The *Chaebol:* Dynamic Management

By Koji Matsumoto

The dominant reality of business in South Korea are the *chaebol,* or corporate groups. These giant combines may often seem, on the surface at least, similar to the interlocking industrial groups found in Japan. But Korea's powerful company groups are institutions unique unto themselves, and a better understanding of their many distinctive traits is essential to doing business in East Asia's most vibrant new economy.

Clan control

Big enterprises in Korea, unlike their Japanese counterparts, are usually controlled by family clans through stock ownership. A good example is the Hyundai Group, one of Korea's representative corporate groups.

The attached table shows the stock ownership of leading enterprises in the Hyundai Group as of December 31, 1982. Of the 24 companies, 16 have 50% of their stock owned by the combination of Chung Ju-Yung and his family, Hyundai Construction Co., and other group companies. Of the remaining eight enterprises, four have nearly 50% of their stock owned exclusively by the Chung family. Considering this, and the fact that 10% and 50%, respectively, of the stock of Hyundai Motor Co. and Aluminum of Korea are owned by foreign interests, it is evident that the Chung family maintains undisputed control of all companies of the Hyundai Group. Far from being exceptional, this is typical. In all other Korean corporate groups, control also rests in a single family.

There are cases in which publicly disclosed documents do not reveal such control. Yet even in these cases, a single family will often control the stock through less public means. Korean businessmen admit that part of the owner family's stock holdings are frequently registered in the names of trusted subordinates. The stock certificates themselves remain in the possession of the family, so that ownership can be readily transferred should the need arise.

In 12 of Korea's 20 big family-controlled corporate groups, the founders have either died or retired. These groups include Lucky-Goldstar, Kukje, Korea Explosives, Hyosung, Ssangyong, Daelim, Doosan, Kolon, Kumho, Sammi, Kia and Shindongah. In every group, leadership has been passed on to the founder's son. This fact is itself proof of firm family control.

Chairman shares the throne with no one

In Europe as in prewar Japan, owner families of big corporations are seldom in the frontlines of management. In most cases, they are satisfied with supervising the business from backstage. In Korea, however, the owner of a corporate group and members of his family occupy the pivotal positions in their companies.

For instance, Chairman Chung of the Hyundai Group exercises absolute authority and makes all important decisions. Nobody dares oppose him. In any *chaebol,* the word of the chairman carries tremendous weight, but at Hyundai, observers say, "Once the chairman makes a decision, he never retracts it under any circumstance."

Chairman Chung sets aside 30 minutes between 6:00 and 6:30 every morning for receiving emergency telephone calls from overseas branches. It is said that all the overseas business operations of the Hyundai Group are directed from his home early every morning.

In Japan, a company president wields

Chairman Chung Ju-Yung of the Hyundai Group

Stock Ownership of Principal Firms of Hyundai Group
(As of December 31, 1982; unit, %)

Company	Chung Ju-Yung Family	Hyundai Construction	Other firms in the group	Outsiders
Hyundai Construction	47.2	n/a	–	52.8
Hyundai Heavy Industries	27.9	2.8	70.2	–
Hyundai Motor	7.4	13.2	28.6	50.8
Hyundai Mipo Dockyard	–	–	95.0	5.0
Hyundai Rolling Stock	4.3	1.5	94.2	–
Hyundai Electrical Engineering	3.5	8.3	85.7	2.5
Hyundai Engine Mfg.	4.4	10.5	85.1	–
Hyundai Precision	16.7	42.9	40.1	0.3
Hyundai Motor Service	46.7	–	–	53.3
Hyundai Pipe	5.6	70.0	22.3	2.1
Hyundai Cement	45.2	–	–	54.8
Hyundai Engineering	24.8	–	64.8	10.4
Hyundai Lumber	2.9	70.0	26.0	1.1
Hyundai Corporation	6.8	7.1	24.3	61.8
Hanlla Construction	28.0	48.4	21.6	2.0
Korea Urban Development	34.3	52.3	–	13.4
Hankook Pavement Construction	17.2	74.0	–	8.8
Inchon Iron & Steel	1.4	9.1	86.2	3.3
Aluminum of Korea	–	–	50.0	50.0
Kukdong Oil	25.0	–	29.0	46.0
Dongsu Ind.	27.6	27.3	42.0	3.1
Keumkang Development Ind.	49.4	–	–	50.6
Hyundai Merchant Marine	28.0	–	72.0	–
Kukil Securities	–	–	35.0	65.0

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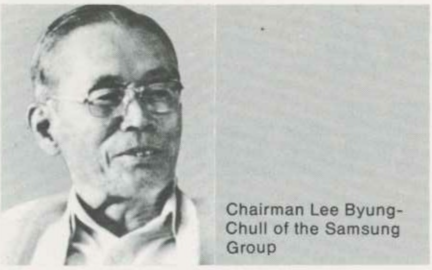
tremendous power, but in Korea the president of a group company is relatively weak. The authority of the group chairman is so absolute that the president's presence pales into insignificance. This is clearly seen in the ability of the chairman to manipulate personnel as he pleases. Technically, the general meeting of shareholders elects the company's officers, but in fact it is little more than a rubber stamp. The presidents, chairmen and board directors of group companies are moved around like chess pieces by the group chairman.

In its May 2, 1984 issue, the Korean newspaper *Dong A Ilbo* described the relationship between the chairman of a corporate group and the presidents of his group companies as follows: "The meeting of group presidents often serves to impress on the presidents that the distance between them and the group chairman is as great as the distance between them and new recruits. Presidents dare not smoke at the meetings convened by the group chairman. And they all, even those who were formerly ranking government officials or comrades of the founding group chairman, must stand at attention when the group chairman enters the meeting room, even though he may only be in his 30s."

As often happens when too much authority is concentrated in a single pair of hands, power rubs off on people close to the group chairman. A good example of this is the chauffeur of the Samsung Group's Chairman Lee Byung-Chull. Because he sees Chairman Lee more frequently than anybody else in the group, the chauffeur has "considerable" influence in group affairs. According to many Korean businessmen, Chairman Lee's chauffeur holds the title of managing director. It wasn't that his managerial talents were discovered and he was promoted to managing director. He is still a chauffeur. This suggests that in the eyes of Chairman Lee, a managing director is on the same level as a chauffeur.

Systematized channels diverting power

Things are changing, however gradually. In recent years, the group chairman supervises and controls group companies more and more often through systematized channels. In this connection, the role of the meeting of group presidents and the group's planning office known, depending on the group, as the Planning and Coordination Office, Integrated Planning Office or the Office of the Secretary, merits attention.


Chairman Lee Byung-Chull of the Samsung Group

Hyundai Group presidents meet every Monday and Friday morning with Chairman Chung. About 40 presidents and chairmen of Hyundai Group companies attend the meeting. Chairman Chung calls the representative of each company by name, showers them with a barrage of questions, and settles all matters instantly. In other words, everything concerning the group companies is dealt with by Chairman Chung in a dictatorial manner.

Group presidents' meetings of other corporate groups are similar to Hyundai's, but each has its own characteristics.

In the case of the Daewoo Group, the group presidents' meeting is attended by the chairman, two deputy chairmen and about 10 presidents in charge of relatively important business fields, such as foreign trade, construction, shipbuilding, automobiles, electronics, and planning and coordination.

In the Samsung Group, Chairman Lee normally does not attend regular meetings of the group presidents. He attends only the year-end meeting, popularly known as "the meeting in the imperial presence," where the following year's business projects are discussed.

In the Kimsung (Goldstar) Group, the Management Committee consisting of eight members of the owner families of Koo and Huh and the president in charge of planning and coordination serves as the de facto supreme decision-making organ.

The Group, not the individual co.

Following the example of the Samsung Group, which established its group planning office about 10 years ago, most corporate groups today have planning offices. The size of the planning office differs from one group to another. Hyundai's Planning and Coordination Office is relatively small, probably because it is under the direct command of Chairman Chung; it has about 40 people. In the case of the Samsung Group, it is a big section embracing a staff of 200. Some, like the Goldstar Group, place the planning office directly under the group chairman, rather than with any of the group companies. Organizationally, this arrangement leaves the planning office without any status under the Corporation Law. In most cases, however, the planning office is established in the nucleus company of each group (such as Hyundai Construction, Samsung Co. and Daewoo Corp.). This gives many people the mistaken idea that the planning office is a staff division of Hyundai Construction or Samsung Co. Actually, the planning office is a "group organ" which deals with problems affecting the entire group from a standpoint transcending individual company interests. The cost of maintaining the planning office is apportioned to all group members at a set rate. In view of the importance of his role, the head of the planning office is himself a president. Many members of the planning office staff have the official titles of senior managing director or managing director.

The primary task of the planning office is to collect and select information to be passed on to the group chairman. In the case of the Hyundai Group, each member company explains to the president of the Planning and Coordination Office the issues to be brought up at the next meeting of group presidents. The planning and coordination office president summarizes the points of each issue on the agenda, and submits the summary to Chairman Chung prior to the meeting. It is this assistance by his staff that makes it possible for Chairman Chung to hand down his instant decisions on major problems at the meeting of group presidents.

Other duties of the planning office are to conduct regular and unscheduled inspections of all group companies, to plan new business undertakings, lay out group strategy, and conduct public relations activities. However, in the case of a small planning office like Hyundai's, some of these duties may be delegated to group companies.

New recruits are hired by the group and not by individual companies. In many cases the planning office does the selecting. At Hyundai, for example, the Personnel Affairs Committee, chaired by the president of the Planning and Coordination Office and including group company board directors in charge of personnel and the managers of their personnel affairs divisions, conducts the hiring and distributes the young graduates to the companies according to their needs. The Planning and Coordination Office or the Personnel Affairs Committee may transfer personnel from one company to another within the group, according to whether a company's business is booming or is depressed, or whether it is necessary to concentrate manpower in a strategic business field. It is also in charge of working out a wage system and other aspects of personnel management and labor affairs.

But even that does not cover all the activities of a group planning office. Because banks set their loan ceilings, not for individual companies but for the whole group, the planning and coordination office is required to authorize each company's borrowings in order to keep accurate track of the total debts of the group.

The above might give many readers the impression that the planning office is vested with enormous authority commensurate with its duties. However, the planning office is able to exercise this authority only because it is the limbs, eyes and ears of the group chairman and has the chairman's ultimate power behind it. If the group chairman is a hands-on manager who exercises his personal initiatives in the frontline of business management, then the group's planning office plays only an assistant's role. However, if the group chairman prefers a more supervisory role, the planning office may be the real decisionmaker. The Planning and Coordination Office of the Hyundai Group is a typical example of the former type, and the Office of the Secretary of the Samsung Group that of the latter. If probable future developments are taken into account, however, it is likely that once the founder of the group hands over his position to his son, the personal initiatives of the post of group chairman will be considerably restricted. If so, the planning office, now primarily an organ for institutional integration, can be expected to gradually grow in power.

Evaluating the Korean corporation

Corporate groups are gradually coming in for increasing criticism in Korea. Critics claim that the concentration of economic power in the hands of financial combines is approaching a dangerous level. As they stretch their tentacles into more and more areas of business, critics point out, they pose a threat to the nation's small- and medium-sized enterprises. It seems, however, that to flatly condemn the *chaebol* as evil is just as biased an evaluation as praising them unconditionally as the standard-bearers of Korea's high economic growth.

In the course of this rapid economic growth, Korean companies have sometimes taken on huge projects which appeared far out of proportion to their corporate scale. That they were able to take on such projects was because they were united in corporate groups that allowed them to disperse the risks. A group that embraces companies in many different business lines can even out its losses, balancing the setbacks of some companies with the profits of others.

The Samsung Group, for instance, was able to sustain some of its floundering member companies in the mid-1970s with profits earned by the group's sugar-refining and woolen textile operations. During the recent shipbuilding slump which followed on the oil crises, Hyundai Construction propped up Hyundai Heavy Industries by placing a series of big orders for steel structures. Today, Hyundai Construction itself is having a hard time because of ailing construction projects in the Middle East, and is being helped out by Hyundai Heavy Industries. As a matter of general theory, keeping alive an enterprise which by rights should go bankrupt results in economic inefficiency. But in Korea, which has only just stepped through the threshold of industrialization, a bankruptcy among the still lean ranks of corporations with accumulated human resources, an international reputation and other intangible business assets would be a severe loss to the national economy. Such damage has been averted thanks to the corporate group system.

Group setup eases transitions

The corporate group setup has also worked to great advantage in starting new businesses. The broad group base makes it possible to concentrate scarce human resources on the project and raise the necessary funds. Particularly at a time when bank funds are in short supply, a group's most profitable companies can put up the money to smooth the advance into new strategic fields.

In countries other than Korea, industrial transition has often been attended by a host of difficulties, from bankruptcies in distressed industries to unemployment. The Korean corporate setup, however, enables shifts in industrial structure to be undertaken smoothly on a group basis as funds and human resources are easily redistributed within the group. Lucky, which used to specialize in chemicals and oils/fats, has now developed into the Lucky-Goldstar Group centered around electronics. Sunkyong, which originally started with the production of cotton crepe, is now a powerful corporate group dealing in chemicals and energy. And Ssangyong, whose principal business was once cotton spinning, has transformed itself into a group of cement and electric power companies. Such constant metamorphosis is one of the strengths of Korea's corporate groups.

The continued family control of Korean enterprises is often criticized as an "anachronistic" violation of the principle of separation of ownership and management. Yet even family control is not entirely without its merits.

In the early 1970s, Hyundai set out to build Korea's biggest shipyard. Hyundai had had no previous experience in building ships. It was said that it had never even built a rowboat. Knowledgeable people were openly aghast at Hyundai's recklessness. Chairman Chung, however, was firm. "A ship has an engine inside and its exterior is made of steel," he said. "Ships resemble power plants, which Hyundai has built many times." With these words he inspired his subordinates.

Could finance-oriented American businessmen, applying the golden rule of return on investment, or Japanese businessmen, tied to decisions by consensus in a bottom-up decision-making system, have been as adventurous as Chairman Chung in tackling this new business? The animal spirit of Korea's "manager-entrepreneurs" has spurred the development of scores of industries and has breathed vitality into Korean capitalism.

There is another side to the coin. In their pursuit of the success of the entire corporate group instead of individual companies, Korean corporate groups often neglect business efficiency, cost cutting, and long-range business strategy. The market mechanism that normally would weed out inefficient enterprises is impaired, because group companies can stay in business even at prohibitive cost with the support of other group companies.

The Koreans themselves are keenly aware of the problems. They have taken note of the lack of teamwork resulting from insufficient employee identification with the company, lack of voluntary efforts for quality control, and slow mastery and accumulation of technology due to frequent employee transfers from one company to another. Another conceivable problem is that the growing vigor of Korea's labor unions could eventually lead to restrictive practices infringing on managerial autonomy, as has already happened in Europe and the United States.

But while the future may be far from trouble-free, Korea's corporate groups have shown an impressive ability to adapt and thrive in a challenging environment. In the years to come, these powerful organizations are likely to remain the towering landmarks of the Korean economic landscape. ●