# Korean Chaebol in Corporate Transition

By Alvin Toffler

Korea cannot develop a new economy without also creating a new society. The reason for this is that economic life in every country is embedded within a social system made up, among other things, of institutions. These change whenever a new system for creating wealth replaces an older one.
The industrial revolution, or ``modernization'', for example, brought with it new kinds of business enterprises - factories, department stores, complex chains of jobbers and wholesalers, transport companies, and the like. It brought entirely new educational systems. It brought new forms of government, too, as ancient monarchies were replaced by new political structures.
No country today can make a full transition from the Second Wave, industrial age economy to a Third Wave, 21st century economy, without also inventing and reinventing many of its institutions. Korea is no exception.

## Future Of The Corporation

As companies outside Korea have struggled to adapt to the new economy, they have been compelled to change their organization, their internal culture, and their relations with the outside world. Korean firms, too, and especially the biggest, will have to reinvent themselves though not necessarily all in precisely the same ways.
During the industrial era, the most successful corporations were huge, centralized, bureaucratically pyramidal and vertically integrated. By contrast, to transition to the new economy, many firms have become smaller, less centralized, less bureaucratic, and ``de-verticalized''.
In transitioning to the new economy, many companies have flattened their pyramids by eliminating numerous layers between the top and bottom of the organization. Hordes of managers who ranked in the middle rungs of the corporate ladder were essentially occupied moving information up and down the hierarchy, taking information from below, partially synthesizing it, and passing it (or refusing to pass it) up vertically to the next level.
However, the new economy operates at faster speeds and decision makers cannot wait for information to move up and down step by step. Thus sophisticated IT systems now make possible instant communication between top and bottom, as well as across lateral boundaries.
These powerful new information and communication technologies made many of these intermediate managers unnecessary and further intensified the need

for accelerated decision making. In turn, the combination of acceleration and rapidly increasing complexity also has required that more decision- making authority be devolved to those actually doing the work down below. And, because hyper-competition today demands continual innovation, and old- style authoritarian leadership typically stifles new ideas, employees in advanced companies are increasingly encouraged to question old ways of doing things. Thus high level, decision-burdened authorities have to adjust themselves to three newly important realities: 1) they cannot know everything; 2) they cannot decide everything; and 3) disagreement is not necessarily disloyalty - their decisions can - and often should - be questioned by those below.

The result is a radical change not merely in structure, but also in the internal culture of firms operating successfully in the most advanced sectors of the new economy. It is a change that is particularly difficult to accomplish in family-owned, patriarchal firms.

## Who Owns What?

Not just in Korea but across much of Asia the largest corporations have typically been family-owned and controlled, usually through a complex tangle of holding companies, with outside capital contained in subordinate companies controlled indirectly by the family. Often, as such companies expand they search for additional capital.

In many cases, however, minority lenders and stockholders, and especially foreign investors, lack the information and rights necessary to protect their investments, and they therefore assume greater risk than the family insiders and friendly political supporters.

In the West, family ownership of large firms diminished as industrialization progressed and more and more reliance was placed on professionally qualified managers and on outside capital. In the process, the firms grew into more formalized, impersonal bureaucracies run, in theory at least, on the basis of merit.

Korea today is witnessing this transition played out in public almost like a vast soap opera, with all the drama of bankruptcies, corruption, captains of industry fleeing the country, and family feuds.

In some countries, including Korea, this picture was complicated by the role of government, which not only helped build family firms with contracts but with cheap loans from banks under government control or influence, in return for corrupt political and personal payoffs. The lasting consequences of this system need to reverse if Korea is to advance.

It is true that in times of economic hardship, small, family firms are squeezed hard and frequently lack the resources needed to survive. Nevertheless, what we are seeing played across the world is not the disappearance of family ownership, or of small business, but the rapid rebirth of family firms and small business partly as a result of the outsourcing process. More of both - small business and family firms – will appear as Korea focuses greater attention on its domestic, as distinct from its export, economy.

In the end, if Korea's great chaebols are in trouble, it is not primarily because of political pressures from Chong Wa Dae (The Blue House), as some might think, or the IMF, or a hostile public, but because the conditions that originally gave rise to them are fast disappearing.

The very methods, organizational patterns and customs that helped the chaebols succeed in the Second Wave past are today radically counter-productive in the highly competitive, increasingly global knowledge economy of the Third Wave present.

The success of the chaebols over the decades helped Korea. The reluctance of some chaebols to change rapidly today harms Korea. There are, of course, plenty of smart executives in the chaebols who know all this and no doubt favor faster change, whether they say so publicly or not. They need praise and encouragement from outside.

Meanwhile, the public needs to know that there is no single, universally correct form of ownership. Ultimately, from the point of view of Korea's transition to an advanced, more affluent economy, two things are more important than the type of ownership. One, of course, is how intelligently and farsightedly its firms are managed. Failure of managers to anticipate change can kill any firm. The other crucial factor – whether they make cars, chemicals, or chips, whether they provide medical care or sell mutual funds – is the speed and effectiveness with which firms utilize Korea's advanced cyber-structure to shift from mass production of low-return commodities to higher value added, information-enriched, customized services and goods. If Korea's companies do not successfully make this transition rapidly, Korea could wind up with perfectly well managed, perfectly transparent, perfectly accountable publicly owned companies that turn out low-value products, for low returns and low wage jobs.

Korea can do better.

This is the seventh in a series of articles based on excerpts from a paper published by well-known futurist Alvin Toffler and an independent advisory group, Toffler Associates, at the request of the Korean Information Society Development Institute (KISDI) about the emergent global economy of the 21st century and Korea's place in it. -ED