each SK Company to respond swiftly to changes in the business environment. In particular, the concept of Pae-gi is redefined as a representation of VWBE in order to strengthen its implementation and engagement.

SKMS consists of SK's governing philosophy and its methodology. Through this revision of SKMS, each company should ensure continuous change and innovation to foster a strong and superior corporate culture, and all SK People should implement SKMS and firmly embrace the ideas and ideals behind it.

Chey, Tae-won
Chairman
October 2016

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SK and SKMS

SK Group and SK People
Implementation, Evolution and
Development of SKMS

SK and SKMS

SK Group and SK People

A company has to maintain stability and growth. For this, it needs to be equipped with the ability to manage independently and have the grounds for survival.

There are some management activities that are more effective if they are shared and implemented in a cooperative way among companies. Such sharing and cooperation is for the development, growth, and survival of the individual company, so should be done through necessity and the voluntary participation of each company.

The SK Group is composed of companies that have agreed to share the SKMS management philosophy and to mutually cooperate in management activities based on necessity and their own judgment, regardless of the equity relationship.

Each SK Company should implement autonomous and responsible management led by its board of directors, and at the same time participate in the council established under the joint agreement in order to facilitate mutual cooperation. This allows the companies in the SK Group to continuously improve the management system and infrastructure and enable “Independent yet United” management by cooperating in various areas through specialized committees.

SK People¹ are those who choose SK with the belief that being together at SK could lead to greater happiness. Therefore, all SK People voluntarily and willingly implement SKMS with confidence and passion for SK’s philosophy.

Implementation, Evolution and Development of SKMS

A corporate culture concentrates people’s capabilities into one and becomes the platform for operating various management systems in the company. Therefore, a strong and superior corporate culture in addition to continuous evolution is the most important factor in its competitiveness.

Through the common understanding and consensus of all SK People, SKMS has become the cornerstone of SK’s corporate culture. The management activities and corporate culture based on SKMS have continued to play a large role in the consistent growth and development of SK.

¹ At SK, we prefer to use the term “SK People”, rather than employees, as a reflection of our philosophy that the company is composed of SK People and that the happiness of stakeholders should be pursued by SK People themselves.

Management Philosophy

Happiness of Stakeholders
Culture of the SUPEX Quest
through VWBE

SKMS presents the basic direction for management and consists of SK's governing philosophy and its methodology covering those practical areas indispensable to business management.

The exact, practical methods for SKMS vary according to the industrial environment in which each company operates.

Therefore, each SK Company has to voluntarily develop and execute an implementation method of SKMS by reflecting on its business characteristics. By doing so, each SK Company should ensure its voluntary decision making ability by responding flexibly to environmental change as well as improving all the factors including culture, systems and so on.

All SK leaders are strongly urged to take the lead in implementing and developing SKMS. In particular, enterprising major shareholders should take full responsibility for sustaining and developing SK's management philosophy, along with the SK Group.

Management Philosophy

All SK People believe that the happiness of stakeholders can be achieved with the culture of the SUPEX Quest through VWBE.

Happiness of Stakeholders

The corporate enterprise should achieve its ultimate goal of sustained progress by maintaining stability and growth. Furthermore, it should create value for its customers, SK People and shareholders, thereby contributing to social and economic development and human well-being.

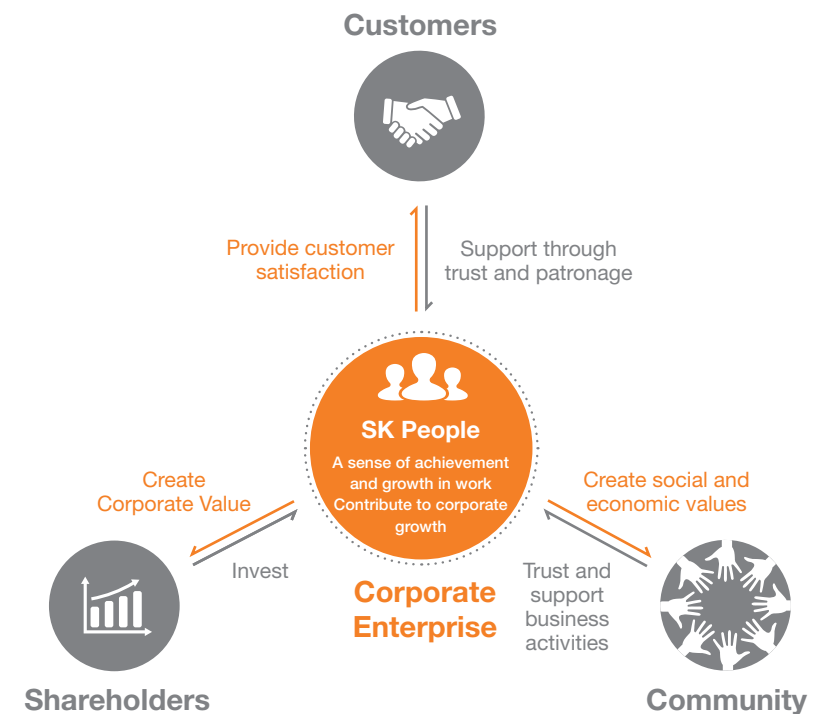
At SK, we aim to:

- gain trust from our customers by ensuring consistent customer satisfaction, and ultimately transform ourselves into a corporate entity whose progress goes hand in hand with theirs.
- ensure that all SK People develop with a sense of achievement in their work, while they contribute to SK's sustained progress during their tenure at the company.
- upgrade our corporate value so as to create shareholder value.
- grow along with the wider community through the creation of social values in addition to facilitating economic prosperity.

The corporate enterprise should make a consistent effort to find a balance between the happiness of stakeholders and consider this in both the present and the future to remain sustainable over the long-term.

SK People are one of the stakeholders and at the same time the company is composed of SK People. Therefore, SK People should prioritize the happiness of stakeholders in the belief that it will lead to the greater happiness of the SK Community and, as a result, each individual member.

The relationships and roles of the company and its stakeholders



Culture of the SUPEX Quest through VWBE

In an ever changing environment, each SK Company should continue to maximize performance through the SUPEX² Quest in order to realize the happiness of stakeholders.

In order to achieve this, SK People must contribute to the performance of the company by utilizing their capabilities to the fullest through VWBE³.

All SK People should voluntarily create and establish a favorable environment for the SUPEX Quest, while at the same time implementing and developing it as SK's culture.

² the abbreviation for super-excellent level, which means the highest performance level attainable
³ the abbreviation for Voluntarily and Willingly Brain Engagement, which means exerting maximum effort to increase intellectual involvement in the SUPEX Quest

Implementation Principle

SUPEX Goal and Business Plan
Internal Environment for the
SUPEX Quest

Implementation Principle

A company should implement this management philosophy by establishing the SUPEX goal and business plan and an environment that supports their implementation.

SUPEX Goal and Business Plan

A SUPEX Company should be able to continuously pursue the SUPEX goal, which may shift along with changes in the business environment or the passage of time, by retaining top-tier competitiveness and securing the necessary conditions for long-term survival.

When a company aims to become a SUPEX Company, it should note that it is difficult in practice to reach this level immediately. Thus, the company should first establish and then pursue a Better Company goal. The company should exert its best efforts to ultimately become a SUPEX Company through the successful completion of a series of Better Company goals.

A company should systematically establish and execute a To-be Model for the realization of the SUPEX goal. To improve the execution level of the To-be Model, the following points should be considered:

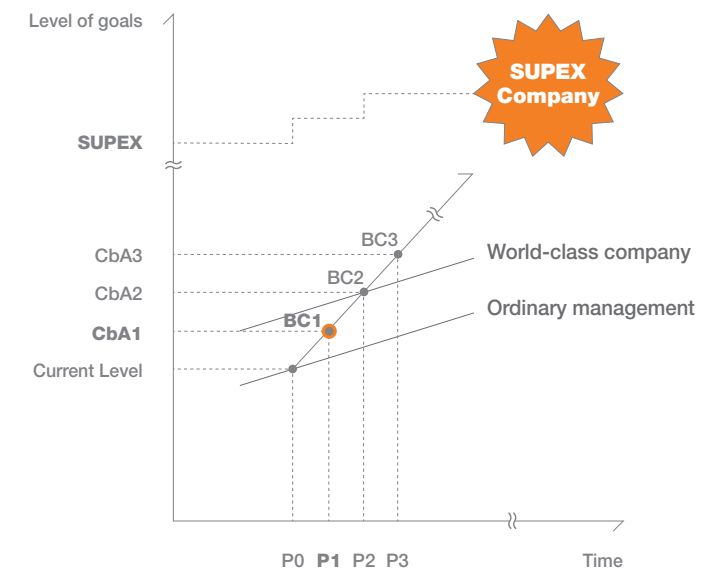
- The level of Better Company goal should be set at a CbA⁴

⁴ CbA(Challenging but Achievable): a kind of super excellent level that must be attained within a given time limit and using the resources available.

level with the intention to upgrade the corporate value, while comprehensively taking into account various aspects such as business structure, financial performance, efficiency of assets, etc.

- The constituents of the To-be Model, such as SUPEX Company Image, the Better Company goals, implementing strategy, KPIs, evaluation, rewards and the SUPEX Quest environment, need to be flexible enough to respond to the changing business environment.
- To-be Model should be voluntarily designed and operated by each company while reflecting on its business characteristics and changing business environment.

The concepts of the SUPEX Quest can be explained in the following diagram.



· CbA1: SUPEX goal to be achieved within time (P1) and resource limits
 · BC1(Better Company 1): a desirable image of the company at P1

Internal Environment for the SUPEX Quest

To pursue SUPEX, the VWBE of SK People is required.

A representation of VWBE is Pae-gi, which means the determination to succeed in one's work. Therefore, it is important for SK People to embrace Pae-gi to create a favorable environment for the SUPEX Quest.

SK People equipped with Pae-gi are self-motivated, challenge themselves by setting higher goals and take progressive actions outside the box. They endeavor to develop necessary competencies and achieve higher performance through teamwork.

All SK leaders are required to discover SK People with Pae-gi and assign them challenging tasks, providing them the autonomy and resources in order to utilize their capabilities to the fullest.

Also, leaders need to provide fast track opportunities and better rewards for SK People with Pae-gi. While implementing this, all SK leaders should place more importance on not only high performance but also challenges and innovations based on Pae-gi, thereby strengthening Pae-gi in both SK People and leaders.

In an effort to create an environment for the SUPEX Quest, it is necessary to consistently monitor and improve factors that may influence the implementation of Pae-gi, and make Pae-gi SK's own culture.

The Significance of Instituting SKMS

Chronology of Revision of SKMS

The Significance of Instituting SKMS

Corporate management has a very short history in Korea. Each business manager tends to utilize his/her own individualized management style. The nonuniformity of management techniques causes conflicting objectives, communication breakdowns and impaired decision-making. Therefore, effective management becomes impossible.

Consequently, for a proper and uniform understanding of the essence of management, a unified definition of management must be developed and adopted by managers as their criterion for decision-making.

Furthermore, as businesses expand and globalize, and as social structures become more complex, intensified competition puts an even greater premium on efficient management. Corporate stability and growth cannot be achieved with obsolete and haphazard management styles.

Feeling a need for the establishment of a business management system, I formulated the Principles of Business Management in the beginning of 1975. I then instructed the Office of the Chairman for Management and Planning to define and systematize basic business concepts and management factors based on these principles. Their initial efforts proved to be too theoretical to have practical application. I have since modified this system based on my practical management experience over the years. The revised system was presented, fully discussed, and adopted at a seminar attended by executives of all affiliated companies on March 15-18, 1979.

SKMS consists of Basic Business Concepts that summarize the essence and goal of business management and the Business Management

Factors that affect them. These management factors are grouped into Static factors and Dynamic factors. Dynamic factors, which are intangible and thus generally overlooked by management science, are given special emphasis. In particular, managerial capacity among Dynamic factors is discussed in terms of job skills development, while SK-Manship is defined as an essential qualification for an SK manager.

SKMS is the unique management technique of the SK Group, developed over a considerable period of time and derived from both practical management experience and research efforts. Therefore, all members of the SK Group must learn its principles thoroughly and become proficient in its application. Its role will be that of an essential business tool embedded firmly in our management structure, and we must continue to develop it further.

I have always emphasized that our management objective is for SK to become a world-class organization by the year 2000. To achieve this goal, we need not only world-class management, but also first-rate human resources such as managers, engineers, specialists, etc. SKMS is a steppingstone toward that end. I am confident that through the diligent application of SKMS, we will accumulate the management capabilities that will enable us to join the ranks of the world's leading companies by the year 2000.

Chey, Jong-hyon
Former Chairman

Extracted from the address
at the Executive Seminar on SKMS
March 1979

Chronology of Revisions of SKMS

- March 1979** ● **First edition**
Basic Business Concepts and Business Management Factors
(nine Static factors and five Dynamic factors)
- March 1981 ● 1st revision
Finalized Personnel Management and revised content of Dynamic factors
- October 1981 ● 2nd revision
Revised Personnel Management
- March 1982 ● 3rd revision
Revised Personnel Management and defined each Dynamic factor
- December 1984 ● 4th revision
Defined R&D Management, etc.
- November 1988 ● 5th revision
Modified Personnel Management and Coordination Management
- November 1989 ● 6th revision
Finalized Communication and Marketing Management
- November 1990** ● **7th revision — Comprehensive revision**
Modified and revised Preface, Basic Business Concepts and Business Management Factors
Established concept of SUPEX Quest
- June 1995 ● 8th revision
Finalized Five Steps of Job Execution, MPR/S/T and the methodology for SUPEX Quest
- March 1997 ● 9th revision
Established Information Management
- January 1998 ● 10th revision
Revised due to CI change
- October 2004** ● **11th revision — Comprehensive revision**
Pursuit of the happiness of stakeholders reflected in the Basic Management Concepts
Revised the principles of SK's system management and Business Management Factors
- May 2008 ● 12th revision
Established the concept of SK Group and specified action plans for Happiness Management
Revised Management Implementation Principle and Business Management Factors
- October 2016** ● **13th revision — Comprehensive Revision**
Revised the structure to consist of SK and SKMS, Management Philosophy, and Implementation Principle. Business Management Factors was removed
- SK and SKMS: Clarified the concept of the SK Group, the operation system of the SK Group and each SK Company and the concept of SK People
- Management Philosophy: Divided into happiness of stakeholders and the culture of SUPEX Quest through WWBE
- Implementation Principle: Simplified with an emphasis on key methodologies to implement Management Philosophy