Order Number 9111943

The rise of Korean chaebols from the perspective of organization theory

Kang, Youngkol, Ph.D.

The University of Arizona, 1990

U·M·I
300 N. Zeeb Rd.
Ann Arbor, MI 48106

THE RISE OF KOREAN CHAEBOLS FROM THE PERSPECTIVE OF ORGANIZATION THEORY

by

Youngkol Kang

A Dissertation Submitted to the Faculty of the

COMMITTEE ON BUSINESS ADMINISTRATION

In the Partial Fulfillment of the Requirements
For the Degree of

DOCTOR OF PHILOSOPHY

In the Graduate College

THE UNIVERSITY OF ARIZONA

1990

THE UNIVERSITY OF ARIZONA
GRADUATE COLLEGE

As members of the Final Examination Committee, we certify that we have read the dissertation prepared by Youngkol Kang

entitled The Rise of Korean Chaebols From the Perspective of Organization Theory

and recommend that it be accepted as fulfilling the dissertation requirement for the Degree of Doctor of Philosophy.

Michael R. Gottfredson	10/3/1990 Date
David A. Tansik	10/3/1990 Date
David L. Torres	10/3/1990 Date
	Date
	Date

Final approval and acceptance of this dissertation is contingent upon the candidate's submission of the final copy of the dissertation to the Graduate College.

I hereby certify that I have read this dissertation prepared under my direction and recommend that it be accepted as fulfilling the dissertation requirement.

Dissertation Director Michael R. Gottfredson — 10/3/1990 Date

STATEMENT BY AUTHOR

This dissertation has been submitted in partial fulfillment of requirements for an advanced degree at The University of Arizona and is deposited in the University Library to be made available to borrowers under rules of the Library.

Brief quotations from this dissertation are allowable without special permission, provided that accurate acknowledgment of source is made. Requests for permission for extended quotation from or reproduction of this manuscript in whole or in part may be granted by the head of the major department or the Dean of the Graduate College when in his or her judgment the proposed use of the material is in the interests of scholarship. In all other instances, however, permission must be obtained from the author.

SIGNED: _____

ACKNOWLEDGMENTS

In preparing this study I have incurred a number of debts and take pleasure in acknowledging them here. It would not have been possible to produce the present work without unflagging support and assistance of many people. I would like first to thank my dissertation committee. I am especially grateful to Professor Michael R. Gottfredson, my committee chairman, without whose guidance and encouragement I could hardly have completed this study. Professors David A. Tansik and David L. Torres have provided me with invaluable insights and comments from the beginning of this work to the final draft. I also acknowledge the intellectual debt I owe to Professors James R. Lincoln and Walter W. Powell. I thank them for their valuable suggestions and criticisms. I am, however, fully responsible for this dissertation.

I would like to thank my family for their continued support. I am very grateful to my mother, Mrs. Kyung Pae Moon. This work is dedicated with love to my late father, Mr. Byung Ho Kang, and my late brother-in-law, Dr. Hoo Taik Kim, who passed away before the completion of this work. My sincere thanks must be extended to my parents-in-law, Mr. Kwan Yoon and Mrs. Young Hee Han, who have provided me with tremendous mental and material support. Without their support, I could not have earned a doctorate in the United States. Finally, I thank my wife, Meekyung Yoon, and two sons, Hongsoo and Hyunsoo, for the constant love that has kindled and reinforced my research interest for so many years. Beyond her love and understanding, Meekyung has helped in ways too numerous to mention.

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS

LIST OF TABLES

ABSTRACT.

This study has sought to probe the origin of Korean chaebols by employing theories that have been developed to account for the rise of American business organizations. This study has thus attempted to accomplish two objectives. The first is to examine factors that led Korean business groups to adopt the chaebol form. The second is concerned with the assessment of the usefulness of Western organization theories in explaining the origin of Korean chaebols.

By examining the top four chaebols qualitatively through detailed case analyses and 143 business groups quantitatively through statistical analyses, this study tests hypotheses raised by the three theoretical perspectives. Also an examination of the developmental processes of Japan's selected zaibatsus and a comparative analysis between the chaebol and the zaibatsu are undertaken.

The major findings of this study indicate that the political economy has been the dominant factor that contributed to transforming mediocre business groups into large chaebol groups. In particular, an organization's relationship with the state was of utmost significance. This study also indicates that the institutional isomorphism approach can complement politically motivated or efficiency-oriented theories. One of the major findings of this study is that Chandler's theory accounting for the rise of Korean chaebols is weak. However, its weakness does not stem from its main proposition that strategy calls for structural reform, but from its premise that growth strategy and structure presuppose economic and technological development. Williamson's transaction cost economics has a limited capability to account for the rise of the Korean chaebols. It is argued that the relative weakness of this theory may be inherent in its "universal" nature, which makes little provision for societal and cultural differences between the United States and Korea.

CHAPTER ONE

INTRODUCTION

Korea has achieved phenomenal economic success in the past two decades. The annual growth rate of 7.5 percent[1] of gross national product (GNP) from 1962 through 1986 may symbolize Korea's economic success (see Table 1.1). One of the factors contributing to Korea's rapid economic development is that a considerable portion of its economic growth has been accounted for by the vital contribution of chaebols[2] or large business groups. According to data compiled by *Hankuk Ilbo*, one of the leading newspapers in Korea, about 20 percent of Korea's GNP in 1984 was accounted for by the contributions of 50 business groups[3]. Furthermore, S. Kim (1987) claims that in the same year the top four chaebols, namely, Samsung, Hyundai, Lucky-Goldstar, and Daewoo, produced 10.2 percent of Korea's GNP and the contributions of the top ten chaebols, including the top four, reached 16.1 percent of the GNP (see Table 1.2). In other words, about one-sixth of Korea's economic growth in 1984 was attributed to a handful of business groups. The percentage of GNP growth accounted for by those business groups has been increasing since the 1970s (see Tables 1.2 and 1.3). Hence, it is expected that economic power will continue to be concentrated in a group of chaebols in the future.

Chaebols are vital to Korea in achieving its national goal of becoming an advanced and industrialized country. They are capable of raising capital, providing a well-trained work force, and accumulating new technologies. Symbolically speaking, chaebols have been a powerful

---

[1]This figure was computed on the basis of data given in Economic White Paper by the Economic Planning Board of Korea and in S. Kim (1987).

[2]Although a typical chaebol consists of a number of firms, the term "chaebol" is a singular noun representing a large but single business group.

[3]*Hankuk Ilbo Kyungje-bu* (1985:14).

locomotive in leading the whole economy of Korea. In return for the crucial contributions of the chaebol sector, the Korean government has, in fact, let them accumulate excessive amounts of wealth. Such a concentration of economic power in a handful of chaebols has been criticized (e.g., Choo, 1985) because of the problems associated with disruption of entrepreneurship and unfair distribution of income. Since chaebols enter and dominate any area of business where they perceive profits can be reaped, they therefore drive innovative and creative entrepreneurs and small- or medium-sized industrialists away from the business arena. Thus, the excessive reliance of the Korean economy on chaebols may create a structural impediment to Korea's future growth. Another serious concern frequently raised is that the monopoly of wealth in a handful of chaebol families may become one of the major sources of class conflict, labor unrest, and eventually the decline of productivity. Hence, critics claim that the simultaneous occurrence of ever-growing dependence of the Korean economy on chaebols and the recent downturn of the Korean economy, which has been documented by Western observers (e.g., Wall Street Journal, November 8, 1989), is not a coincidence. Yet this claim seems to underestimate many other environmental factors that may account for the downturn of the Korean economy, such as persistent political problems at home and rising protectionism abroad. Rather, it would be fair to say that the Korean economy is not likely to survive without the vital contribution of the chaebol sector. This is especially true as the economy goes through difficult times. It thus seems that the critical contribution of the chaebol will not diminish for the time being.

Clearly, the chaebol is the most important form of business organization in Korea. There have been studies about chaebols by both Korean scholars (Jung, 1987; E. Kim, 1987; Kim and Chung, 1989; S. Kim, 1987; Lee and Yoo, 1987; Yoo and Lee, 1987) and Western scholars (Hamilton and Biggart, 1988; Orru, Biggart, and Hamilton, 1990). Some of those studies (e.g., Hamilton and Biggart, 1988) have discussed the evolutionary process of the chaebols, but very few of them deal specifically with the origin of Korean chaebols,

especially from the perspective of organization theory. In consideration of this virtually unexplored territory and the chaebol's critical contributions to the Korean economy, this study seeks to probe the origin of chaebols.

I. Definition

There has been some confusion among Koreans with regard to what the term "chaebol" really means. This confusion appears to be due to the absence of academic attempts to rigorously define the term. One thing is, however, is clear: all chaebols are business groups, regardless of their variable size and diversity. But all business groups are not chaebols. Now the question is, which business groups can be referred to as chaebols, and which cannot. To clarify this confusion, we need to define the term "chaebol" more rigorously than ever. Historically, "chaebol" is a term imported from Japan.[4] The Japanese scholar Morikawa (1980) states that family control and diversified businesses are key characteristics of the zaibatsu. Hattori (1987) also characterizes the zaibatsu by highlighting family control and diversification. But it seems that one important determinant of the chaebol is missing in their definitions. This determinant is contained in Yasuoka's (1985) characterization of the zaibatsu. He claims that the magnitude or size of the business group, in addition to family control and diversification, should be considered as a characteristic of the zaibatsu. Because business groups with diversified products that are owned and managed by the founding family are ubiquitous in Korea, it seems logical to add size to the definition. However, considering size as one of the ingredients of a chaebol involves an operational problem because it is very difficult to set an objective standard about "how big a business group should be to be named chaebol." Here we would need to add a structural aspect that could

[4]Chaebol is merely a Korean pronunciation of Japanese "zaibatsu". Koreans and Japanese pronounce the same Chinese character differently. Literally the term chaebol or zaibatsu means "financial clique".

be affected by the magnitude of a business group and objectively differentiate chaebol business groups from their nonchaebol counterparts. The most probable difficulty that rapidly growing business groups confront is how to effectively coordinate and control their subsidiary companies. When those business groups face various efficiency and control problems engendered by their expansion, they often create a certain office under the direct command of a CEO. Thus, the existence of a group-level office overseeing all subsidiary companies could be a good indicator of whether a business group is big or not.

In this context, a chaebol will be defined as "*a business group, consisting of legally autonomous but institutionally binding companies in diversified business areas, that is owned and managed by the founding family and also has a group-level office coordinating and controlling its subsidiary companies.*" This definition emphasizes family business, diversification, and structure.

A. Family Business

By family business, it is meant that a business group is owned and managed by the founding family. However, it does not necessarily mean that the family should own and manage all subsidiary companies. As was the case with Japan's prewar zaibatsus, the founding family can own and manage only core companies that, in turn, control the stocks of other subsidiary companies. Hence, if subsidiary companies of a business group are owned and managed either directly by the founding family or controlled indirectly by core companies of the group, that group is regarded as a family business group.

B. Diversification

All business groups in Korea have a tendency to diversify their businesses to some extent. By definition chaebol business groups should have much more diversified lines of business than nonchaebol business groups. Hence, in order for a business group to be a chaebol, its businesses should be diversified to the extent that either a discrete business (or the largest business of a business group) or a technologically or transactionally related business should not account for a considerable portion of its total sales volume[5].

C. Structure

A typical chaebol has an office that serves the purpose of controlling its subsidiary companies and coordinating their diversified businesses at the level of a business group. The role and function of the office are quite comparable to the central office of a U.S. multidivisional firm or the holding company of a Japanese zaibatsu.

II. Research Issues

Several studies have already investigated Korean chaebols. Jung (1987) examined the interplay of strategy and structure of chaebols. E. Kim (1987) did a detailed analysis about the changing relationship between the Korean government and the chaebols. S. Kim (1987) analyzed the effect of government industrial policies on the development of chaebols. These studies, however, attempted to approach the developmental process of chaebols with a single theoretical framework (e.g., political economy or strategic adaptation). Hamilton and

[5]For more details, see related discussions in Chapter 4.

Biggart (1989) expanded the scope of theoretical perspectives by discussing three approaches regarding the development of business organizations in Korea, Japan, and Taiwan. They argue that the chaebol is a representation of Korea's preexisting, institutionalized political structures put into organizational practice. Korea's political structure was based on the model of the strong state, which included a powerful central ruler (usually a king) and bureaucratic administration. Organizational representation of this structure is the current form of a chaebol: the centralized business empire controlled by an individual or a group of individuals. Hence, the current organizational structure of the chaebol, they assert, has been influenced by Korea's traditional political structure. Despite Hamilton and Biggart's valuable insight into the rise of chaebols, their point has not yet been evaluated through detailed case studies or quantitative analyses.

Since virtually no studies appropriately deal with the origin of Korean chaebols, this study approaches this issue from three different perspectives of organization theory. First, by examining some selected chaebols qualitatively through case analyses and nearly all business groups in Korea quantitatively through statistical analyses, this study tests hypotheses raised by the three perspectives to be discussed in the next section. Second, in the course of probing the origin of Korean chaebols, the developmental processes of Japan's selected zaibatsus are also analyzed. A comparison between the chaebol and the zaibatsu is necessary not only for testing the usefulness of one of the theories, the institutional theory, but also for seeing if the typical organizations representing the two countries resemble, or differ from, each other.

III. Theoretical Discussions

All of the works concerned with the chaebol and East Asian business organizations seem to be designed to underpin one of the three theoretical approaches: adaptation, political economy, or institutional. Of the three, the political economy approach seems to have been most popular among economists, modernization or development theorists, and business scholars (e.g., Jones and Sakong, 1980; S. Kim, 1987; E. Kim, 1987; Cumings, 1984a). The adaptation approach seems to have been implicitly taken as the basis for most Korean journalistic articles and the chaebol's entrepreneurial histories (e.g., *Samsung Oseep Nyon Sa*, 1988; *Lucky Saseep Nyon Sa*, 1987). Those works tend to emphasize the chaebol founders' entrepreneurial talents and well-designed efforts to adapt to the changing environment but tend not to say much about how their political relations to the state and other institutional arrangements have affected the chaebol's growth. In a sense, it seems natural for them to take this approach since the term "political" tends to imply a kind of dirty corruption in Korea. The appearance of studies taking the institutional perspective is a quite recent phenomenon. Since institutional theory itself is a comprehensive approach, several streams of research under the banner of institutional theory bear relevance to the present study. Hamilton and Biggart (1988) argue that the authority structure of traditional Korea, formed around a very powerful central state, greatly influenced the organizational structure of the chaebol. Hattori's argument (1987) that paternalistic family structure of traditional Korea is a critical determinant of chaebols can be categorized as a slightly different stream of institutional theory. DiMaggio and Powell's institutional isomorphism (1983) is another argument that might be employed to explain the rise of chaebols. From this perspective, the chaebol structure is an end result of emulation of a successful organizational form in a similar institutional environment.

A. The Adaptation Approach

This approach incorporates two related, but somewhat different, arguments by Chandler and Williamson into one theoretical category, since they share many common points about the rise of large U.S. business organizations. They did not specifically discuss the chaebol, but the key points of their arguments could be directly applied to account for the rise of chaebols.

Chandler's argument contained in *Strategy and Structure* (1962) rests on the thesis that structure follows strategy. He maintains that an organization's growth-oriented strategy calls for a change in organizational structure and the strategy is formulated on the basis of the organization's attempts to adjust to changing market conditions generated by changing population, changing national income, and technological innovation (Chandler, 1962: 15). In other words, organizations diversify their productions in order to adjust to changing market conditions. The growth strategy, implied by the diversification of production, leads firms to use the multidivisional form (hereafter MDF) because the strategy produces structural difficulties. The successful response to these structural difficulties is organizational change, such as a shift from the unitary form to the MDF.

In *The Visible Hand* (1977), Chandler further argues that the visible hand of the managers replaced the invisible one when "administrative coordination" reduced unit costs, thereby permitting "greater productivity, lower costs, and higher profits than coordination by market mechanism" (1977:6). Hence, managerial coordination in authoritative organizations was superior to market coordination if industrial firms integrated mass production and mass distribution. The situation whereby managerial hierarchies (the visible hand) took over the market mechanism (the invisible hand) occurred in those manufacturing industries where mass production technology enabled firms to manufacture a large quantity of standardized products to national and international markets. The emergence of large industrial enterprises

that integrated mass production and mass distribution was primarily a result of technological breakthroughs, geographic scope, and economy of scale. In this sense, Chandler's logic is predicated on changing market forces. One important point in common infused in Chandler's 1962 and 1977 works is that changing market forces, driven by socioeconomic and technological developments at the national level, encouraged U.S. organizations to reshape their strategies and eventually reform their structure.

Applying Chandler's argument manifested in his 1962 and 1977 works to Korean chaebols, one would argue that the rise of chaebols is due primarily to changes in market forces that Korea's economic growth made possible. More specifically, Korean business groups pursuing growth-oriented strategies often use the chaebol form since that form coordinates subsidiary companies much more efficiently than other forms of organization because of the office established for that purpose.

Williamson (1975, 1985) also deals with the origin of multidivisional and conglomerate business organizations. His theory is related to, but much more economy-oriented than, Chandler's. His argument rests upon the concept of "market failure." He maintains that when the market fails to function efficiently, firms tend to make internal transactions, which are more efficient than transactions made through the market mechanism. Internalization of transactions can take concrete form through horizontal and vertical integration, mergers, acquisitions, and so on. Such a continuous internalization of transactions creates organization growth, which subsequently generates complexity and uncertainty. Under these circumstances organizations reshape their structure to the MDF, a more efficient form in terms of suppressing opportunism and thus lowering transaction costs.

Williamson's argument further posits that the rise of conglomerate organizations like Korean chaebols can also be explained by the market failure framework. According to him, conglomerate organizations result from capital market failure while vertical integration takes place because of intermediate market failure. To circumvent underdeveloped capital markets,

conglomerate organizations tend to establish an internal capital market by acquiring funds from some subsidiary companies and reallocating the funds to more profitable companies. By so doing, conglomerate organizations can maintain a stable capital flow and reallocate funds in order of profitability of investment. This internal capital market in conglomerate organizations carries a great significance in relation to the rise of Korean chaebols because the Korean capital market is "underdeveloped and distorted to a high degree by governmental intervention and credit rationing" (Chang and Choi, 1988, 147). Hence, the increasing involvement of Korean business groups in finance industries may characterize the tendency of conglomerate organizations to establish an internal capital market to circumvent the imperfect financial market.

As for the rise of conglomerate organizations like Korean chaebols, Williamson's position is that conglomerate organizations are an extension of the MDF logic of minimizing transaction cost and maximizing efficiency. Hence, when Korean business groups become very big and diversified as a consequence of continued internalization of transactions, the chaebol form functions better because it enables business groups to minimize transaction costs through inside transactions, less opportunism, and more efficient allocation of funds among member firms. Following Williamson's thesis, I would argue that big business groups, which could undertake more internal transactions with many diversified member firms, often use the chaebol form because it offers more efficiency by lowering transaction costs. To put it another way, the size of a business group has a direct and positive effect on use of the chaebol form.

These two theories (especially Williamson's) are fundamentally efficiency-oriented. Williamson's theory specifically deals with how efficiency is achieved through the use of MDF. According to Williamson, efficiency is accomplished because of the form's superior capability to minimize transaction costs. For Chandler, efficiency is realized through a better "administrative coordination," which the MDF is expected to provide. In this sense, the two

theorists seem to argue that the fundamental reason for organizations to use the MDF is to achieve efficiency. In other words, organizations prefer the MDF because the form is more efficient than other forms. Hence, applying their arguments to the case of Korean chaebols, I would assert that Korean business groups use the chaebol form because it is more efficient.

However, Chandler and Williamson, when their arguments are applied to the case of Korean chaebols, differ mainly in terms of the key factor that encourages business groups to change their structure. To Chandler, strategy is the critical factor, whereas Williamson maintains that large size matters most.

B. The Political Economy Approach

The political economy perspective is concerned with the interplay between "the polity structure and political life of organization and the economy and economic life within organizations" (Zald, 1970:221). Zald (1970:230) further proposes to analyze political economies as a process and interaction of four broad sectors: external political environment, external economic environment, internal polity structure and process, and internal economic structure and process. Following his proposition, it seems that two different streams of political economy have emerged. The first stream focuses on the interaction of the internal polity with the internal economic structure and process. The second emphasizes the interplay between the external political environment and the internal economic structure and process. The first perspective, which I prefer to call the "intraorganizational political economy," stresses that an organization is a composition of coalitions possessing their own interests, which are often in conflict with others (Pfeffer, 1981; Pfeffer and Salancik, 1978). The second perspective, which I call the "interorganizational political economy," has not been set down well as a coherent theory. But the key point is that the external polity structure

represented by the nation-state directly interacts with the internal economic structure.

The Intraorganizational Political Economy. The intraorganizational political economy approach sees an organization as a composition of coalitions possessing their own interests, which are often in conflict with others (Pfeffer, 1981; Pfeffer and Salancik, 1978). Since each coalition attempts to dominate other coalitions, balance of power among coalitions affects organizational decision making. From this perspective, the change of organizational structure is a result of a certain coalition's preference. If a coalition favors a particular structure because the structure is instrumental in enhancing the coalition's power bases and protecting its inherent interests, the coalition would exercise its influence for the structure to be adopted. Therefore, the adopted organizational structure would be a reflection of the internal power struggle. This approach has been one of the major causes of the spread of multidivisional form in large U.S. firms (Fligstein, 1985; Palmer et al., 1987). In particular, the study by Palmer et al. (1987) found that U.S. firms controlled by families did not like the MDF because they believed that the form, which makes firms geographically and industrially disperse, would eventually lead to the loss of control over their firms.

The dominant coalition in most Korean business groups is the founding family. Since Korean enterprises became conglomerate organizations in a relatively short period, most of the founders are still alive and their family members have, more or less, owned and managed many of the subsidiary companies. In this sense, nearly all business groups in Korea are "family businesses" and the internal power structures in Korean business groups are heavily skewed to the founding families. Therefore, whether the founding families own and manage firms has little effect on the organizational structure. Rather, the extent of family control over ownership and management could affect organizational structure. Insofar as founding families perceive that they can effectively control and coordinate subsidiary companies by way of majority stock holding and extensive participation in management, they may not realize the necessity to change organizational structure. However, if they should

fear the possible loss of control over their firms, they are expected to use the chaebol form. Loss of control is an especially serious problem for those business groups that have many publicly owned firms. In Korea, the government strongly urges firms that reach the appropriate size to offer their stock to the public. Hence, business groups comprising many firms that are supposed to go public fear the possible loss of control more seriously. Consequently, those groups are also likely to use the chaebol form more often than other business groups.

The thesis that an organizational form can be adopted not because of its efficiency but because of its instrumentality in protecting a certain group's interests has also been proposed by Perrow (1981; 1986). He argues that the growth of large U.S. firms resulted from their market power and governmental support, which has little to do with efficiency. Hence, leading U.S. firms emerged not because they became efficient through better coordination or effective saving of transaction costs, but because they could control market, labor, and government, and were backed by powerful financial interests. His argument seems to be centering on the thesis that capitalists accumulate their fortunes through market domination. Following his logic, the rise of chaebols has little to do with the efficiency that the chaebol form is expected to generate. Rather the chaebol form has been widely used among political capitalists because of its instrumentality in serving privileged-class interests.

Applying the key points of the intraorganizational political economy approach to the Korean chaebol, I would argue that the *raison d'etre* of the chaebol is to protect the interests of a certain privileged coalition or class, that is, the founding family.

The Interorganizational Political Economy. The interorganizational political economy perspective seems to have been taken by most economists, modernization or development theorists, and business scholars (e.g., Cumings, 1984a; Jones and Sakong, 1980; E. Kim, 1987; S. Kim, 1987). As to the rise of business conglomerates in East Asia, Cumings (1984a) notes the existence of a bureaucratic-authoritarian industrializing regime (BAIR) in

that region. In Korea, the state helped huge business groups rise by providing preferential treatment to them since their emergence was conducive to implementing the BAIR's objective of rapid economic development. He even says that Korean business groups were created by the authoritarian state of Korea. Koo (1984) also notes the role of the authoritarian state as a creator of chaebols. Kim (1976) emphasizes the role of political connections in the course of the formation of Korean chaebols and even calls chaebols "the political capitalist."

The interorganizational political economy approach has not been formulated well into a coherent framework. However, if we consider that the key variable is the external polity stemming from the central state, a theory centering on the critical role of the state can be developed. The interaction of polity with economy starts from the state. In Korea there has always been an omnipotent state. There has also been a handful of opportunistic capitalists who accumulated wealth through their entrepreneurial activities. Under these circumstances, the necessity for collusion arises between the state and the elite capitalists because the state needs cooperation from the private sector for rapid economic development and the capitalists seek opportunities to expand their businesses. Collusion takes the form of letting the capitalists participate in "strategic" industries earmarked by the state. To those capitalists who succeed in grasping opportunities to diversify to strategic industries, a considerable amount of governmental support and protection has been provided. A typical form of support and protection is a monopolized participation in those industries, whereby the elite capitalists can amass more fortune and subsequently diversify to related and unrelated industries by utilizing the fortunes accumulated through profits from strategic industries. Alternatively speaking, the authoritarian state would favor large and highly concentrated business groups because they can control labor, and the authoritarian state finds it much easier to deal with a few elite capitalists. This pattern is well established throughout the developing world. The key point here is that collusion between a handful of elite capitalists and the authoritarian

state gave rise to Korean chaebols.

Both the adaptation approach and the political economy approach seem to presuppose that elite capitalists are very opportunistic, thus continually seeking growth opportunities for more profits. However, the political economy approach posits that those opportunities can be taken through political connections, not through adaptation to changing market conditions. This is the very difference between the two approaches. According to Chandler's argument, growth strategies are set forth in view of market conditions. In contrast, the inter-organizational political economy approach posits that business strategies stem from the government's industrial policies. Therefore, one of the key aspects of the political economy approach is the interplay between the government's industrial policies and the organization's adaptation to those policies. In this sense, the government's industrial policies provide grounds where elite capitalists can devise and also revise their strategies.

C. The Institutional Approach

Organizational structure is not always affected primarily by market conditions or political connections. Institutional pressures can also be influential. Organizational structures reflect general social factors at the time of organizational founding (Stinchcombe, 1965). Those structures tend to remain stable over time, even when social conditions present at the time of founding are no longer present, because the structures become institutionalized over time. But, no matter how well those structures may be institutionalized, organizations keep confronting environmental uncertainties. Since organizations have held on to those structures for a considerable time, it may be hard for them to figure out other structures that can cope with environmental uncertainties. The institutionalists' argument is that when organizations face those uncertainties, they tend to adopt structures that have already been

institutionalized in a certain environment.

Hamilton and Biggart (1988) note the role of the preexisting institutionalized political structure in shaping organizational structure. They argue that Korea's preexisting political structure was based on the model of the strong state. Under this structure, there was a powerful central ruler (usually a king) and bureaucratic administration controlled by regional aristocrats. Independent, intermediate power, as was exhibited in Japan, did not exist. They claim that organizational representation of the traditional political structure is the current form of a chaebol: the centralized business empire controlled by an individual or a group of individuals.

Hattori (1987) argues that the institutional structure that affected the rise of Korean chaebols would be the traditional family structure of Korea. The family controlled chaebol under one strong leader is a representation of the traditional family structure in which a family head dictates virtually every aspect of family affairs and all family members are strongly tied to each other through blood relationship.

DiMaggio and Powell's (1983) theory of institutional isomorphism provides an institutional prescription for organizations facing environmental uncertainties. They assert that three kinds of institutional pressure are likely to make organizations in a similar institutional environment homogenous over time. The first is coercive isomorphism, which results from the organization's conformity with institutional pressures in order to obtain support or approval of other organizations, including the state. Second, there is mimetic isomorphism. Organizations facing environmental uncertainty tend to imitate other successful organizations. Normative isomorphism is the last mechanism, which tends to be produced primarily by the professionalization of managers. Professionals seek to impose their own normative standards on the organizations in which they operate. This theory seems to view the rise or change of organizational structure as an organization's attempt to align itself with institutional requirements. By incorporating institutional rules and requirements into their organizational

structure, organizations can cope with their problems and subsequently gain legitimacy and enhance survival capacity. The key point of their argument is that organizations confronting environmental uncertainties change their structures by modeling themselves on the most popular and successful structures of other organizations.

As for the rise of Korean chaebols, DiMaggio and Powell's argument seems to be useful. First, their argument can be applied to claim that the chaebol is a copy of Japan's family-dominated zaibatsu. This view, shared by Cumings (1984a) and Park (1987), seems legitimate, since Korea was a colony of Japan for thirty-five years. During this period, the zaibatsu was a prevailing form of organization and a dominant force of industrial development in Japan. During the uncertainty surrounding Korea's abrupt independence in 1945, the proven form of successful organization was, to Korean business elites, the zaibatsu-like organization. This view seems to be applying the mimetic isomorphism through the so-called colonial legacy to the rise and development of Korean chaebols. Second, their argument can also account for the proliferation of chaebols in the 1970s and even in the 1980s. According to this view, business groups that accumulated wealth in the 1960s and 1970s changed their organizational structures in the 1970s (and even in the 1980s) because the chaebol, which first appeared in the late 1950s, was by then widely recognized as the most successful and widely accepted form of organization.

IV. Methodological Issues and Data

A. Research Method and Analyses

As comprehensive case studies of selected chaebols are undertaken in this study, the primary method of research is historical. One of the important strategies of historical sociology is to develop "an adequate explanation for a well-defined outcome or pattern in history" (Skocpol, 1984:374). Therefore, historical methods seem to have relevance to this study in the sense that the rise of Korean chaebols has resulted in a distinguished, historical pattern or outcome.

Case studies are usually designed for more detailed and deeper analysis of a phenomenon of interest. As pointed out by Smelser (1976:199), case studies could, however, have serious difficulties in explaining causal relationships between variables. Case studies also create problems by making generalizations based on findings induced from a few cases or even a single case. To reduce the limitations of historically analyzed case studies, statistical analyses using cross-sectional data from 143 Korean business groups as of the end of 1988 is undertaken. Those analyses are designed to help test the hypotheses developed by the three approaches and to complement a qualitative method of case studies.

B. Data

Korean data were collected primarily from archival research and company directories. For case studies, the top four chaebols (Samsung, Hyundai, Lucky-Goldstar, and Daewoo) were selected. The business history of those four chaebols seems to be the most important source. Samsung published its comprehensive history, *Samsung Oseep Nyon Sa* (The Fifty Year History of Samsung), in 1988. This book covers very comprehensive entrepreneurial histories of the Samsung chaebol as a whole, as well as its founding firms, and provides detailed data about its developmental process and corporate strategies. *Lucky Co. Ltd.*, the founding firm of Lucky-Goldstar, published its own history, *Lucky Saseep Nyon Sa* (The

Forty Year History of Lucky) in 1987. *Hyundai Engineering and Construction Co. Ltd.*, the founding firm of the Hyundai chaebol, published its history, *Hyundai Konsol Samseep-O Nyon Sa* (The 35 Year History of Hyundai Engineering and Construction Co. Ltd.) in 1982. Although the two books cover histories of two single firms respectively, they entail invaluable information about the entrepreneurial histories of the two chaebols. However, those publications may lack objectivity in delineating their own business histories. For instance, they tend to emphasize the founder's adaptive efforts to adjust to the changing world and attribute all business success to their entrepreneurial talents, not to political or institutional connections or support.

To have a fair picture of each chaebol, we need studies by outsiders. At the level of the population of chaebol, E. Kim's (1987) and S. Kim's (1987) studies provide some very useful data and good interpretation about the interaction between the state and the chaebol sector. At the level of each chaebol, excellent case studies done by Jung (1987), Harvard Business School (1985a, 1985b, 1986a, 1986b), and Jones and Sakong (1980) are major sources of research and data for this purpose.

As for family histories and behind-the-scenes histories of each group's development, the following books are of particular interest: *Chaebol Eesip Osee* (25 Hours of *Chaebol*) (*Chosun Ilbo Kyungje Bu*, 1982), *Pung Woon* (The Behind-the-Scenes Stories of Korea's Rapid Economic Development) (*Dongkwang Chulpansa Pyunjeep Bu*, 1986), *Jaekye Beehwa* (The Behind-the-Scenes Stories of Korean Business Circle) (Bae, 1983), and *Sumun Kobudul* (The Wealthy Men) (*Jungang Ilbosa Kyungje Munje Yonkuso*, 1987). In addition, *Hankuk-y Oseep Dae Chaebol* (The Fifty Largest Chaebols in Korea) (*Hankuk Ilbo*, 1985) is another source of data. Although some definitional problems have been noticed, this book is valuable since it deals with a larger sample, the fifty largest business groups.

A major source of data for statistical analyses for Chapter 4 is *Hoisa Yonkam* (Corporation Directory), published in 1989 by *Mae-Il Kyungje Shinmunsa* (Maeil Daily

Economic News Co., Ltd.). This voluminous directory has identified nearly all business groups (143 business groups) in Korea as of the end of 1988 by grouping identifiable companies under a unified command. Following the qualifications explained later in this study, those groups will be categorized as to whether each is a chaebol or not. In addition, Jung (1987) has also identified the 108 largest business groups in Korea as of 1984. His list of business groups as of 1985 will be used primarily to complement the data collected from *Hoisa Yonkam*.

A comparative study is also undertaken in Chapter 5 to see if the zaibatsu is similar or dissimilar to the chaebol in terms of the extent of family control over ownership and management, the size of business operations, and the extent of diversity. As for Korean data, *Hoisa Yonkam* (1985 and 1989) is also the primary source. To supplement data collected from *Hoisa Yonkam*, Hattori's data are employed, which have been published in *Azia Keizai* (1984) in Japanese. His data comprise sufficient information about the founding family's ownership control over firms listed in the Korean Stock Exchange in 1981 and 1982.

A primary source of Japanese data is *Nihon Zaibatsu to Sono Kaitai* (Japan's Zaibatsu and Their Dissolution), published in 1950 by the Holding Company Liquidation Commission (HCLC), and *Antitrust in Japan* (1970) by Eleanor M. Hadley. These two books are especially useful for analyses at the level of the population of zaibatsus. In particular, HCLC's book is the most comprehensive collection of data about the prewar zaibatsu. That book entails nearly all data except for the sales figures of the top ten zaibatsus at the end of the war in 1945.

There are many studies about each zaibatsu, especially for the Big Three (Mitsui, Mitsubishi, and Sumitomo), written either in Japanese or in English by Japanese scholars. For instance, Yasuoka (1982) has written about Mitsui, Mishima (1981) about Mitsubishi, and Sakudo (1981) about Sumitomo in Japanese. Some of the in-depth studies about specific zaibatsu are also available in English. Gerlach's excellent study (1987) about Sumitomo is

an example. Yamamura (1967) has written about Mitsubishi. Also some studies in the following books deal with zaibatsus: *Development of Managerial Enterprise* (1986), edited by Kobayashi and Morikawa; *Family Business in the Era of Industrial Development* (1981), edited by Yasuoka and Okochi, and *Strategy and Structure of Big Business*, edited by Nakagawa (1974).

V. Overview

This study consists of (1) case studies of the top four chaebols, (2) statistical analyses employing the sample of 143 business groups in Korea as of 1988, (3) a comparative study of the chaebol and the zaibatsu, and (4) the assessment of theories on the basis of the previous analyses .

In Chapters 2 and 3, detailed case analyses of the top four chaebols are undertaken. In order to assess the usefulness of each of the theories accounting for the rise of chaebols, each chaebol's entrepreneurial history will be analyzed. In those analyses, attention will be given to the interactions of market conditions and government's industrial policies with corporate strategies, and to how those four chaebols resemble, or differ from, each other in terms of their developmental stages. Also any special points of interest, either political or economical, will be discussed insofar as they turn out important for the rise of each chaebol.

The procedures and the results of statistical analyses using logistic and OLS regressions are presented in Chapter 4. The operationalization of key points of each theory into variables, which are hypothesized to be able to account for the rise of chaebols, would help identify essential determinants that could differentiate chaebol business groups from non-chaebol business groups. This analysis enables us to better understand which theories are more capable of describing the rise of chaebols.

Chapter 5 compares the chaebol and the zaibatsu. A comparison between the chaebol and the zaibatsu is necessary to assess the argument, predicated on the "colonial legacy," that the existence of Japan's zaibatsu has a bearing on the rise of the chaebol. Attempts will be made to compare the extent of family control over ownership and participation in management of the chaebol and the zaibatsu, the extent of diversity in terms of the number of industries that chaebols are, and zaibatsus were, engaged in, and the size of each chaebol and zaibatsu. By so doing, the comparative analysis will serve the purpose of probing the origin of Korean chaebols. Besides, a comparative study of organizations developed under two different cultures can have considerable descriptive value in explaining the similarity and difference of the two forms of organization.

In Chapter 6, overall concluding remarks are presented. First, the major findings of this study are summarized. Second, I would seek to evaluate the overall usefulness of each theory that is assessed through case studies and statistical analyses. Then I discuss theoretical implications, raised through this study, for the Western theories of organization.

Table 1.1

GNP Growth Rates of Korea

Year	1962-66	1967-71	1972-76	1977-81	1982	1983	1984	1985	1986
%	8.3	11.4	11.2	5.6	5.6	9.5	7.5	5.1	12.1

Source: Economic White Paper (Economic Planning Board, 1967,1972,1977 1982) and S. Kim (1987:241)

Table 1.2

Indicators of Business Concentration (Aggregate Value Added of the Top Ten Business Groups as Percent of GNP)

Year	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84
Top 4	3.2	3.6	4.3	6.7	6.6	6.8	8.3	8.7	8.8	9.0	10.2
Top 10	4.7	6.3	6.8	9.3	9.4	9.7	13.3	13.8	14.1	14.5	16.1

Source: S. Kim (1987:2)

Table 1.3

Combined Sales of the Top Four and the Top Ten Business Groups as Percent of GNP (1974-1985)*

	'74	'75	'76	'77	'78	'79	'80	'81	'82	'83	'84	'85
Top 4	10.3	11.4	12.9	18.2	20.7	22.1	30.1	35.2	35.6	38.7	44.3	58.0
Top 10	15.1	17.1	19.8	26.0	30.1	32.8	48.1	55.7	57.6	62.4	67.4	79.9

* (Aggregate net sales of the top 10 groups/GNP) x 100.
Source: S. Kim (1987:2)

CHAPTER TWO

THE RISE OF BIG CHAEBOLS UNDER THE RHEE REGIME OF KOREA

This chapter and the following chapter undertake in-depth case analyses of the top four chaebols: Samsung, Hyundai, Lucky-Goldstar, and Daewoo. Each case study covers the chaebol's business history up to the point when each business group underwent organizational change to adopt the chaebol form of organization. As of the end of 1988, Samsung was the largest chaebol in terms of sales, profits, exports, and employees (see Table 2.1). Of the four, Samsung is also the oldest chaebol. It has used the chaebol form since the late 1950s. Lucky-Goldstar adopted the chaebol form in the late 1960s. Hyundai and Daewoo followed Samsung and Lucky-Goldstar in the 1970s.

In the next section, Korea's historical background since the opening of the ports in 1876 is briefly reviewed. The understanding of the historical background is quite necessary in the sense that the business history of the four chaebols, with the exception of Daewoo, began in the colonial era (1910-1945).

I. Historical Background of Korea before the Rhee Regime

Korea was known as the "hermit kingdom" to Westerners when it closed its doors to foreign powers under the umbrella of China for several decades in the nineteenth century. However, it could no longer afford to adhere to the seclusion policy toward the outside world after China's political and military power severely dwindled. Korea opened its ports to the outside world by signing a commercial treaty with Japan in 1876. The treaty was followed by similar treaties with such Western powers as Britain, France, Germany, the United States,

and Russia in the late nineteenth century. For about two decades Japan, China, and Russia struggled for political and economic dominance over Korea, which was annexed into the Japanese Empire in 1910 and experienced thirty-five years of colonial occupation (1910-1945). The Japanese colonial occupation was followed by the American Military Government (1945-1948), the Syngman Rhee regime (1948-1960), the Korean War (1950-1953), the Myon Chang regime (1960-1961), the Chung Hee Park regime (1961-1979), the Doo Hwan Chun regime (1980-1988), and the Taewoo Roh regime (1988-present).

A. The Japanese Colonial Occupation (1910-1945)

The opening of its seaports in 1876 has been recorded as the start of Korea's modern history. The official opening of its door to foreign countries had great significance on the Korean economy since Korea, with the exception of some mercantile activities, had very few industrial establishments. Thus, the opening allowed the world powers' economic and industrial interests to freely flow into the underdeveloped Korea. In 1910, when Korea was annexed by the Japanese Empire, major Western industrial powers were already operating in Korea. For instance, Russians were engaged in mining and lumbering; Americans in mining, power station construction, and railway construction; and British, German, and French had interests in mining and railway construction. Of course, Japan had the largest interests. In 1908, seventy-nine Japanese firms were engaged in manufacturing in Korea with an average employment of forty-one workers, whereas the total number of incorporated firms owned by Koreans was only six, employing only ninety-two people altogether (Jones and Sakong, 1980:19).

The thirty-five year colonial period (1910-1945) has been classified as a period of *classic dependence*, implying a relationship in which a weaker peripheral state exports primary raw

materials in exchange for manufactured goods (E. Kim, 1987; Lim, 1982). During the colonial period, Korea was a supplier of rice and other raw materials for Japan, which in turn exported manufactured goods to Korea. From 1910 to 1945, the annual growth rate in agriculture (including forestry and fishery) and manufacturing (including mining) was 3.8 percent (Mason, Kim, Perkins, Kim, and Cole, 1980:76)[1]. Although this growth rate of nearly 4 percent does not look impressive from the present standpoint, Korea was, however, considered to be one of the fast-growing economies at the time (Mason et al., 1980:76), as other economies did not record higher growth rates. Despite the relatively high growth rate, the Korean people were not the actual beneficiaries of this economic growth because the Korean economy was merely part of the Japanese economy and the Japanese exploited Korea's economic growth to serve the economic needs of Japan, not those of Korea. In other words, the colonial economy had developed not according to its comparative advantages but rather to meet Japan's needs, and Korea's industrialization was designed to support and complement Japan's industrial growth (Ho, 1984; Kim and Roemer, 1979; Mason et al., 1980; Suh, 1978). In the course of Korea's economic growth, the role of Japanese zaibatsus was crucial because these organizations possessed technical know-how and investment funds that the colonial government lacked (Cumings, 1984a; Ho, 1984; E.Kim, 1987; Lim, 1982). In 1938, Mitsubishi's four subsidiary companies accounted for 54.3 percent of the total Japanese capital in Korea, and Mitsui's seven subsidiaries accounted for 14.6 percent (Ahn, 1971: 309-310). Such extensive participation by Japan's zaibatsus in Korea's industrialization indicates that the organizational form of zaibatsu was well known to Koreans. This has an interesting implication for the purpose of this study.

In the colonial period, Koreans' entrepreneurial activities were hindered by the colonial government's industrial policy, which was designed to keep economic power out of the hands of native entrepreneurs and to attract Japanese businesses, especially zaibatsus. The

[1]Mason et al. computed this figure using the data given in Suh (1978: 157-171).

colonial government successfully carried out the policy of keeping Korean entrepreneurs from major commercial and industrial projects by using its licensing and regulatory power in the industrial sector. As a result, the Japanese owned and managed nearly all modern industrial enterprises. Industrial growth in the colonial period was largely accounted for by the large establishments dominated by the Japanese (Ho, 1984: 356; Kim and Roemer, 1979:13-18; Mason et al., 1980:76). Hence, the Korean economy in this period exhibited a dualistic nature. On one hand, there were large, modern, heavily capitalized enterprises, which were owned and managed by Japanese and produced goods to be directed to Japan. On the other hand, there were a number of very small traditional establishments, most of which were managed by Koreans and produced goods for Koreans (Ho, 1984: 356).

The colonial government fostered agriculture and light industries in the south and heavy industries in the north, which also had a lasting impact on the Korean economy (Kim and Roemer, 1979; Lee, 1984; Lim, 1982; Suh, 1978). The war-related industrialization in the 1930s precipitated structural imbalance because the pace of modernizing the agricultural sector in the south was very slow, whereas the industrial sector in the north was rapidly developed. This regional dualism greatly hampered each economy's progress after the division of Korea was perpetuated.

Although three of the four chaebols started their first businesses in the colonial period, none of them accumulated a considerable amount of wealth that could have been converted to industrial capital in the independent Korea. Hence, it would be reasonable to regard the colonial period as an era during which modern economic and business systems were introduced to Korea and thus opportunities were provided for many Koreans to start their entrepreneurial careers.

B. The American Military Government (1945-1948)

Japan's unconditional surrender in August 15, 1945, freed Korea from the Japanese colonial occupation. However, Korea was partitioned along the 38th parallel when the United States and Russia agreed to divide the Korean peninsula in Yalta on February 8, 1945. According to the agreement, Russian armies marched in the north while U.S. forces occupied the south. Hence, until Korea became strong enough to become an independent country, the northern part of Korea would be ruled by Russia and the southern part by the United States.

The American Military Government (AMG) set the primary objective of its occupation as decolonization and relief, since it implicitly assumed that the two Koreas would be eventually united (Lim, 1982:69). It pursued the short-term objective of political democratization and economic rehabilitation rather than long-term reform. Under the AMG, chaos prevailed in the south of Korea. The abrupt liberation created a battleground among unorganized political factions, and the sudden departure of the Japanese, who had managed most of the industrial facilities, crippled the Korean economy. In 1944, 80 percent of technical positions in manufacturing firms were occupied by Japanese technicians (Hwang, 1982: 253; Shin, 1984:70). Consequently, domestic production was severely affected by such an abrupt change. Manufacturing output from South Korea in 1948 was only 15 percent of the 1937 level (Kim and Roemer, 1979:27), and the country's domestic consumption largely relied on inflows of relief aid from the United States. Under such circumstances, an immediate entrepreneurial response was import trading. Import trading was very prosperous and very profitable in the late 1940s and throughout the 1950s, and many business groups (e.g. Samsung) made their fortunes through import trading during this period.

C. The Rhee Regime (1948-1960) and the Korean War (1950-1953)

In August 1948, the Republic of Korea was formally established in the south and Syngman Rhee was elected as president. However, the regime inherited a nation economically dismantled and politically disorganized. As the new government was not strong enough to restrain continued social and political unrest, its establishment did not help improve overall economic situations and real national income kept declining until the conclusion of the Korean War in 1953 (S.Kim, 1987:45). Such poor economic conditions were primarily attributable to continued social and political disorganization and the new government's lack of attention to economic affairs. Even economic concerns, which were taken lightly compared to political concerns, were not focused on long-term economic development but on the short-term objective of rebuilding Korea as an independent economy. The Korean government's short-term orientation toward economic affairs, however, seems to have been an inevitable choice in the face of insurmountable difficulty. Bureaucrats did not have sufficient administrative experience to work out and implement the long-term economic development plans. The private sector lacked managerial and technical manpower to run the industrial establishments formerly managed by the Japanese. Furthermore, structural imbalance between the north and the south, which resulted from the colonial industrialization policy, further hampered the progress of the South Korean economy because the major industrial infrastructure, especially electric power plants and metal mines, was in the north.

Korea's modern economic development has been repeatedly interrupted by unexpected social and political events. The Korean War, which began on June 25, 1950, was one of the main events that severely damaged the Korean economy. Besides the astronomical amount of physical damage to industrial facilities, the war drastically changed the world of business. Wars, like political revolutions, typically reshuffle the political and economic order established

prior to the war and provide wide open opportunities to newcomers by wiping out vested interests (Aldrich, 1979; Carroll, Delacroix, and Goodstein, 1988). The Korean War was no exception. It provided a unique opportunity for new business to start by making the whole nation relatively equal (albeit quite poor) and wiping out most of the previously privileged local elites like landlords. Those businesses that capitalized on the lack of government control over markets and thus profited from the unstable economy were able to accumulate enough wealth to start new businesses after the war. Some of the current top business groups (e.g. Samsung, Lucky-Goldstar, and Hyundai) accumulated considerable wealth during and after the war, taking advantage of the unstable economic situation at that time.

After the war, the unification of the nation became the Rhee government's primary goal. To pursue this goal, it set out such specific objectives as reconstruction, national defense from the Communists' aggression, and maintenance of minimum consumption through maximization of foreign aid (Cole and Lyman, 1971:167). In order to reconstruct the nation's economy, the government adopted the strategy of import-substitution industrialization, especially in light industries that manufactured everyday necessities like food and textiles. In the 1950s, some commercial capitalists who made their fortunes through import trading transformed themselves into industrial capitalists in the import-substitution industries and eventually became prominent chaebols. Samsung is the best example. However, some commercial capitalists who did not become industrial capitalists faded away from the business arena.

Although some of the funds necessary for import-substitution industrialization were mobilized from domestic sources, the main source of funds was foreign aid, primarily from the United States and the United Nations (U.N.). Korea's dependence on foreign aid is revealed by the fact that more than 70 percent of imports were financed by foreign aid in this period (Kim and Roemer, 1979:42). Throughout the 1950s, these funds were the bloodline of the Korean economy. As most of the industrial and manufacturing facilities were

destroyed in the war, the supply of everyday necessities, raw materials, manufacturing equipment, and so on was heavily dependent on foreign aid and imports. Hence, a firm's business success or failure in import trading and in import-substitution industrialization was contingent on the firm's ability to acquire necessary foreign exchange (primarily U.S. dollars). Decisions regarding allocations of foreign exchange were made by either the Korean government or foreign aid agencies in Korea. It is widely known that a firm's political connections with high-ranking government officials and influential politicians played a critical role in the decision-making process.

Many problems, however, hindered the post-war economic growth under the Rhee regime. As discussed earlier, bureaucrats lacked the managerial and executive expertise necessary to plan and implement long-term economic development plans. Furthermore, widespread corruption within the Rhee government seriously hampered efficient implementation of its major short-term policy of import-substitution industrialization. As a result, little economic growth was accomplished despite the commitment to the reconstruction of the national economy. Since the regime, plagued with many difficulties, did not accomplish its initial goal of making Korea politically and economically independent, it faced the Korean people's disdain. In April 1960, the Rhee regime was overthrown by the people's revolt led by students.

II. Samsung: the Chaebol of the 1950s

As of 1988, Samsung was the largest chaebol, with forty-five member companies in nineteen industries and more than 120,000 employees (see Tables 2.1 and 2.2). Samsung is also the oldest chaebol, since it started to use the chaebol form in the late 1950s. As of 1959, it had thirteen companies in eight industries and about 1,800 employees (see Table

2.3 and 2.4). It also had an office that was established to control and coordinate those member firms in 1959. Although it is not possible to comparatively examine Samsung's relative position in the Korean business community in the 1950s due primarily to the lack of financial data of other business groups, no one doubts that Samsung was the largest in the 1950s.

Business History of Samsung. Lee, the founder of Samsung, was born in 1910, the year Japan annexed Korea, in southeast Korea. He was the second and youngest son of a wealthy landlord. At an early age he attended a *sodang*, the traditional Confucian school of Korea, where Chinese literature and philosophy was taught. At the age of ten, his parents sent him to Seoul, since he wanted to go to a modern school. He first went to an elementary school, and then a high school in Seoul. Without graduating from the high school, he went to Japan in 1930 and studied political science and economics at *Waseda* University in Tokyo. However, his poor health prevented him from further pursuing his academic career and he dropped out of the university after a couple of semesters.

Lee started his business in 1936 during the colonial period by establishing a rice mill in Masan, a southern seaport, with money from his parents. He did very well in his first business. By 1945, the year the nation was liberated, his businesses had expanded to include trucking, real estate, domestic trading, milling, noodle making, and brewing (Jones and Sakong, 1980:352; *Samsung Beesoseel*, 1988:82-88). In 1947, two years after the nation's liberation, Lee moved to Seoul. At the time, everyday necessities were in demand because of the rapid decline in domestic production. In order to take advantage of this opportunity, he established *Samsung Mulsan Gongsa* in Seoul in 1948 to start an import trading business, using funds accumulated primarily from his brewery profits. The company prospered and by 1950, the year the Korean War broke out, the import trading volume of the company ranked seventh among 543 international trading companies (*Samsung Beesoseel*, 1987:97).

At the outbreak of the Korean war, Lee moved to Pusan, the provisional capital. *Samsung Mulsan Gongsa* was reincorporated as *Samsung Mulsan Jusik Hoisa*, an international trading company, in January 1951. Under the war economy, import trading, the main business of this company, was very profitable. Lee made a fortune, especially through the importation of medical supplies like antibiotics (Lim, 1978:86-87).

In the early 1950s, Samsung paved the way for the creation of the largest chaebol of the 1950s. In 1953, Samsung established a sugar refining company, *Cheil Sugar Co.*, in Pusan. Samsung's emergence as the largest chaebol in the 1950s was due primarily to the establishment of this sugar refining company. As for Samsung's primary motive in building a sugar refining plant, there are two different explanations. One of the explanations emphasizes Lee's entrepreneurial foresight for prospective profit opportunities and Samsung's adaptation to changing economic environments (*Samsung Beesoseel*, 1988:113-118). According to this explanation, Lee anticipated that if the economy returned to normalcy after the upcoming armistice, import trading would no longer be a very profitable business because of excessive competition and expected restructuring of the Korean economy after the war. Therefore, to better adapt to changing environments, Samsung should, he thought, become an industrial capitalist with manufacturing facilities, rather than a commercial capitalist like an import trader. So he decided to build a sugar refining plant.

Another explanation, however, focuses on the change of government policy and Samsung's retroactive adaptation to the change (S. Kim, 1987:71-72). Under the war economy, the Korean government started to implement its policy of import-substitution industrialization. To direct private investment activities to import-substitution industries, the government changed its policy. According to the new policy, the priority to import raw materials and obtain foreign exchange (U.S. dollars) would be given to manufacturers who would use imported materials for manufacturing purposes. The decision to foster import-substituting manufacturing industries rather than import trading was a fundamental change in

the government's industrial policy. Under these circumstances, Samsung, the largest import trader at the time, built plants in import-substitution industries in order not to lose its position as a dominant import trader.

Perhaps both stories tell part of the truth. However, another account seems to lend credibility to the thesis emphasizing Samsung's adaptation to the change in government policy. Before Samsung worked out the plan to build a sugar refining plant, the necessity for sugar refining plants had already surfaced in the "Taska Report" (which was prepared by Mr. Taska and his mission from the U.S. government) regarding the reconstruction of the Korean economy. *Samyangsa*, another prominent Korean company at the time, had already submitted an application to build a sugar refining plant ahead of Samsung. Hence, Lee apparently was not the pioneer who hammered out the idea of building the sugar refining plant. Ironically enough, *Samyangsa*'s application was approved two years after Samsung's operation of the sugar refining plant began in 1953 (Lim, 1978: 119). Lim did not specify why *Samyangsa*'s application was approved later. Perhaps the behind-the-scenes history may provide a clue. At the time, *Samyangsa* was not on good terms with the Rhee government since it was the major financial supporter of a leading opposition party. In contrast, Samsung was one of the pro-Rhee firms and was backed by some key government officials and politicians of the ruling party (*Chosun Ilbo Kyungje Bu*, 1983:35). Therefore, *Samyangsa*'s unfriendly relationship with government officials seems to be the key to understanding why Samsung obtained the investment approval ahead of *Samyangsa*.

Discussions thus far seem to indicate that the Korean business community had already realized the necessity and profitability of a sugar refining business and that the project of building a sugar refining firm was not propelled by Lee's entrepreneurial foresight. Rather, because the government's investment approval was of utmost importance in establishing the plant, it is more likely that Samsung adapted itself to the shift in the government's industrial policy through its political connection.

Samsung borrowed the domestic capital necessary to build the sugar refining plant from a bank. The Korean government allocated US$ 180,000 to Samsung so that it could import manufacturing facilities (*Samsung Beesoseel*, 1988:120). By establishing the plant, Samsung exploited the high-profit opportunity provided by its natural monopolistic position as the first and only sugar refining plant and government protection for import-substitution industries. It continued to profit from the monopolization of raw sugar imports until the second sugar company appeared years later.

With a huge amount of funds at hand accumulated from the sugar profits, Samsung established *Cheil Wool Textile Co.* in 1954 as the first wool textile company in Korea. Upon deciding to expand into the wool textile market, Lee considered the government's industrial policy and the potential of the industry. At the time, the textile industry was also one of the target industries for import substitution. Of several subbranches of the textile industry, cotton was the most promising business in terms of technological requirements and stable demands in the short run, but its market was overcrowded (*Samsung Beesoseel*, 1988:131). Although the wool textile industry required more advanced technology and more capital than cotton, its market was well protected from foreign and domestic competition and therefore had more growth potential in the long run. Samsung's decision to enter the wool textile business turned out to be very wise. *Cheil Wool Textile Co.* prospered thanks to its monopolistic position as the first company in the industry and became the backbone of Samsung, together with the sugar refining company, in the 1950s and later.

Another issue bearing great significance for the purpose of this study is Samsung's acquisition of bank stock owned by the Korean government. In the colonial era, nearly all commercial banks were owned by the Japanese. After the Japanese left, all of the shares of those commercial banks formerly owned by the Japanese were taken over by the Korean government. In 1954, the Rhee government enacted the Commercial Bank Act and decided to sell the government's share of bank stock through auctions. The primary motive behind

the decision was known to be a desire to establish a financial support base for the regime by creating a modern *konzern*[2] centering around a commercial bank *(Chosun Ilbosa Kyungje Bu*, 1983:34; S. Kim, 1987:69; Lim, 1978: 117). By selling the government shares to a few selected business groups that were very loyal to the Rhee regime, the regime intended to help those groups become chaebols, which in turn would become major contributors of political funds. In the auctions, Samsung was able to acquire a majority of *Heung-Op Bank's stock* (the predecessor of the present *Hanil Bank*) in 1957. In 1958 and 1959, it became the majority stockholder of *Commercial Bank of Korea* and *Cho-Hung Bank*, respectively. As a result, three of the four major commercial banks were under the control of Samsung. It was a well-known fact at that time that auction processes were heavily influenced by political interests and Samsung's bidding prices were not the highest (*Chosun Ilbosa Kyungje Bu*:1983:34; Lim, 1978: 120-121; S. Kim, 1987:69). Samsung's acquisition of the government-owned banks is a clear example of the collusion between the political elite and capitalists.

Another important point of this case is that the Korean government attempted to create a modern conglomerate that centered around a commercial bank. Although there is no hard evidence that the government used the Japanese zaibatsu as a model of the conglomerate when working out the plan to sell its stock to Samsung, circumstantial evidence seems to imply that the zaibatsu was the most likely model. First, Korean bureaucrats at the time were well aware of the zaibatsu since most of them had worked for the Japanese colonial government in the colonial era (Lim, 1985). Second, the major zaibatsus appear to have been the only conglomerate organizations that were formed around commercial banks. For instance, each of the Big Four (Mitsui, Mitsubishi, Sumitomo, and Yasuda) had its own large commercial bank. However, it is too premature to conclude that the government and

[2]*Konzern* is a German term. In Korea and Japan, this term has been used as an equivalent to the chaebol or the zaibatsu. *Konzern* structure is characterized by an incorporated holding company at the top and many subsidiary companies under the direct control of the holding company.

Samsung attempted to emulate the prewar zaibatsu, mainly because of the lack of hard evidence.

By utilizing funds available from the profitable sugar and wool textile firms and the newly acquired banks, Samsung started to acquire many firms in the late 1950s. It established two more international trading firms in 1957 and 1958, respectively, to receive more allocations of foreign exchange and acquired three manufacturing firms of tires, fertilizer, and wearing apparel in 1958. In addition to three commercial banks, Samsung acquired a securities brokerage firm in 1957 and an insurance firm in 1958 (see Table 2.3). As a result of its aggressive expansion, Samsung became a well-diversified business group in three core sectors: trading, manufacturing, and banking and insurance. In 1959, Samsung became a business group owning thirteen companies in eight industries with about 1,800 employees (see Tables 2.3 and 2.4).

All subsidiary companies were under the tight control of Lee and his family, as stock in Samsung's subsidiary companies was not offered to the public. Lee occupied the top post of all of the subsidiary companies with the exception of the banks.

In 1959, Samsung established the *Office of the Executive Staffs for the Chairman*. The office was established to assist the founder and chairman and to coordinate and control the joint projects to be undertaken at the group level since Samsung's member companies increased and expanded to diverse businesses (*Samsung Beesoseel*, 1988:147). By establishing this office, Samsung's completed its structural change and the first chaebol of Korea had emerged.

III. Discussion

An examination of Samsung's business history thus far seems to reveal that the inter-organizational political economy is a better theory to account for the rise of Samsung as the first chaebol in the 1950s. Samsung's expansion to sugar refining and the wool textile business indicates that Samsung adapted to the government's industrial policies in the sense that those two businesses were the core of the import-substitution industries. Furthermore, Samsung's acquisition of bank stock previously owned by the Korean government clearly indicates the collusion between the political elite and Samsung. Hence, it seems that the rise of Samsung as a dominant chaebol in the 1950s can be more persuasively portrayed by its capitalization on political favoritism and opportunistic adaptation to the state's industrial policies.

The theory of institutional isomorphism would claim that Samsung emulated Japan's zaibatsu structure. Typical prewar zaibatsus like Mitsui and Mitsubishi were formed around three key sectors: trading, banking and insurance, and manufacturing. At the top of each zaibatsu, there was a holding company overseeing all of the subsidiary companies. In terms of size, Samsung could not match any zaibatsus, but its structure in 1959 appears to have resembled the zaibatsu structure because its member companies grouped in the aforementioned three key sectors. Samsung had three trading companies, five financial institutions (three banks, one insurance company, and one securities brokerage company), and five manufacturing companies. Besides this structural similarity, other evidence seems to imply that Samsung might have emulated the zaibatsu structure. First of all, the zaibatsu had been the best-known structure to Korean bureaucrats and business leaders who either worked for, or engaged in business under, the colonial regime. Second, the founder of Samsung had first-hand knowledge about Japan and the Japanese business structure through his study in Japan before the liberation and through personal or institutional contacts with the Japanese business community after the liberation. Notwithstanding its seeming plausibility, the speculation that Samsung copied the zaibatsu structure cannot be

substantiated because there existed a critical structural difference between Samsung and the zaibatsu structure. Japanese zaibatsus had used the so-called *konzern* structure. As mentioned earlier, the *konzern* structure is typified by an incorporated holding company at the top and many (joint stock) subsidiary companies under the direct control of the holding company. Samsung has never created a holding company as an administrative organ to coordinate and control its subsidiary companies. Rather, Samsung has used a special office, which is under the direct command of the founding family, to coordinate business activities and control its subsidiary companies at the group level. Although this office has been functioning as a central headquarters, which is quite comparable to the holding company of a Japanese zaibatsu, Samsung has never incorporated this office as a legal entity like a holding company. Furthermore, an investigation of historical development of the zaibatsu structure reveals that Samsung's organizational structure in the 1950s seems to have been similar to Mitsui's or Mitsubishi's structure, which the two zaibatsus used in the early twentieth century before shifting to the *konzern* structure.[3] If it is considered that the zaibatsu structure evolved from a very primitive to a more complex *konzern* form for more than half a century, it is inconceivable that Samsung imitated the less sophisticated zaibatsu structure of the early twentieth century rather than the more developed and recent *konzern* structure. In sum, although it is admitted that there existed some structural similarity between Samsung's and major zaibatsu's structures, it is rather premature to maintain that Samsung imitated the zaibatsu structure.

Chandler's and Williamson's contentions do not seem to be plausible in the case of Samsung. Following Chandler's thesis, Samsung's diversification to unrelated markets may be construed as a growth strategy and its structural change in the late 1950s as the interaction of growth strategy with organizational structure. Chandler maintains that changing market conditions, engendered by increasing population, rising national income, and

[3]The evolutionary process of Japanese zaibatsus will be further discussed later in Chapter 5.

technological breakthroughs, called for organizations to pursue growth strategies. The key issue here, admitting that Samsung pursued a growth strategy, is whether market conditions, represented by a changing population, income, and technological innovation, propelled Samsung to use a growth strategy. The earlier review of historical background in the 1950s does not seem to lend credence to Chandler's argument. The 1950s, the decade of the Korean War, had little to do with increasing population, rising national income, and technological innovation. History indicates that the opposite is true: population did not increase much, national income actually declined by 1953, and there was very little technological innovation. Therefore, historical evidence of the 1950s is not consistent with the premise of Chandler's theory.

According to the Williamsonian perspective, market imperfection is the key to understanding the rise of chaebols. Korea's market situation in the 1950s was far from perfect. It was nearly in chaos, especially in the early 1950s during the Korean War. In imperfect markets, business groups like Samsung continuously seek to internalize transactions within their organizational boundary since internal transactions are more efficient than market contracts. Leff (1978:667) also argues that in a country having underdeveloped markets, business groups emerge to make up for the absence of markets in certain products. In order for organizations to attain efficiency by saving transaction costs or countering the absence of markets, they tend to use, first, vertical and horizontal integrations by internalizing transactions of related markets and then gradually diversify to unrelated markets. However, the pattern of Samsung's expansion does not seem to provide support for Williamson's thesis in the sense that Samsung diversified first to unrelated markets (from international trading to sugar and wool textile businesses). This historical evidence that Samsung did not organically diversify its businesses in the 1950s indicates that the economic efficiency of minimizing transaction costs was not a main force leading Samsung to diversify into many unrelated markets.

In sum, the prediction predicated on Chandler's theory does not appear to be consistent with the historical evidence of the 1950s. Samsung's developmental patterns in the 1950s do not imply that Samsung adopted the chaebol structure to save transaction costs and imitated the zaibatsu structure to cope with environmental uncertainty. Rather, the rise of Samsung as the first chaebol in Korea can be more persuasively explained by the political economy of the turbulent 1950s.

Table 2.1

Size of Top Four Chaebols as of 1988

Chaebol	No.of Cos.	Assets*	Sales*	Profit*	Exports+	No. of Employees	No. of Ind.
Samsung	45	14,799	19,285	283	6,119.9	122,915	19
Hyundai	38	14,222	16,241	233	5,580.5	115,442	18
Lucky-Goldstar	56	12,967	13,276	230	3,744.2	101,058	18
Daewoo	31	15,806	9,252	-60	5,093.1	96,942	14

* unit: billion won (1 US$=731.5 Won).
+ unit: million US dollars.
Source: compiled from data supplied by *Hoisa Yonkam* (1989)

Table 2.2

Names and Years of Establishment or Acquisition of Samsung's Member Companies in 1988

1. Samsung Mulsan Co. (1951)
2. Cheil Sugar Co.(1953)
3. Cheil Wool Textile Co. (1954)
4. An Kuk Fire & Marine Ins. Co. (1958)*
5. Dong Bang Life Ins.Co. (1963)*
6. Joong Ang Development Co. (1963)*
7. Shinsegae Dep't Store Co. (1963)*
8. Chonju Paper Mfg. Co. (1965)*
** Samsung Art and Culture Foundation (1965)
** Koryo Hospital (1966)
** Samsung Employee Aid Association (1971)
9. Samsung Electronics Co. (1969)
10. Samsung Elec. Devices Co.(1970)
11. Cheil Synthetics Inc. (1972)
12. Hotel Shilla (1973)
13. Korea First Advertising Co.(1973)
14. Samsung Corning Co. (1973)
15. Samsung Elec.-Mechanics (1973)
16. Joong Ang Daily Co. (1974)
17. Samsung Heavy Ind. Co. (1974)
18. Samsung Petro-chemical Co.(1974)
19. Samsung Aerospace Ind. (1977)
20. Korean Engineering Co. (1978)*
21. Samsung Construction (1978)*
22. Joong Ang SVP Co. (1979)
23. Yonpo Leisure Dev. Co. (1979)
24. Korea Security Communication Co. (1981)*
25. Westin Chosun Hotel (1982)*
26. Samsung Lions Co. (1982)
27. Samsung Watch Co. (1983)
28. Samsung Hewlett Packard Co. (1984)
29. Samsung Medical System Co. (1984)
30. Samsung United Aerospace Co. (1984)
31. Samsung Data Systems Co. (1984)
32. Shin-Etsu Silicone Co. (1986)
** Samsung Economic Research Institute (1986)
33. Cheil Frozen Food Co. (1987)
34. Samsung Clark Co. (1987)
35. Cheil Ciba-Geigy Co. (1988)
36. Daehan Specialty Chemical Co. (1988)
37. Dong Bang Bldg. Mgmt. Co. (1988)
38. Dong Sung Investment Management Co. (1988)
39. Hi Creation Co. (1988)
40. Samsung Emerson Electric Co. (1988)
41. Samsung General Chemicals Co. (1988)
42. Samsung Winners Credit Card Co. (1988)
43. Hanil Electric Wire Co.
44. H.J. Koryo Co.
45. Korea Info. Computing Co.

* Years of acquisition.
** Nonprofit organizations.
Source: *Hoisa Yonkam* (1989)

Table 2.3

Names, Years of Establishment or Acquisition, and Industries of Samsung's Member Companies in 1959

Name of Companies	Industries
1. Samsung Mulsan Co. (1951)	Wholesale & Retail
2. Cheil Sugar Co. (1953)	Food
3. Cheil Wool Textile Co. (1954)	Textile
4. Cho-Hung Bank (1957)*	Finance
5. Chun Il Securities Co. (1957)*	Finance
6. Commercial Bank of Korea (1957)*	Finance
7. Heung Op Bank (1957)*	Finance
8. Hyosung Mulsan Co.(1957)	Wholesale & Retail
9. An Kuk Fire & Marine Ins. Co.(1958)*	Insurance
10. Hankuk Tire Mfg. Co. (1958)*	Rubber
11. Honam Fertilizer Co. (1958)*	Chemical
12. Keun Young Co. (1958)	Wholesale & Retail
13. Rose Clothes Co. (1958)*	Apparel

* Years of acquisition.
Source: *Samsung Oseep Nyon Sa* (1988)

Table 2.4

Samsung's Financial Data and Number of Employees

Years	Sales*	Export*	Assets*	Employees*
1953	.11	.001	.04	267
1954	.20	.001	.08	
1955	.44	.001	.23	
1956	.74	.001	.41	
1957	.77	.001	.55	
1958	1.26	.001	.96	
1959	1.79	.001	1.34	
1960	2.66	.002	1.57	1,871
1961	3.64	.005	1.99	
1962	4.81	.11	3.21	
1963	5.73	.29	4.51	
1964	4.48	.57	6.57	
1965	6.95	1.31	8.85	4,801
1966	9.73	1.77	11.07	
1967	14.86	2.32	18.16	
1968	21.75	2.84	28.47	
1969	31.14	2.59	44.58	
1970	36.49	2.71	56.67	9,080
1971	46.42	5.04	67.43	
1972	66.47	9.86	76.34	11,537
1973	103.64	23.18	112.73	
1974	154.54	32.77	169.83	15,527
1975	340.83	168.73	260.80	
1976	455.31	217.69	376.73	25,790
1977	629.16	292.21	535.16	
1978	966.27	389.70	940.30	48,118
1979	1,486.08	577.99	1,488.99	
1980	2,385.48	1,248.66	2,160.00	75,000
1981	3,478.53	1,853.19	2,633.41	
1982	4,362.66	2,181.17	3,474.84	98,493
1983	5,562.93	2,781.68	4,363.05	
1984	8,337.78	4,273.30	6,077.60	122,261
1985	12,230.64	6,166.32	7,337.72	
1986	14,615.74	7,374.68	9,431.24	147,154

* unit: billion won.
+ unit: thousand employees.
Source: *Samsung Oseep Nyon Sa* (1988)

CHAPTER THREE

THE RISE OF BIG CHAEBOLS UNDER THE PARK REGIME OF KOREA

I. Lucky-Goldstar: the Chaebol of the 1960s

Lucky-Goldstar is the second-oldest and the third-largest chaebol as of the end of 1988. It had fifty-six member companies in eighteen industries and more than 100,000 employees (see Tables 2.1, 3.1, and 5.2). Lucky-Goldstar became a chaebol in the late 1960s. In 1969, it had already become a well-diversified business group with seventeen companies in seven industries with about 2,000 employees (see Tables 3.2, 3.3, and 3.4).

To better understand the forces leading Lucky-Goldstar to become a chaebol in the 1960s, it is quite necessary to understand the historical setting of the 1960s. In the next section, a brief historical background of Korea in the 1960s is reviewed.

A. Historical Setting of the 1960s

The Rhee regime was overthrown by the student revolution in April 1960. The following Chang regime (August 1960-May 1961) was so short-lived that it is difficult to correctly assess its real contribution to the Korean economy. But it was widely accepted that since the Chang regime seized power as a by-product of the student revolt without any substantial power base of its own, the regime was too weak to effectively deal with the outburst of the people's political demands, which had been coercively suppressed during the authoritarian Rhee regime (E.Kim, 1987; S.Kim, 1987; Lim, 1982). As for economic matters, the regime was not strong enough to mobilize the necessary resources and manpower to develop the

Korean economy. Even after the regime's establishment in August 1960, social and political unrest continued. After drifting aimlessly for about a year, the Chang regime was taken over by General Chung Hee Park, who led the military coup in May 1961.[1]

From the outset of the military regime (1961-1963), General Park set the nation's economic development as his regime's primary goal. To accomplish the goal of rapid economic development, the regime set the strategy of outward-looking industrialization on the basis of export of manufactured goods (E. Kim, 1987; S. Kim, 1987; Lim,1982). The background for the shift from previously inward-looking strategy to outward-looking strategy includes (1) near completion of postwar reconstruction and the early stage of import-substitution; (2) a high possibility of termination of aid from the U.S.; (3) sluggish economic growth under the previously inward-looking strategy and stabilization program (1957-1960); and (4) the importance of exporting labor-intensive goods as a means of accomplishing the political goal of rapid economic development (S. Kim, 1987:93; Kim and Roemer. 1979:44; Mason et al., 1980:95). In order to put forward the new strategy, the Park regime worked out a series of Five Year Economic Development Plans (FYEDP) and aggressively implemented them. Regardless of minor differences in each plan's orientation and direction reflecting the demands of that particular period, there was one consistent goal of each plan, namely, economic growth through export-driven industrialization.

The first FYEDP (1962-1966) emphasized the buildup of industrial bases by establishing an infrastructure for a self-reliant economy. To build an infrastructure for the Korean economy, the government initiated many projects with help from the private sector in such fields as electricity, fertilizer, oil refining, synthetic fiber, and cement. The goal of the Second FYEDP (1967-1971) was to modernize industrial structure by furthering the achievement of the first FYEDP. In particular, the plan earmarked steel, machinery, and chemical industries

[1]After the coup, Park ruled the nation for 18 years from 1961 to 1979. In the 1961-1963 period, he was a leader of the military junta. In the 1963-1979 period, he served as a civilian president elected through the popular vote.

as strategic industries that were entitled to preferential treatment in terms of bank loans, taxation and tariffs (Byun and Kim, 1978: 632-638; Kutznets, 1969:39-65; 1977:196-209; S. Kim, 1987: 95).

In the period of the first FYEDP (1962-1966), the government asked the private sector to actively participate in major infrastructural projects. All major projects with the notable exceptions of electric power plants and the first oil refinery were built by private enterprise. Most of the projects undertaken by private enterprise were part of the so-called compensatory entrepreneurship program. At the outset of the military coup in 1961, most owners of the then leading business groups, including Samsung and Lucky-Goldstar, were rounded up on the charge of illicit wealth accumulation during the Rhee and Chang regimes. Later a compromise was made between the military and business leaders. Instead of being indicted as criminals, each of the accused business leaders was supposed to undertake one of the major industrial projects with his own capital and then donate it to the Korean government (Jones and Sakong, 1980:69-70; E. Kim, 1987:78-82; Mason et al., 1980:262). Through this action, the Park regime sent business leaders the harsh message that the government has an upper hand over the private sector. Afterwards the Korean government made a series of policies to the effect that many private investment activities in strategic industries should be approved by the government. In some industries (e.g., oil refining), even an expansion of operating capacity was subject to government approval. Through this system of issuing government approval, the Park government intervened extensively in private investment activities, maintaining that excessive competition in a small domestic market can lead to overcapacity and the waste of scarce resources (S. Kim, 1987:108). From the 1960s on, the Korean government has been the senior partner of the so-called Korea, Inc., and the private sector a junior partner.

B. Business History of Lucky-Goldstar

Lucky-Goldstar was the chaebol of the 1960s, but its business history dates back to the colonial era. I. H. Koo, the founder of Lucky-Goldstar, was born in southeast Korea in 1907, three years before Japan's annexation of Korea. He was the first son of a family of retired bureaucrats. Like Lee of Samsung, he attended a *sodang* until a modern elementary school opened in 1921. In 1924, he went to a modern middle school in Seoul but had to drop out of the school in 1926 because of family problems. After returning to his hometown, he established an agricultural cooperative and worked there for five years (*Lucky Saseep Nyon Sa Pyunchan Weewonhoi*, 1987:95-103).

Koo started his own business in Chinju, a southern inland city of Korea, by establishing a linen and cloth shop with money from his parents and one of his younger brothers in 1931. From 1931 to 1945 under the colonial regime, he handled a variety of items like linen and cloth, vegetables and fruit, charcoal, and fish. But he did not do well in those businesses. After the nation's liberation in 1945, he moved to Pusan, where he engaged in importing charcoal from Japan, but he did not do well there, either. He then became a retail agent for cosmetic cream and made his first fortune. Impressed with the profitability of cosmetic cream, he established the *Lucky Chemical Co.* in 1947 with his own capital to produce *Lucky Cream*. From that time until Lucky-Goldstar started to concentrate on the more lucrative chemical plastics and toothpaste businesses, cosmetic manufacturing was Lucky-Goldstar's main business (*Lucky Saseep Nyon Sa Pyunchan Weewonhoi*, 1987: 95-103).

In the 1950s, Lucky-Goldstar expanded into the chemical plastics and toothpaste businesses. Its expansion into the chemical plastics business can be considered an example of backward integration. At the time, *Lucky Chemical Company*'s most pressing concern was how to improve the quality of the plastic caps on cream jars because the caps were very

easily broken. After a series of failures at improving the quality of the caps by subcontracting them to other manufacturers, Lucky-Goldstar's management decided to manufacture the caps themselves and in 1952 purchased from the United States an injection molder for plastic goods. This machine also enabled *Lucky Chemical* to produce such popular plastic goods as combs, toothbrushes, and soap boxes. Later the management found that the plastics manufacturing business was more profitable than cosmetic manufacturing. In 1953, Lucky-Goldstar decided to quit the cosmetic business to further concentrate on the more lucrative plastics manufacturing.

The first turning point in Lucky-Goldstar's business history occurred when it decided to produce toothpaste. The toothpaste business has a symbolic significance, as toothpaste was the first major popular product that introduced people to Lucky-Goldstar. It also allowed Lucky-Goldstar to make a fortune in the 1950s. Throughout the 1950s, American consumer goods, which were made easily available through foreign aid and military P.X. materials, dominated domestic markets despite their relatively expensive prices. In the toothpaste market, *Colgate* dominated although some domestic cornpetitors also produced their own toothpastes.

As to the motive for Lucky-Goldstar's expansion into the toothpaste business, Lucky-Goldstar's official history simply states that since Lucky-Goldstar could produce toothbrushes, the management began to consider producing toothpaste (*Lucky Saseep Nyon Sa Pyunchan Weewonhoi*, 1987: 143). When the management decided to produce toothpaste, they appeared to have been encouraged by the fact that toothpaste manufacturing was not a completely new area.[2] In 1955, Lucky-Goldstar succeeded in producing toothpaste. After the ensuing fierce competition with *Colgate* in the 1950s and the early 1960s, *Lucky toothpaste* eventually drove Colgate toothpaste out of the Korean market. Since the 1950s until recently, *Lucky toothpaste* has had a nearly monopolistic position and laid the foundation for

[2]Lucky-Goldstar already had experience in producing related goods like toothbrushes and skin creams.

Lucky-Goldstar's future development in other businesses.

In 1959 Lucky-Goldstar further expanded into the electric and electronics industry by establishing *Goldstar Company*. As exhibited in the name "Lucky-Goldstar," the establishment of this company signified that the other half of Lucky-Goldstar's business history had officially started. In fact, Lucky-Goldstar's history in the electric and electronics industry had already started before the establishment of *Goldstar Company*. In 1957 Lucky-Goldstar already produced electric sockets, plugs, and cooking utensils, all of which could have been produced by simply putting plastic goods and electric parts together. Upon entering this new industry, the management assessed its potential. They were concerned about the fact that the industry was a new area to Lucky-Goldstar; Korea's electric and electronics technology at that time had not reached the level to produce sophisticated goods like the radio; the market for electric radios was dominated by foreign products like *Zenith* of the United States. But there were some positive sides in the electric and electronics industry. Since there were no domestic competitors, this industry had some profit potential. Furthermore, the manufacturing of electric radios, which *Goldstar* planned to produce, was not a completely new area since *Lucky Chemical* had already produced plastic exteriors of electric radios. In 1957, they decided to enter the electric appliance business. In 1959, *Goldstar Co.* was established to produce vacuum-tube type radios and other electric appliances.

By 1960 Lucky-Goldstar had already become one of the top ten business groups, with four companies in three industries (see Table 3.2). Its development in the 1950s is characterized by a step-by-step diversification to related markets (from cosmetic cream to chemical plastics and toothpaste). The capital necessary for its expansion was by and large self-financed. In this sense, the political economy in the 1950s was not a major factor for Lucky-Goldstar's development. However, the situation completely turned around in the 1960s. In the late 1960s, Lucky-Goldstar emerged as the largest chaebol. Its rapid growth in the

1960s was due primarily to its tactics to adapt to the changing political-economic environments. The following three cases clearly demonstrate how the political economy affected Lucky-Goldstar's development in the 1960s.

Although Lucky-Goldstar was not as diversified nor as involved in politics as Samsung, it was accused of being one of the business groups that illicitly accumulated wealth in the Rhee and Chang regimes. As stated earlier, the military government asked business leaders to construct plants in several key industries as part of the compensatory entrepreneurship program. Lucky-Goldstar, which was accused by the military government, had to build a plant in order to fulfill its obligation specified in the program. Lucky-Goldstar wanted to build a chemical (synthetic) fiber producing plant in consideration of its expertise in the chemical industry, but Lucky-Goldstar was later asked to build a plant producing electric wires and cords. In 1962, *Korea Cable Co.* (the predecessor of present *Goldstar Cable Co.*) was established at the apparent request of the military government. This case demonstrates the direct effect of external polity on the private business activities. The following two cases regarding *Goldstar Co.* and *Honam Oil Refinery* could make clear the critical role of external polity in Lucky-Goldstar's development.

The first electric product of Goldstar was the electric radio. However, it was not well received by Korean consumers because they preferred foreign goods with better quality. As a result the company fell into serious financial trouble, since the sales of electric radios were far below the level Lucky-Goldstar management had expected. To the management's great surprise, some helping hands emerged from an unexpected source. The military coup led by General Park in May 1961 helped the company turn around. After the coup, the military government launched a nationalistic campaign calling for the Korean people to use Korean goods and banned the importation of foreign luxury items like electric radios. This unexpected policy change protected Lucky-Goldstar from the mighty foreign competitors and revitalized the *Goldstar Company*. Furthermore, *Goldstar* managed to create more demand

by successfully negotiating with the changing political environment. At the time, the military government needed to propagate the rationale of its coup to the Korean people. Being keenly aware of its needs, Goldstar management persuaded military leaders to build a nationwide radio communication network and succeeded in having the military government launch a semi-civil movement of sending radios to every corner of the country.[3] Goldstar could capitalize on this movement as a sole producer of electric radios.

As a consequence of such environmental changes and Lucky-Goldstar's timely adaptation, the sales volume of *Goldstar Co.* increased dramatically and survived the difficult times of its early formative stage. Since then, *Goldstar Co.* has become one of the most important core firms of Lucky-Goldstar.

In the 1960s, Lucky-Goldstar further expanded to the oil refining business. Lucky-Goldstar's diversification into this business can become a showcase demonstrating the effect of the political economy on Lucky-Goldstar's development in the 1960s and in the 1970s. Upon entering the oil refining business, Lucky-Goldstar management considered that chemical plastics, *Lucky Chemical Company*'s major product, was acquired through the crude oil refining process, and having an oil refinery could therefore stabilize the supply of raw materials for its chemical plastics business.

Before Lucky-Goldstar's entry into the oil refining business, Korea had only one oil refinery (*Korea Oil Corp.*), a joint venture between the Korean government and *Gulf Oil* of the United States. But its oil-producing capability, 60,000 barrels a day, did not meet the rising domestic demands. So the Korean government was planning for another oil refinery. Because the first oil refinery (*Korea Oil Corp.*) made an enormous amount of profit in its first year of operation in 1965, many business groups desired to get an investment license for the second oil refinery from the government. In 1966, the Korean government awarded

[3]In the course of lobbying bureaucrats and military leaders, T. H. Koo, one of the top managers at the time and the founder's younger brother, played the key role. He later became one of the influential political figures of the ruling party and also the political vanguard of Lucky-Goldstar.

Lucky-Goldstar the investment license. It was known that six business groups competed intensely for the license. Lucky-Goldstar managed to win the bid through joint efforts with Mr. J. K. Seo and *Caltex* (the joint overseas subsidiary of *Standard Oil of California* and *Texaco*). The superficial reason for Lucky-Goldstar's winning the bid was that its proposal about how to construct and operate the prospective refinery was the most attractive. But what was more critical was that Mr. Seo backed up Lucky-Goldstar (S. Kim, 1987: 113-115; Park, 1975:94-95). He was the closest friend of President Park as a college classmate and had been known as "the behind-the-scenes emperor of the business world." At the time he helped Lucky-Goldstar in his capacity as president of *Kukje Shinmun* (a daily newspaper), which was one of Lucky-Goldstar's subsidiaries. In this context, some would speculate that Lucky-Goldstar may have hired him in appreciation of his value as a powerful lobbyist.

In 1967 *Honam Oil Refinery Co.* with a production capability of 60,000 barrels a day was established under the joint ownership of Koreans (Lucky-Goldstar, 25%, and J. K. Seo, 25%) and Caltex (50%). As expected, the oil refinery was very profitable, thus being instrumental in making Lucky-Goldstar the largest chaebol in the late 1960s through the mid-1970s. Furthermore, the oil refinery became a stable supplier of raw materials for Lucky-Goldstar's major products and paved the way toward further development of its member companies in the petrochemical and plastics industries.

As demonstrated above, Lucky-Goldstar's development in the 1960s could not have been realized without its powerful lobbying and timely adaptation to the changing political-economic environments.

Lucky-Goldstar has been known as a typical family business. Even in 1988, twenty-eight members of the founding family participated in management (see Table 5.5). In 1968, when Lucky-Goldstar underwent an organizational change, more than twenty members of the founding family, including the founder, his five brothers, and six sons, extensively participated in managing Lucky-Goldstar's subsidiary companies and no stock in the subsidiary

companies was offered to the public. Hence, all subsidiaries were under the tight control of the Koo family.

In 1968, Lucky-Goldstar established the Group Office of Planning and Coordination to control and coordinate its member companies. By establishing this office, Lucky-Goldstar finished changing its structure to the chaebol form.

C. Discussion.

C. K. Koo[4], chairman of Lucky-Goldstar, stated that

> my father and I started a cosmetic cream factory in the late 1940s. At the time, no company could supply us with plastic caps of adequate quality for cream jars, so we had to start a plastic business. Plastic caps alone were not sufficient to run the plastic-molding plant, so we added combs, toothbrushes, soap boxes. This plastic business also led us to manufacture electrical and electronic products and telecommunication equipment. The plastics business also took us into oil refining which needed a tanker-shipping company. The oil refining company alone was paying an insurance premium amounting to more than half the total revenue of the then largest insurance company in Korea. Thus, an insurance company was started. This natural step-by-step evolution through related businesses resulted in the Lucky-Goldstar group as we see it today (Harvard Business School, 1985b:3).

Although part of his statement is farfetched,[5] he pointed out the key aspect of Lucky-Goldstar's developmental process, that it continuously internalized transactions within its organizational boundary because of market imperfection. Since the Korean market in the 1950s and the 1960s was underdeveloped, Lucky-Goldstar in the 1950s had to internalize many related transactions through backward integration, which also took place in the 1960s. As shown in Table 3.3, Lucky-Goldstar had eleven member companies in 1968 when it underwent an organizational change. Four of the eight companies established in the 1960s

[4]He is the first son of I.H.Koo, the founder of Lucky-Goldstar.

[5]For instance, Lucky-Goldstar's entry to electric and electronic markets in the late 1950s was not a diversification to related markets and his linking simple plastic injection-molding operations to the sophisticated oil refining business seems to have been far-fetched.

were subsidiaries of *Goldstar Company*. Three of them (*Sung-A Co., Sung-Ye Co., and Sung-Yo Co.*) were manufacturers of electric and electronic parts for *Goldstar Co*mpany and the last one (*Goldstar Sales Co.*) was the sales agent of *Goldstar Co*mpany.

In 1968, Lucky-Goldstar adopted the chaebol structure by establishing a Group Office of Planning and Coordination. The necessity for this office emerged in the course of building the oil refinery. The oil refinery project needed a huge amount of funds, which should have been raised at home and abroad. However, Lucky-Goldstar experienced some difficulty in raising the capital necessary for the refinery project since its subsidiaries showed a decentralizing and uncooperative tendency of suboptimizing their goals rather than the goals at the group level (Jung, 1987: 116). Under these circumstances, Lucky-Goldstar needed a new organizational structure that could expedite the mobilization of the necessary funds in the short run and effectively coordinate and control its increasingly decentralizing subsidiary companies in the long run. In this sense, Lucky-Goldstar's organizational change in 1968 was driven by its concerns for better coordination and control of its subsidiary companies. In other words, Lucky-Goldstar decided to use the chaebol form to solve the internal control problems triggered by its size expansion. In this sense, the advocates of transaction cost economics would argue that Williamson's theory is a more plausible approach to explain Lucky-Goldstar's evolution to the chaebol structure.

Political economists would view Lucky-Goldstar's development from quite a different perspective. They would argue that Lucky-Goldstar's rise as a leading chaebol in the 1960s and 1970s would not have taken place without its connections with the state. In particular, the establishment of Honam Oil Refinery was vital to Lucky-Goldstar's rise to the leading chaebol. The crucial contribution of the refinery can be demonstrated by the significant share of its sales in Lucky-Goldstar's total sales. According to data given by Park (1975), in 1974 about 27 percent of Lucky-Gold Star's sales were accounted for by the refinery. As indicated in the earlier discussions about the oil refinery and *Goldstar Co.*, Lucky-Goldstar's

persistent pursuit of more profits and political influence over bureaucratic decision making enabled it to emerge as a leading chaebol. In this sense, political economists would argue that the political economy in the 1960s resulted in Lucky-Goldstar's growth, which led it to change its organizational structure to the chaebol form.

The chairman's statement earlier cited can also be construed as implying that Lucky-Goldstar sought a growth-oriented strategy in related markets. Following Chandler's proposition, Lucky-Goldstar's rise to a leading chaebol was a consequence of its growth-oriented strategy. However, as discussed in Chapter 2, the 1950s was not a decade of change in market conditions and the 1960s was not so different from the 1950s, even if the economic growth just started in the early 1960s. The history would rather indicate that the preconditions for Lucky-Goldstar to seek a growth strategy were absent in the 1950s and 1960s. Therefore, his theory seems to have little relevance to Lucky-Goldstar's development.

Additionally, the intraorganizational political economy approach does not seem to be relevant here primarily because Lucky-Goldstar in the 1960s was almost completely controlled and managed by the founding family. At the time, more than twenty family members including the founder's five brothers and four sons extensively participated in management and nearly all top managerial posts were occupied by them. None of the eleven firms were publicly owned. Therefore, the founding family did not have to adopt a special structure that could enhance its power base and protect its interests.

Institutionalists would argue that Lucky-Goldstar imitated other forms of organization. But the theory of institutional isomorphism does not offer a plausible explanation for the rise of Lucky-Goldstar. The models that Lucky-Goldstar could emulate were Japan's zaibatsu and Samsung's chaebol. However, Lucky-Goldstar's connections with Japan were minimal, except that it started business during the colonial period and had some trade contracts with Japanese firms after the nation's liberation. In this context, some would rather argue that Lucky-Goldstar watched how Samsung was doing with the new form and then emulated the

form in the late 1960s since Lucky-Goldstar had established very close personal and institutional relationships with Samsung.[6] As discussed earlier, Lucky-Goldstar's organizational reform in 1968 was initiated to expedite the mobilization of the necessary funds for the oil refinery project and more effectively coordinate and control its subsidiary companies, which were showing a somewhat uncooperative and decentralizing tendency. Hence, it would be fair to say that Lucky-Goldstar's motive to reform its structure was rooted in the internal need to effectively mobilize the capital necessary for the refinery project and better coordinate its subsidiary companies. In other words, Lucky-Goldstar changed its structure to the chaebol form because of the "efficiency" concern rather than the "legitimacy" concern or the institutional pressure.

II. Hyundai: the Chaebol of the 1970s

As of 1988, Hyundai was the second-largest chaebol with thirty-eight member companies in eighteen industries and more than 110,000 employees (see Tables 2.1, 3.5, and 5.2). Hyundai became a chaebol in 1979, when it had twenty-nine companies in fourteen industries (see Table 3.6). To have a thorough understanding of the developmental processes of Hyundai and Daewoo, the historical setting of the 1970s is reviewed in the next section.

A. Historical Setting of the 1970s.

The 1970s was a decade of dramatic change in the modern history of independent

[6]The second son of the founder of Lucky-Gold Star married the second daughter of the founder of Samsung.

Korea. On the political side, President Park, the two-term president, attempted to extend his presidency with a farfetched justification that political leadership should not be changed in the middle of an aggressive implementation of economic development plans. Since a third-term presidency was illegal under the prevailing constitution, Park amended the constitution to legalize his third term in 1969 and won in the presidential election of 1971 by a narrow margin. In the course of legalizing his third term and campaigning for his presidency, Park's political leadership was seriously challenged by opposition groups.

Facing continued political turmoil after the controversial passage of the new constitution and the presidential election, the Park government took an emergency measure in 1972, which further centralized President Park's power. In October 1972, President Park declared martial law, dismissed the national assembly, and prohibited political activities. The underlying rationale for such an undemocratic action was that a drastic change of domestic power structure was crucial to further continue economic development and actively respond to the rapidly changing external environments. Park justified his regime's undemocratic political measure and his authoritarian regime by maintaining that his new political structure could be instrumental in making Korea an affluent society around the end of the 1970s. He presented a blueprint that Korea's exports could reach more than ten billion dollars and per capita income would be more than one thousand dollars around the end of the 1970s (Cho, 1987:51; S.Kim, 1987:158).

Under the new political system, two more Five Year Economic Development Plans (FYEDP), the third (1972-1976) and the fourth (1977-1981), were carried out. The third FYEDP in particular exhibited a few notable changes in the government's industrial policies. One of them was that the new political regime emphasized the development of heavy and chemical industries to make Korea an advanced economy by the late 1970s (E.Kim, 1987:118-120; S.Kim, 1987:160). President Park and his staff thought that Korea's competitive edge, based on exports of cheap labor-intensive goods, was not expected to

continue in years to come primarily because of the emergence of other underdeveloped countries with cheap labor. Hence the Korean government designated some of the heavy and chemical industries as the strategic industries that were entitled to a number of strong incentives including import protection, preferential credit allocation, preferential taxation, and new entry control. The following six industries were designated as strategic industries: steel, electronics, petrochemicals, shipbuilding, machineries, and nonferrous metals. However, the first oil crisis in the early 1970s posed a serious threat to the Korean economy, which was totally dependent on crude oil from the Middle East, and severely hampered the implementation of ambitious economic growth plans through the development of heavy and chemical industries.

By 1976, the Korean economy was able to resume its previous pace of economic growth thanks largely to the general recovery of the global economy, the Korean government's concerted efforts, and the inflow of proceeds from overseas construction contracts. Throughout the 1970s many Korean construction companies were awarded very lucrative contracts in the Middle East. The proceeds from the Middle East were critical enough to make the Korean economy turn around. The volume of construction contracts in the Middle East rose from $24 million in 1973 to $2.4 billion in 1976 (S.Kim, 1987:165).

The experience gained from the first oil crisis made the Korean government work out a special measure to further promote Korea's exports. Inspired by the success of Japan's *Sogo Sosha* (a large-scale general trading company), the Korean government had studied *Sogo Sosha* since the early 1970s. The government expected that a handful of *Sogo Sosha*-like organizations specializing in export trading would promote export, thus further developing the Korean economy. In 1975, the Korean government created *Jonghap Sangsa*, a Korean version of *Sogo Sosha*, to counter the negative impact of the oil shock on the Korean economy. The Korean government made a special law for *Jonghap Sangsa* and set up such strict requirements as the amount of export volume and the extent of diversity of export

products and regions (Cho, 1987:50-52; also see Table 3.19). *Jonghap Sangsa*s were subject to the government's assessment to determine if they could maintain the prestigious status of *Jonghap Sangsa*. Insofar as those companies met the strict requirements, they could receive political and economic support and preferential treatment from the Korean government.

In 1979, Korea was confronted with economic and political chaos again. On the economic side, the second oil shock made the Korean economy stagger, and the global depression triggered by the second oil shock gave Korea's export-driven economy a fatal blow. On the political side, the rising anti-establishment movement against Park's eighteen-year-old authoritarian regime resulted in widespread civil riots and labor unrest. In the midst of political and economic turmoil, President Park was assassinated by the then head of the KCIA, and the whole country went through chaos until the early 1980s.

B. Business History of Hyundai

The founder of Hyundai is J. Y. Chung. He has quite a different background from Lee of Samsung and Koo of Lucky-Goldstar. While Lee and Koo were financially supported by their family members when they started their businesses, Chung is literally a self-made entrepreneur in the sense that he did not receive any financial support from his family. Chung was also less educated than Lee and Koo, apparently because of his family's lack of financial resources to send him to an institution of higher education.

Chung was born in a village in an eastern province of Korea in 1915, five years after Japan's annexation of Korea, as the first son of an average farmer. He first attended a traditional Confucian *sodang* for a few years and at the age of fourteen finished his only education in a modern elementary school. In 1933, at the age of eighteen, he went to

Inchon, the eastern seaport of Korea, where he worked as a port laborer and then moved to Seoul to become an errand boy at a rice mill. His hard work impressed the owner of the mill, who promoted him to the position of bookkeeping clerk. Several years later, he was able to buy the mill, which was to be closed because of the owner's family problems. In 1938, at the age of twenty-three, Chung started his own business of rice retailing. His shop prospered until he had to close his business because of the colonial government's directive to control the rice trade during the Sino-Japanese War. For about five years from 1940 until the nation's liberation in 1945, he was engaged in the businesses of automobile service and shipping mineral ores in a mining region (*Hyundai Konsul Jushik Hoisa*, 1982:32-36; Jones and Sakong, 1980: 292-295).

After the nation's liberation in 1945, he established *Hyundai Automobile Service Co.* in 1946 and *Hyundai Togon Co.* in 1947 in Seoul. The two companies were merged in *Hyundai Construction Co.*[7] in 1950.

With the onset of the Korean War in 1950, Chung moved to Pusan. Throughout the war, *Hyundai Construction* was awarded many contracts by the Korean government and the U.S. Army. After the war, the construction industry was noticeably booming because of the skyrocketing need to reconstruct industrial and housing facilities destroyed by the war. *Hyundai Construction* capitalized on the boom and made its initial fortune. In the late 1950s, *Hyundai Construction* had already become one of the largest construction firms. However, Hyundai did not reach the level that Samsung and Lucky-Goldstar did in the 1950s.

Hyundai laid its foundation during the government-led construction boom in the 1960s. While carrying out the first and second Five Year Economic Development Plans, the Park government initiated many infrastructural projects like highways, electric power plants, dams, and seaports. The most noteworthy project was the nation's first expressway between Seoul

[7]*Hyundai Construction Co.*, which has been regarded as the founding firm of the Hyundai chaebol, changed its name to *Hyundai Engineering and Construction Co.* in 1981.

and Pusan. This project was the largest of this kind in the history of Korea. The total construction cost was estimated to be 42.97 billion won in 1967. In the same year, the total budget of the Korean government was 164.3 billion won (*Dongkwang Chulpansa Pyunjeep Bu*, 1986:14). At the planning stage, many experts and bureaucrats, although admitting the necessity for the highway, opposed the project mainly because of the astronomical construction cost. What made the seemingly impossible project become a reality was President Park's determination and Chung's strong backing. Throughout the construction period, Chung was an unofficial adviser of President Park regarding the technical aspects of the highway and Hyundai remained the largest contractor because of its prior experience in constructing similar types of expressways (*Hyundai Konsul Jushik Hoisa*, 1982: 128-134).[8] After this project, Hyundai won the lion's share of the major construction projects initiated by the government and received many visible and invisible favors from either the government itself or the president himself in the bids for government constructions. By 1965 Hyundai's contract volume was already the highest in the nation. Since the 1960s, Hyundai has never lost its position as the number one construction firm in Korea (*Hyundai Konsul Jushik Hoisa*, 1982:100; Jones and Sakong, 1980:357).

Throughout the 1950s and 1960s, the political economy was a critical factor in Hyundai's development. At the time, the government was the largest and dominant contractor. In most cases, bidding processes were not competitive and contracts were awarded to a group of construction firms that were loyal to the political regime. Under these circumstances, no construction firms could have survived without paying close attention to the political environment. It is no wonder that Hyundai has been always in the pro-regime camp since its inception. As shown in Table 3.8, more than 80 percent of Hyundai's contracts stemmed from the government. These figures indicate that Hyundai has been on good terms with the government.

---

[8]Hyundai constructed highways in Thailand in 1965.

In the 1960s, Hyundai diversified to the automobile industry. In the 1960s, the automobile industry was one of the most profitable industries. Hence, many business groups were trying to obtain the government's approval for investment in the industry. In October 1967, Hyundai was given an investment license to build a new automobile manufacturing plant. It is a matter of course that Chung's personal ties with President Park and other high-ranking government officials played a key role in the course of obtaining the investment license. After a rugged start in the late 1960s and the early 1970s, *Hyundai Motor Co.* emerged as the largest automobile manufacturer in the mid-1970s thanks to its very popular model, the Pony, predecessor of the presently popular Excel. Since the mid-1970s, it has maintained its position as the largest automobile producer in Korea.

In the 1960s, Hyundai was not one of the top business groups. It was much smaller than Samsung, the largest business group in the 1960s (see Table 3.9). It was only a business group formed around the construction industry (see Table 3.7). Of six firms in Hyundai in 1969, only *Hyundai Motor* was not related to *Hyundai Construction*. The other four firms were construction material manufacturing firms (*Kum Kang Slate Manufacturing*, *Hyundai International*, and *Hyundai Concrete*) and a construction material transporting firm (*Kyung Il Transportation*).

Hyundai made great strides in the 1970s. It became the largest chaebol in the late 1970s ahead of both Samsung and Lucky-Goldstar. Hyundai's epoch-making growth in the 1970s was due to its entry into the international construction business and shipbuilding industry. Hyundai obtained its first overseas contract in 1966, a highway construction project for the U.S. military forces in Thailand and dredging work in Vietnam (*Hyundai Konsul Jushik Hoisa*, 1982:128-141; Jones and Sakong, 1980:357). Hyundai won more contracts with the expansion of U.S. war preparations in Southeast Asia and established itself as a reliable construction company. The experience gained in Southeast Asia helped Hyundai to successfully get into the Middle East construction market. In 1976 alone Hyundai was

awarded a historic industrial port project worth $931 million at Jubail, Saudi Arabia (Jones and Sakong, 357:1980; Jung, 1987:298). It was the largest contract of this kind in the Middle East. The inflow of huge amounts of construction proceeds from the Middle East enabled Hyundai to become the largest chaebol in the late 1970s (see Table 3.10 and 3.11).

Hyundai diversified into the shipbuilding industry in the 1970s. At the time, the Korean government was looking for a private enterprise that could undertake a world-class shipbuilding plant. The construction of a shipbuilding plant to build super tankers of over 200,000 tons requires a huge amount of financial, technical, and human resources. However, no shipbuilding firm in Korea had accumulated technology to build a ship larger than 10,000 tons. Furthermore, the enterprise that would take over the project of constructing a shipbuilding plant was supposed to raise the necessary capital in the international financial market and also obtain orders for super tankers. To make matters worse, the construction of a dockyard and the building of super tankers should have been undertaken at the same time. It was a tremendous task. Thus, most leading chaebols were hesitant to participate in the shipbuilding industry. Under these circumstances, President Park, realizing the significance of the shipbuilding industry in achieving the third Five Year Economic Development Plan, strongly urged Hyundai to take over the project of building a world class shipbuilding plant. However, Hyundai had to overcome many obstacles. The most serious problem for Hyundai's taking over this project was that it had no experience in building ships of any kind. It is a very well-known anecdote that the only thing Chung could show to international bankers and prospective tanker owners was a picture of a sandy beach where Hyundai's dry dock was to be constructed. So Hyundai came up empty in its repeated attempts to mobilize capital in the international financial market and find possible orderers for super tankers. In 1972 Hyundai, backed by the Korean government and President Park, finally managed to mobilize enough capital through a financial consortium. In the same year an agreement was subsequently reached between a Greek shipowner and Hyundai.

According to the agreement, Hyundai was supposed to deliver two vessels of 240,000 and 260,000 tons in two-and-a-half years (July and December 1974). Although it was a tremendous task to construct its own shipyard and build super tankers at the same time, the first tanker was started in March 1973 and was delivered in November 1974 (*Hyundai Konsol Jushik Hoisa*, 1982:205-218; Jones and Sakong, 1980:357; Jung, 1987:298).

The shipbuilding industry usually encompasses many related heavy industries. Hyundai's entry into the shipbuilding business enabled it to further diversify to many other related industries. Of the twenty-nine firms in 1979, eleven of them were directly or indirectly related to *Hyundai Heavy Industries Co.* (see Table 3.12). By establishing many firms in heavy industries in the 1970s, Hyundai became the leading business group concentrating in heavy industries and made itself a chaebol centering around the three core firms: *Hyundai Engineering and Construction Co.*, *Hyundai Motor Co.*, and *Hyundai Heavy Industries Co.*

By 1979, Hyundai had become the largest chaebol (see Table 3.11). As shown in Table 3.13, all of Hyundai's manufacturing outputs in the 1970s came from heavy industries. Hyundai's emergence as the largest chaebol in the late 1970s is therefore closely interrelated to its concentration in heavy industries, which had been designated by the government as "strategic industries." Alternatively speaking, Hyundai's dramatic growth in the 1970s may have been due to its adaptation to the government's industrial policies.

In 1979, Hyundai had twenty-nine member firms. It was impressive growth when compared with six other firms in 1969 (see Table 3.6 and 3.7). Of twenty-five firms that became member companies after 1970, only four of them were acquired, and the remaining twenty-one firms were established with Hyundai's own capital, which could also reflect Hyundai's financial success in the 1970s.

All of Hyundai's member companies have been under the direct control of Chung and his family. Although data about stock ownership controlled by the founding family before 1980 are not available, the stock ownership distribution of Hyundai's four subsidiary

companies, which offered their stock to the public in 1981, indicates that the founding family and Hyundai's core companies owned almost half of the stock of those companies (see Table 3.14). The founding family also extensively participated in management of all of the subsidiary companies. More than ten of the family members, including the founder, his three brothers, and five sons, occupied most of the top management posts.

In 1979, Hyundai established a central office, the Office of General Planning and Coordination. By establishing this office, Hyundai finished changing its structure to the chaebol form.

C. Discussion

The case of Hyundai is so complicated that it is not easy to figure out which theories are more capable of explaining its developmental processes. Hyundai's initial growth was clearly due to the political economy. In the 1950s and 1960s Hyundai made a fortune in the government-led construction boom. Hyundai's dependence on government contracts is evident in data showing that more than 80 percent of Hyundai's construction contracts came from the government (see Table 3.8). If Hyundai had not been on good terms with the government, it could not have emerged as the largest construction firm in the 1960s. With considerable funds accumulated from the construction business, Hyundai started to expand to related and unrelated markets. First it diversified to the automobile industry. Since new investments in this industry were subject to government approval, there is no doubt that Hyundai took advantage of its amicable relationship with President Park and the political regime.

Hyundai's growth in the 1970s and 1980s was precipitated by its entry into heavy industries. Since most heavy industries were designated by the Korean government as

strategic industries, Hyundai was also entitled to government subsidies and protection. As shown in Table 3.13, Hyundai's share of manufacturing outputs from heavy industries was the highest among the four chaebols in the 1970s. Hyundai's rise to the number one chaebol in the late 1970s is closely related to its concentration in heavy industries. Hyundai's development clearly indicates that the political economy has been a major factor in its development as one of the leading construction firms in the 1950s and the 1960s and as a leading chaebol concentrating in heavy industries in the 1970s.

However, the political economy does not complete the entire scenario of Hyundai's rise to the leading chaebol. Hyundai also adapted itself to changing market conditions. The driving force that led Hyundai to emerge as the largest chaebol in the late 1970s was overseas construction contracts. Once Hyundai accumulated wealth in the 1960s primarily from the government's construction contracts, it went overseas to cope with the uncertain future of government-led construction projects and to circumvent the growing competition in the domestic construction market. Hyundai's entry into the Middle East construction market enabled Hyundai to accumulate a great deal of capital. Through abundant funds available from overseas construction contracts and heavy manufacturing businesses, Hyundai established and acquired many firms in related as well as unrelated markets. In 1979, Hyundai managed to own twenty-nine member firms in fourteen industries. This is quite an impressive accomplishment when compared with six subsidiary companies in five industries in 1969 (see Tables 3.6 and 3.7). In this sense, it can be said that Hyundai sought a growth strategy in related markets in the 1970s, and Hyundai's organizational change to the chaebol form in 1979 was driven by the growth strategy. However, this argument does not seem to give adequate consideration to the premise of Chandler's theory. Market conditions in the 1970s, characterized by economic boom and bust at home and abroad on account of continued oil crises, do not seem to have influenced Hyundai to pursue a growth strategy. In other words, the unstable economy did not call for Hyundai to seek growth-oriented

strategies and Hyundai's pursuit of growth strategies was not propelled by changing market forces. In this sense, Chandler's argument does not seem a plausible explanation about Hyundai's emergence as a leading chaebol.

The pattern of Hyundai's development in the 1970s looks different from that of other chaebols. Hyundai's growth in terms of the number of companies was primarily driven by its strategy of making several divisions of its three giant multidivisional firms legally autonomous firms.[9] As indicated in Table 3.12, four of ten construction-related firms used to be divisions of *Hyundai Construction*. Also, four of eleven satellite firms of *Hyundai Heavy Industries* used to be its divisions. *Hyundai Motor* also had two related firms that used to be its divisions. In other words, ten of twenty-nine member firms in 1979 used to be divisions of three core firms. Generally speaking, the full-scale advancement of shipbuilding, automobile, and even construction industries does not occur without the parallel development of other related industries (e.g., metal industry). Since those related industries were quite underdeveloped in Korea in the 1960s and 1970s, Hyundai's developmental pattern can be regarded as an effort to overcome underdeveloped markets through continuous internalization of transactions. In other words, Hyundai had to internalize many technologically related transactions within the three giant multidivisional firms. Hence, some would argue that Williamson's transaction cost economics is a better theory to account for Hyundai's tremendous growth in the 1970s, which was led by the three multidivisional firms.

However, one interesting phenomenon has not been explained by his theory. Why did Hyundai make some divisions within the three multidivisional firms legally autonomous and independent firms? From the standpoint of an efficiency-oriented theory like Williamson's, this development does not seem to make much sense since that kind of structural change usually requires more human (creation of more positions) as well as financial resources

[9]For instance, *Hyundai Construction* had cement manufacturing, concrete mixing and manufacturing divisions, and a division producing furniture and other wood products. *Hyundai Heavy Industries Co.* also had many divisions (e.g. divisions of chemical engineering, electrical engineering, and heavy motor engines for vessels.

(mobilization of more paid-in capital). Hence, it is likely that there was another motive for Hyundai's structural changes. In the late 1970s other leading chaebols, which competed fiercely with Hyundai, had many legally autonomous subsidiary companies. For instance, in 1979, Samsung had twenty-seven member companies; Lucky-Goldstar had thirty-seven member companies; Daewoo had twenty-five member companies. Hence, Hyundai seems to have wanted to match other top chaebols in terms of the number of subsidiary firms and let external constituencies know of its emergence as the largest chaebol of the 1970s. According to this view, Hyundai changed its structure on account of the "legitimacy" concern, not the efficiency or political concern. In this sense, the theory of institutional isomorphism seems to be a better approach to explain the internal motive for Hyundai to adopt the chaebol structure in the late 1970s. Thus, the direct motive for Hyundai to adopt the chaebol form in the late 1970s seems to be more persuasively explained by the theory of institutional isomorphism.

Although the case of Hyundai is somewhat complicated, the interorganizational political economy was a major factor in its development as a leading chaebol in the 1970s. The perspective of transaction cost economics seems to be particularly useful to understand Hyundai's diversification in the 1970s into heavy industries. Hyundai had to internalize transactions to overcome underdeveloped markets for raw and intermediate products for heavy manufacturing. The theory of institutional isomorphism seems to offer a plausible interpretation of the phenomenal proliferation of Hyundai's subsidiary companies in the 1970s. This theory would posit that Hyundai adopted the chaebol structure to make itself similar to the leading and older chaebols in order to let the external constituency be aware of its rise as the number one chaebol. However, the intraorganizational political economy does not seem to be a factor of significance. Since Hyundai has been tightly controlled by the founding family (see Tables 3.14 and 5.3), there has been little room for an internal power struggle amongst coalitions.

III. Daewoo: the Front-runner of the New Generation

Like Hyundai, Daewoo is the chaebol of the 1970s. Daewoo is the fourth largest and the front-runner of the new generation of chaebols that began to emerge in the 1970s. At the end of 1988, Daewoo had thirty one member companies in fourteen industries with about 100,000 employees (see Tables 2.1, 3.16, and 5.2). In a little more than two decades from 1967 to 1988, a small trading company grew into a huge business group: from twenty-five companies in sixteen industries in 1979 to thirty-one companies in fourteen industries in 1988 (see Tables 3.15 and 3.16). Daewoo's tremendous growth is comparable to Hyundai's but its business history is much shorter. As compared with the other three older chaebols, Daewoo went along a quite different path. If the older chaebols started as inward-looking manufacturing and construction firms rooted in the domestic market in their formative stages, Daewoo started as an outward looking, export-oriented firm from its formative stage.

A. Business History of Daewoo

W. J. Kim, the founder, was born in Seoul in December 1936 to a family of educators. When he was an elementary school boy, the nation was liberated from the Japanese occupation. Unlike the founders of the older chaebols, Daewoo's founder grew up in the independent Korea and did not start his entrepreneurial career under the colonial regime. All of his family members were well educated. His parents were among the limited number of college graduates in the colonial days and one of his elder brothers holds a U.S. Ph. D. in economics. He also attended one of the top high schools and colleges in the 1950s under the Rhee regime.

Kim's entrepreneurial history started with the establishment of *Daewoo Industries Co.*, an export trading firm, in 1967. After working at an international trading company for several years as a sales manager handling export of textiles and apparels, he quit the company to start his own business. The capital necessary for the new venture was provided by one of his partners. Daewoo's initial success came from the export trade. It produced and exported textiles and wearing apparel to Singapore, Indonesia, and Africa. Daewoo's export volume jumped to $3,000,000 in 1968 from $580,000 in 1967 (see Table 3.17). In 1968, only a year after its establishment, Daewoo became one of the leading firms exporting textile goods to the countries in Southeast Asia and Africa (Jung, 1987:238).

Kim's entrepreneurial foresight was very instrumental in Daewoo's explosive development in the 1970s. In the late 1960s, the United States was the largest market for Korea's textile and wearing apparel exporters, including Daewoo. Daewoo's exports to the United States have been increasing since its establishment. But Kim felt that the United States government would soon impose the quota system to curb the ever-increasing number of imports coming from Korea, Taiwan, and Hong Kong. If the quota system was implemented, he expected the size of quotas assigned to each firm and each country was going to be assessed on the basis of the export volume of the past years. In order to be in a better position in case the quota system was implemented, Daewoo exerted an all-out effort to increase its export volume to the United States. As a result, Daewoo's export volume soared by five times in 1971. As expected, the United States government started to impose the export quota system on major textile-goods-exporting countries in 1972 on the basis of the export volume of the past years. At that time most textile and apparel exporters to the United States speculated that the quota system would be implemented in the future. But few of them anticipated that the time would come so soon. Since Daewoo had prepared in the preceding years, it immediately became the largest recipient of textile quotas in Korea. By this method, Daewoo became the largest textile and wearing apparel exporting firm in Korea and even in Asia

(*Chosun Ilbo Kyungje Bu*, 1983:69-70; Jung, 1987:239).

The proceeds from the export of textiles and apparel gave Daewoo momentum to further diversify its businesses to related and unrelated industries. By 1975, Daewoo had acquired a total of seventeen firms (ten firms in 1973) (see Table 3.20). The product lines of those acquired firms ranged from leather, construction, machinery, and apparel to securities brokerage. The capital necessary for this diversification was by and large self-financed. In addition to its own capital, export financing subsidized by the government was another important source of capital necessary for Daewoo's expansion (*Chosun Ilbo Kyungje Bu*, 1983:77). At the time, the Korean government was providing many incentives and subsidies to exporters. One of them was export financing. Export financing was a very generous form of government subsidy that was provided to any exporter with a letter of credit. Once an exporter received a letter of credit, it was entitled to export financing up to 90 percent of the amount specified in the letter of credit. Export financing was provided by the government-controlled banks, and the pertinent interest rate was sometimes lower than the interest rate for time deposit. Until the exporter started to use the export financing to purchase raw materials necessary to produce exporting goods, the export financing could be used for other purposes. At the time, the real interest rate for export financing was negative.[10] Hence, it was no exaggeration to say that the export volume of a firm virtually determined its economic and political status.

The turning point in Daewoo's business history was the designation of *Daewoo Industries Co.*, the founding firm of Daewoo, as one of the *Jonghap Sangsas*. This designation was important in two respects. First, since each of the companies designated as *Jonghap Sangsa* was a trading arm of large business groups at the time (e.g. Samsung and Lucky-Goldstar), Daewoo's designation made people aware of Daewoo as one of the emerging stars in the

[10]The real interest rate refers to the rate which comes up as a result of deducting the inflation rate from the nominal bank lending rate.

business world. Second, Daewoo's all-out effort to become a *Jonghap Sangsa* explains the rapid growth in 1970 through 1975. In the early 1970s, Daewoo came to sense the Korean government's plan regarding the creation of a special organization to boost exports (Cho, 1988:132). Upon realizing that the government would create an organization that was very similar to Japan's *Sogo Sosha*, Daewoo's management further realized that becoming a *Jonghap Sangsa* would be a springboard to one of the leading chaebols. To get fully prepared for the government's screening process for the new organization, Daewoo sent an expedition in 1971 to *Tomen*, a *Sogo Sosha*, to study how *Sogo Sosha* worked. Additionally, Daewoo formed a task force in 1973 to acquire many firms (*Chosun Ilbo Kyungje Bu*, 1983:75) and began acquiring as many firms as it could. Since Daewoo started as a export-oriented firm, its domestic foundation in businesses other than textiles and apparel was not solid. To further strengthen its domestic foundation, Daewoo had no alternative but to acquire as many firms as possible. Consequently, Daewoo diversified into such businesses as leather, dyeing, real estate, machinery, finance and insurance, precision, cosmetics, and electronics (see Table 3.20). However, there does not seem to have been any systematic pattern of diversification. In other words, Daewoo's diversification was not driven by a well-planned, step-by-step strategy to organically diversify into related markets. Daewoo's aggressive diversification into unrelated industries stemmed rather from the government policy of creating *Jonghap Sangsa*. As shown in Table 3.19, the government specified very strict prerequisites for *Jonghap Sangsa*. To meet the requirements set out by the government, Daewoo should have diversified its export items and regions. The only way to diversify their export items in a short period of time was to acquire as many firms as possible. Hence, Daewoo's aggressive pursuit of growth-oriented strategies through continuous acquisitions was propelled by the government's policy regarding the creation of *Jonghap Sangsa*.

In 1975 Daewoo changed its structure to the chaebol form by establishing the Division of Group Planning and Coordination. By 1975, Daewoo had already become a business group with eleven firms in nine industries (see Table 3.18). The most notable fact about Daewoo's development is that eight of the eleven firms in 1975 were acquired. Only three firms were established by Daewoo.

Another point to be noted is that Daewoo changed its structure to the chaebol and was designated as one of the first *Jonghap Sangsa* in the same year. It is not a mere coincidence that the two changes took place in the same year, in the sense that Daewoo may have changed its structure to send a message to external constituencies that it was ready to be designated as one of the *Jonghap Sangsas*. All *Jonghap Sangsas* designated by the government in 1975 and 1976 were trading arms of then-dominant and established chaebols like Samsung, Lucky-Goldstar, and Ssang Yong. Under these circumstances, Daewoo may have needed to let people know, by making its structure similar to then-leading business groups, that it had become one of the newly risen business elite.

B. Discussion

Chandler's followers would argue that Daewoo pursued a growth strategy in the 1970s because it acquired more than twenty firms in that decade.[11] However, the case of Daewoo illustrates that Chandler's argument is not plausible because it fails to account for why Daewoo diversified to many unrelated markets in so short a period of time. The early 1970s, when Daewoo became a chaebol, was not a good time for business groups to use a growth-oriented strategy because the Korean economy at the time was in serious trouble as

[11]For the first half of 1970s (1970-1975), Daewoo acquired sixteen firms and established one firm (for more detail, see Table 3.20).

a result of the first oil crisis and the subsequent economic downturn at the global level. The oil crisis hit hard some enterprises that were heavily dependent on international trading. It is inconceivable that the unstable market forces in the 1970s made Daewoo, which was an export-oriented firm, seek growth-oriented strategies. Hence, Daewoo's growth strategy was not driven by changing market conditions.

From Williamson's perspective, Daewoo's unprecedented growth in the 1970s can be understood as a phenomenon of continued internalization of transactions. In the period from 1970 through 1975, the year when Daewoo changed its structure to the chaebol form, it diversified into such businesses as leather, dyeing, real estate, machinery, finance and insurance, precision, cosmetics, and electronics (see Table 3.20). However, Daewoo's pattern of development does not imply that Daewoo used any preplanned and step-by-step strategy to organically diversify into related markets. Since Daewoo expanded its businesses without regard to whether prospective firms or businesses were related to its current businesses in the early 1970s, the motive for Daewoo's internalization of as many transactions as it could may not have been associated with "economic efficiency." If Daewoo had been interested in economic efficiency, it should have diversified its businesses more organically into related markets.

Daewoo's rise as one of the prominent chaebols can rather be accounted for more cogently by the interorganizational political economy theory. Daewoo's rapid growth was largely attributable to the Korean government's export-driven economic development policy. In the process of its dramatic growth in the 1970s, Daewoo could take advantage of many subsidies and financial supports that were available to all exporting firms. After making its initial fortune through export trading of textile and wearing apparel, it aggressively diversified its businesses into many unrelated markets through the acquisition of many small- and medium-sized firms. The immediate cause for Daewoo's acquisition of those firms was to make itself one of the *Jonghap Sangsa*s. To be designated as a *Jonghap Sangsa*, Daewoo

had to meet the minimum requirements regarding the number of firms, the number of products, and so on. Hence, Daewoo's rapid diversification into many unrelated markets was neither due to its preplanned growth strategy nor due to its continuous internalization of transactions. Daewoo's aggressive diversification in the 1970s can be explained by its adaptation to the industrial policy of the Korean government.

It is also possible that Daewoo changed its structure to convince external constituencies that it was ready to be designated as one of the *Jonghap Sangsas*. As discussed earlier, Daewoo changed its structure to the chaebol in 1975. In the same year, it was designated as one of the first *Jonghap Sangsas*. In this sense, the simultaneous occurrence of the two changes may not be a mere coincidence because the chaebol structure was the dominant organizational form among other business groups, which exerted an all-out effort to make their trading arms become *Jonghap Sangsas*. Under these circumstances, Daewoo may have emulated the organizational structure of the then-leading business groups.

In sum, Daewoo's developmental pattern indicates that the interorganizational political economy theory is the dominant approach to explain its rise as a leading chaebol in the 1970s. The theory of institutional isomorphism seems to be useful in understanding the motive of Daewoo's adopting the particular form of the chaebol organization. But this theory does not seem to offer an alternative interpretation of Daewoo's rapid development in the 1970s. Becoming a chaebol is not an easy task because of the huge requirements for human, financial, and technological resources. It is therefore inconceivable that some business groups without those resources could simply imitate the well-diversified structure of other business groups. In this sense, Daewoo's phenomenal growth in the 1970s can be more persuasively explained by the political economy approach, but the internal motive of Daewoo's organizational reform in 1977 may be more cogently explained by the institutional isomorphism perspective. Hence, Daewoo's case seems to imply that the theories of institutional isomorphism and political economy can complement each other.

IV. Conclusion

The analyses of the four chaebols show an interesting developmental pattern among them. Samsung's and Daewoo's development was accomplished in the absence of well designed growth strategies. Their growth can thus be characterized by the so-called octopus arm-like diversification. They diversified into any businesses showing profit prospects without regard to whether prospective businesses were related to their current lines of business.

Lucky-Goldstar and Hyundai have developed their businesses more organically than Samsung and Daewoo. Hence, their businesses can be easily grouped into several core areas. For instance, Lucky-Goldstar has been formed around two core industries: electronic and chemical. Hyundai's core industries are construction, automobile, and heavy manufacturing industries.

It became clear through the case analyses of the four chaebols that interorganizational political economy was the major factor leading to the rise of chaebols. All four chaebols could not have existed if they had not maintained amicable relationships with the government and had not adapted themselves to the government's industrial policies. Hence, the interorganizational political economy approach is the most useful theory in elucidating the rise of Korean chaebols.

Other theories seem to manifest some limitations. The theory of institutional isomorphism seems to have offered sound explanations for the rise of Hyundai and Daewoo, which emerged as leading chaebols in the 1970s. But this theory does not seem to adequately explain the rise of Samsung and Lucky-Goldstar. Since Samsung and Lucky-Goldstar can be regarded as the first generation of chaebols that emerged earlier than Hyundai and Daewoo, the theoretical adequacy of this institutional approach seems to stem from whether there existed a prototype organization that other organizations emulated. Hyundai and Daewoo, which emerged later, could watch Samsung and Lucky-Goldstar, but the latter did not have

any models on which they could pattern themselves.

Chandler's theory accounting for the rise of Korean chaebols is weak. However, its weakness does not stem from its main proposition that strategy calls for structural reform, but from its premise that growth strategy and structure presuppose economic and technological development. Hence, it seems that the Korean chaebols did not provide a good cross-cultural variation, which Chandler's theory recently seeks to explain.

Williamson's transaction cost economics had limited capability for accounting for the rise of chaebols. Particularly, his theory seems to have provided a plausible explanation of the rise of Lucky-Goldstar and Hyundai, both of which have developed more organically in related markets. However, this theory does not seem to have offered meaningful interpretations for the rise of politically motivated and less organically developed chaebols like Samsung and Daewoo.

Table 3.1

Names and Years of Establishment or Acquisition of Lucky-Goldstar's Member Companies in 1988

1. Lucky Co. (1947)
2. Lucky Gold Star International Corp. (1953)
3. Gold Star Co. (1958)
4. Honam Oil Refinery Co. (1966)
5 Sung Yo Co. (1967)
6. Lucky Advanced Materials (1968)
7. Gold Star Electric Co. (1969)
8. Gold Star Cable Co. (1969)
9. Korea Tanker Co. (1969)
10. Lucky Development Co. (1969)
11. Global Petroleum Co. (1970)
12. Gold Star Alps Electronics Co. (1970)
13. Gold Star Foster Co. (1970)
14. Lucky Insurance Co. (1970)*
** Yonam Culture Foundation (1969)
** Yonam Institute (1973)
15. Gold Star Telecommunication Co. (1971)
16. Heesung Co. (1971)
17. Lucky Metals Corp. (1971)*
18. Honam Tanker Co. (1972)
19. Sung Ho Ind. Co. (1972)
20. Lucky Securities Co. (1973)
21. Gold Star Instrument & Electric Co. (1974)
22. Gold Star Tele-Electric Installation Co. (1974)
23. Heesung Metal Ind. Co. (1974)
24. Samkyung Petroleum Co. (1975)*
25. Gold Star Precision Co. (1976)
26. Gold Star Electronic Devices Co. (1977)*
27. Kukje Electric Wire Co. (1977)
28. Bando Sports Co.(1978)*
29. Lucky Engineering Co. (1978)
30. Lucky Petro-Chemical Co.(1978)
31. Gold Star Semiconductor Co. (1979)*
32. Gold Star Elec. Machinery Co. (1979)
33. Pusan Investment & Finance Corp. (1980)
34. Gold Star Investment & Finance Co. (1982)
35. Samwoo Special Metals Co.(1982)*
36. Gold Star Micronix Co. (1983)
37. Hankuk Engelhard Corp. (1983)
38. Lucky DC Silicone Co.(1983)
39. Lucky Gold Star Sports Co. (1983)
40. Gold Star Fiber Optics Co. (1984)
41. Gold Star Honeywell Co.(1984)
42. Gold Star Medical Systems Co. (1984)
43. LG Ad. Inc. (1984)
44. Yosu Energy Co. (1984)
45. Bumin Mutual Savings & Finance Co. (1985)*
46. Gold Star Software Co.(1985)
47. Gold Star Hitachi Systems Co. (1986)
48. Gold Star Industrial Systems Co. (1986)
49. Lucky Gold Star Economic Research Institute (1986)
50. Sei Il Ind. Co. (1986)
51. Gold Star Vacuum Apparatus Co. (1987)
52. Lucky Polychemical Co. (1987)
53. STM Corp. (1987)
54. Heesung Tourism Dev. Co.(1988)
55. LG Credit Card Co. (1988)
56. Lucky Invest. Mgmt. Co. (1988)

* Years of acquisition.
** Nonprofit organizations.
Source: *Hoisa Yonkam* (1989)

Table 3.2

Names and Years of Establishment or Acquisition of Lucky-Goldstar's Member Companies in 1959 and 1969

1959	1969
1. Lucky Chemical Co. (1947)	1. Lucky Chemical Co. (1947)
2. Bando Sangsa Co. (1953)	2. Bando Sangsa Co. (1953)
3. Gold Star Co. (1958)	3. Gold Star Co. (1958)
4. Lucky Oil & Fat Co. (1959)	4. Kukje Shinmun Co. (1964)*
	5. Honam Oil Refinery Co. (1966)
	6 Gold Star Sales Co. (1967)
	7. Sung-A Co. (1967)
	8. Sung Ye Co. (1967)
	9 Sung Yo Co. (1967)
	10. Honam Electricity Co. (1968)
	11. Korea Continental Carbon Co. (1968)
	12. Gold Star Communication Co. (1969)
	13. Gold Star Cable Co. (1969)
	14. Gold Star Electronics Co.(1969)
	15. Korea Tanker Co. (1969)
	16. Kyung Nam Il Bo Co. (1969)*
	17. Lucky Development Co. (1969)
	** Yonam Culture Foundation (1969)

* Years of acquisition.
** Nonprofit organization.
Source: *Lucky Saseep Nyon Sa* (1987)

Table 3.3

Names, Years of Establishment or Acquisition, and Industries of Lucky-Goldstar's Member Companies in 1968

Name	Industries
1. Lucky Chemical Co. (1947)	Chemical
2. Bando Sangsa Co. (1953)	Wholesale & Retail (International Trading)
3. Gold Star Co. (1958)	Electric & Electronic
4. Kukje Shinmun Co.(1964)*	Culture (Newspaper)
5. Honam Oil Refinery Co. (1966)	Petroleum
6. Sung-A Co. (1967)	Electric & Electronic
7. Sung Ye Co. (1967)	Electric & Electronic
8 Sung Yo Co. (1967)	Electric & Electronic
9. Gold Star Sales Co. (1967)	Wholesale and Retail (Domestic)
10. Honam Electricity Co. (1968)	Electric
11. Korea Continental Carbon Co. (1968)	Chemical

* Year of acquisition.
Source: *Lucky Saseep Nyon Sa* (1987)

Table 3.4

Lucky-Goldstar's Financial Data and Number of Employees

Year	Sales*	Export**	Assets*	Employees+
1947-1966	N.A.	N.A.	N.A.	N.A.
1967	6	2	N.A.	N.A.
1968	20	3	N.A.	N.A.
1969	26	11	N.A.	N.A.
1970	52	31	N.A.	N.A.
1971	76	41	N.A.	N.A.
1972	98	48	N.A.	N.A.
1973	153	88	118	23
1974	304	175	177	24
1975	450	179	268	30
1976	636	356	374	35
1977	849	462	479	39
1978	1,228	655	741	55
1979	1,857	911	1,354	53
1980	2,977	1,078	1,916	43
1981	3,999	1,510	2,286	43
1982	4,525	1,800	2,897	44
1983	5,979	2,300	3,300	53
1984	7,713	3,200	4,799	63
1985	8,497	3,500	5,523	70
1986	10,114	4,500	6,271	90
1987	11,917	6,100	8,173	100

* unit: billion won.
** unit: million U.S. dollars.
\+ unit: thousand employees.
Source: Office of Planning and Coordination of Lucky-Goldstar (1989)

Table 3.5

Names and Years of Establishment or Acquisition of Hyundai's Member Companies in 1988

1. Hyundai Construction (1950)
2. Hyundai Motor Co. (1967)
3. Keum Kang Development Ind. Co.(1968)
4. Hyundai Heavy Ind. Co. (1973)
5. Hyundai Engineering Co.(1974)
6. Korea Flange Co.(1974)
7. Hyundai Motor Service Co.
8. Dong Su Industries Co. (1975)
9. Hyundai Mipo Dockyard Co.(1975)
10. Hyundai Pipe Co. (1975)
11. Hyundai Merchant Marine Co. (1976)
12. Hyundai Corp. (1976)
13. Korea Kuwait Banking Corp. (1976)
14. Koryeo Ind. Development Co. (1976)
15. Hyundai Precision & Industries Co. (1977)
16. Hyundai Housing & Ind. Development Co. (1977)
17. Aluminum of Korea Ltd.(1978)*
18. Hyundai Engine & Machinery Co. (1978)
19. Hyundai Electrical Eng'ring Co. (1978)
20. Inchon Iron & Steel Co.(1978)*
21. Hyundai Wood Ind. Co. (1978)
22. Ulsan Chemical Co. (1978)*
** Asan Social Welfare Foundation (1977)
23. Hyundai Steel Tower Ind. Co. (1980)
24. Korea Alaska Dev. Co. (1981)
25. Hyundai Electronics Ind. Co. (1983)
26. Hyundai Marine & Fire Ins. Co. (1983)*
27. Korea Ind. Service Co. (1983)
28. Hyundai Elevator Co. (1984)
29. Sun Eel Shipping Co. (1984)
30. Hyundai Economic Research Institute (1986)
31. Hyundai Securities Co. (1986)*
32. Korea Ind. Motor Co. (1986)
33. Hyundai Aluminum Co. (1987)
34. Hyundai John Brown Offshore Engineering Co. (1987)
35. KEFICO Co. (1987)
36. Hyundai Petro-Chemical Co. (1988)
37. Hyundai Robot Ind. Co. (1988)

* Years of acquisition.
** Nonprofit organization.
Source: *Hoisa Yonkam* (1989)

Table 3.6

Names, Years of Establishment or Acquisition, and Industries of Hyundai's Member Companies in 1979

Name	Industries
1. Hyundai Construction (1950)	Construction
2. Keum Kang Co. Ltd. (1958)	Cement
3. Hyundai Motor Co. (1967)	Transporting Machinery
4. Keum Kang Development Ind Co. (1968)	Service
5. Hyundai Cement Co. (1970)	Cement
6. Hyundai Heavy Industries Co. (1973)	Transporting Machinery
7. Hyundai Engineering Co. Ltd. (1974)	Service
8. Korea Flange Co.(1974)	Machinery
9. Hyundai Motor Service Co.(1974)	Wholesale & Retail
10. Korea Chemical Co. (1974)	Chemical
11. Dong Su Industries Co. (1975)	Cement
12. Hyundai Mipo Dockyard Co. (1975)	Transporting Machinery
13. Hyundai Pipe Co. (1975)	Assembled Metal
14. Seo Han Development Co. (1975)	Construction
15. Asia Merchant Marine Co. (1976)	Shipping
16. Hyundai Corp. (1976)	Wholesale & Retail (International Trading)
17. Korea Housing Dev. Co. (1976)	Construction
18. Korea Kuwait Banking Corp. (1976)	Finance
19. Korea Pavement Const. Co. (1976)	Construction
20. Koryo Port Development Co. Ltd. (1976)	Construction
21. Hyundai Precision & Industries Co. (1977)	Precision
22. Halla Construction Co. (1977)	Construction
23. Aluminum of Korea Ltd. (1978)*	Metal
24. Hyundai Engine and Machinery Co. (1978)	Transporting Machinery
25. Hyundai Railway Train Mfg. Co. (1978)	Transporting Machinery
26. Hyundai Electrical Eng'ring Co. (1978)	Electric
27. Hyundai Special Chemical Co. (1978)	Chemical
28. Inchon Iron & Steel Co. (1978)*	Metal
29. Keum Kang Lumber Ind.Co. (1978)	Wood

* Years of acquisition.

Source: *Hyundai Konsol Samseep-O Nyon Sa* (1982) and *Hoisa Yonkam* (1980)

Table 3.7

Names and Years of Establishment or Acquisition of Hyundai's Member Companies in 1959 and 1969

1959	1969
1. Hyundai Construction Co. (1950)	1. Hyundai Construction Co. (1950)
2. Keum Kang Slate Mfg. Co. (1958)	2. Keum Kang Slate Mfg.Co. (1958)
	3. Hyundai Motor Co. (1967)
	4. Kyung Il Transportation Co. (1968)
	5. Hyundai Enterprise Co. (1962)
	6. Hyundai Concrete Mfg. Co. (1969)

* Years of acquisition.
Source: *Hyundai Konsol Samseep-O Nyon Sa* (1982)

Table 3.8

Share of Government Contracts in Hyundai's Construction Contracts (in percent)

Year	Government	Civilian
1963	96.1	3.9
1964	97.9	2.1
1965	100.0	0
1966	95.7	4.3
1967	77.8	22.2
1968	78.5	21.5
1969	71.5	28.5
1970	80.2	19.8
1971	84.7	15.3
1972	85.6	14.4
1973	87.3	12.7
1974	70.5	29.5
1975	95.8	4.2
1976	87.4	12.6
1977	96.5	3.5
1978	78.7	21.3
1979	96.9	3.1
1980	81.8	18.2
1981	78.3	21.7
Average	86.4	13.6

Source: compiled from *Hyundai Konsol Samseep-O Nyon Sa* (1982)

Table 3.9

Comparison of Size between Hyundai and Samsung in the 1960s

		1961	1962	1963	1964	1965	1966
Hyundai	Sales	361	572	805	1,572	1,483	4,058
	Assets	140	378	957	1,370	1,747	2,888
Samsung	Sales	3,639	4,818	5,732	4,482	6,950	9,728
	Assets	1,986	3,216	4,514	6,571	8,850	11,074

Source: compiled from *Hyundai Konsol Samseep-O Nyon Sa* (1982) and *Samsung Oseep Nyon Sa* (1988)

Table 3.10

Overseas Construction by Four Chaebols (1974-1985)

Chaebol		Amount (U$ mil.)	Share in Chaebol Sales (%)	Share in National Total (%)
Hyundai	1974-79	6,342.5	48.8	29.0
	1980-85	12,427.7	n.a.	21.8
Daewoo	1974-79	491.9	7.6	2.3
	1980-85	5,737.9	n.a.	10.1
Samsung	1974-79	260.5	3.2	1.2
	1980-85	1,445.5	n.a.	2.5
Lucky-Gold Star	1974-79	234.4	2.1	1.1
	1980-85	1,036.2	n.a.	1.8
	1974-79	7,329.3		33.6
	1980-85	28,387.3		36.2

Source: S.Kim (1987:197, 273)

Table 3.11

Top Ten Business Groups in 1972 and 1979 by Assets

	1972	1979
Hyundai	64	2,106
Lucky-Gold Star	131	1,088
Samsung	121	1,346
Daewoo	16	1,328
Hyosung	23	614
Kukje	9	554
Hanjin	46	743
Ssang Yong	72	669
Korea Explosives	69	456
Sunkyong	44	309

Unit: billion won.
Source: S.Kim (1987:172)

Table 3.12

Hyundai's Three Core Companies, Subsidiaries, and Industries in 1979

Hyundai Engineering and Construction Co.	
1. Keum Kang Co. (1958)	Cement
2. Hyundai Cement Co. (1970)*	Cement
3. Hyundai Engineering Co. (1974)*	Service
4. Dong Su Industries Co. (1975)*	Cement
5. Seo Han Development Co. (1975)	Construction
6. Korea Housing Development Co. (1976)	Construction
7. Korea Pavement Construction Co.(1976)	Construction
8. Koryo Port Development Co. (1976)	Construction
9. Halla Construction Co. (1977)	Construction
10. Keum Kang Lumber Ind. Co. (1978)*	Wood
Hyundai Heavy Industries Co.	
1. Korea Chemical Co. (1974)	Chemical
2. Korea Flange Co. (1974)	Machinery
3. Hyundai Mipo Dockyard Co. (1975)	Transportation Machinery
4. Hyundai Pipe Co. (1975)	Assembled Metal
5. Asia Merchant Marine Co. (1976)	Shipping
6. Aluminum of Korea Ltd. (1978)	Metal
7. Hyundai Engine & Machinery Co.(1978)**	Transportation Machinery
8. Hyundai Train Manufacturing Co.(1978)**	Transportation Machinery
9. Hyundai Electrical Engr. Co. (1978)**	Electric
10. Hyundai Special Chemical Co. (1978)**	Chemical
11. Inchon Iron & Steel Co. (1978)	Metal
Hyundai Motor Co.	
1. Hyundai Motor Service Co.(1974)	Wholesale & Retail
2. Hyundai Precision & Industries Co. (1977)	Precision
Others	
1. Keum Kang Development Ind. Co. (1968)	Service
2. Hyundai Corp. (1976)	Wholesale & Retail
3. Korea Kuwait Banking Corp. (1976)	Finance

* These companies used to be divisions of Hyundai Construction Co.
** These companies used to be divisions of Hyundai Heavy Industries Co.

Table 3.13

Share of Heavy/Chemical Industrial Assets in Manufacturing Assets in 1972, 1979, and 1985

	1972			1979			1985		
Chaebol	Mfg.	H&C	%	Mfg.	H&C	%	Mfg.	H&C	%
Hyundai	25	25	100	1,005	1,005	100	4,000	4,000	100
Samsung	74	28	38	763	440	58	3,435	2,740	80
Lucky-Gold Star	89	79	89	1,088	1,088	100	3,660	3,660	100
Daewoo	0	0	-	631	595	94	3,785	3,759	99

Unit: current billion won.
Source: S. Kim (1987:187, 267)

Table 3.14

Share of Stocks Controlled by the Founding Family of Hyundai in 1981 and 1988

	Year	Founder Family	Core Companies	Total
Hyundai Corp.	1981	5.27	38.52	43.79
	1988	6.81	32.34	39.15
Hyundai Motor Co.	1981	6.47	40.93	47.40
	1988	7.52	22.65	30.17
Hyundai Motor Service Co.	1981	46.43	0	46.43
	1988	18.99	14.63	33.62
Kukil Securities	1981	0	35.00	35.00
	1988	0	29.85	29.85
Average	1981	14.54	28.61	43.15
Average	1988	8.33	24.87	33.20

Source: For 1981, compiled from Hattori's data in Hattori (1984) and for 1988, compiled from *Hoisa Yonkam* (1989).

Table 3.15

Names and Years of Establishment or Acquisition of Daewoo's Member Companies in 1969 and 1979

1969	1979
1. Daewoo Industries Co (1967)	1. Daewoo Industries Co. (1967)
	2. Koryo Leather Ind. Co. (1972)*
	3. Daewoo Development Co. (1973)*
	4. Dong Yang Securities Co.(1973)*
	5. Korea Capital Co. (1973)*
	6. Orient Investment & Finance (1973)
	7. Shinsung Tong Sang Co. (1973)*
	8. Daewoo Electronics Co. (1974)
	9. Daesung Industrial Co. (1975)*
	10. Daehan Kyoyuk Insurance Co. (1975)*
	11. Peeres Cosmetics Co. (1975)*
	12. Daewoo Engineering Co. (1976)
	13. Daewoo Heavy Industries Co. (1976)*
	14. Daewoo Machinery Sales Co. (1976)
	15. Korea Steel Chemical Co.(1976)*
	16. Dong Woo Development Co. (1976)
	17. Sorak Development Co. (1977)
	18. Dae Chang Enterprise Co.(1978)*
	19. Daewoo Shipbuilding & Heavy Machinery Co. (1978)*
	20. Dongwoo Mgmt. Consulting Co. (1978)
	21. Poong Kuk Oil Co. (1978)*
	22. Saehan Motor Co. (1978)*
	23. Shin-A Shipbuilding Co. Ltd. (1978)*
	24. Daewoo ITT Co. (1979)
	25. Tong Heung Electric Co. (1979)*

* Years of acquisition.
Source: *Hoisa Yonkam* (1980).

Table 3.16

Names and Years of Establishment or Acquisition of Daewoo's Member Companies in 1988

1. Daewoo Corp. (1967)
2. Daewoo Securities Co. (1973)*
3. Daewoo Investment & Finance Co. (1973)
4. Daewoo Electronics Co. (1974)
5. Daesung Industrial Co. (1975)*
6. Daewoo Engineering Co. (1976)
7. Daewoo Heavy Industries Co. (1976)*
8. Korea Steel Chemical Co.(1976)*
9. Dong Woo Development Co. (1976)
10. Sorak Development Co. (1977)
11. Daewoo Shipbuilding & Heavy Machinery Co. (1978)*
12. Dongwoo Management Consulting Co. (1978)
13. Poong Kuk Oil Co. (1978)*
14. Daewoo Motor Co. (1978)*
15. Shin-A Shipbuilding Co. Ltd. (1978)*
16. Daewoo Engineered Product Co. (1979)
17. Daewoo Telecomm. Co. (1980)
** Daewoo Culture and Welfare Foundation (1980)
** Daewoo Educational Institute (1980)
18. Daewoo Precision Co. (1981)
19. Orion Electric Co. (1981)*
20. Daewoo Electronic Components Co. (1983)*
21. Daewoo Automotive Components Co. (1984)
22. Daewoo Research Institute (1984)
23. Kyung Nam Enterprises Co. (1984)
24. Daewoo Carrier Corp. (1985)
25. Daewoo HMS Co. (1985)
26. Koram Plastic Co. (1985)
27. Kyung Nam Metal Co. (1985)*
28. Daewoo Sikorsky Aerospace Ltd. (1986)
29. Daewoo Electric Motor Industries Co. (1987)
30. Shinhan Engineering and Construction Co. (1987)
31. Daewoo Capital Management Co. (1988)

* Years of acquisition.
** Nonprofit organizations.
Source: *Hoisa Yonkam* (1989)

Table 3.17

Growth of Daewoo's Exports

Year	Exports	Year	Exports
1967	1	1977	362
1968	3	1978	706
1969	4	1979	1,120
1970	9	1980	1,415
1971	25	1981	1,914
1972	53	1982	1,971
1973	68	1983	2,493
1974	78	1984	2,557
1975	138	1985	3,009
1976	259	1986	2,758

Unit: US $ million.
Source: Jones and Sakong (1980:364) and S. Kim (1987:194,277)

Table 3.18

Names, Years of Establishment or Acquisition, and Industries of Daewoo's Member Companies in 1975

Name	Industries
1. Daewoo Industries Co. (1967)	Wholesale & Retail (International Trading)
2. Koryo Leather Ind. Co. (1972)*	Leather
3. Daewoo Development Co. (1973)*	Construction
4. Dong Yang Securities Co. (1973)*	Finance
5. Korea Capital Co. (1973)*	Finance
6. Orient Investment & Finance (1973)	Finance
7. Shinsung Tong Sang Co. (1973)*	Clothes
8. Daewoo Electronics Co. (1974)	Electronic
9. Daesung Industrial Co. (1975)*	Rubber (Shoes)
10. Daehan Kyoyuk Insurance Co. (1975)*	Insurance
11. Peeres Cosmetics Co. (1975)*	Cosmetics

* Years of acquisition.
Source: Jones and Sakong (1980) and *Hoisa Yonkam* (1989).

Table 3.19

Government Subsidies for *Jonghap Sangsa* in 1975

The minimum requisites to be designated as *Jonghap Sangsa*

1. Paid-in capital of one billion won .
2. Annual Export of U$50 million.
3. Seven products with an export value in excess of U$500 thousand each.
4. Ten overseas branch offices.
5. Ten countries with an export value of over U$1 million each.
6. Public offering of Jonghap Sangsa stocks.

Government subsidies for Jonghap Sangsa

1. Trade Administration.

   -Priority for government support in international bidding.
   -Relaxation of the requirements for joining various commodity export association.
   -Rights to import major raw materials for *Jonghap Sangsa*'s own use.

2. Financing.

   -Export Financing.
   -Inventory Financing.
   -Import financing for raw materials.

3. Foreign Exchange Administration.

   -The use of revolving letters of credit.
   -Special treatment for branch offices of *Jonghap Sangsa*

Source: Cho (1987:53-54) and S.Kim (1987:190)

Table 3.20

Names and Industries of Companies Daewoo Acquired or Established in the 1970-1975 period

Name	Industries
1. Dong Nam Textiles (1970)*	Textile
2. Koryo Leather Ind. Co. (1972)*	Leather
3. Daewoo Machinery Co. (1973)*	Machinery
4. Dong Kuk Precision Ind. Co. (1973)*	Precision
5. Dong Yang Securities Co. (1973)*	Finance
6. Korea Capital Co. (1973)*	Finance
7. Orient Investment & Finance Co. (1973)**	Finance
8. Osung Dyeing and Finishing Co. (1973)*	Textile
9. Sam Ju Building (1973)*	Real Estate
10. Sang Mi Industrial Co. (1973)*	Textile
11. Shinsung Tong Sang Co. (1973)*	Textile
12. Young Jin Construction Co. (1973)*	Construction
13. Daewon Textile Co. (1974)*	Textile
14. Daewoo Building (1974)*	Real Estate
15 Daewoo Electronics Co. (1974)**	Electronics
16. Daehan Kyoyuk Insurance Co. (1975)*	Insurance
17. Peeres Cosmetics Co. (1975)*	Cosmetics

* Years of acquisition.
** Years of Establishment.
Source: *Hankuk Ilbo Kyungje-bu* (1985) and *Hoisa Yonkam* (1989).

CHAPTER FOUR

STATISTICAL ANALYSES OF THE FACTORS LEADING TO THE RISE OF CHAEBOL

In this chapter, statistical analyses are undertaken to assess the efficacy of the three approaches discussed in Chapter 1. The data for this study are cross-sectional. In this sense, some would argue that statistical analyses of this kind could not adequately assess which theories are more capable of accounting for the developmental process of chaebols because, to probe the origin of chaebols in earnest, data should have been collected and analyzed longitudinally. But it should be noted that "the theoretical point being tested has implications for the appropriateness of a particular research design, and vice versa." (Gottfredson and Hirschi, 1987:608). To put it another way, a longitudinal study can deal with factors leading to the rise of chaebols more adequately than a cross-sectional one if theories being employed in this study view those factors as a consequence of organizational evolution over time. In contrast, if those theories view differences across organizations as stable phenomena over time, the cross-sectional research can approach the rise of chaebols more adequately than the longitudinal one. The three approaches discussed in Chapter 1 do not necessarily presume that factors influencing the rise of chaebols are continuously changing over time. Rather, some of those factors, especially in the institutional environment (e.g., the strong state), appear to be relatively stable phenomena over time. Furthermore, the data being analyzed in this study entail organizations that are quite large. If large organizations cannot easily change their organizational structure because of structural inertia, which is a key point of "population ecology" or the "natural selection" perspective, then structural differences across large organizations are expected to be relatively stable over time. Therefore, I think that carefully designed cross-sectional studies can adequately test the validity of the three approaches in explaining the rise of Korean chaebols.

Statistical analyses being undertaken here are designed to examine the factors influencing the rise of chaebols. A central issue is, therefore, what makes chaebol business groups distinguishable from nonchaebol business groups. In order to evaluate those factors that have emerged through theoretical discussions in Chapter 1, I have developed some specific hypotheses predicated on the three approaches.

I. Hypotheses

A. The Adaptation Approach

The key point of Chandler's argument is the interaction of growth strategy and organizational structure. Following Chandler's argument, it can be hypothesized that business groups pursuing growth-oriented strategies often use the chaebol form since that form enables business groups to coordinate and control their member companies more efficiently.

> Hypothesis 1a: Business groups that pursue a growth strategy are more likely to use the chaebol form than business groups that do not pursue a growth strategy.

Williamson's key point centers on the efficiency that the chaebol form would accomplish by reducing transaction costs. In imperfect markets, business groups tend to internalize transactions since transactions among member firms are more efficient than market contracts. As a result of increasing internal transactions, the size of business groups increased and the businesses diversified. Under these circumstances, the chaebol form functions better because it can enable business groups to minimize transaction costs. His

argument would lead to the following hypothesis:

> Hypothesis 1b: The likelihood that business groups use the chaebol form increases as the size of business groups increases.

The central issue of the theories of both Chandler and Williamson seems to be the "economic efficiency" that can be achieved through administrative coordination (Chandler) and reduced transaction costs (Williamson). Therefore, multidivisional organizations are supposed to show superior economic performance. Research by Williamson's followers (e.g., Armour and Teece, 1978 and Teece, 1981) generally provides support for this point. Since the developmental mechanism of conglomerate organizations can also be explained by the same MDF logic, Korean chaebols and Japanese business groups are also expected to exhibit better economic performance.

> Hypothesis 1c: Business groups that use the chaebol form are expected to show better economic performance than business groups that do not.

B. The Political Economy Approach

The interorganizational political economy theory emphasizes the interaction of the government's industrial policies with the organization's adaptation. Once industrial policies are announced, those industries that become strategic because they are earmarked by the state attract potential entrants. However, decisions regarding selection of participants in strategic industries are heavily influenced by political connections, not by the rational criterion of efficiency. The government usually provides generous support and protection to selected

business groups. Such support and protection enables those elite capitalists to amass substantial profits. By utilizing those profits, these elites diversify businesses into related and unrelated markets. The result of their continuing expansion is claimed to be the chaebol. According to this theory, the most important factors leading to the rise of Korean chaebols are thus political connections and participation in strategic industries.

Hypothesis 2a: Business groups that have close political connections with the political apparatus are more likely to use the chaebol form than groups that do not.

Hypothesis 2b: Business groups that extensively participate in "strategic" industries designated by the Korean government are more likely to use the chaebol form than groups that do not.

Intraorganizational political economy theory posits that interests of the dominant coalition in an organization greatly influence the organizational form. The most dominant coalition in Korean business groups is the founding family. The organizational form tends to be affected by the extent of the family's control over ownership and its participation in management. If the founding family effectively controls and coordinates subsidiary companies by holding a majority of stock and by participating extensively in management, then there are very few incentives for the family to use the chaebol form. However, business groups that are less tightly controlled and managed by the founding family are expected to use the chaebol form more often than other business groups.

Hypothesis 3a: The higher the share of the founding family's stock holdings in subsidiary companies, the less likely the business group is to use the chaebol form.

Hypothesis 3b: The higher the percentage of founding family managers among the top management, the less likely the business group is to use the chaebol form.

Control loss can become a serious problem to the family as well as to business groups that have many publicly owned member companies. Therefore, if a family that has many publicly owned companies believes that the chaebol form is conducive to enhancing its power base and protecting its interests, then the family is expected to prefer the chaebol form. Hence, business groups that have many firms listed in the Korean Stock Exchange are expected to use the chaebol form more often than other business groups.

Hypothesis 3c: The greater the number of a business group's member companies that are listed in the Korean Stock Exchange, the more likely the group is to use the chaebol form.

C. The Institutional Approach

Several different institutional perspectives have been applied to the rise of chaebols. The institutionalized authority structure has been emphasized by Hamilton and Biggart (1988). Hattori (1987) focuses on paternalistic family structure as the most important factor leading to the rise of chaebols. However, the nature of data for this study does not enable me to test the propositions of either Hamilton and Biggart or Hattori. This study seeks instead to evaluate DiMaggio and Powell's theory (1983). The key point of DiMaggio and Powell's argument is that organizations facing environmental uncertainties tend to emulate other successful organizations. DiMaggio and Powell's argument can be applied to the claim that chaebols are modeled on the zaibatsu. This view, shared also by Cumings (1984[a]) and Park

(1975), seems to be a legitimate claim since Korea was a colony of Japan for thirty-five years. In the colonial era, the zaibatsu was highly visible in Korea and was the most dominant form of organization throughout the Japanese Empire. According to this view, the "colonial legacy" can account for the rise of the chaebol in the sense that Korean organizations adopted the proven form of successful organization (i.e., the zaibatsu form) when they were confronted with a murky environment after sudden independence and the Korean War.

> Hypothesis 4a: Business groups that had institutional, cultural, and personal ties with Japanese zaibatsu or other Japanese business organizations during the colonial era are more likely to use the chaebol form than business groups that did not have such ties.

DiMaggio and Powell's theory can also be applied to explain the spread of chaebols in the 1970s and 1980s in Korea. This view would posit that because the chaebol had been accepted since the 1950s as a successful form of organization, the elite capitalists who accumulated wealth in the 1960s and 1970s adopted the chaebol form in the 1970s and 1980s. Since DiMaggio and Powell's theory claims that organizations facing environmental uncertainties tend to emulate other successful organizations in similar environments, it is very important to adequately define the similar environments. With regard to this, it has been argued that the industry in which a firm produces its main product is a good theoretical proxy for the environment (Fligstein, 1985). So one of the ways to capture the isomorphic pressures in the relevant environment would be to identify specific industries that are highly susceptible to mimetic pressures. Becoming a chaebol is not an easy task because of huge requirements for human, financial, and material investments. Therefore, business groups attempting to copy the chaebol form should have substantial internal resources. Insofar as

business groups have enough internal resources to invest elsewhere and strong motivation for further expansion into other industries, they are expected to watch other business groups in the similar environment, that is, the industry in which they produce. They would subsequently seek to follow in the tracks of the most successful groups in the industry. The key issue here is, which industries are most likely to produce more chaebols? They could be industries that have once prospered but now are confronted with environmental uncertainties, since DiMaggio and Powell (1983) argue that mimetic isomorphism is particularly prevalent among organizations facing environmental uncertainties. Following DiMaggio and Powell, I would argue that those industries, which are either losing their industrial supremacy or having chronic problems of seasonality and unpredictability of environmental demands, can be considered to face environmental uncertainties. The textile industry would be a prime case of a declining industry in the sense that it had been the most developed and prosperous industry in the early stages of industrialization of Korea but has already lost its supremacy. As shown in Tables 4.1 and 4.2, the representation of industries among large Korean firms in three decades shows that the textile industry was the most prosperous industry in the 1950s through the 1970s. In particular, this industry ranked twenty-two firms in the list of the 100 largest firms and nine firms in the top twenty firms in the 1960s when Korea's industrialization was just under way. Since then, its supremacy appears to have been declining. In the 1980s, no textile firms ranked in the top twenty. Table 4.3 also shows the decline of the textile industry. The textile industry was the dominant force in Korea's export boom in the 1960s and 1970s. But its dominance has been declining since the late 1970s and the 1980s. During the period between the 1950s and 1970s, many business groups that had the textile industry as their core industry could have accumulated significant amounts of capital. Those business groups with adequate funds in hand diversified to many related and unrelated markets to follow the pattern of the successful form of organization.

The construction industry tends to have the problems of continual seasonality as well as fluctuation of environmental demands (Stinchcombe, 1959). Therefore, the construction industry appears to be a good example of an industry that has the chronic problems of seasonality and unpredictability. As shown in Table 4.1, the construction industry seems to have boomed in the 1950s and the 1980s. Clearly its rise in the 1950s was due to the reconstruction boom after the Korean War (1950-1953). Another cycle of the construction boom started in the mid-1970s and continued until the mid-1980s. The main force of this boom came from the Middle East, since the OPEC countries in that region started many construction projects. Hence, many business groups that had construction firms as their core accumulated huge amount of capital in the 1950s and the 1970s.

In this context, the textile and construction industries would be more likely to produce chaebols than other industries.

> Hypothesis 4b: Business groups that have either the textile or construction industry as their founding industry are more likely to use the chaebol form than other business groups.

II. Data and Method

Data used in this study were collected from *Hoisa Yonkam* (Corporation Directory) published in 1989 by *Mae-Il Kyungje Shinmunsa* (Maeil Daily Economic News Co., Ltd.) of Korea. This directory contains a considerable amount of information, especially for the publicly owned firms. Information includes distribution of stock ownership, educational background of top management, financial figures including sales distribution by product, industrial diversity, and so on. Furthermore, *Hoisa Yonkam* identified nearly all business

groups in Korea as of the end of 1988. The sample of this study consists of those 143 business groups comprising 1298 firms altogether.[1] Following the qualifications explained later, those groups were categorized as either chaebol or non-chaebol.

The dependent variable for analysis is whether a business group is a chaebol or not. Coding decisions about whether a business group is a chaebol or not were made on the basis of three conditions for the chaebol discussed in Chapter 1. The first condition is that the chaebol is controlled and managed by the founding family. Diversity of business is the second condition. The third condition is concerned with the structural characteristic that the chaebol has a group-level office to coordinate and control its subsidiary companies.

The first condition was assessed by investigating if the founding family is the majority stockholder of subsidiary companies and participates in management of those companies. Following the scheme that Palmer et al. used in their study (1987), I considered a group as family owned if more than 4 percent of each company's stock of a business group was owned by either the founding family or the group's core companies that were under family control. A group was considered to be family controlled if any family members participated in management of subsidiary companies as top managers. If business groups were family owned and family controlled, I considered them to meet the first condition. As to the second condition, I used the method devised by Jung (1987).[2] Jung classified Korean business groups into five types: specialized, dominant, vertical, related, and unrelated. Only unrelated types of business groups were considered to satisfy the second condition.[3] If a business group had a group-level office coordinating and controlling all of its subsidiaries, I considered it satisfied the third condition. Business groups that satisfy all three conditions specified thus

---

[1]For a complete list of 143 business groups and other information, see Appendix A.

[2]Jung devised his classification system on the basis of the system proposed by Rumelt (1974).

[3]In order to be an "unrelated" type of business group, "related ratio" should not exceed 70 percent. "Related ratio" refers to the share of sales from businesses, which are closely related to each other in terms of technology and transaction, out of total sales of a business group.

far were coded "1" for chaebol and other groups were coded "0" for nonchaebol.

Chandler's argument was tapped by the number of industries as reflected in the study by Palmer et al. (1987). Industrial variety represented by the number of industries in which a business group participates is believed to imply whether a business group prefers growth-oriented strategies. The Korean Standard Industry Classification system was used to figure out the number of industries. That classification system covers thirty-eight industries ranging from agriculture and forestry to general service industries (see Appendix B). Which industry each firm of a business group belongs to was determined on the basis of distribution of the firm's main products.

The key point of Williamson's argument, size variation among business groups, was operationalized by the number of employees in a group as recorded in the 1989 *Hoisa Yonkam.*

To test the efficiency hypothesis (Hypothesis 1c), two variables were employed. The first variable was return on capital (ROC), which refers to the rate of profit after tax on paid-in capital of a business group. The second was return on assets (ROA), which represents the rate of profit after tax on total assets of a business group. These two variables have been used to account for economic performance of either individual firms or business groups of Korea and Japan in other studies (e.g., Caves and Uekusa, 1976; Chang and Choi, 1988; Nakatani, 1984).

To capture the effect of the interorganizational political economy, two measures were used. The first measures whether business groups have had actual political connections and have received the government's protection and support. Three criteria were used for this purpose. The first criterion is whether the founder himself has, or any of his family members have, been an influential political figure(s) or powerful business leader(s). The second criterion is whether a business group has owned any monopoly or oligopoly enterprises. If a group's core firm is a monopoly or oligopoly enterprise protected by the government, it would

be reasonable to assume the business group received preferential treatment from the government. The third criteria is concerned with *Jonghap Sangsa*. Although it is not easy to maintain the prestigious status of *Jonghap Sangsa*s, there is no doubt that the firms designated as *Jonghap Sangsa* have been receiving invaluable protection and support from the government. If a business group has owned a *Jonghap Sangsa*, then that group is considered to have received preferential treatment from the government. This first measure was operationalized by coding these business groups, which are believed to have political connections according to the three criteria, "1" and others "0."

The second measure is concerned with the adaptation of business groups to the government's industrial policies. A most noteworthy industrial policy of the Korean government was its ambitious plan to develop heavy and chemical industries. The Korean government designated the following six industries as strategic industries subject to preferential treatment: shipbuilding, general machinery, petrochemical, electronics, steel, and nonsteel metal industries. To capture the effect of a business group's participation in those strategic industries, the share of sales from strategic industries out of total sales of a business group was estimated. Thus, the second measure is the ratio of sales generated by member firms in strategic industries to total sales of a business group.

The three hypotheses of the intraorganizational political economy approach were relatively easy to operationalize. The percentage of stock directly controlled by the founding family and the percentage of family managers among the top managers were used to estimate the extent of control exercised by the founding family over stock ownership and management. To see how the problem of control loss affects the use of the chaebol form, another variable was created by estimating the percentage of firms listed in the Korean Stock Exchange in 1988 out of the total member firms of a business group.

To operationalize the argument that the present chaebol is a copy of the prewar zaibatsu, I analyzed the entrepreneurial history of each business group and determined if

each group could have possibly been exposed to the influence of Japanese zaibatsus and Japanese economic organizations in general. In order to make coding decisions, I used the following three criteria: (1) whether the founding firm of a business group used to be a Korean subsidiary or operation of any zaibatsus or of other Japanese enterprises in the colonial era; (2) whether the founder of a business group had worked for any zaibatsus or other Japanese firms in the colonial era; and (3) whether the founder of a business group had been a former bureaucrat of the colonial government. If a business group satisfied any one of the three criteria, the group was coded "1" and others "0."

DiMaggio and Powell's (1983) argument regarding the spread of the chaebol form in the 1970s and 1980s was operationalized by coding business groups in which either the textile or the construction industry was their main industry in terms of sales, "1." Others were coded "0."

To evaluate the hypotheses discussed in the previous section, two types of regression equations were estimated. First, the likelihood that a business group used the chaebol form of organization was estimated by using the maximum likelihood logistic regression. This logistic regression analysis enabled me to evaluate all but one hypothesis. Hypothesis 1c could not be estimated using the logistic regression because the dependent variable of that particular hypothesis is not binary. To adequately test Hypothesis 1c, two OLS regression equations were estimated.

III. Results

Means, standard deviations, and correlations reported in Tables 4.4 and 4.5 suggest that chaebol business groups were more industrially diverse, larger, and older than nonchaebol business groups. The percentage of family managers and stock owned by the founding family in chaebol business groups was relatively smaller than nonchaebol counterparts. Chaebol business groups had more political connections and more companies listed in the Korean Stock Exchange. The results also confirm the importance of the main industry of business groups. Having the textile or construction industry as the primary industry of a business group is positively correlated to the likelihood that the group uses the chaebol structure.

Coefficients for regression analyses are reported in Tables 4.6 and 4.7. Hypotheses elaborated in the theory section were first evaluated by estimating three different logistic regression equations because of high correlations between three variables: the number of industries and size (r=.638), the number of industries and political connections (r=.640), and size and political connections (r=.597).

The results shown in Table 4.6 seem to indicate that the Chandler and Williamson explanations (Hypotheses 1a and 1b) are valid in accounting for the rise of Korean chaebols. Industrial variety increases the likelihood that business groups use the chaebol form. Size variation also has a positive effect on the likelihood. However, the results obtained with OLS regressions in Table 4.7 do not let me assert that the fundamental arguments of the two scholars are plausible in the case of Korean chaebols. OLS regression results clearly indicate that the chaebol structure does not help organizations accomplish economic efficiency (Hypothesis 1c). As Chandler and Williamson argue, growth strategies and size variations may influence Korean organizations to use the chaebol form. But it is not clear if the form is used because of its superior capability to resolve the problem of inefficiency.

This result seems to imply that concerns other than economic efficiency may have been working inside Korean organizations. This implication seems to open doors to other interpretations regarding the rise of Korean chaebols.

Hypothesis 2a predicts that having political connections increases the likelihood that business groups use the chaebol form. The results shown in Table 4.6 provide support for this hypothesis. This is an indication that business groups with close connections to the political apparatus are more likely to become chaebols than other business groups. However, the share of sales from strategic industries of business groups does not have any effect on the likelihood of becoming a chaebol (Hypothesis 2b).

Hypotheses 3a, 3b, and 3c are not supported by the results. Variables representing those hypotheses are percentage of stock controlled by the founding family, percentage of family managers among top management, and percentage of firms that offer their stock to the public. None of the three variables has a significant effect on the likelihood that business groups use the chaebol structure. This seems to be an indication that the founding family's preference does not dictate internal decision-making processes and thus the intra-organizational political economy argument may have been overdrawn in the case of Korean business groups.

The results are also inconsistent with predictions of Hypothesis 4a that the chaebol emulated the zaibatsu. When operationalizing the variable representing the influence of the zaibatsu, I used somewhat wider criteria to incorporate as much influence of zaibatsus or Japanese business organizations into the equations as possible. Therefore, my test was conservative. Such inconsistent results lead me to reject the hypothesis that the chaebol copied the zaibatsu.

Hypothesis 4b predicts that business groups that have core firms in textile and construction industries are more inclined to adopt the chaebol form. The results provided support for this hypothesis. This institutional isomorphism argument indicates that the primary

industry of business groups would be an important factor influencing them to use the chaebol form. In other words, business groups formed around core firms in textile and construction industries are more inclined to use the chaebol form to cope with their environmental uncertainties.

IV. Discussion

This chapter explored the factors that lead Korean business groups to use the chaebol form of organization. The results clearly support the interorganizational political economy theory. Hence, the popular belief that Korean chaebols emerged mainly because of their close relations with the political regime has been substantiated with quantitative analyses. This study also demonstrates that the chaebol form has often been used by business groups that are faced with environmental uncertainties and confirms the claim of the institutional perspective that political economy and efficiency-oriented arguments are not the major explanation for the rise of Korean chaebols. Business groups that are faced with environmental uncertainties would exhibit a tendency to adopt the proven form of successful organization. This study does not, however, substantiate the speculation that the chaebol is a copy of the zaibatsu. I would, therefore, conclude that the rise of chaebols has little to do with the colonial legacy that the zaibatsus left behind during the colonial years.

This study, however, provides somewhat mixed evidence for the plausibility of the adaptation approach in the case of Korean chaebols. The results show that growth strategy calls for structural reform and size has a positive and direct effect on the use of the chaebol form. But the finding that efficiency has little to do with the use of the chaebol form casts a doubt over the validity of the two efficiency-oriented theories. The two theories predict that better economic performance will take place because of the superior capability of the

chaebol structure in efficiently coordinating administrative activities (Chandler) and minimizing transaction cost (Williamson). However, business groups using the chaebol structure did not show superior economic performance.

With regard to this finding, two related questions remain to be answered: Why are chaebol business groups less efficient than their nonchaebol counterparts? Why do business groups prefer the chaebol form even if it does not provide economic efficiency?

Chaebol business groups may not have shown better economic performance because most Korean business groups tend to use the absolute amount of total sales as the most important criterion of business success. Profits are a matter of less significance than sales. Social and political status of business groups is determined on the basis of sales figures. The primary goal of Korean business groups is to maximize sales, not profits. Hence, most Korean chaebols have sought a sales-maximizing and expansion-oriented strategy. The result that chaebol business groups are less efficient than their nonchaebol counterparts would be a natural consequence of this tendency to put much more weight on sales volume than profits.

Why do business groups prefer the chaebol form, notwithstanding that the form does not provide economic efficiency? Political economists would say that Korean business groups use this form because the authoritative state prefers large and concentrated organizations like chaebols. Institutionalists would argue that this form is preferred by Korean business groups because other leading business groups use this form. The results obtained in this study seems to support both claims. In other words, the chaebol became a preferred organizational structure among large business groups because of political and institutional concerns rather than efficiency concerns.

Because this is the first attempt of this kind to explain the origin of Korean chaebols, my research design and operationalization of variables might have allowed for only a crude test of some of the theoretical approaches. Hence, the results should not be taken as conclusive

evidence that each of the theories was either valid or invalid in relation to the case of Korean chaebols.

TABLE 4.1

Distribution of Industries where the 100 Largest Firms of Korea Have Been Engaged

1955		1965		1976		1984	
Industry	No. of Firms	Industry	No. of Firms	Industry	No. of Firms	Industry	No. of Firms
Int'l Trading	25	Textile*	22	Textile*	12	Construct'n*	18
Textile*	13	Rubber	9	Int'l Trading	10	Int'l Trading	15
Construct'n*	9	Wholesale & Retail	9	Food	10	Bank & Ins.	10
Food	8	Bank & Ins.	8	Construct'n*	9	Metal	9
Wholesale & Retail	5	Food	8	Metal	8	Transportat'n Machinery	8
Bank & Insur.	5	Wood	5	Transportat'n Machinery	6	Textile*	7
Chemical	4	Metal	5	Rubber	5	Petroleum	5
Machinery	4	Paper	5	Electric & Electronics	5	Electric & Electronics	5
Transportat'n Machinery	4	Chemical	4	Chemical	5	Chemical	4
Shipping	4	Int'l Trading	4	Cement	4	Food	4
Service	4	Mining	4	Wood	4	Shipping	4
Pharmac'tical	3	Construct'n*	3	Shipping	3	Rubber	3
Rubber	3	Electric Electronics	2	Bank & Ins.	3	Wholesale & Retail	2
Electric & Electronics	2	Cement & Ceramics	2	Petroleum	3	Machinery	2
Cement & Ceramics	2	Shipping	1	Machinery	2	Cement	1
Printing	1	Glass	1	Service	2	Precision	1
Paper	1	Machinery	1	Mining	2	Mining	1
Fishery	1	Pharmac'tical	1	Cosmetics	2	Pharmac'tical	1
Mining	1	Cosmetics	1	Leather	1		
Metal	1	Printing	1	Fishery	1		
		Transportat'n Machinery	1	Pharmac'tical	1		
				Paper	1		
				Wholesale & Retail	1		

Source: recompiled from data given in Jung (1987:201-215)

TABLE 4.2

Distribution of Industries where the Top 20 Firms of Korea Have Been Engaged

1955		1965		1976		1984	
Industry	No. of Firms	Industry	No. of Firms	Industry	No. of Firms	Industry	No. of Firms
Textile*	4	Textile*	9	Int'l Trading	4	Int'l Trading	7
Construct'n*	3	Wood	2	Petroleum	3	Construct'n*	3
Food	3	Food	2	Metal	3	Petroleum	3
Wholesale & Retail	3	Rubber	2	Construct'n*	2	Electric & Electronics	2
Chemical	2	Others	5	Textile*	2	Insurance*	2
Others	5			Others	6	Others	3

Source: recompiled from data given in Jung (1987:201-215)

TABLE 4.3

Share of Textile and Wearing Apparel in Total Exports, 1962-1985

Year	Textiles	Wearing Apparel	(T + W)/Exports
1962	12.1	2.0	14.1
1965	19.4	11.9	31.3
1970	15.2	25.6	40.8
1975	13.6	22.6	36.2
1980	10.2	16.8	27.0
1985	6.9	14.7	21.6

Source: E. Kim (1987:183)

Table 4.4

Comparison of Means and Standard Deviations (in Parentheses) of Variables between Chaebol and NonChaebol Business Groups

	Total (N=143)	Chaebol (N=44)	Non-Chaebol (N=99)	t-value
Chaebol	.31 (.46)			
No. of Industries	5.69 (4.01)	9.84 (4.33)	3.84 (1.94)	-11.43
Size (No. of Employees)	9417 (18831)	19306 (29955)	5023 (7529)	-4.46
Share of Sales from Strategic Industries	.12 (.24)	.15 (.19)	.10 (.25)	-1.20
Political Economy	.16 (.37)	.45 (.50)	.03 (.17)	-7.48
Percentage of Family Stock Ownership	.48 (.30)	.38 (.14)	.52 (.34)	2.69
Percentage of Family Managers	.20 (.14)	.14 (.10)	.23 (.14)	3.76
No. of Listed Companies	1.97 (2.58)	3.97 (3.61)	1.07 (1.13)	-7.28
Percentage of Listed Companies	.20 (.15)	.26 (.12)	.17 (.15)	-3.41
Japanese Connection	.30 (.46)	.54 (.50)	.20 (.40)	-4.52
Textile & Construction	.27 (.45)	.50 (.51)	.18 (.38)	-4.29
Age	32.65 (11.76)	36.20 (10.27)	31.07 (12.08)	-2.45
Return on Capital	.279 (.288)	.175 (.145)	.325 (.322)	3.84
Return on Total Assets	.028 (.024)	.017 (.016)	.032 (.026)	4.22

Table 4.5

Correlations among Variables+

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1.	1.00													
2.	0.69*	1.00												
3.	0.35*	0.64*	1.00											
4.	0.10	0.19*	0.18*	1.00										
5.	0.53*	0.64*	0.60*	0.25*	1.00									
6.	-0.22*	-0.17*	-0.09	-0.15*	-0.16*	1.00								
7.	-0.30*	-0.37*	-0.28*	-0.19*	-0.34*	0.30*	1.00							
8.	0.52*	0.76*	0.77*	0.24*	0.63*	-0.30*	-0.36*	1.00						
9.	0.28*	0.17*	0.18*	0.08	0.25*	-0.62*	-0.25*	0.51*	1.00					
10.	0.36*	0.40*	0.31*	0.07	0.44*	-0.21*	-0.22*	0.39*	0.23*	1.00				
11.	0.34*	0.17*	0.21*	-0.08	0.25*	-0.10	-0.21*	0.17*	0.20*	0.21*	1.00			
12.	0.20*	0.21*	0.19*	-0.02	0.23*	-0.23*	-0.20*	0.30*	0.28*	0.46*	0.06	1.00		
13.	-0.24*	-0.20*	-0.06	-0.16*	-0.19*	-0.02	0.15*	-0.13	0.07	0.03	0.07	0.07	1.00	
14.	-0.29*	-0.28*	-0.19*	-0.12	-0.23*	0.10	0.33*	-0.23*	-0.10	-0.16*	-0.10	-0.02	0.71*	1.00

+ Coefficients are for Pearson correlations.
* P <.05

1. Chaebol
2. Number of industries
3. Size (number of employees)
4. Sales from the strategic industries
5. Political economy (political connections and favors)
6. Percentage of ownership controlled by the founding family
7. Percentage of managers from the founding family
8. Number of companies listed in the Korean Stock Exchange
9. Percentage of companies listed in the Korean Stock Exchange
10. Connections of business groups with Japanese during the colonial era
11. Core companies from textile or construction industry
12. Age of business group
13. Return on capital
14. Return on total assets

Table 4.6

Coefficients and Standard Errors (In Parentheses) of Logistic Regression Analyses

Variables	Chaebol		
	1	2	3
No. of Industries	.837****		
	(.173)		
Size		.846****	
		(.244)	
Political Economy			2.748****
			(.728)
Sales from Strategic Industries	-.491	.007	-.230
	(1.440)	(.941)	(1.115)
Percentage of Family Stocks	-.112	-.749	-1.018
	(1.543)	(1.064)	(1.066)
Percentage of Family Managers	-1.594	-3.237	-2.299
	(2.927)	(2.191)	(2.151)
Percentage of Listed Firms	3.181	1.501	.976
	(2.582)	(1.796)	(1.835)
Japanese Connection	-.004	.712	.652
	(.708)	(.513)	(.537)
Textile & Construction	2.072***	1.170***	1.240***
	(.715)	(.471)	(.492)
Age	.002	.005	.011
	(.026)	(.020)	(.019)
Constant	-6.804	-7.996	-1.358
	(1.856)	(2.200)	(1.075)
2 X Log likelihood	70.19	127.10	122.45

* P <.10
** P <.05
*** P <.01
**** P <.005

Table 4.7

Coefficients and Standard Errors (in Parentheses) of OLS Regression Analyses

Variables	Return on Capital	Return on Total Assets
Chaebol	-.206****	-.008*
	(.060)	(.005)
Size	.002	-.004
	(.026)	(.002)**
Sales from Strategic Industries	-.127	-.001
	(.104)	(.008)
Percentage of Family Stock	-.028	-.003
	(.101)	(.008)
Percentage of Family Managers	.294	.041
	(.193)	(.016)
Percentage of Listed Firms	.195	.001
	(.206)	(.017)
Japanese Connection	.042	-.002
	(.061)	(.005)
Textile & Construction	.102*	.003
	(.057)	(.005)
Age	.096	.010
	(.075)	(.006)
Constant	-.109	.026
	(.318)	(.026)
R^2	.148	.191

* P <.10
** P <.05
*** P <.01
**** P <.005

CHAPTER FIVE

A COMPARATIVE STUDY OF THE ZAIBATSU AND THE CHAEBOL

The purpose of this chapter is to probe the origin of Korean chaebols and to compare Korea's chaebol and Japan's zaibatsu. The extent of family control over ownership and family participation in management, the extent of diversity in terms of the number of industries where chaebols and zaibatsus were engaged, and the size of each chaebol and zaibatsu will be compared. The process of development of the Big Three zaibatsus (Mitsui, Mitsubishi, and Sumitomo)[1] will be analyzed to see if the course of their development had any relevance to the rise of chaebols. By so doing, this chapter will make a contribution to understanding the origin of Korean chaebols.

Recently several studies have been undertaken to compare the most important forms of the present business organization in Korea and Japan: the chaebol of Korea and the *kigyo shudan* of Japan (e.g., Hamilton and Biggart, 1988; Orru, Biggart, and Hamilton, forthcoming; Yoo and Lee, 1987). Orru, Biggart, and Hamilton (1990) argued that apparent structural differences exist between the chaebol and the *kigyo shudan*. Yoo and Lee (1987) also pointed out differences between the two forms in terms of management practice and ownership structure. Those studies correctly assessed the inherent characteristics of the two organizations and claimed that the two current organizations display structural differences more than commonalities. However, they did not elaborate on the possible linkage between the present chaebol and the prewar zaibatsu. Cumings (1984") implied the possible effect of zaibatsus on the emergence of chaebols, noting that Koreans have "fostered zaibatsu-like conglomerates, with extensive family interpenetration, and ideologies of familial hierarchy and

---

[1]Some would include Yasuda as one of the largest zaibatsus even if Yasuda was not so industrially diverse as Mitsui, Mitsubishi, Sumitomo. If Yasuda is included, this group of zaibatsus has been called the "Big Four."

filial loyalty" (13). Johnson (1987) also noted that the chaebol is similar to the zaibatsu except that the former does not have its own bank. Some would assert that such similarity between the two organizations can be attributed to the "colonial legacy." Since Korea was a colony of Japan for thirty-five years from 1910 to 1945, it may not be unusual for the present Korean business groups to have adopt the organizational structure of Japan's prewar business groups. It is a frequently observed phenomenon that, after achieving independence, former colonies adopt the political, social, and economic systems that the colonial powers used during their colonial occupation.

The theory of institutional isomorphism developed by DiMaggio and Powell (1983) can be used to make a similar argument. In the colonial period, the zaibatsu had been not only a prevailing form of organization but also a dominant force of industrial development in Japan. Mimetic isomorphism could account for the rise and development of chaebols because the form of organization proven to be successful and that the Korean government and Korean business elite observed was the *zaibatsu*-like organization.

This view stressing the similarity between the chaebol and the zaibatsu has been challenged by some scholars. Hattori (1984, 1987, and 1989) maintained that, despite the superficial similarities represented by family control over ownership and diversified businesses, the two organizations are different in the following three respects. First, zaibatsu founding families did not participate in management as actively as chaebol founding families. Second, the roles played by professional managers in zaibatsus were much more critical than those in chaebols. Third, chaebols did not have their own commercial banks and general trading companies during their formative and developmental stages.

What would the major factors responsible for these differences be? According to Hattori, they are variations in length of business history, in control mechanism, and in family concept. First, leading zaibatsus (e.g., Mitsui and Sumitomo) had a business history of more than three centuries, which was much longer than the oldest chaebol's history of fifty years.

Second, the chaebol founder family's active participation in management generated a different mechanism for controlling and integrating subsidiary companies. The absence of holding companies in chaebol business groups may reflect this difference. The family's extensive participation in management seems to be closely linked to the third factor, difference of family concepts in Korea and Japan. In Japan the family concept is not restricted to blood relationships. In contrast, Korean families have been formed strictly on the basis of blood relationships. Hence, the inheritance of a family business by nonfamily members with no blood relationship is very rare. But it is common in Japan to expand the family concept through the process of "adoption." If a family cannot find capable family members to run its business, it adopts qualified nonfamily members and lets them run the business (Hattori, 1989:93-94). From the Korean viewpoint, a family business is a property strictly owned by the family. It is thus quite natural that all family members, regardless of their qualifications, should be responsible for operating their business. Hattori further argued that institutionalization of the family-dominated and pyramidal structure of chaebols was due primarily to the traditional paternalistic family structure.

If the view stressing the colonial legacy has validity, the zaibatsu and the chaebol are expected to exhibit structural similarities. If Hattori's argument is plausible, the two organizations are expected to show more structural differences. A comparison between the chaebol and the zaibatsu becomes necessary to assess the two arguments about the effect of Japan's zaibatsus on the rise and spread of chaebols.

I. Japan's Zaibatsu

The "zaibatsu" refers to the prewar business group that primarily consisted of trading, financial, and manufacturing firms. Zaibatsu firms were closely knit together around a holding

company that was controlled by the founding family. Banks and trading firms were the most important subsidiary organizations of each zaibatsu (Caves and Uekusa, 1976:60). Banks and other financial institutions enabled zaibatsus to readily raise the necessary capital for further expansion. Trading firms were the agents to buy and sell goods internally and externally for zaibatsu manufacturing firms. Hence, three important reasons for tremendous growth of zaibatsus in prewar Japan were their easy access to capital through their own banks and financial institutions, timely and efficient supplies of vital raw materials through their trading firms, and well-qualified managers (Hirschmeier and Yui, 1981:153).

Yasuoka (quoted by Hattori, 1989: 81) claimed that Japan's large business groups began to adopt the zaibatsu structure during the period from 1909 to 1920. Mitsubishi was the first business group to adopt the zaibatsu structure by incorporating its holding company as Mitsubishi & Partners, Ltd., in 1893. Mitsui and Sumitomo followed Mitsubishi in 1909 and 1921, respectively.

According to Yoshino (1965: 119), the prewar zaibatsus can be classified into three categories. The first category is the so-called Big Four (Mitsui, Mitsubishi, Sumitomo, and Yasuda). This group, particularly the first three zaibatsus, had well-diversified industrial and financial businesses. The second consisted of several smaller business groups than the first, including Furukawa, Okura, Asano, and others. Finally, a group of zaibatsus newly emerged in the 1930s belong to the third. This group included Nissan, Nisso, Nakajima, and others. Yoshino claimed that when a more strict definition of zaibatsu is applied, the total number of zaibatsus does not exceed twenty or so. However, there is no consensus about which of the twenty or so business groups were zaibatsus and which were not. Everyone agrees that Mitsui, Mitsubishi, Sumitomo, and Yasuda were zaibatsus. However, there has been controversy about which of more than ten smaller business groups were zaibatsus. In this context, it would be useful to consider how the Holding Company Liquidation Commission

(HCLC)[2] made decisions about the status of each business group. After the war, the HCLC officially designated ten business groups as zaibatsus that were to be disbanded, taking into account the degree of family control over holding and subsidiary companies, the degree of diversification, and the size of each business group. Of the three criteria, the size of each business group was of most significance (Hadley, 1970:22). The ten business groups designated by the HCLC were Mitsui, Mitsubishi, Sumitomo, Yasuda, Nissan, Asano, Furukawa, Okura, Nakajima, and Nomura. Some of the criteria used by the HCLC seem to be questionable.[3] But the virtual absence of consensus regarding the status of smaller zaibatsus leaves few alternatives but the HCLC's designation.

In the next section, a brief business history of the Big Three (Mitsui, Mitsubishi, and Sumitomo) provides a picture of the zaibatsus' developmental processes.

A. Business History of the Big Three

Of the Big Three, Mitsui and Sumitomo had already become the wealthiest merchant houses in the Tokugawa period (1673-1868)[4]. Mitsui made wealth from cloth (drapery) retailing and financing (money exchange) businesses in the Tokugawa period. Sumitomo accumulated a fortune in the Tokugawa period from copper-related refining and mining businesses. Mitsubishi was a newly risen enterprise that made a fortune from shipping-

[2]After World War II, the U.S. occupation forces ordered the Japanese government to dissolve all zaibatsus that had been controlled by the founding family. The Holding Company Liquidation Commission was formed to serve this purpose.

[3]For instance, Ayukawa, the founder of Nissan, did not own any stock in Nissan's holding companies. But the HCLC still designated Nissan as one of the zaibatsus controlled by a group of related individuals.

[4]The Tokugawa period started when Tokugawa Ieyasu conquered all rivals and established the Shogunates or hereditary military dictatorships.

related businesses after the Meiji Restoration[5] in 1868.

Mitsui. The business history of the Mitsui family dates back to the seventeenth century. In 1673 they made a start by opening a cloth retail store and added a financing business a decade later. In the Tokugawa period, Mitsui had already become one of the wealthiest merchant houses through cloth retailing and financing businesses (Hattori, 1989:81; Morikawa, 1974:47). Toward the end of the Tokugawa period, Mitsui was confronted with a crisis that could have led to its complete downfall. The Tokugawa officials, who were in desperate need of financial resources for the Meiji Restoration War, imposed a huge amount of forced loan on Mitsui that was well beyond Mitsui's financial capability. Mitsui eventually managed to overcome the crisis through Mizaemon Minomura's (Mitsui's then general manager) personal connections with a Tokugawa official. During the Meiji Restoration War following its financial crisis, Mitsui put itself on the side of the restoration party, which rose up against the Tokugawa shogunate rule. Mitsui made a substantial contribution and became the financial agent of the restoration party after the party's victory. With this timely political decision initiated by Minomura, Mitsui paved the way to becoming the largest zaibatsu in the prewar days by making the best use of political and economic favors provided by the new Meiji government (Hirschmeier, 1964:213-214).

After the Meiji Restoration, Mitsui began to diversify into many industries. In 1876 Mitsui established two of its key subsidiaries, Mitsui Bank and Mitsui Bussan (the general trading company). In 1888 Mitsui set up another cornerstone for its future development by acquiring the Miike Coal Mine from the Japanese government (which was reorganized into the Mitsui Mining Co. in 1892). After the Meiji Restoration in 1868, Mitsui's major businesses consisted of banking, trading, and mining (Morikawa, 1974:47-8; Yasuoka, 1974:84).

---

[5]"Restoration" means the removal of political power of the (Tokugawa) Shogunate and the return to direct rule by the (Meiji) Emperor. Hence, it was the restoration of Imperial rule and the turning back to the traditional Japanese political system. But the restoration in 1868 was not a popular revolution with the masses because the restoration movement was carried out by a relatively small number of young, able samurai of lower rank. There was a war between the restoration party and the party on the side of the Tokugawa shogunate (Yoshino, 1965:20).

Mitsui's development after World War I (1914-1919) was due mainly to the growing prosperity of its major subsidiary companies, Bussan, Mining, Bank, Oji Paper Mills, Shibaura Electric Works, and Hokkaido Mining and Shipping. For instance, Mitsui Bussan expanded its businesses into shipbuilding in 1917, raw cotton in 1920, and chemical fiber in 1926. Mitsui Mining further consolidated its coal mining business and also expanded into iron mining and chemical business (Nakagawa, 1974: 32-33).

In the period of the 1920s and the 1930s between the two world wars, every zaibatsu recorded an unprecedented rate of growth which was due partly to ever-increasing military expenses and expanding war preparations of the 1930s. Such tremendous growth inevitably forced each zaibatsu to face the challenge of how to maintain a balance between the two countervailing forces of growth and control.

Traditionally, Mitsui's subsidiaries showed a tendency toward decentralization. Since the Mitsui zaibatsu was formed after some of its core businesses (e.g., trading, banking, and mining) had been established, the core subsidiaries were much older than the central office. The core subsidiaries thus resisted the central office's efforts toward centralization and suboptimized their own goals. They were also reluctant to accept the Mitsui family's attempts to integrate them under a single authority.

In order to more effectively integrate activities of its decentralizing subsidiary companies under an authoritative organization, Mitsui kept looking for the best working mechanism. In this endeavour, the Mitsui Family Provisional Deliberation Council (the Deliberation Council) was established in 1891 as an administrative organ to supervise Mitsui's ever-growing subsidiaries. Two years later the Deliberation Council was replaced by the Joint Family Council, which in turn was reorganized into the Board of Directors of the Mitsui Company in 1896. The board became the central headquarters of the Mitsui zaibatsu. But the board did not function well because of the sustained tradition of decentralization. In 1901 the Administrative Department was created to take over the board. The department was given

considerable authority to supervise operations, to revise the article, to formulate policies, appoint directors, control reserved funds, and to plan the rationalization of each company (Morikawa, 1974:53). However, even the department was not able to accomplish the objective of effectively coordinating subsidiary companies because of the stubborn desire of key subsidiary companies for autonomy. In 1909 Mitsui Gomei was officially incorporated as a holding company of the Mitsui zaibatsu (Hirschmeier and Yui, 1981:223-230; Morikawa, 1974:55).

However, the conflict between centralized control and operational autonomy kept hampering the newly created central headquarters. As a result, even Mitsui Gomei failed to effectively integrate the subsidiary companies. Mitsui Gomei was no more than a coordinating committee consisting of the representative of each operating company (Morikawa, 1974:55).

In sum, Mitsui went through a series of organizational reforms. Through those structural changes, the Mitsui family and the head office kept striving to consolidate their authority while coping with the countervailing forces stemming from persistent pursuit of autonomy by subsidiary companies. As a result, the organizational structure of Mitsui was seemingly more centralized than other zaibatsus.

Mitsubishi. Mitsubishi was established in 1870 in the early Meiji era by Yataro Iwasaki, who had a strong association with influential political figures of the Meiji government.

Mitsubishi developed first as a shipping enterprise. It made its first big fortune in military transportation businesses in 1874 and 1877 (Yasuoka, 1974:86). This fortune enabled Mitsubishi to further expand to related businesses. In 1871 Mitsubishi started to run coal mines to secure fuel supplies for their ships and in 1875 purchased the Yokohama Iron Works to repair ships. In order to facilitate bill handling for the shipping business, it opened a money-exchange office in 1876 (which later became the Mitsubishi Bank). However, in the next year Mitsubishi relinquished its shipping business to Nippon Yusen Kaisha (NYK), which

was newly formed through a merger between Mitsubishi and Kyodo Unyu Company. Yet Mitsubishi could receive substantial profits and dividends, which were guaranteed by the Meiji government, from NYK since it remained the largest shareholder of the company. With those monetary resources Mitsubishi started to further diversify its businesses. In 1887 it acquired the Nagasaki Shipbuilding Yard from the government. Since then it acquired more metal and coal mines, consolidated banking business, established the Kobe Shipbuilding Yard, and started a real estate business in Tokyo. Mitsubishi also gradually expanded into such diversified areas as insurance, paper, farming, brewery (beer), and glassworks (Morikawa, 1974:49-50).

The massive development of Mitsubishi into the second-largest zaibatsu in the prewar era was due primarily to the strong leadership of Koyata Iwasaki, the fourth president of Mitsubishi. Under his leadership, Mitsubishi became very active in diversification in heavy industries. Mitsubishi's diversification in the 1920s was propelled by the decline of profitability of one of its major businesses, coal mining, and the recession of the shipbuilding business on account of the worldwide disarmament movement at that time (Nakagawa, 1974:32).

Mitsubishi also went through a series of organizational restructuring efforts. After the death of Yataro Iwasaki, the founder, in 1885, his younger brother Yanosuke Iwasaki took over Mitsubishi's leadership. In 1886 Yanosuke established Mitsubishi-sha (Mitsubishi Co.) to coordinate its diversified subsidiary companies and became its president. Mitsubishi-sha had several departments (mining, accounting, and general affairs) and many subsidiary firms. But Mitsubishi-sha was not yet regarded as a full-fledged central office to control and coordinate all subsidiaries.

In 1893, Mitsubishi & Partners, Ltd., was newly established as a central office to succeed Mitsubishi-sha (Morikawa, 1970:67). This company diversified its lines of business by either expanding existing product departments or establishing new departments. Since the departments (mining, banking, mining sales, shipbuilding) were under the direct control of

Mitsubishi & Partners, Ltd., they were not given much autonomy and discretion. In 1908, Mitsubishi initiated an organizational reform by decentralizing its control structure. All departments under the direct control of Mitsubishi & Partners, Ltd., became autonomous divisions that were quite comparable to self-supporting divisions of U.S. multidivisional organizations. Although Mitsubishi's previous product departments were under the centralized control of the headquarters, its new divisions were given more autonomy and a considerable amount of divisional discretion (Morikawa, 1970: 69-70).

In 1916, Koyata Iwasaki, the son of Yanosuke Iwasaki, became the fourth leader of Mitsubishi. He initiated an important organizational reform by making each division of Mitsubishi & Partners, Ltd., an independent joint-stock company and Mitsubishi & Partners, Ltd., a holding company. Through this structural reform, Mitsubishi went back to the previous course of centralization and the newly incorporated subsidiary companies lost the autonomy that they had enjoyed as autonomous divisions (Morikawa, 1970: 73-4).

Mitsubishi's changes in organizational structure can be characterized by progressive and retrogressive alternations from centralization to decentralization, and back to centralization again. The initially centralized structure enabled top management to delegate some authority, which later helped to establish decentralized divisions. Subsequent decentralization made it possible for autonomous divisions to limit continued expansion of centralized control. Such a relatively less centralized, but more integrated (under a strong leadership of the Iwasaki family), control system than Mitsui's enabled Mitsubishi's top management at the head office to concentrate on the strategic issues and keep itself distanced from the interests of subsidiaries. "This certainly helped make it easier for President Koyata to display one-man control" (Morikawa,1970:83).

Sumitomo. Sumitomo's business history started in 1590 when Riemon Soga opened a copper crafting shop in Kyoto. Although Soga did not have a blood relationship with the Sumitomo family, marrying the elder sister of Masatomo Sumitomo made him one of the

Sumitomo family members. From the late sixteenth century until the early Meiji period, copper mining had been the Sumitomo's primary business. In 1691 Sumitomo purchased the Besshi mine, which later become its primary financial source. Through copper mining businesses, Sumitomo became one of the leading merchant houses in the Tokugawa period.

Around the year of the Meiji Restoration in 1868, Sumitomo had to go through the most serious crisis in its business history. Internally, The Besshi mine became very unprofitable toward the end of the Tokugawa period because of flooding and was in such bad shape that it could not operate without government subsidies. When subsidies were suspended because of the outbreak of the restoration war, a workers' riot took place. Under these circumstances, the Sumitomo family considered selling the mine. At this juncture, Saihai Hirose, then general manager of the Besshi mine, persuaded the Sumitomo family not to sell the mine and stopped the riot by negotiating an extension of rice deliveries.

Externally, Sumitomo was in danger of losing control of the Besshi mine because it had very close ties with the fallen Tokugawa shogunate and warlords. Through Hirose's critical contributions, Sumitomo could was able to settle the dispute with the new Meiji government over the ownership of the Besshi mine and regain its control of the mine. After managing this crisis, he endeavored to turn the mine around. To save the mine, Sumitomo relinquished businesses other than copper-related ones. Through Hirose's all-out effort, management of the mine became normalized and its financial conditions greatly improved. In appreciation of his critical contribution, Sumitomo made Hirose General Manager. He became the first non-family, professional manager to run the Sumitomo group (Gerlach, 1987: 51; Hirschmeier, 1964:226-229; Yasuoka, 1974:85-6).

The improvement of financial conditions of the mine around 1888 enabled Sumitomo to invest in other businesses. From the Besshi mine, Sumitomo diversified into many related businesses, capitalizing on new business opportunities created by the new political and economic reform of the Meiji period. After 1888, Sumitomo became very active in

diversification of its businesses. It established Sumitomo Bank in 1895 and expanded into coal mining, fertilizer manufacturing, and other enterprises during the early 1900s. However, during the first several decades of the Meiji period, Sumitomo remained primarily in the copper business centering around its Besshi mine. After World War I, Sumitomo expanded into electricity, coal mining, and the steel business. It further diversified into life insurance, trust banking, and heavy and chemical industries such as steel, electrical products, glass, fertilizer, chemical fertilizer, shipping and warehousing, and trust businesses (Yasuoka, 1974:86). As a result of this diversification, Sumitomo became a business empire that had been the most organically developed and the most heavily industrialized among the Big Three (Nakagawa, 1974:35).

In 1896 Sumitomo Honten was established as a holding company to coordinate and control the growing number of subsidiary companies. This holding company was reorganized as the Sumitomo Goshigaisha (Sumitomo Limited Partnership) in 1921. The head of the Sumitomo family, Kichizaemon Sumitomo, became the chairman of the holding company, but he was not actively involved in managerial activities. Sumitomo was in fact run by the general manager. Sumitomo Goshigaisha was incorporated as Sumitomo Honsha in 1937, but this company was virtually controlled by the Sumitomo family since its shares were never offered to the public (Gerlach, 1987:52).

Since Sumitomo diversified into related businesses, its organization was well structured and its control system was centrally integrated by the head office. For instance, all subsidiary companies were requested to submit various types of ten-day, monthly, and annual reports to the central headquarters (Sumitomo Goshigaisha). Those reports and plans were coordinated by the head office according to Sumitomo's strategic plans and then submitted to the board of directors for approval. In addition, many internal regulations were explicitly stipulated in the Sumitomo Family Constitution and Company Manual (Gerlach, 1987:52).

Discussion. Leading zaibatsus started to emerge during the economic reform period of the early Meiji era and further developed as a dominant economic organization through three wars[6] and economic depressions after World War I. It is thus natural that they were affected by, and then adjusted to, those drastic environmental changes. In this volatile environment, the founders' entrepreneurial talents and political connections with the government emerged as the most important ingredients that led a handful of business groups to become powerful zaibatsus (Hirschmeier, 1964:221-222). Mitsubishi seems to be a showcase illustrating the importance of two factors. Yataro Iwasaki had a very close association with the then finance minister of the Meiji government. Through his political influence and connections, Mitsubishi got huge subsidies and privileges. He also had a talent to correctly assess environmental demands and grab entrepreneurial opportunities generated by the environment through every means available.

The cases of Mitsui and Sumitomo, which developed with the Tokugawa merchant capital, illustrate that they grew into big zaibatsus because they could transform themselves into industrial capitalists by breaking their political and economic ties with the old tradition (Hirschmeier, 1964:240). Without those reforms initiated by the professional managers, the two merchant houses would not have survived. The development of Mitsui and Sumitomo into zaibatsus also elucidates the significance of political connections and entrepreneurial talents (of professional managers). Mitsui could emerge in the Meiji era as the number one business group because of its close relationship with Meiji government officials. Sumitomo would have lost control of the Besshi mine and eventually faded away if it had not had amicable relations with Meiji government officials. The critical parts played by professional managers (e.g., Minomura of Mitsui and Hirose of Sumitomo) in the process of the development of Mitsui and Sumitomo remind us of the significance of outstanding managers.

---

[6]The three wars refer to the Sino-Japanese War (1894-1895), the Russo-Japanese War (1904-1905), and World War I (1914-1919).

The history of the Big Three reveals that their phenomenal growth was due to "a combination of personal ability, chances given by the specific economic conditions, and last, but not least, to heavy-handed favors bestowed on them by the government" (Hirschmeier and Yui, 1981:138).

II. Japan's Zaibatsu and Korea's Chaebol

In this section, Korea's chaebol is compared with Japan's zaibatsu. Since the chaebol and the zaibatsu have been characterized by their connection to family business, industrial diversity, and huge size, those three factors dictate the direction of analysis.

It has already been stated that the ten largest business groups of the prewar era had been officially designated as zaibatsus by the HCLC. My data indicate that as of the end of 1988, there were forty-five chaebols in Korea. To have a more balanced picture about the chaebol and the zaibatsu through this comparative analysis, it would be necessary to compare the equal number of zaibatsus and chaebols. For the purpose of this study, the top ten chaebols were selected for further analyses. Hence, the second half of this chapter seeks to compare the top ten zaibatsus and chaebols in terms of size, structure of ownership and management, and industrial diversity.

A. Size

A comparison of size variation between the two types of organizations is made on the basis of the number of subsidiary firms. The number of subsidiary firms may not sufficiently represent size variation. However, other alternative measures representative of size variation do not seem to be appropriate for this study. For instance, it is not possible to compare the

two organizations with financial data because of different time frames. The number of employees, which is frequently used as a measure of size, could not be used because employment data about each zaibatsu are not available. Hence, the number of subsidiary firms may be the best available measure that could adequately reflect size variation between the two organizations.

Table 5.1 shows how large the Big Four zaibatsus were in terms of the number of firms. In 1945 Mitsui had 294 subsidiary companies as of the end of the war. Mitsui had 241. Sumitomo and Yasuda had 166 and 60, respectively. Hence, the Big Four had 761 subsidiary companies under their direct control. An average zaibatsu owned about 120 subsidiary companies in 1945.

Such big size of Japanese zaibatsus can be contrasted with the much smaller size of Korean chaebols. Tables 5.1 and 5.2 display the difference in size between the two organizations. An average chaebol had about 30 companies in 1988. Lucky-Goldstar managed 56 firms and Samsung had 45 firms. Hyundai and Daewoo ran 38 and 31 firms, respectively. Through this analysis, it becomes clear that the size of an average zaibatsu was much bigger than that of an average chaebol.

B. Family Business

Ownership. By definition, a chaebol should be owned and managed by the founding family. Hence all chaebols are family businesses. With the notable exception of Nissan, the ten zaibatsus also had been owned by founding families, since the HCLC considered as one of the criteria for zaibatsus the degree of family control over the holding company and subsidiary companies. Therefore, the issue is not whether a chaebol or a zaibatsu was a family business, but the degree of family control over ownership.

As displayed in Table 5.3, the founding family of each chaebol was the largest stockholder in all ten chaebols as of the end of 1988. On average, 12 percent of a chaebol's stock was directly controlled by the family. Furthermore, about half (49.1 percent) of the chaebols were mutually owned by several core subsidiary companies, which were in turn controlled by the family. Therefore, more than 60 percent (61.1 percent) of the stock was controlled either directly by the family or indirectly by each chaebol's core companies.

The zaibatsu exhibited a similar pattern (see Table 5.4). The percentage (5.1 percent) of stock held by the zaibatsu family was relatively small. So was the percentage accounted for by either the holding company (38.4 percent) or the core subsidiary companies (8.1 percent). At any rate, more than half (51.6 percent) of a zaibatsu's stock was controlled directly or indirectly by the founding family.

In sum, chaebols have been, and zaibatsus had been, owned and controlled by founding families either through their direct stock holdings or through indirect cross-stock holding by core subsidiary companies.

Managerial Structure. Table 5.5 indicates that in all ten chaebols the founding family members participated in management. Overall, about 6 percent of top executive posts were occupied by family members. The index of managerial decision-making power accounted for by family members represented about 12 percent (12.25 percent). A higher index indicates that most family members were occupying higher posts because higher posts were more heavily weighted. Without exception, one of the family members took the office of chairman or president. Four of the ten chaebols (Hyundai, Daewoo, Hanjin, and Lotte) are still led by the founders themselves. All four founders are the chief executive officers and are actively involved in major strategic and tactical decision making. Six other chaebols are headed by either the eldest sons (Lucky-Goldstar, Ssang Yong, Hyosung, and Korea Explosives), the third son (Samsung), or a younger brother (Sunkyong) of the founders.

Limited data availability does not enable me to investigate the managerial structure of all ten zaibatsus. Only the data of the Big Four were available. However, these data seem to provide sufficient information regarding the trends in the prewar era. Table 5.6 indicates that the founding family of Mitsui did not participate in management. The head of the Mitsui family assumed the office of president of the holding company. All subsidiary companies were run by professional managers. Sumitomo seems to have followed Mitsui. The head of the Sumitomo family was president of the holding company. But he was not involved in operations of Sumitomo subsidiary companies. Managerial responsibilities were in the hands of professional mangers. As Mitsui and Sumitomo grew into zaibatsus, the owner families were no longer involved in management, and professional managers were given the total responsibility for running Sumitomo (Hattori, 1989:81). Hence, the two Tokugawa merchant families followed the tradition of "reign, but not rule."

In Mitsubishi and Yasuda, both of which were newly risen merchant families after the Meiji Restoration, the founding family members did have a say over management. Although managerial responsibilities of Mitsubishi were mostly in the hands of professional managers, the Iwasaki family members exercised strong leadership throughout the prewar era. Starting from Yataro Iwasaki, the founder, to Yanosuke Iwasaki, and Koyata Iwasaki, they were leaders who exercised very strong influence in business operations of the Mitsubishi zaibatsu. In a slightly different fashion, the Yasuda family also exercised strong influence in management. As indicated in Table 5.6, the Yasuda family actively participated in management. More than half (53.66 percent) of top executive posts of major subsidiary firms were occupied by Yasuda family members. Zenjiro Yasuda, the founder, did not realize the necessity of qualified professional managers because of his overconfidence from his own successful career. Therefore, he retained tight control over his zaibatsu until his death at the age of 83 (Morikawa, 1984:17).

With regard to the six small zaibatsus, it seems that the roles played by professional managers in each zaibatsu were not so different from those in Mitsubishi and Yasuda. Since the six small zaibatsus developed after the Meiji Restoration, the founders and their families retained control over subsidiary companies. For instance, the Asano zaibatsu did not allow professional managers to advance to top management since Soichiro Asano, the founder, stayed in power for a long time, as Zenjiro Yasuda did. But in those zaibatsus a group of outstanding professional managers started to emerge from the strict organizational hierarchy at the later stage of development in the 1930s and 1940s. The emergence of professional managers in each zaibatsu seems to have been an inevitable trend at the time since Mitsui and Sumitomo, and Mitsubishi, to a certain extent, were managed by professional managers. In order for each zaibatsu to survive the competition, keeping up with the emerging trend toward managerial capitalism seems to have been an unavoidable strategy.

How did giant business groups like Mitsui achieve unity across their more than 200 subsidiary companies? It is not likely that a single administrative organization can coordinate and control all companies. Unity had been achieved through a system of hierarchical control. The holding company coordinated and controlled several core subsidiaries, which in turn tightly controlled their own subsidiaries at the lower level. In a typical zaibatsu all subsidiaries were gradated into several levels. They were classified as "designated subsidiaries," "ordinary subsidiaries" of the top holding company, or "subsidiaries of the designated subsidiaries" (Hadley, 1970:27). In each of the ten zaibatsus, there was a holding company at the top and several key subsidiaries under the direct control of the holding company (see Figures 5-1, 5-2, and 5-3).

The control structure of the chaebol looks quite different. As shown in Figure 5.4, chaebols do not have holding companies. At the top of each chaebol exists a special office for the chairman that has been created to coordinate the chaebol's business activities and

control subsidiary companies[7]. This office is under the direct command of the chairman and functions as a central office. But none of the chaebols incorporated their headquarters as a legal entity like the holding companies of Japanese zaibatsus. The absence of holding companies in Korean chaebols might be due to their much smaller size than Japanese zaibatsus. Control mechanisms of business groups with forty subsidiary companies may not have to be as complex as those of business groups with more than two hundred subsidiary companies.

This analysis clearly indicates an important structural difference between the chaebol and the zaibatsu. In prewar zaibatsus, most managerial responsibilities were carried out primarily by professional managers. That is, management had been separated from ownership. In contrast, chaebols have been owned and managed by founding families. It seems that such variations in managerial structure between the two organizations account for the emergence of different control mechanisms. The absence of holding companies in Korean chaebols may be attributable to the extensive participation of the founding family members in management. As long as the top posts are occupied by the founding family members, Korean chaebols may not need a more sophisticated and complex form of control mechanism typified by an expansive holding company.

C. Diversity

The degree of industrial diversity can be measured by the number of industries in which each zaibatsu or chaebol was engaged. Since it is not clear what kind of industrial classification system Japan used in the prewar years, the Korean Standard Industry

[7]For instance, Samsung named this office the Office of Executive Staffs, Lucky-Goldstar the Office of Group Planning and Coordination, Hyundai the Office of General Planning, and Daewoo the Office of Planning and Coordination.

Classification System (see the Appendix B for details) was used for the comparative purpose. As Tables 5.1 and 5.2 indicate, Japanese zaibatsus were much more diversified than Korean chaebols. On average, Japanese zaibatsus had engaged in about twenty industries, which is contrasted with about fourteen industries for Korean chaebols. The Big Three in Japan were involved in businesses in twenty-nine, thirty-one, and twenty-six industries, respectively. Those figures contrast with nineteen, eighteen, eighteen, and fourteen of the top four chaebols, respectively. Through this analysis, it becomes clear that the top ten zaibatsus were more industrially diverse than their Korean counterparts.

III. Summary and Discussion

The analysis of business history of the Big Three reveals the importance of two factors, that is, political connection and entrepreneurial talents. In the period of 1868 to 1945, those zaibatsus went through the Meiji Restoration war, the two Sino-Japanese wars, the Russo-Japanese War, and the two world wars. Such drastic changes and historic events in the sociopolitical environments of prewar Japan provided a fertile ground for many business groups to grow into big business empires in a short period of time. It is the ten zaibatsus that succeeded in capitalizing on demands of the times through their political connections and entrepreneurial talents.

These environmental changes seem to be comparable to the radical environmental changes of Korea. Changes in Korea included liberation from colonial rule, the Korean War, the military coup, and the political assassination. Hence, those two factors were also of importance for the rise and development of Korean chaebols discussed in Chapters 2 and 3.

The comparative study in the second section indicates that Korean chaebols are not structurally similar to Japanese zaibatsus. Superficially, they look similar in terms of family

control over ownership and industrial diversity. But there exists a more critical structural difference between the two organizations. Japanese zaibatsus had used the so-called *konzern* structure, which is typified by an incorporated holding company at the top and many joint stock companies under the direct control of the holding company. Korean chaebols do not have holding companies as an administrative organ to coordinate and control their subsidiary companies. They have only a special office that is under the direct command of the chairman or the founding family. Chaebols may not need a large and complex type of administrative organization like a holding company because with a much smaller and less complex administrative organization they could effectively control and coordinate the relatively small number of subsidiary companies.

Therefore, this chapter would imply that "the colonial legacy" has little to do with the rise of Korean chaebols. Rather, Hattori's view seems to have more cogency. That is, Korean chaebols are not isomorphic with Japanese zaibatsus since structural differences between the two outweigh superficial similarities.

Table 5.1

Number of subsidiary companies of each zaibatsu and number of industries in which at least one company of each zaibatsu was engaged

Name of Zaibatsu	No. of Companies	No. of Industries
Mitsui	294	29
Mitsubishi	241	31
Sumitomo	166	26
Yasuda	60	20
Ayukawa (Nissan)	179	20
Asano	59	18
Furukawa	53	12
Okura	58	21
Nakajima (Fuji)	68	16
Nomura	19	14
Average	119.7	20.7

Source: recompiled from *Nihon Zaibatsu to Sono Kaitai* (Japan's Zaibatsu and their Dissolution) (Holding Company Liquidation Commission, 1951) and Hadley (1970).

Table 5.2

Number of subsidiary companies of each chaebol and number of industries in which at least one company of each chaebol was engaged

Name of Chaebol	No. of Companies	No. of Industries
Samsung	45	19
Hyundai	38	18
Lucky-Goldstar	56	18
Daewoo	31	14
Sunkyong	17	11
Ssangyong	21	14
Hanjin	16	10
Hyosung	22	13
Lotte	29	15
Korea Explosives	26	16
Average	30.1	14.8

Source: compiled from *Hoisa Yonkam* (1989).

Table 5.3

Ownership distribution controlled by chaebol families and core subsidiary companies as a percentage of issued shares

Name of Chaebol	Families	Core Cos.	Total
Samsung	5.7	45.7	51.4
Hyundai	20.9	46.1	67.0
Lucky-Goldstar	7.4	50.4	57.8
Daewoo	7.6	46.5	54.1
Sunkyong	19.8	40.7	60.5
Ssangyong	4.5	68.4	72.9
Hanjin	23.5	35.2	58.7
Hyosung	6.9	44.4	51.3
Lotte	15.4	61.6	77.0
Korea Explosives	8.2	51.9	60.1
Average	12.0	49.1	61.1

Source: *Dong-A Ilbo* (October 5, 1989: 5).

Table 5.4

Ownership distribution controlled by zaibatsu families, holding companies, and their subsidiary companies as percent of issued shares

Name of Zaibatsu	Family	Holding Cos. (H.C.)	Core Cos.	Total	(Family Share in H.C.)
Mitsui	12.3	48.7	11.4	72.4	(63.8)
Mitsubishi	1.9	30.8	24.2	56.9	(47.8)
Sumitomo	13.7	22.8	27.5	64.0	(83.3)
Yasuda	1.2	44.0	6.9	52.1	(90.0)
Ayukawa (Nissan)	0	60.6	2.4	63.0	(0)
Asano	2.3	41.0	0.4	43.7	(52.2)
Furukawa	1.0	27.6	2.9	31.5	(57.6)
Okura	3.5	38.7	5.6	47.8	(87.1)
Nakajima (Fuji)	1.6	33.8	0	35.4	(100)
Nomura	13.8	36.2	0	50.0	(100)
Average	5.1	38.4	8.1	51.6	

Source: recompiled from *Nihon Zaibatsu to Sono Kaitai* (Japan's Zaibatsu and their Dissolution) by Holding Company Liquidation Commission (1951) and Hadley (1970).

Table 5.5

Chaebol Founding Family Members' Participation in Management

Name of Chaebol	(A)	(B)		(C)	(D)	(E)	
Samsung	492	11	(2.24%)	6	1625	68	(4.18%)
Hyundai	650	20	(3.08%)	12	1925	173	(8.99%)
Lucky-Goldstar	531	42	(7.91%)	28	1789	267	(14.92%)
Daewoo	330	8	(2.42%)	2	1071	80	(7.47%)
Sunkyong	187	11	(5.88%)	5	627	83	(13.34%)
Ssangyong	213	9	(4.23%)	3	734	72	(9.81%)
Hanjin	226	29	(12.83%)	6	755	183	(24.24%)
Hyosung	192	15	(7.81%)	6	719	143	(19.89%)
Lotte	203	25	(12.32%)	4	790	158	(19.89%)
Korea Explosives	201	8	(3.98%)	3	636	80	(12.58%)
Average	3225	178	(5.52%)		10671	1307	(12.25%)

(A) Number of top managerial positions in *chaebol*.
(B) Number of top managerial positions occupied by founding family members.
(C) Number of founding family members participated in management.
(D) Total points of managerial decision-making power.*
(E) Points of managerial decision-making power accounted for by the family managers.*
* Managerial decision-making power is points and calculated using the following system: Chairman and President=10; Vice President =5, Representative Director=4; Executive Director=3; and Director of subsidiary company=1.
Source: compiled from *Hoisa Yonkam* (1989).

Table 5.6

Zaibatsu founding family member's participation in management

Name of Zaibatsu	(A)	(B)		(C)	(D)	(E)	
Mitsui	88	1	(1.11%)	1	254	10	(0.04%)
Mitsubishi	144	17	(11.81%)	2	328	30	(9.15%)
Sumitomo	97	5	(5.26%)	1	299	14	(4.68%)
Yasuda	41	22	(53.66%)	7	150	76	(50.67%)
Average	370	45	(12.16%)	11	1031	130	(12.61%)

(A) Number of top managerial positions in *zaibatsu*.
(B) Number of top managerial positions occupied by founding family members.
(C) Number of founding family members participated in management.
(D) Total points of managerial decision-making power.*
(E) Points of managerial decision-making power accounted for by the family managers.*
* Managerial decision-making power is points and calculated using the following system: Chairman and President=10; Vice President =5, Representative Director=4; Executive Director=3; and Director of subsidiary company=1.
Source: compiled from Hadley (1970).

Figure 5.1

A Typical Zaibatsu's Control Structure

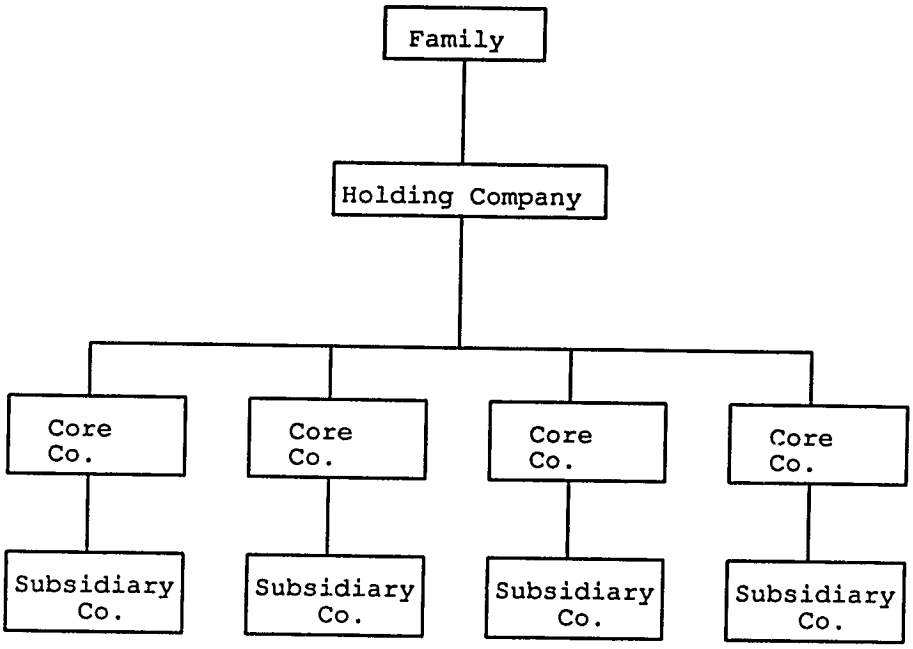


Figure 5.2

Mitsui's Control Structure

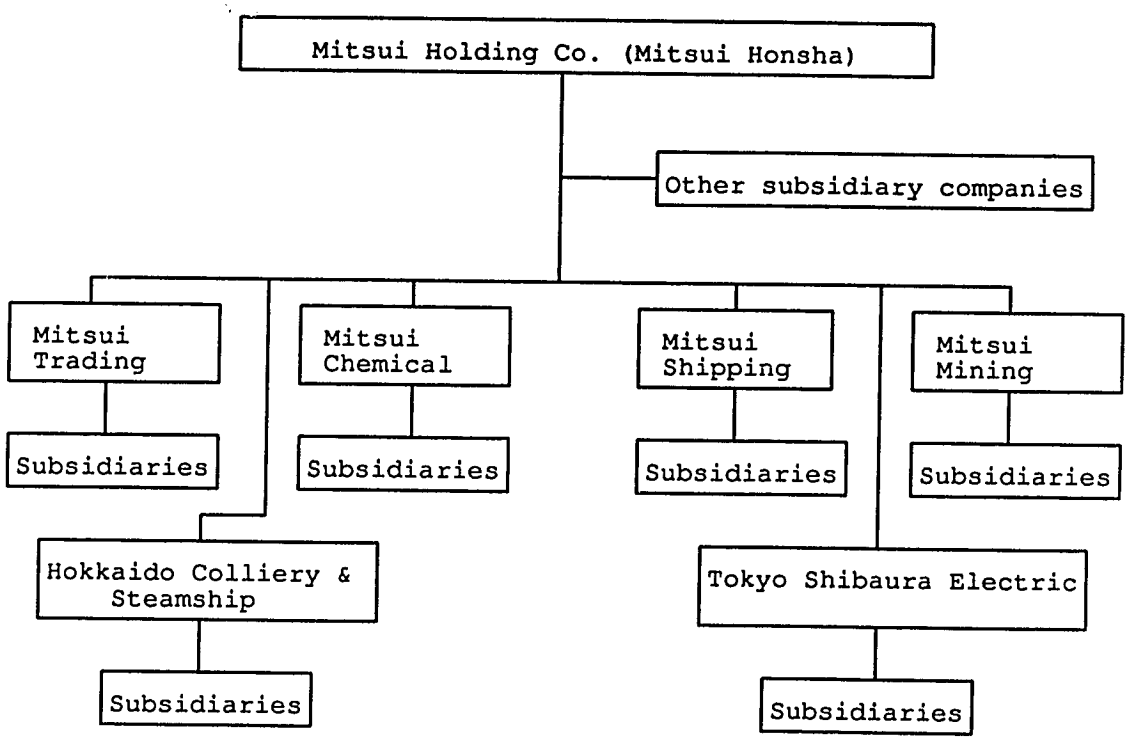


Figure 5.3

Mitsubishi's Control Structure

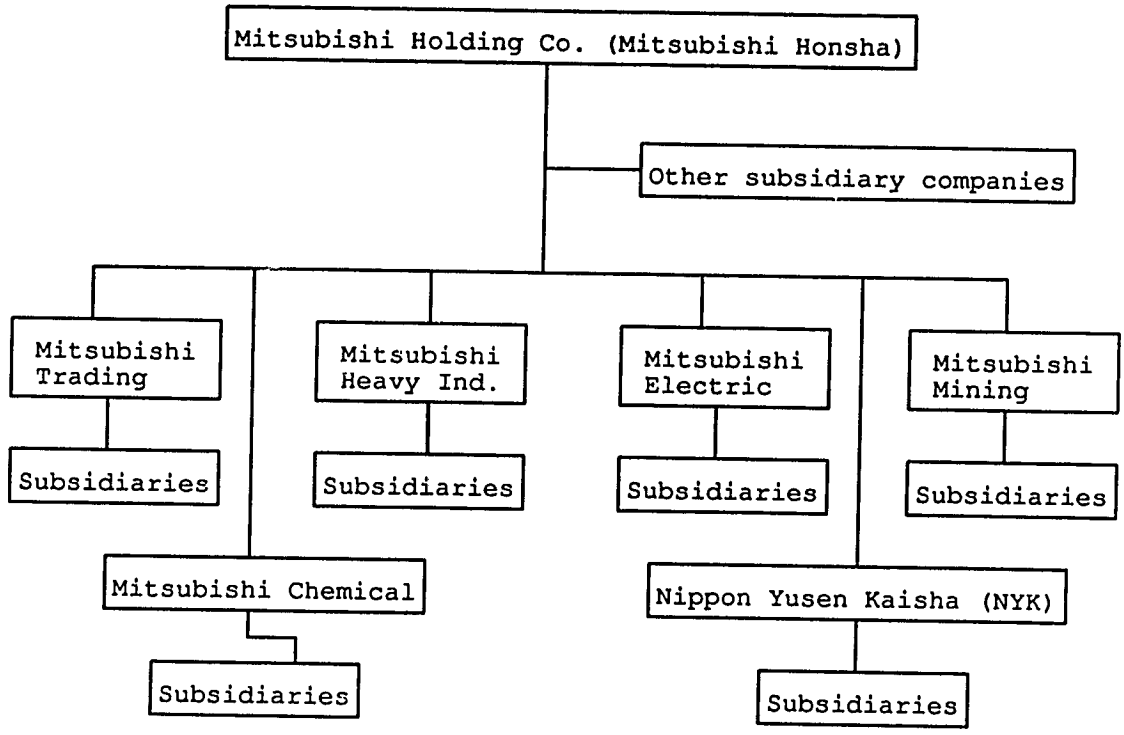


Figure 5.4

Sumitomo's Control Structure

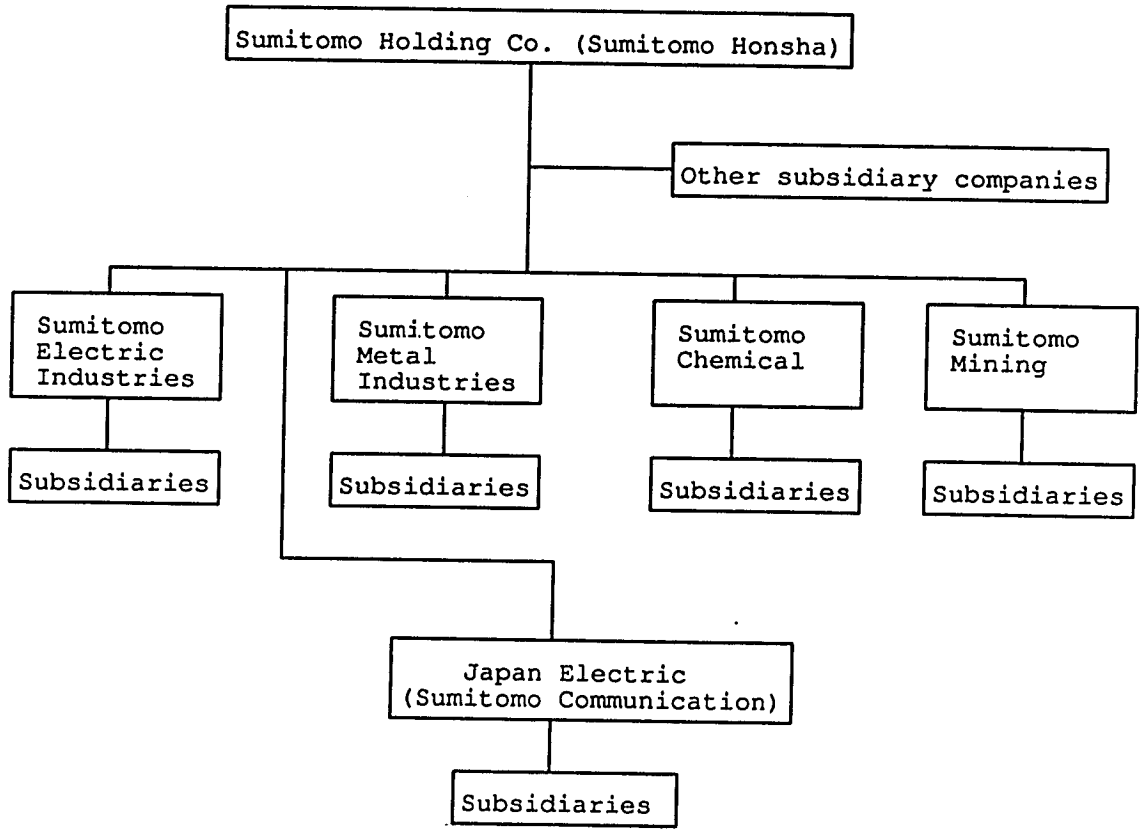
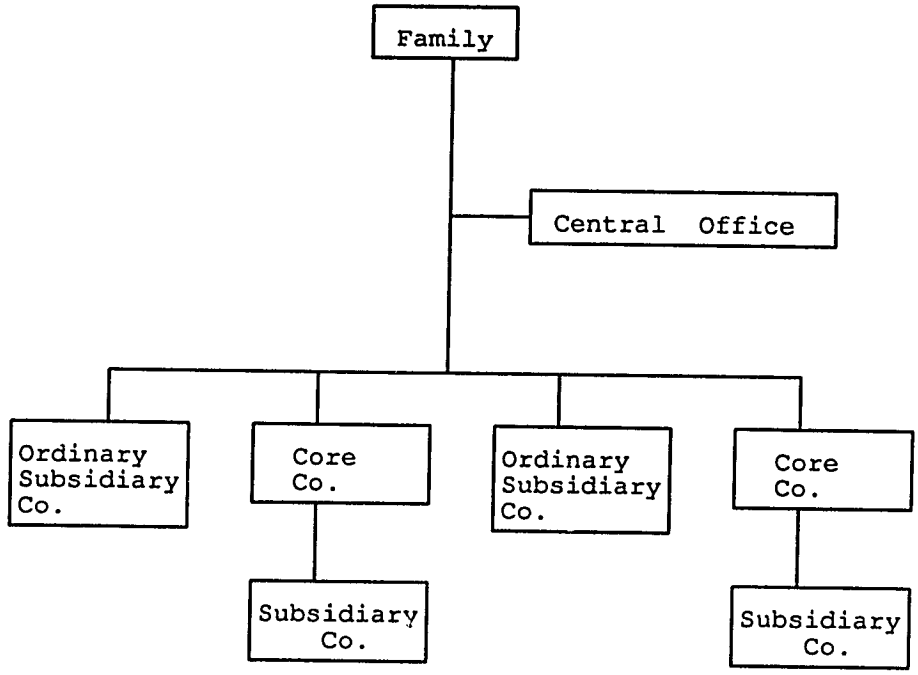


Figure 5.5

A Typical Chaebol's Control Structure



CHAPTER SIX

SUMMARY AND CONCLUSION

This study has dealt with the rise of Korean chaebols from the perspective of organization theory. It is a well-known fact that Korea's impressive economic achievement of the past two decades has been attracting scholastic interest. However, very few studies were undertaken to examine the organizational dynamics of Korean chaebols, which have been a powerful locomotive to lead the whole economy of Korea. Not until recently have academic efforts in this regard been exerted to understand organizational patterns of Korean chaebols (e.g. Hamilton and Biggart, 1988; Kim and Hahn, 1989). This is another addition in the endeavour to enhance the understanding of Korean chaebols.

My study has basically dealt with cross-cultural issues. As Lincoln (1989) argues, it is incorrect to regard organizational studies of a comparative nature as "the preserve of scholars devoted to explanations which are chiefly culturalist and historicist in nature, stressing the unique features of each societal case as a source of its prevailing organizational patterns" (1989:1). Rather, cross-national variations can become a fertile ground to widen the scope of each theory, thereby enriching its theoretical framework. In this sense, Korean organizations, which have developed in a very different cultural and economic soil, can pose a very interesting case to nationally developed American theories of organization. The Korean case is, I think, particularly interesting because the Korean economic system can be characterized by "monopoly capitalism." According to Western (neo-classical) economic theories, monopoly capitalism is generally detrimental to the nation's economic development. However, the Korean case presents an opposite example that the national economy can prosper even under "monopoly capitalism." Hence, Korean variations may call for substantial qualifications of Western theories of economic organization as well

as economic development.

This study has sought to probe the origin of Korean chaebols, the dominant force of Korean economic development, by employing theories that have been developed to account for the rise of American business organizations. This study has thus attempted to accomplish two objectives. The first is to examine factors that led Korean business groups to adopt the chaebol form. The second is concerned with the assessment of the usefulness of Western organization theories in explaining the origin of Korean chaebols. In the course of seeking to accomplish the objectives, this research has contributed to expanding the scope of those theories to organizations in underdeveloped and developing countries.

I. Summary

In Chapter 2, Samsung, the first and the oldest chaebol, was examined. The case of Samsung indicates that its connection with the political elite and its adaptation to shifting government industrial policies were key factors leading Samsung to emerge as the number one chaebol in the 1950s. Hence, the interorganizational political economy approach seems to be the most capable of accounting for the rise of Samsung in the 1950s.

Chapter 3 dealt with three more chaebols that emerged under the Park regime.

The case of Lucky-Goldstar shows that market imperfection inherent in the 1950s and the 1960s led Lucky-Goldstar to continuously internalize transactions through diversification into related markets. But the critical momentum in its business history, which paved the way to Lucky-Goldstar's emergence as one of the leading chaebols, was generated by its capitalizing on political connections with the state. Lucky-Goldstar's participation in the oil refining business crystallizes the effect of political connections on its development. Hence, the case of Lucky-Goldstar indicates that Williamson's transaction cost economics and inter-

organizational political economy concepts are better approaches to explain its evolution to the chaebol structure.

An examination of Hyundai's development implies that one theoretical perspective is not sufficient to describe the complex process of Hyundai's evolution to the dominant chaebol. Political economy seems to have been the major factor in its initial development in the 1950s and 1960s under the government-led construction boom and in its remarkable development in the 1970s through participation in heavy industries.

From Williamson's perspective, the emergence of Hyundai's three multidivisional firms (*Hyundai Heavy Industries, Hyundai Automobile, Hyundai Construction*) can be interpreted as a continued internalization of transactions to circumvent imperfect markets. At the time Korea's heavy industries were so underdeveloped that internal transactions may have been much more efficient than market transactions.

The proliferation of Hyundai's subsidiary companies in the 1970s can be more persuasively explained by the theory of institutional isomorphism. Employing key points of this theory, it could be argued that Hyundai attempted to make itself similar to old chaebols (e.g., Samsung and Lucky-Goldstar) in order to make external constituencies aware of its rise as the number one chaebol. In this sense, the theory of institutional isomorphism seems better able to explain the internal motive for Hyundai to adopt the chaebol form than other theories.

The rise of Daewoo, the fourth-largest and the newest chaebol, can be accounted for cogently by the political economy. Rapid growth of Daewoo since its founding in 1967 has been largely attributable to the Korean government's export-driven economic development policy. Especially, Daewoo's rapid diversification into many unrelated markets in the 1970s, I would argue, resulted from its all-out effort to make itself one of the prestigious *Jonghap Sangsa* (a large-scale general trading company). Hence, Daewoo's growth was not due to its preplanned growth strategy or its concern with transaction-cost efficiency. Rather, Daewoo's

aggressive diversification in the 1970s can be explained by its adaptation to the government's industrial policies.

The institutional isomorphism perspective can offer the quite different analysis that Daewoo's organizational reform of adopting the chaebol form was initiated to obtain legitimacy from external constituencies. Institutionalists would argue that Daewoo patterned itself after the prevailing organizational form at the time to make external constituencies aware that it was ready for *Jonghap Sangsa* status. This perspective seems to be very useful in understanding Daewoo's motive in adopting its particular form of organization.

Chapter 4 quantitatively explored the factors leading Korean business groups to use the chaebol form of organization. The results clearly support the interorganizational political economy theory, which indicates that Korean chaebols emerged mainly because of their close relations with the political regime.

This analysis also indicates that the chaebol form has often been used by business groups that are faced with environmental uncertainties. These business groups exhibited a tendency to adopt the proven form of successful organization more often than other business groups. The results have, however, not substantiated the speculation that the chaebol is a structural imitation of the Japanese zaibatsu. This finding is further confirmed by the comparative study discussed in Chapter 5.

This quantitative analysis provides somewhat mixed answers about the validity of Chandler's and Williamson's theories. Chandler's thesis that a growth strategy calls for structural reform appears valid in the case of the Korean chaebol. Williamson's argument seems to also be plausible in that the size expansion of business groups did affect the use of the chaebol form. But this study indicates that the use of the chaebol form had little to do with economic efficiency. Since economic efficiency is the rational consequence of administrative coordination and transaction cost economics, this result seems to cast a doubt over the validity of the two efficiency-oriented theories.

Chapter 5 dealt with comparative issues between the chaebol and the zaibatsu. The comparative study indicates that, notwithstanding the superficial similarity between the two organizations in terms of family control over ownership and industrial diversity, there existed a more critical structural difference between the two organizations. The Japanese zaibatsu used the so-called *konzern* structure, which is characterized by the pyramidal and hierarchical organization centering around an incorporated holding company at the top and many joint stock companies under the direct control of the holding company. In contrast, Korean chaebols do not have holding companies as an administrative organ to coordinate and control their subsidiary companies. It has only a small-scale office that is under the direct command of the chairman or the founder family. A complex type of administrative organization like a holding company may not be necessary because of the relatively smaller size of the typical chaebols than zaibatsus. Therefore, this finding does not indicate that the Korean chaebol is structurally similar to the Japanese zaibatsu, which led me to reject "the colonial legacy" perspective.

II. Conclusion

Case studies and quantitative analyses in the preceding chapters illustrate which factors have made more contributions to explaining the rise of Korean chaebols and which theories are more useful in explaining the evolutionary process of Korean chaebols. First, it seems that the interorganizational political economy has been the dominant factor that contributed to transforming mediocre business groups into large chaebol groups. In particular, an organization's relationship with the state was of utmost significance. In other words, the major factor affecting the rise of chaebols is claimed to be the organization's political connections with the state and its adaptation to the government's industrial policies. In this

sense, some would argue that entrepreneurship in East Asian countries has been greatly affected by the presence of a strong state. Although the predominant role of the state in the economic landscape does not necessarily discourage or hinder entrepreneurial activities, the presence of the strong state implies that Korean entrepreneurs should exhibit quite different entrepreneurial behaviors, which may reflect the potential effect of the strong state on their business success. In this respect, Kim (1976) claims that the strong state brought about "a major shift in the entrepreneurial role from that of an active initiator to a passive adaptor" (465).

This interorganizational political economy approach, which is believed to be the most important theoretical perspective in accounting for the rise of Korean chaebols, does not, however, seem to have theoretical finesse as a middle range theory that can explain the rise and development of specific organizational forms. There is no doubt that the basic premise of the interorganizational political economy approach is critically different from that of the adaptation approach. However, with regard to the rationale that a certain organization prefers a specific form to other forms, the interorganizational political economy approach does not seem to have the prowess to clearly offer a plausible explanation. The crude nature of this theory in accounting for the rise of particular organizations can be easily compared with other theories. The adaptation approach, when it is applied to the case of the Korean chaebol, would posit that Korean organizations prefer the chaebol form because of the efficiency achieved through administrative coordination (Chandler) and minimizing transaction costs (Williamson). The intraorganizational political economy approach would claim that the chaebol form is adopted when the dominant coalition, the founding family, prefers the form. However, the interorganizational political economy approach does not seem to say much about the internal forces that actually make organizations change their structure. Since political economists correctly evaluate the state's critical role in the evolutionary process of chaebols, this political economy approach might be the best approach to explain how and

why some Korean business groups rapidly grow and diversify. Indeed, Korean political regimes have tacitly favored a group of business elite who usually have been loyal to the regimes, thus helping them to diversify to many industries. But it is very rare even in Korea for the "omnipotent" state to explicitly request private enterprises to take a certain form of organization. Hence, this approach, stressing the collusion between the state apparatus and some opportunistic business elite, might have difficulty in explaining the internal mechanism of organizational change to a particular form primarily because organizational change, like a shift to the chaebol structure, is initiated by the organization itself, not by the state. Therefore, it would be fair to state that the interorganizational political economy approach has not been formulated as a coherent framework to explain the rise of a "specific" organizational structure.

The theory of institutional isomorphism, the second theoretical perspective, postulates three mechanisms that make organizations in institutional environments structurally homogenous over time. The first is coercive isomorphism, which results from institutional pressures imposed by one organization on another as a condition for its support or approval. The pressures exerted by the state on organizations in the national boundary constitute major coercive consequences. Second, there is mimetic isomorphism. According to this mechanism, organizations facing environmental uncertainty demonstrate a tendency to imitate other successful organizations in similar environments. The third is normative isomorphism, which is brought about by professionals as they seek to impose their own normative standards on their organizations. Needless to say, the key mechanism capable of accounting for the rise of the Korean chaebol is the second one, that organizations confronting environmental uncertainties change their structures by modeling themselves on the most popular and successful structures of other organizations. To put it another way, there may exist norms specifying appropriate structures, and these norms influence organizations in a similar environment because such norms are an effective means of obtaining legitimacy from

external constituencies.

In a parallel fashion, the mechanism of coercive isomorphism is also capable of explaining widespread use of the chaebol form in the 1970s and 1980s. The Korean government has been exerting numerous institutional pressures and, in some cases, imposed a certain form of organization on Korean enterprises. As shown in Chapter 3 with regard to the government's selection of *Jonghap Sangsa*, the government's guidelines in fact delineate which organizational structure the state prefers, even if the state does not explicitly request that private enterprises adopt a specific form of organization.

Some would argue that the institutional isomorphism approach can therefore become an alternative or complementary theory to politically motivated or efficiency-oriented theories. But this theory presupposes the existence of a "prototype" organization that provides ideal patterns for imitation. Hence, this theory does not seem to adequately explain the rise of the first generation of chaebols like Samsung and Lucky-Goldstar, whereas it offers a plausible interpretation about the rise of Hyundai and Daewoo, both of which emerged later as leading chaebols. Theoretical adequacy or inadequacy of this institutional approach, therefore, seems to stem from whether there exist prototype organizations after which other organizations are patterned. For instance, Hyundai and Daewoo could imitate Samsung and Lucky-Goldstar, but the latter did not have any models.

The cases of Hyundai and Daewoo also indicate that this perspective does not seem to offer an alternative interpretation about the unprecedented diversification and expansion of some business groups in the 1960s and 1970s. Becoming a chaebol is not an easy task because of the huge requirements for human, financial, and technological resources. It is therefore inconceivable that a business group without enough resources could imitate the developmental patterns and structures of some leading chaebols. In this sense, the political economy approach seems to be able to more persuasively deal with the preconditions for the rise of Korean chaebols. But, as portrayed in the cases of Hyundai and Daewoo, the

more immediate internal motive of organizational change to the chaebol form may be more cogently explained by the institutional isomorphism perspective. Hence, the Korean case seems to imply that the theories of institutional isomorphism and political economy could complement, rather than compete with, each other. And the Korean case also seems to imply that the institutional isomorphism approach should be regarded as a theory that can better deal with organizational change than with organizational creation.

The third theoretical implication is that Chandler's theory accounting for the rise of Korean chaebols is weak. The four case studies seem to show that the weakness stems from its premise that a growth strategy is formulated on the basis of economic and technological development. Furthermore, the important finding that the chaebol may not be an efficient form of organization indicates that we should reevaluate Chandler's argument, especially demonstrated in *The Visible Hand* of 1977, that a nation's economic and technological development precedes the rise of particular types of organization. In this regard, Hamilton and Biggart (1988), who take Korean chaebols as an example to dispute Chandler's argument, assert that organizational structure preceded economic development in Korea. Their point is that the chaebol structure "can be traced more persuasively to premodern political practices, to pre-war Japanese industrial policy, and to the borrowing of organizational design for industrialization from Japan than to those factors specified by either Chandler or Williamson" (Hamilton and Biggart, 1988: S68-S69). Although their sketchy analysis about the preconditions for chaebol evolution is partly incorrect,[1] their key point seems to remain plausible because the chaebol structure had already existed before Korea's economic and technological development began in earnest. For instance, Samsung and Lucky-Goldstar, the two oldest chaebols, were already in existence even before Korea's economic development was in full swing. Therefore, the Korean case may call for substantial

[1]The case study of Samsung in Chapter 2 indicates that structure preceded economic development. But none of the case studies and quantitative analyses indicate that the origin of the Korean chaebol can be traced to industrialization during the Japanese colonial occupation.

modification of Chandler's key proposition that the rise of modern enterprises is primarily driven by economic and technological changes.

Also, this study seems to imply that Williamson's transaction cost economics has a limited capability to account for the rise of the Korean chaebol. The fundamental proposition of this theory is that transaction cost efficiency determines transaction governance structure. This theory is therefore strongly universalist because it makes little provision for societal and cultural differences (Lincoln, 1989:33). The relative weakness of this theory may be inherent in its "universal" nature. An interesting question in this regard is which of the key assumptions of this theory makes little sense in Korea, and what would be the implications and predictions if this theory were modified?

Lincoln (1989), following Ronald Dore's argument (1987), has raised the interesting issue that transaction costs may be lower in the Japanese economy than in Western economies. The claim is that opportunism, information asymmetry, and uncertainty may not take place in the Japanese economy since transactions of Japanese organizations have been governed by relational contracts that occur on the basis of trust, obligation, and goodwill. Hence economic actors in Japan may not be the rational utility-maximizers, in the language of neo-classical economics, and "Japanese economic relations tend not to have the properties that transaction cost economics ascribes to economic transactions" (Lincoln, 1989:33-34). Getting back to Korean organizations, an issue of interest here is whether the central assumptions of transaction cost economics are plausible in the Korean economy. It has already been shown that nearly all Korean business groups have been predominantly controlled and managed by a founder and his family members. Transaction costs, in such a "corporate patriarchy"[2] headed by the founder or his immediate offspring, can be minimized because managers from the founding family, constituting the dominant coalition in nearly all Korean business groups, may not have to behave opportunistically and undertake a careful "cost-benefit"

[2]Orru et. al (1989) called Korean business groups "corporate patriarchy."

analysis. Furthermore, nonfamily managers' opportunistic behaviors can also be deterred because family managers usually are in higher positions, enabling them to monitor and control nonfamily managers. In this sense, kinship relationships can tame opportunism (Palmer et al., 1987:43). It is therefore expected that very few transactions will be undertaken by the utility-maximizing and opportunistic "economic man" in this "corporate patriarchy." Hence, some of Williamson's central assumptions, especially opportunism, are not as plausible in the Korean economy as they were in the Japanese economy.

If transaction costs are lower in the Korean economy, where family capitalism is still a sweeping mode of production and transaction, than in other advanced economies, one would claim that Korea's family-dominated organizations may not be an underdeveloped form of organization that should be replaced by the Western type of "economic" or "utility-maximizing" organization. As the Japanese way of interweaving "economic" transactions with "noneconomic" considerations of trust, obligation, and goodwill does not hinder efficient allocation of resources, the Korean method of economizing on transaction costs by way of family capitalism may not occur at the expense of economic efficiency.

The interesting result of Chapter 4 that the chaebol is not an efficient form of organization in terms of economic performance seems to indicate that broader concerns other than economic efficiency influence Korean organizations to shift to the chaebol structure. The "embeddedness" perspective that social structures influence economic actions (Granovetter, 1985) may provide a plausible reasoning with regard to the lesser effectiveness of efficiency-oriented theories in explaining the rise of Korean chaebols. According to this perspective, social structures are important for two reasons. First, social structures may lead economic actors to pursue interests other than efficiency, which is realized by saving transaction costs. Second, social structures may influence the relative efficiency of alternate transaction modes themselves (Palmer et. al, 1987:43). Under the Korean societal structures, efficiency that can be obtained through administrative coordination and low transaction costs

may have been a minor consequence. Instead of concern for economic efficiency, the Korean business elite may have been more concerned with how to establish better relationships with the state, to control markets, and to exploit labor.

The important implication is that some fundamental assumptions of Williamson's theory are not plausible in Korea, and substantial qualifications of the theory appear to be necessary for the theory to explain Korean phenomena.

One of the intriguing findings is that the intraorganizational political economy was not a critical factor in explaining the rise of Korean chaebols. It is especially interesting because this approach provided a meaningful alternative to Chandler's thesis in explaining the rise and spread of multidivisional forms among large U.S. corporations (see Fligstein, 1985; Palmer et al., 1987). The weakness of the approach, I would claim, may be due to the overwhelming dominance of the founding family over other competing coalitions in Korean organizations.

Before concluding this study, I would like to raise two issues that may indicate problems for the unqualified use of Western theories and also stimulate more research interests in the future.

It has already been shown that both efficiency-oriented and power-motivated arguments have some theoretical problems. These problems of politically oriented theories and efficiency-motivated theories, which have been developed by Western scholars, may be due, in part, to Western theorists' different perceptions on the role of the state in economic matters. In the West, the state traditionally has not intervened in private economic activities. And Westerners appear to have perceived that polity is one thing and economy is another. Hence, they tend to dichotomize the state and the market. This dichotomization crystallizes into the ongoing controversy about markets and formal organizations, two conflicting mechanisms for allocating and controlling resources. Market mechanisms allocate resources through bargaining. Formal organization, which Williamson calls "hierarchy" but political

scientists would rather call "the state," is a means of allocating resources through authority relations.

In contrast to the Western perception, "the Confucian philosophy advocated the unity of economy and polity. Its ideology recognized that economic welfare was important, if not essential, to political stability" (Yoshino, 1965:14). According to the Confucian philosophy, polity and economy are not conflicting, but rather complementary concepts. In Korea, which was strongly influenced by Confucianism, the state has intervened in the domestic economy as necessary. In this sense, Korean chaebols may not be a product of either market forces representing "economy," or political forces representing "polity," but a consequence of both forces.

Here emerges the third mechanism to allocate resources. It is the "business group" structure, which includes chaebols. Under this structure, the individual firm can economize on transaction costs by transacting internally with member firms. At the same time, it can avoid the scale diseconomies or control loss that would have occurred if it had expanded internally. The business group structure emerges when the net benefit of forming a group exceeds that of implementing transactions within the firm or through the market (Goto, 1982:61). In this context, "the group is an institutional device designed to cope with market failure as well as internal organization failure" (Goto, 1982:69). The "business group" can be argued to be the organization structure in which the Confucian ideal is put into reality. The structure of the chaebol as a typical business group is embedded in Korean social structures that have been greatly influenced by Confucianism.

The second issue is concerned with the weakness of the intraorganizational political economy approach. I have argued that the intraorganizational political economy has not been a critical factor in explaining the rise of Korean chaebols because of the overwhelming dominance of the founding family over other competing coalitions. This phenomenon is closely interrelated with the future of the Korean chaebol as an organizational form.

In most advanced economies, family-centered enterprises like chaebols have been gradually disappearing. In other words, traditional capitalism, that is, family capitalism and financial capitalism, has been replaced by managerial capitalism where ownership is separated from management, and enterprises are run by professional, salaried managers (Chandler, 1977, 1980, 1984). Hence, it is naturally expected that managerial capitalism will soon appear if Korea is going to be one of the advanced economies as it desires. If so, it is also expected that the dominant coalition, the founding family, will soon lose its power and a new organizational form will appear, or current chaebols will reform their structure. However, this issue does not seem to be that simple since all of the advanced economies have quite different political, economic, and social backgrounds from Korea. The only exception is Japan. In Japan, it seems to be obvious that in large business organizations (e.g., *kigyo shudan* and *keiretsu*) ownership is separate from management, and professional managers thus run the enterprises in Japan. Nevertheless, it does not seem to me that Japan is under the very managerial capitalism that is now prevailing in the West, especially in the United States, because Japanese commercial banks have a big stake in most of the large enterprises. As an indication of the overwhelming influence of commercial banks, there exist three bank-centered business groups (e.g., Sanwa Bank Group, Fuji Bank Group, and Daiichi Bank Group). Hence, it would be fair to say that the current system in Japan is a delicate mixture of financial and managerial capitalism.

As is the case with Japan, Korea may develop different systems even after it reaches the level of economic development comparable to the advanced economies. One may argue that the current Korean system may not be genuine family capitalism. It is true that the founder and his family members controlled chaebols. However, those family members, who are mostly well-educated in the United States and Japan, are actively participating in management as full-time managers and are working closely together with many professional managers. The current system in Korea, which Western scholars would call family capitalism,

may instead be a Korean type of mixed form of capitalism.

What would each of the three theories predict with regard to the future forms of Korean organization? According to the adaptation approach, emphasizing the effect of organizational growth on administrative coordination and transaction costs, the future Korean organization will imitate a structure that can be found in some European countries. In this structure the founder or his family members, who mostly work as full time managers, still own a majority of stock and participate in strategic decisions. But most managerial decisions are made by professional managers who have no ownership. This system is closer to managerial capitalism but also has the important aspect of family capitalism. According to the adaption approach, the adoption of this system may be inevitable since it is inconceivable for a handful of the founding family members to coordinate ever expanding subsidiary companies in the future.

It is widely accepted that the state's power over the private sector will gradually decline in the future, and the private sector represented by chaebols will challenge the state's dominance in an economic landscape. Therefore, if we suppose that the power of the founding families will not drastically diminish in the short run, the political economy approach would predict that the preference of dominant coalitions, the founding family, in Korean organizations will dictate the future structure of Korean organization.

The decline of the state's power can also have a bearing on the institutional isomorphism theory, as the state may not easily impose a particular organizational structure on private enterprises. Hence the mechanism of coercive isomorphism may not work as well in the future as it does now. But the mechanism of mimetic isomorphism is expected to keep working, so that the chaebol form will flourish in the future. However, the chaebol form may undergo considerable changes since the theory would rather predict that normative isomorphism may also become an important mechanism in future organizations where professional managers are expected to gain power. If the mechanism of normative

isomorphism gains momentum, the future managerial system of Korean organizations may look like a delicate mixture of family capitalism and managerial capitalism.

This question about the future form of Korean organizations, given the historical development described here, provides a very interesting research agenda to be further carried out in the future.

APPENDIX A

KOREAN STANDARD INDUSTRY CLASSIFICATION (38 INDUSTRIES)

Classification No.	Name of Industry
1100	Agriculture
1200	Fishery
2000	Mining
3110	Foods
3130	Beverage
3210	Textile
3220	Apparel
3230	Leather
3240	Footwear
3300	Wood
3410	Paper
3420	Printing
3510	General Chemical
3522	Pharmaceutical
3523	Cosmetics
3540	Petroleum
3530	Coal
3550	Rubber
3620	Glass
3692	Cement
3710	Metal
3720	Assembled Metal
3820	Machinery
3830	Electric
3830	Electronic
3840	Transportation Machinery
3850	Precision
4000	Other Manufacturing
5000	Construction
6000	Wholesale and Retail
6100	Tourism (Travel Service)
6200	Hotel
7100	Shipping
8100	Banking and Financial
8200	Insurance
9100	Culture
9200	Service

APPENDIX B

NAMES, THE NUMBER OF SUBSIDIARY COMPANIES, INDUSTRIES OF 143 BUSINESS GROUPS IN KOREA AS OF THE END OF 1988

Group No.	Name	No. of Subsidiary Cos.	No. of Industries
1	Kabul	16	10
2	Kangnam	10	5
3	Kangwon Industrial	10	8
4	Kyungbang	5	4
5	Kyesung Paper	8	3
6	Korea Wonyang Fisheries	3	3
7	Korea Iron & Steel Works	8	4
8	Coryo Gen. Enterprise	8	5
9	KOHAP	7	6
10	Kukje Pharmaceutical Ind.	5	5
11	Kuk Dong Construction	9	5
12	Kuk Dong Petroleum	5	4
13	Kumho	12	7
14	Kirin	5	4
15	Kia Motors	12	5
16	Namsung	4	1
17	Nam Young	5	3
18	Nong Shim	5	4
19	Daegi	6	5
20	Dainong	6	8
21	Dae Dong	5	3
22	Daelim	14	11
23	Daesun Distilling	5	3
24	Daesung Industrial	16	11
25	Daeshin Securities	5	2
26	Dae Yeong	3	1
27	Daewang	7	4
28	Daewoo	31	14
29	Daewoong Pharmaceutical	5	1
30	Daewon Kang Up	5	1
31	Taihan Textile	6	8
32	Daihan Paint & Ink	3	2
33	Taihan Electric Wire	5	5
34	Daehan Flour Mills	4	2
35	Korea Line	12	5
36	Tongkook	9	3
37	Dongkuk Steel Mill	13	5
38	Dong Bang (Oil & Fat)	4	1
39	Dong Bu	14	10
40	Dong Sung Chemical	5	3
41	Dong-Ah Construction	16	11

42	Dong-A Pharmaceutical	14	7
43	Tong Yang Cement	9	10
44	Oriental Chemical	11	6
45	Dong-Oh	4	2
46	Dong Won Industrial	11	7
47	Dong Il (Textile)	6	3
48	Dong Hwa Electronics	5	3
49	Doosan	21	13
50	Life	5	5
51	Lucky-Goldstar	56	18
52	Lotte	29	15
53	Myung Yun Industrial	4	3
54	Lotte Travel Service	6	4
55	Mi Won	16	12
56	Muhak Brewery	3	2
57	Bum-A	9	3
58	Pan Ocean Shipping	4	4
59	Byuck San	14	11
60	Brother	6	2
61	Bong Myung	13	10
62	Pusan Pipe	6	3
63	Sajo Industrial	7	5
64	Samdo	6	4
65	Samlip Food	7	5
66	Sammi	11	7
67	Sambu Construction	7	5
68	Samsung	45	19
69	Samseong Publishing	5	2
70	Samyangsa	6	5
71	Samyang Foods	8	5
72	Sam Yung Chemical	5	4
73	Samick Musical Instrument	4	1
74	Samil Textile	3	2
75	Samchully	10	9
76	Sam Hwa	5	4
77	Sam Hwa Trading	5	3
78	Sam Hwan	11	7
79	Ssang Ma	6	3
80	Ssang Bang Wool	13	7
81	Ssang Yong	21	14
82	Sunkyong	17	11
83	STC	10	10
84	Sung Shin Cement	9	6
85	Global Enterprise	11	4
86	Sepoong	7	7
87	Shin Dong-Ah	11	9
88	Silla Trading	5	6
89	Shinil Enterprise	3	3
90	Shinwhasa	5	3
91	Anam Industrial	8	6
92	Aekyung	9	3
93	Young Jin Pharmaceutical	4	4
94	Young Poong	10	7

95	Olympos	3	3
96	On Yang Pulp	9	3
97	OPC	8	6
98	Woosung Construction	6	5
99	You One Construction	3	3
100	Yuhan Pharmaceutical	8	3
101	Ilshin Industrial	6	4
102	Ilshin Spinning	3	3
103	Il Jin	6	5
104	Long Term Credit Bank	5	1
105	Chonbang	4	3
106	Chosun Brewery	5	4
107	Cho Yang	12	5
108	Chong Kun Dang	6	3
109	Jinro	11	6
110	Chin Yang	4	3
111	Chun Kyung Shipping	6	2
112	Chun Il Express	5	1
113	Chung Nam Spinning	6	4
114	Kolon	19	12
115	Crown Confectionery	7	3
116	Taekwang Industrial	8	5
117	Pacific Chemical	20	16
118	Tae Hwa	3	2
119	Tong Il	21	20
120	POSCO	13	7
121	Poong San	6	3
122	Hankuk Glass	5	1
123	Korea Electronics	4	1
124	Korea Explosive	26	16
125	Han Nong	7	2
126	Hando	4	3
127	Halla	6	7
128	Hanbo	5	4
129	Hanyang	4	3
130	Hanil Synthetic Fiber	12	9
131	Hanil Cement	5	4
132	Hanjoo	4	3
133	Hanjin	16	10
134	Hanchang	5	5
135	Hae Sung	5	5
136	Haitai	11	8
137	Hyundai	38	18
138	Hyundai Cement	5	4
139	Hyupjin Enterprise	4	4
140	Honam Flour Mills	7	6
141	Hwa Seung	9	5
142	Hyosung	22	13
143	Rocket Electric	5	4

REFERENCES

Ahn, Byung Jik.
1971 *Hankuk-ae chimryak-han ilje jabon-y songkyok* (The characteristics of the Japanese capital in Korea during the colonial period). *Shindonga*, September: 307-314.

Aldrich, Howard E.
1979 Organizations and environments. Englewood Cliffs, NJ: Prentice-Hall.

Armour, Henry Ogden and David J. Teece.
1978 Organizational structure and economic performance: A test of the multidivisional hypothesis. Bell Journal of Economics, 9: 106-122.

Bae, Byung Hyoo.
1983 *Jaekye Beehwa* (The Behind-the-Scene Stories of Korean Business Circle). Seoul, Korea: *Dongkwang Chulpansa*.

Byun, Hyung Yun and Yun Hwan Kim.
1978 *Hankuk kyungje ron* (Theory of the Korean economy). Seoul, Korea: *Yupung Chulpansa*.

Carroll, Glenn R., Jacque Delacroix, and Jerry Goodstein.
1981 The political environments of organizations. In Barry M. Staw and L.L. Cummings (Eds.), Research in Organizational Behavior: 359-392. Greenwich, CT: JAI Press.

Caves, Richard E. and Masu Uekusa.
1976 Industrial organization in Japan. Washington, D.C: Brookings Institute.

Chang, Sea Jin and Unghwan Choi.
1988 Strategy, structure and performance of Korean business groups: A transaction cost approach. The Journal of Industrial Economics, 37: 141-158.

Chandler, Alfred D.
1962 Strategy and structure: Chapters in the history of American industrial enterprises. Cambridge, MA: MIT Press.

1977 The visible hand: The managerial revolution in American business. Cambridge, MA: Harvard University Press.

1980 The United States. In Alfred D. Chandler and Herman Daems (Eds.), Managerial hierarchies: Comparative perspectives on the rise of the modern industrial enterprise: 9-40. Cambridge, MA: Harvard University Press.

1984 The emergence of managerial capitalism. Business History Review, 58: 473-502.

Chandler, Alfred D. and Herman Daems.
1980 Managerial hierarchies: Comparative perspectives on the rise of the modern industrial enterprise. Cambridge, MA: Harvard University Press.

Cho, Dong-Sung.
1987 The general trading company. Lexington, MA: Lexington Books.

Choo, Jong Hwan.
1985 *Chaebol kyungje ron* (The economics of chaebol). Seoul, Korea: *Jeong Um Munhwasa*.

Chosun Ilbo Kyungje Bu.
1982 *Chaebol eesip osee* (25 hours of chaebol). Seoul, Korea: *Chosun Ilbosa*.

Clark, Rodney
1979 The Japanese company. New Haven, CT: Yale University Press.

Cumings, Bruce.
1984[a] The origins and development of the Northeast Asian political economy: industrial sectors, product cycles, and political consequences. International Organization, 38: 1-40.

1984[b] The legacy of Japanese colonialism in Korea. In Ramon H. Myers and Mark R. Peattie (Eds.), The Japanese colonial empire: 478-496. Princeton, NJ: Princeton University Press.

DiMaggio, Paul J. and Walter W. Powell.
1983 The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. American Sociological Review, 48: 147-160.

Dong-A Ilbo.
1989 Sales reports of the 100 largest firms of 1988. August 16:6.

1989 Marriage among political and business elites. October 9:8.

Dongkwang Chulpansa Pyunjeep Bu.
1986 *Pung woon* (The behind-the-scene history of Korea's rapid economic development). Seoul, Korea: *Dongkwang Chulpansa*.

Dore, Ronald.
1987 Taking Japan seriously: A Confucian perspective on leading economic issues. London: The Athlone Press.

Fligstein, Neil.
1985 The spread of the multidivisional form among large firms, 1919-1979. American Sociological Review, 50: 377-391.

Gerlach, Michael Lloyd.
1987 Alliances and the social organization of Japanese business. Unpublished doctoral dissertation. Yale University.

Goto, Akira.
1982 Business groups in a market economy. European Economic Review, 19: 53-70.

Gottfredson, Michael and Travis Hirschi.
1987 The methodological adequacy of longitudinal research on crime. Criminology, 25: 581-614.

Granovetter, Mark.
1985 Economic action and social structure: the problem of embeddedness. American Journal of Sociology, 91: 481-510.

Hadley, Eleanor M.
1970 Antitrust in Japan. Princeton, NJ: Princeton University Press.

Hamilton, Gary G. and Nicole W. Biggart.
1988 Market, culture, and authority: a comparative analysis of management and organization in the Far East. American Journal of Sociology, Supplement to Vol. 94: S52-S94.

Hankuk Ilbo Kyungje-bu.
1985 *Hankuk-y oseep dae chaebol* (The fifty largest *chaebols* of Korea). Seoul, Korea: Management Efficiency Institute.

Hattori, Tamio.
1983 The relationship between zaibatsu and family structure: The Korean case. In Akio Okochi and Shigeaki Yasuoka (Eds.), Family business in the era of industrial growth: its ownership and management: 121-142. Tokyo, Japan: University of Tokyo Press.

1984 The composition of stockholders of publicly owned firms in Korea. *Azia Keizai* (Asian Economics), 25: 71-80.

1986 *Hankuk-gwa Ilbon-y daekyop bigyo* (A comparative study of large corporations in Korea and Japan). In Hak Chong Lee and Kuhyun Jung (Eds.), *Hankuk kyop-y kujo-wa jonryak* (The structure and strategy of Korean corporations): 149-206. Seoul, Korea: *Bupmunsa*.

1989 Japanese zaibatsu and Korean chaebol. In Kae H. Chung and Hak Chong Lee (Eds.), Korean managerial dynamics: 79-98. New York: Praeger.

Hirschmeier, Johannes.
1964 The origins of entrepreneurship in Meiji Japan. Cambridge, MA: Harvard University Press.

Hirschmeier, Johannes and Tsuhiko Yui.
1981 The development of Japanese business 1600-1980. London, England: George Allen & Unwin.

Holding Company Liquidation Commission.
1951 *Nihon Zaibatsu to Sono Kaitai* (Japan's Zaibatsu and their Dissolution). Tokyo, Japan: Holding Company Liquidation Commission.

Hyundai Engineering and Construction Co. Ltd.
1982 *Hyundai konsol samseep-o nyon sa* (The thirty-five-year history of Hyundai Engineering and Construction Co. Ltd.). Seoul, Korea: Hyundai Engineering and Construction Co. Ltd.

Johnson, Chalmers.
1987 Political institutions and economic performance: The government-business relationship in Japan, South Korea, and Taiwan. In Frederick C. Deyo (Ed.), The political economy of the new Asian industrialism: 136-164. Ithaca, NY: Cornell University Press.

Jones, Leroy P. and Il Sakong.
1980 Government, business, and entrepreneurship in economic development: The Korean case. Cambridge, MA: Harvard University Press.

Jungang Ilbosa Kyungje Munje Yonkuso.
1987 *Sumun Kobudul* (The wealthy men). Seoul, Korea: *Jungang Ilbosa.*

Jung, Kuhyun.
1987 *Hankuk kyop-y songjang jonryak-gwa kyongyoung kujo* (Growth strategy and management structure of Korean enterprises). Seoul, Korea: Korea Chamber of Commerce.

Kim, Eun Mee.
1987 From dominance to symbiosis: State and *chaebol* in the Korean economy. Unpublished doctoral dissertation. Brown University.

Kim, Jay S. and Chan K. Hahn.
1989 The Korean chaebol as an organizational form. In Kae H. Chung and Hak Chong Lee (Eds.), Korean managerial dynamics: 51-64. New York: Praeger.

Kim, Kwang Suk and Michael Roemer.
1979 Growth and structural transformation. Cambridge, MA: Harvard University Press.

Kim, Kyung Dong.
1976 Political factors in the formation of the entrepreneurial elite in South Korea. Asian Survey, 16: 465-477.

Kim, Seok Kee.
1987 Business concentration and government policy: A study of the phenomenon of business groups in Korea, 1945-1985. Unpublished doctoral dissertation. Harvard University.

Kobayashi, Kesaji and Hidemasa Morikawa (Eds.).
1985 Development of managerial enterprise. Tokyo, Japan: University of Tokyo Press.

Koo, Hagen.
1984 The political economy of income distribution in South Korea: the impact of the state's industrialization policies. World Development, 12: 1029-1037.

1987 The interplay of state, social class, and world system in East Asian development: the cases of South Korean and Taiwan. In Frederick C. Deyo (Ed.), The political economy of the new Asian industrialism: 136-164. Ithaca, NY: Cornell University Press.

Kutznets, Paul W.
1969 Korea's five year plans. In Irma Adelman (Ed.), Practical approach to development planning: Korea's second five-year plan: 39-76. Baltimore, Maryland: Johns Hopkins Press.

1977 Economic growth and structure in the Republic of Korea. New Haven, Connecticut: Yale University Press.

Lee, Ki-Baik.
1984 A new history of Korea. Cambridge, MA: Harvard University Press.

Lee, Sang M. and Sangjin Yoo.
1987 The K-type management: A driving force of Korean prosperity. Management International Review, 27: 68-77.

Leff, Nathaniel H.
1978 Industrial organization and entrepreneurship in the developing countries: the economic groups. Economic Development and Cultural Exchange, 26: 661-675.

Lim, Jong Kuk.
1985 *Jeil gonghwakuk-kwa chineel seryok* (The First Republic of Korea and the pro-Japan coalitions). In Kon-ho Song et al. (Eds.), *Haebang Jonhusa-y insik* (A re-assessment of the history around the Korea's liberation in 1945): 143-210. Seoul, Korea: *Hankilsa*.

Lim, Hyun-chin.
1982 Dependent development in the world-system: The case of South Korea, 1963-1979. Unpublished doctoral dissertation. Harvard University.

Lim, Myo Min.
1978 *Jaekye samseep nyon-ul jurum jap-a-on saramdul* (The dominant people of the Korean business community last thirty years). *Shindonga*, August: 102-125.

Lincoln, James R.
1989 Japanese organization and organization theory. In Barry M. Staw and L.L. Cummings (Eds.), Research in organizational behavior, Vol 12. Greenwich, CT: JAI Press.

Lucky Saseep Nyon Sa Pyonchan Weewonhoi (The Compilation Committee for the Forty-Year History of Lucky).
1987 *Lucky saseep nyon sa* (The forty-year history of Lucky). Seoul, Korea: Lucky Co. Ltd.

Mae-Il Kyungje Shinmunsa (Maeil Daily Economic News Co., Ltd.).
1980 *Hoisa Yonkam* (Corporation Directory). Seoul, Korea: *Mae-Il Kyungje Shinmunsa* (Maeil Daily Economic News Co., Ltd.).

1985 *Hoisa Yonkam* (Corporation Directory). Seoul, Korea: *Mae-Il Kyungje Shinmunsa* (Maeil Daily Economic News Co., Ltd.).

1989 *Hoisa Yonkam* (Corporation Directory). Seoul, Korea: *Mae-Il Kyungje Shinmunsa* (Maeil Daily Economic News Co., Ltd.).

Mason, Edward S., Mahn Je Kim, Dwight H. Perkins, Kwang Suk Kim, and David C. Cole.
1980 The economic and social modernization of the Republic of Korea. Cambridge, MA: Harvard University Press.

Meyer, John W.
1983 Institutionalization and the rationality of formal organizational structure. In John W. Meyer and W. Richard Scott (Eds.), Organizational environments: Ritual and rationality: 261-282. Biverley Hills, CA: SAGE.

Mishima, Yasuo.
1981 *Mitsubishi Zaibatsu*. Tokyo, Japan: *Nihon Keizai Shinbunsha*.

Morikawa, Hidemasa.
1970 The organizational structure of Mitsubishi and Mitsui zaibatsu, 1868-1922: a comparative study. Business History Review, 44: 62-83.

1974 Management structure and control devices for diversified zaibatsu business. In Keichiro Nakagawa (Ed.), Strategy and structure of big business: 45-60. Tokyo, Japan: University of Tokyo Press.

1980 *Zaibatsu no keieishiteki kenkyu* (A study of *zaibatsu* from the perspective of management history). Tokyo, Japan: *Toyo Keizai Shinbunsha*.

1985 Prerequisites for the development of managerial capitalism: cases in prewar Japan. In Kesaji Kobayashi and Hidemasa Morikawa (Eds.), Development of managerial enterprise: 1-27. Tokyo, Japan: University of Tokyo Press.

Nakagawa, Keichiro.
1974 Strategy and structure of big business. Tokyo, Japan: University of Tokyo Press.

1974 Business strategy and industrial structure in Pre-World-War II Japan. In Keichiro Nakagawa (Ed.), Strategy and structure of big business: 3-38. Tokyo, Japan: University of Tokyo Press.

Nakatani, Iwao.
1984 The economic role of financial corporate grouping. In Masahiko Aoki (Ed.), The economic analysis of the Japanese firm: 227-258. Armsterdam: North-Holland.

Orru, Marco, Nicole W. Biggart, and Gary G. Hamilton.
1990 Organizational isomorphism in East Asia: Broadening the new institutionalism. In Walter W. Powell & Paul J. DiMaggio (Eds.), The new institutionalism in organizational analysis.

Palmer, Donald.
1983 Broken ties: Interlocking directorates and intercorporate coordination. Administrative Science Quarterly, 28: 40-55.

Palmer, Donald, Roger Friedland, P. Devereaux Jennings, and Melanie E. Powers.
1987 The economics and politics of structure: the multidivisional form and the large U.S. corporations. Administrative Science Quarterly,32: 25-48.

Park, Byung Yun.
1975 *Hankuk-y chaebol* (Korean *chaebols*). *Shindonga*, December, 1975: 91-103.

Perrow, Charles.
1981 Markets, hierarchies and hegemony. In Andrew H. Van de Van and William F. Joyce (Eds.), Perspectives on organization design and behavior: 371-386. New York: John Wiley & Sons.

1986 Complex organizations: A critical essay (3rd ed.). New York: Ransom House.

Pfeffer, Jeffrey.
1981 Power in organizations. Marshfield, Mass.: Pitman.

Pfeffer, Jeffrey and Gerald R. Salancik.
1978 The external control of organizations. New York: Harper & Row.

Rumelt, Richard.
1974 Strategy, structure, and economic performance. Cambridge, MA: Harvard University Press.

Sakudo, Yataro.
1981 *Sumitomo Zaibatsu*. Tokyo, Japan: *Nihon Keizai Shinbunsha*.

Samsung Beesoseel (Office of the Executive Staff of Samsung Group).
1988 *Samsung oseep nyon sa* (Fifty year history of Samsung). Seoul, Korea: *Samsung Beesoseel*.

Scott, W. Richard.
1987 Organizations: Rational, natural, and open systems. Englewood Cliffs, NJ: Prentice Hall.

Shin, Yukeun.
1984 *Hankuk kyop-y tuksonq-qwa kwaje* (The characteristics and tasks of Korean enterprise). Seoul, Korea: Seoul National University Press.

Skocpol, Theda.
1984 Emerging agendas and recurrent strategies in historical sociology. In Theda Skocpol (Ed.), Vision and method in historical sociology: 356-392. Cambridge, U.K.: Cambridge University Press.

Smelser, Neil J.
1976 Comparative method in the social science. Englewood Cliffs, NJ: Prentice Hall.

Stinchcombe, Arthur L.
1959 Social structure and organizations. In James G. March (Ed.), Handbook of organizations: 142-193. Chicago, IL: Rand McNally.

1965 Bureaucratic and craft administration of production: A comparative study. Administrative Science Quarterly, 4: 168-187.

Suh, Sang-chul.
1978 Growth and structural changes in the Korean economy, 1910-1940. Cambridge, MA: Harvard University Press.

Teece, David J.
1981 Internal organization and economic performance: An empirical analysis of the profitability of principal firms. The Journal of Industrial Economics, 30: 173-199.

Westney, Eleanor D.
1987 Imitation and innovation: The transfer of western organizational patterns to Meiji Japan. Cambridge, MA: Harvard University Press.

Williamson, Oliver E.
1975 Markets and hierarchies. New York, NY: Free Press.

1985 The economic institution of capitalism. New York, NY: Free Press.

Woronoff, Jon.
1983 Korea's economy: Man-made miracle. Arch Cape, Oregon: Pace International.

Yamamura, Kozo.
1967 The founding of Mitsubishi: a case study in Japanese business history. Business History Review, 41: 141-160.

Yasuoka, Shigeaki.
1974 The tradition of family business in the strategic decision process and management structure of *zaibatsu* business: *Mitsui, Sumitomo,* and *Mitsubishi*. In Keichiro Nakagawa (Ed.), Strategy and structure of big business: 81-101. Tokyo, Japan: University of Tokyo Press.

1982 *Mitsui Zaibatsu*. Tokyo, Japan: *Nihon Keizai Shinbunsha*.

1985 *Zaibatsu* no hikakushiteki kenkyu (A study of comparative history of *zaibatsu*). In *Doshisha Daigaku Jinbun Kagaku Kenkyujo* (Ed.), *Zaibatsu no hikakushiteki kenkyu* (A study of comparative history of *zaibatsu*). Tokyo, Japan: Minuruua Books.

Yasuoka, Shigeaki and Akio Okochi.
1983 Family business in the era of industrial growth. Tokyo, Japan: University of Tokyo Press.

Yoo, Sangjin and Sang M. Lee.
1987 Management style and practice of Korean chaebols. California Management Review, 29: 93-110.

Yoshino, Michael Y.
1965 Japan's Managerial System. Cambridge, MA: MIT Press.

Zald, Mayer V.
1970 Political economy: A framework for comparative analysis. In Mayer V. Zald (Ed.), Power in organization: 221-261. Nashville, TN: Vanderbilt University