

## THE LUCKY-GOLDSTAR GROUP IN THE REPUBLIC OF KOREA

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### I. OUTLINE OF THE LUCKY-GOLDSTAR GROUP

#### A. *From the Onset to the Establishment of Goldstar Co., Ltd.*

The Lucky-Goldstar Group, one of the four major business groups in Korea, maintains a rather low profile compared with the other three groups, namely, Hyundai, Samsung, and Daewoo, but it does not lag behind the others in size and economic importance. In fact, it is next to none in the petrochemical and home electronic areas. It has about as long a history as Samsung, and has also set a model for other business groups with regard to industrial investment as well as managerial acumen.

The founder of the group, Goo In-Whoi, was born in a rural village in Gyeong-sang-Namdo, a southern province of Korea. It is interesting to note that Ri Byeong-Cheol, the founder of Samsung, was also born in a rural village in the same province. Both were traders during the period of Japanese colonization, invested profits in buying farmland, and emerged as significant landowners toward the end of the Japanese colonial period. Ri Byeong-Cheol depended on properties inherited from his father for his initial investment while Goo In-Whoi was financially supported by his wife's wealthy parents in starting business. Both came from farming backgrounds, went in for commerce, and then became industrialists.

Liberation of Korea from Japanese colonial rule created business opportunities for local entrepreneurs through the transfer of former Japanese enterprises. However, neither Ri nor Goo availed himself of this opportunity. Ri continued trading after the liberation, accumulated enormous profits through foreign trade during the Korean War, and after the cease-fire established a sugar-refining firm. This is how he stepped into manufacturing. In the meantime, Goo set up a cosmetics-manufacturing firm, Lucky Chemical Co. (later Lucky, Ltd.) as early as 1947 when Korea was still in the postliberation turmoil. Of the four major business groups, in fact even among the thirty top Korean business groups, Goo's and Ri's groups made the earliest debut in the manufacturing sector.

But for Goo it was a modest and largely accidental debut as a manufacturer. One day, an engineer, who had been working for a cosmetics firm, visited Goo offering cosmetics-making know-how and information about procurement of raw materials. He accepted this offer [9, p. 117]. It is true that Goo had been anxious to start a new business, but had no knowledge about the manufacturing and marketing of cosmetics when he embarked on this new business. The "factory"

he began to run was nothing but a room in his own house equipped with simple machines, a veritable case of "cottage industry."

Goo gained information about plastics while struggling to improve cream containers. This motivated him to advance into the plastics-processing business. What he did was ordering an injection molding machine from a U.S. firm. It was in 1951 and Korea was in the midst of the Korean War. The machine cost him 3 billion whan, a sizable investment for his small firm. Moreover, a significant portion of the price had to be paid in foreign exchange, which was under tight government control. The fact that Goo successfully obtained a foreign exchange allocation suggested that he was supported by some influential persons in the government. The Lucky-Goldstar Group had remained relatively free from special patronage relations with any of the past governments, but even so, it was careful enough not to antagonize political circles, or may even have been maintaining some channels of communication with them.

After stepping into the plastics business, Lucky Chemical Co. decided to build a full-dress factory. As soon as it was completed, the firm discarded cosmetics in favor of plastics products such as tooth brushes and tableware. For Goo plastics were initially manufactured for cream containers, but they became Lucky's main business line. The Lucky-Goldstar Group was now ready to take off.

In the postwar reconstruction period, the demand for plastics products increased markedly. Lucky Chemical Co. accordingly expanded its capacity by introducing new equipment and building new plants. It diversified lines of plastics products and embarked on new areas of production such as toothpaste. In 1955 it organized a toothpaste division. In 1959 it founded Lucky Oil & Fat Industry as its subsidiary for the production of soap.

The business evolution from plastics processing to toothpaste and then to soap was logical as the raw materials used are mutually related. But Goo's next step, the advance into electrical appliances through the establishment of Goldstar Co., Ltd. in 1958, was rather abrupt. It was an epoch-making event in the history of the Lucky-Goldstar Group as a bold leap forward into an utterly unknown area. Goldstar Co., Ltd. was set up for the manufacture of vacuum tube radio sets, a product foreign to Lucky Chemical Co. However, since radio cases were plastics products, much of their manufacturing could be undertaken using Lucky's own technology [9, p. 179]. In fact, as Goldstar Co., Ltd. depended on imports for major parts of its products in the initial stage, the company sold products with value added through the production of plastic cases for radio equipment.

Lucky Chemical Co. and Goldstar Co., Ltd., the two core enterprises of the Lucky-Goldstar Group thus emerged in the 1950s. However, Goldstar Co., Ltd. experienced chronic stagnation. The company was about to close when Pak Jeong-Hee's military coup d'état occurred, signaling the major political change in postindependence Korea.

#### B. *Lucky-Goldstar Group Emerges as One of the Four Majors*

Goo In-Whoi's first encounter with the military regime occurred when he was implicated in the so-called "problem on dealing with illicit wealth accumulation." The military regime had decided to expose those industrialists who had "illicitly

accumulated wealth" through tax evasion and irregular collusion with the preceding regimes. The military government aimed at levying additional taxes to penalize them. Goo ranked thirteenth on the government list of thirty businessmen who had illicitly accumulated wealth. As this list covered almost all the important industrialists at that time, it was suspected that the penalizing measures had been taken not so much on the basis of actual irregularities committed as on the general assumption that under the former regime no industrialists would have been able to accumulate wealth without illicit collusion with government officials and that therefore all the successful ones were guilty.

Most of the listed entrepreneurs belonged to the so-called "three white industries," namely, those running flour, cotton, and sugar mills for the processing of wheat, raw cotton, and crude sugar supplied by the United States as surplus agricultural products. The military government was right to point out that the industrialists of this category had made large profits without working hard and that they were bribing influential government officials in order to safeguard their advantageous position. Since Goo's Lucky Chemical Co. was provided with raw materials such as synthetic resin, and oil and fat, in U.S. aid, it was obvious that it, too, was benefiting from more or less illicit relations with government officials though not as blatantly as the men of the "three whites."

Having succeeded in containing popular political movements centered on reunification, the military regime decided to devote its efforts to economic development by stressing industrialization. It set up the Economic Planning Board and entrusted it with the task of drafting the First Five-Year Economic Development Plan. In this process, the government had to decide who would be the main promoter of industrialization.

The Pak regime in its early period was strongly tempted to adopt state-guided economic management. Symbolic of this tendency was the nationalization of banks. In addition to banks, a number of state-owned or state-run enterprises were set up to develop key industries. But it was also true that the national economy had to be run on the basis of market economy. The Pak regime from the beginning was under strong pressure from the United States because it needed the support of the United States to maintain power and legitimacy. As a regime committed to anticommunism, the Pak government could hardly reject the free enterprise system.

The Pak government eventually replaced its earlier policy of collecting penalties from "illicit accumulators" with a new policy of having them construct plants in designated industries. This was a shift from penalization to utilization. The industrialists designated by the government formed the Association of Korean Industries (later renamed the Federation of Korean Industries) to actively respond to the government change of policy. The collaboration (collusion) between the Pak government and the major business groups originated in this conjuncture. Goo In-Whoi was thus asked to construct a cable factory, and met Pak's expectations by establishing Korea Cable Co. (later Goldstar Cable Co.) in 1962.

The Pak regime's industrialization program was beefed up by powerful protectionism. Thanks to protectionist measures, Goldstar Co., Ltd., which had been suffering seriously from competition of imported radio sets as well as those

from U.S. bases, was able to survive, and soon rapidly expanded. The government campaign to give radio sets to farming families also helped Goldstar to thrive. Undoubtedly collaboration with the Pak regime enabled Goldstar to achieve rapid growth.

After the normalization of the diplomatic relations with Japan in 1965, foreign commercial loans began to flow into the country. Under the Second Five-Year Economic Development Plan launched in 1966 and under the subsequent programs, state-guided economic management that characterized the initial stage of the Pak regime gave way to prerogatives of private business initiatives in economic development. The door to foreign capital and technology became wide open, generating vast business opportunities for private enterprises. No wonder that ambitious people began to join business dreaming to become big industrialists of the future.

Not all the influential members of the Association of Korean Industries, or the erstwhile "illicit wealth accumulators," became successful under Pak's industrialization program and many failed. Taking their place, newcomers like Hyundai, Daewoo, Ssangyong, and Seongyeong swiftly climbed the ladder and joined the business groups. Of the "illicit accumulators," only Ri's Samsung and Goo's Lucky-Goldstar groups survived as top-ranking firms.

The Lucky-Goldstar Group operated in two parallel formations—one the chemical wing originating in Lucky Chemical Co. and the other the electrical appliance wing headed by Goldstar Co., Ltd. Both developed new products one after another. Both industries being entirely new to the Korean economy, new product developers were promised the monopoly of the market of the products concerned. Generally, any enterprise could successfully become enjoyed in new business areas if only it found foreign partners ready to provide capital and technology. Such opportunities were available to everybody, but obviously, the firms which had already achieved some success were in a more advantageous position.

In the field of chemical industry, the Lucky-Goldstar Group used the Lucky Chemical Co. and Lucky Oil & Fat Industry to develop and market a wide range of products for daily use. The group founded Lucky Vinyl Industry Co. in 1962 and Honam Oil Refinery Co. in 1967 to acquire the capacity of full range production. This was a necessary step a business group in the processing industry is supposed to take in order to maximize the value added of its products.

In the electrical appliance field, the Lucky-Goldstar Group companies developed and produced home electrical appliances including electric heaters, electric fans, refrigerators, as well as transistor radio sets, and industrial electrical machines such as acoustic equipment, electric meters, transformers, and telephone units. In the development of a number of these lines, the Lucky-Goldstar Group firms played pioneering roles. The Lucky-Goldstar Group's electrical companies, however, depended overwhelmingly on mass-produced goods, first radio sets, and then television sets, and finally videotape recorders. In the 1970s, the export of these consumer durables contributed most significantly to the growth of the group. Peninsula Trading Co. (later Lucky-Goldstar International Corp.), the group's integrated trading arm, was established against this background.

### C. *Present Status of Lucky-Goldstar Group*

The definition of the ranges of business group (affiliated enterprises) varies with the sources. According to the "list of large business groups" which is published every year by the Korean government (Fair Trade Commission) for the purpose of implementing the ceiling-on-bank-loan policy, the Lucky-Goldstar Group in 1991 had sixty-two companies under its wing, four more than in the previous year. Of the sixty-one groups covered by the list, the Lucky-Goldstar Group had by far the largest number of affiliated firms, followed by the Hyundai Group which had forty-two.

But a brochure published by the Lucky-Goldstar Group's presidential office in 1991 indicated that the group had thirty-three affiliated firms [8], whose dates of establishment are shown in Table I.

## II. THE LUCKY-GOLDSTAR GROUP'S SYSTEM OF CONTROL: OWNERSHIP AND MANAGEMENT

### A. *The Group's Ownership of Affiliates' Stocks*

Let us clarify the Lucky-Goldstar Group's stock ownership of affiliated firms using Daishin Economic Research Institute [1, Autumn issue]. Table II shows the major shareholders of the affiliated firms.

What strikes us is that few major shareholders of the affiliates are individuals. In fact, the only reference to personal names found in the table is "Seo Seok-Won and others" as a major shareholder of Lucky Insurance Co. Lucky Insurance Co. was formerly an independent firm (Pan Korean Insurance Co.), which was annexed by the Lucky-Goldstar Group in 1970. Seo and others own 14.7 per cent of the firm's stock. Though this is a relatively large share, Seo is not on the firm's roster of executives. Seo Seok-Won is a relative of Seo Jeong-Gui who was the founder-president of Honam Oil Refinery Co., an affiliated firm of the Lucky-Goldstar Group. Seo Seok-Won has never participated in actual management since the establishment of Lucky Insurance Co.

The absence of the founder's relatives on the list of major shareholders does not fit the general image of Korean business groups (*chaebol*) where the founders' families are believed to dominate group affiliates.

But this is not the Daishin Economic Institute's careless omission. According to Hattori who surveyed shareholdings of thirteen Lucky-Goldstar Group affiliates as of 1982, the founder's relatives surface as major shareholders only in two cases: 13.66 per cent ownership for Lucky, Ltd. and 28.53 per cent ownership for Pan Korea Insurance Co. (Lucky Insurance Co.) [4, p. 148]. The shares they own accounted for only 3.25 per cent of the total capital of the thirteen firms. Five years after this survey was made, the names of the founder's relatives disappeared from Lucky Insurance Co.'s shareholder list.

Hattori pointed out that among the major Korean business groups, the Lucky-Goldstar Group had the second smallest percentage of the shares owned by the founder's relatives in the capital of the intra-group firms, the smallest being the

TABLE I  
AFFILIATED COMPANIES OF THE LUCKY-GOLDSTAR GROUP

Name	Year of Establishment	Capital Stock (1991)	Number of Employees (1991)	Total Sales (1990)	Type of Business
Lucky, Ltd.	1947	2,700	10,030	15,853	General chemicals
Kukje Electric Wire Co., Ltd.	1947	100	780	1,200	Cables
Lucky-Goldstar International Corp.	1953	758	4,190	30,010	Trading, garment manufacture
Goldstar Co., Ltd.	1958	3,637	33,000	29,840	Electrical/electronic machines
Lucky Insurance Co., Ltd.	1959	217	1,860	4,039	Damage insurance
Goldstar Cable Co., Ltd.	1962	650	5,700	7,200	Industrial equipment and machinery
Goldstar Electronic Devices Co., Ltd.	1962	215	1,290	749	Communication equipment
Honam Oil Refinery Co., Ltd.	1967	1,440	2,050	24,950	Petroleum refining
Lucky Advanced Materials, Inc.	1968	405	1,330	1,628	Petrochemicals, new materials
Lucky Securities Co., Ltd.	1969	2,880	2,300	1,875	Securities
Goldstar Telecommunication Co., Ltd.	1969	329	3,500	2,600	Communication equipment
Lucky Development Co., Ltd.	1969	475	1,325	5,329	General construction
Goldstar Alps Electronics Co., Ltd.	1970	250	3,450	1,677	Electronic parts, dies
LG Mart Co., Ltd.	1971	106	2,130	2,332	Super-chains
Lucky Metals Corp.	1971	600	1,760	6,693	Smelting, metal processing
Pusan Investment and Finance Corp.	1973	150	90	1,014	Short-term financing
Goldstar Instrument and Electric Co., Ltd.	1974	240	2,300	1,700	Industrial electrical machinery and appliances
Goldstar Precision Co., Ltd.	1976	100	1,330	496	Measuring equipment
Lucky Petrochemical Co., Ltd.	1978	1,100	500	—	Petrochemicals
Goldstar Electric Machinery Co., Ltd.	1978	150	2,000	1,450	Elevators, electronic machinery

(Million won)

TABLE I (Continued)

Name	Year of Establishment	Capital Stock (1991)	Number of Employees (1991)	Total Sales (1990)	Type of Business
Lucky Engineering Co., Ltd.	1978	55	685	1,016	General technical services
Goldstar Information and Communication, Ltd.	1979	350	2,800	3,000	Electronic switching systems
Goldstar Honeywell Co., Ltd.	1984	60	650	510	Automatic controllers
LG Ad, Inc.	1984	10	360	1,285	General advertising
Yosu Energy Co., Ltd.	1984	240	270	2,321	LPG import and sale
Goldstar Software, Ltd.	1985	10	389	195	Computer software
Lucky-Goldstar Economic Research Institute	1986	10	85	28	Economic and industrial analysis
Systems Technology Management Corp.	1987	36	1,200	514	Information processing
Goldstar Industrial Systems Co., Ltd.	1987	415	4,380	4,430	General electronic machinery
Lucky Polychemical Co., Ltd.	1987	150	220	674	Petrochemicals
LG Credit Card Co., Ltd.	1988	408	640	8,500	Financial services
Hee Sung Tourism Development Co., Ltd.	1988	57	30	—	Leisure industry
Goldstar Electron Co., Ltd.	1989	1,303	3,300	1,004	Semiconductors

Source: [8].

Note: Although the year relating to the capital stocks and the number of employees is not specified in the source, it is assumed that it corresponds to 1991.

TABLE II  
LARGE SHAREHOLDERS OF LISTED COMPANIES WITHIN THE LUCKY-GOLDSTAR GROUP

Name	Number of Shareholders	Large Shareholders
Lucky, Ltd.	25,433	National Investment Trust (4.2%), Taihan Education Insurance (4.2%), Taihan Investment Trust (3.2%)
Lucky-Goldstar International Corp.	15,226	Goldstar Co. (9.4%), Goldstar Industrial Systems Co. (1.9%), Lucky Development Co. (1.2%)
Goldstar Co.	59,618	Lucky, Ltd. (6.4%), Taihan Education Insurance (3.1%)
Lucky Insurance Co.	1,093	Seo Seok-Won & others (14.7%), Lucky Advanced Materials, Inc. (5.0%), Goldstar Alps Electronics Co. (4.1%),
Lucky Advanced Materials, Inc.	2,931	Lucky, Ltd. (33.3%)
Goldstar Cable Co.	5,731	Hitachi Cable Co. (12.9%), Goldstar Co. & others (11.9%)
Goldstar Telecommunication Co.	342	Siemens (7.5%)
Lucky Development Co.	5,506	Lucky, Ltd. (11.8%), Goldstar Co. (9.1%)
Goldstar Electronic Devices Co.	n.a.	Goldstar Telecommunication Co. (25.9%), Goldstar Co. (18.4%)
Goldstar Electric Machinery Co.	4,498	Mitsubishi Electric Co. (14.3%), L-G International Corp. (8.7%), Goldstar Telecommunication Co. (7.8%)
Lucky Securities Co.	997	Lucky, Ltd. (6.1%), Lucky Development Co. (5.5%)
Pusan Investment & Finance Corp.	456	Lucky, Ltd. (9.0%), Dongmyeong Cultural Academy (8.8%), L-G International Corp. (8.4%)
Goldstar Instrument & Electric Co.	2,495	Fuji Electric Co. (29.5%)
Lucky Metals Corp.	1,048	Goldstar Cable Co. (19.4%), Korea Industrial Bank (15.7%)
Kukje Electric Wire Co.	1,004	Lucky Metals Corp. (19.7%), Goldstar Cable Co. (17.9%)

Sources: [1]. For the number of shareholders, [6].

for the ten top business groups was 13.3 per cent, the highest being 26.02 per cent for the Hanjin Group.

It is unlikely that the shareholding by the founder's relatives of the stocks of the Lucky-Goldstar Group's core enterprises (which are all listed on the stock exchange) was as small as this from the beginning. In fact, years ago, "Goo Ja-Doo and twenty-nine others" controlled 13.5 per cent of the stock of Peninsular Trading Co. (now Lucky-Goldstar International Corp.) and "Goo Ja-Gyeong and eighty-two others" 12.8 per cent of the stock of Goldstar Co., Ltd., according



Daewoo Group (1.06 per cent) [4]. Incidentally, the average comparable figure to the Korean Economic Research Institute [6, 1980 edition]. These figures indicate the progressive dispersal of the stocks in the course of increase in capital. Let us trace this process of ownership dispersal in the case of Lucky, Ltd., the embryo of the Lucky-Goldstar Group, using available data.

Lucky, Ltd., established in 1947 as Lucky Chemical Co., was privately owned by Goo In-Whoi until 1966. Based on historical records of the company, in 1962 the company was capitalized at 30 million won, but this refers to the initial capital of Lucky Vinyl Industry Co., Lucky Chemical's subsidiary, which was launched in the same year as a joint-stock company. In 1966 Lucky Chemical Co. was reorganized into a joint-stock company in the form of absorption by Lucky Vinyl Industry Co. which had already been a joint-stock company. For this reason, Lucky, Ltd. is recorded as having formally started in 1962.

The shares of Lucky Vinyl Co. at the onset were distributed as follows: 51.9 per cent for Goo In-Whoi, 21.6 per cent for his relatives, 21.1 per cent for Heo Jun-Goo, 2.9 per cent for his relatives, and 2.5 per cent for others.<sup>1</sup> In other words, Goo and his relatives owned 73.5 per cent and Heo and his relatives 24 per cent of the firm's stock. The others practically did not count. By the time it was annexed by Lucky Chemical Co., Lucky Vinyl Industry Co. recorded successive capital increases. By the time it was reorganized as Lucky Chemical Co., the firm's capital had reached 200 million won [9, p. 214].

Lucky Chemical Co. was listed on the stock exchange in 1970. In 1974, it was renamed Lucky, Ltd. As of June 1976, Lucky, Ltd. had 1,871 shareholders, according to the oldest available data of the Korean Economic Research Institute [6, 2nd half, 1976]. The major shareholders were "Goo Ja-Gyong and forty-seven others" with 21.7 per cent, Korean Investment and Finance with 7.4 per cent, and the Yonam Foundation with 5.6 per cent of the shares. Who "the forty-seven others" were is not clear, but probably they were members of the Goo family and relatives possibly including Heo family members and relatives. If so, the weight of the Goo family and relatives in the firm's stock ownership, which had been overwhelming in 1962 (and presumably in 1966 too), must have drastically decreased by 1976.

One of the factors contributing to this stock ownership dispersal is the establishment in 1969 of the Yonam Foundation. That year, Goo In-Whoi transferred 800 million won to the new foundation out of his 1.1 billion won-worth of stock shares he then owned. The remaining equities he had were said to have been inherited by his children after his death [7, p. 35]. Eight hundred million won corresponded to 1.5 times the capital of Lucky Chemical Co., which amounted to 536 million won. However, since the Yonam Foundation belongs to the Goo family, this pattern of ownership may be considered as a measure to "freeze" assets, rather than a step to disperse equity ownership.

<sup>1</sup> Goo In-Whoi's wife belongs to the Heo family which has been collaborating with Goo since the very beginning of his commercial activities. As the two families are still working together closely in financial and management activities, they can be considered to form a single unit which may adequately be described as the "Goo family and relatives."

The listing of Lucky Chemical Co. in 1970 was the second contributing factor. The Korean Law for Inducing Business Corporations to Go Public (enacted in 1972) required a listed company to have not more than 50 per cent ownership by a single person.<sup>2</sup> As Lucky, Ltd. is known not to have taken any special measure to be exempt of this restriction at that time, it appears that the firm had fulfilled this qualification prior to going public.

As reported by Hattori, the Goo family's share in Lucky, Ltd. stock was a meager 13.66 per cent [4]. The firm, as of December 1987, had 25,433 shareholders, according to the Korean Economic Research Institute [6, 1988 edition]. The institute refers only to the Bank of Seoul and the Korea Long-Term Credit Bank as the major stockholders of the firm, each having 12.8 per cent of the firm's stock. In 1987, the capital of Lucky, Ltd. thus was thirty-two times that of 1976 and the number of shareholders was thirteen times that recorded ten years earlier. With this, Goo and his family disappeared from the list of major stockholders.

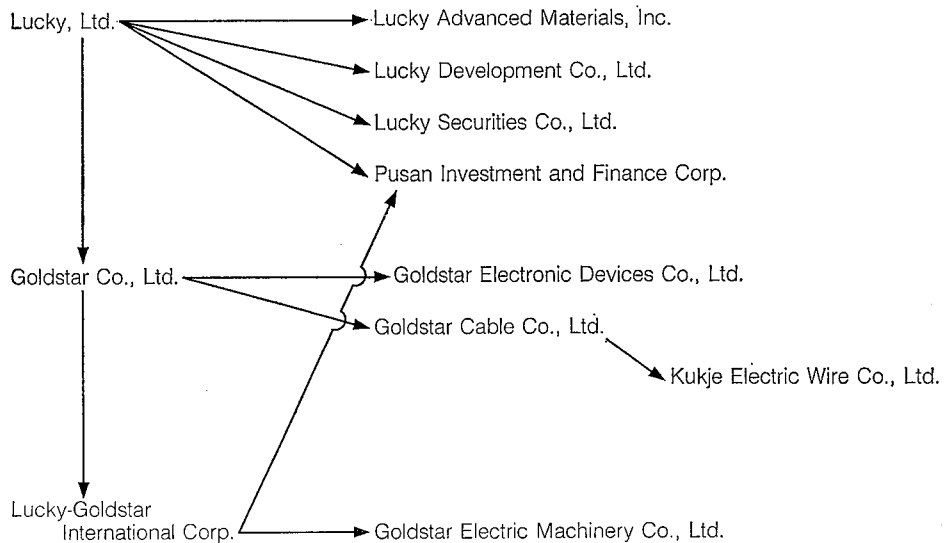
All told, the founder's family owns only less than 30 per cent of the shares of Lucky, Ltd., the core of the Lucky-Goldstar Group, even if the shares owned by Lucky's subsidiaries are included. Until recently the official guidelines of the Korean government considered a firm with 30 per cent of its equity ownership controlled by a single individual or a single group of individuals as the latter's affiliated firm. However, it is obvious that Lucky, Ltd. is the controlling core of the Lucky-Goldstar Group. With the recent tendency of Korean companies to expand the increasing dispersion of stock ownership, the value of 30 per cent is too high to determine which were affiliated firms. Thus, the Presidential Order for the Law on Monopoly Regulation and Fair Trade, issued in 1990, stated that in addition to the 30 per cent rule, the exercise of managerial powers, including the power of appointment by a single person would be another criterion to identify affiliated firms.

Enterprises—financial institutions, affiliated firms, and foreign companies—replace individuals as major shareholders. The banks, however, are interested only in portfolio investment and do not aim at participating in management. The Lucky-Goldstar Group has affiliated banks, but none of them appears to be its major shareholder. As of the time of this survey, foreign firms were not allowed to invest in a Korean firm unless they intended to participate in management.

The list of the major stockholders of the Lucky-Goldstar Group does not include non-affiliated firms with the single exception of Taihan Electric Wire (it owns 7.3 per cent of the stock of Kukje Electric Wire which supplies materials to Taihan). In the Lucky-Goldstar Group, one affiliate owns another's shares so as to strengthen intra-group unity. This is the structure of the group's stock ownership. All Korean business groups except for a few follow this system.

<sup>2</sup> The Presidential Order for the Law on Monopoly Regulation and Fair Trade of Korea defines as "the same person" anyone who belongs to a group of persons who are relatives within the eighth degree of kinship of the person concerned and relatives of the person's spouse within the fourth degree of kinship of the latter.

Fig. 1. Shareholding among Affiliated Companies of the Lucky-Goldstar Group



Source: [1].

However, this does not mean that the affiliates mutually own their shares as do Japanese business group affiliates (*keiretsu*). Although mutual shareholding is generally favored, the Presidential Order for the Law on Monopoly Regulation and Fair Trade explicitly prohibits mutual shareholding. However, prior to the issuance of that order, and in the subsequent transitory period (which has ended by now), mutual shareholding prevailed. The period of time we are examining coincides with the transitory period when mutual shareholding was not yet completely banned. Even during that period, it does not appear that the Lucky-Goldstar Group was eager to promote mutual shareholding. The group was interested rather in what may be called sequential shareholding or vertical shareholding, e.g., Lucky, Ltd. → Goldstar Co., Ltd. → Lucky-Goldstar International Corp. → Goldstar Cable Co. → Lucky Metals Co. → Kukje Electric Wire Co., Ltd., each of them owning the shares of the firm that immediately follows.

However, the pattern is not strictly vertical because some of the core firms hold shares of more than one affiliates in the group, thus functioning virtually as holding companies. This may be defined as a horizontal pattern of shareholding. As Table II shows, Lucky, Ltd. owns shares of four in-group companies as well as Goldstar Co., Ltd. The Lucky-Goldstar Group as a whole thus displays a dual shareholding structure as indicated in Figure 1.

What then is the degree of share control exercised on the group affiliates? How large are the affiliates' equity shares owned by the Goo family and group firms? Elaborate study of the list of shareholders of the firms involved alone may enable to clarify these aspects. According to Hattori, the Goo family and group firms

in 1982 owned an average of 20.6 per cent of the stocks of the thirteen listed in-group firms [4]. This is by far the lowest of all the ten major business groups. Generally, the Goo shares were low in joint ventures with foreign firms (8.02 per cent for Goldstar Electric Co., Ltd.) and high for late starting firms without foreign partners (45.3 per cent for Korea Mining and Refining Co., which is now Lucky Metals Co.). In between were the mainstay firms like Lucky, Ltd., Goldstar Co., Ltd., and Lucky-Goldstar International Corp. with the rate of 18–20 per cent. This pattern has not changed appreciably as Goo's shareholding further dispersed with capital increase and with the listing of some of in-group companies with a late start.

By designating as "in-group ownership share" the equity shares owned by the families of the presidents of business groups as well as by in-group companies, the Korean government discloses the group-by-group figures. As of April 1991, the average in-group ownership share for sixty-one business groups was 46.9 per cent. Of the four major groups, Hyundai topped the list with 67.8 per cent, followed by Samsung with 53.2 per cent, Daewoo with 50.4 per cent, and the Lucky-Goldstar Group with 38.3 per cent, Lucky showing the lowest figure. Among the ten major groups, Lucky showed the second lowest figure with Lotte at the bottom with 23.6 per cent [3, September 17, 1991]. As these figures cover many non-listed group affiliates, the Lucky's figure of 38.3 per cent is naturally higher than the listed firm average of 20.6 per cent previously cited.

The above analysis clearly indicates that the pattern of control over the group affiliates by the Goo family and relatives by means of shareholding underwent a major change—from direct family control in early days to indirect control through equity ownership of foundations and affiliated firms. The family and group firms' share in the affiliated firm ownership has also gradually decreased with the listing of one group member after another.

## B. *Managerial Control of Lucky-Goldstar Group*

### 1. *Group integration management and individual business management*

Management in the Lucky-Goldstar Group is conceptually subdivided into management of individual enterprises under its wing (individual business management) and management of the group as a whole (group integration management). When the group was young, these two types of management were intermingled and inseparable. As the group's business developed, each business item spawned its respective business division, which later developed into an autonomous business entity. Of course, formal independence and autonomy do not necessarily bring about real independence and autonomy. In cases where group integration management exerts its direct influence on individual business management, the directors of the in-group firms are given limited responsibilities and powers comparable to those of division or section chiefs of a truly independent company.

Until around 1966, Lucky, Ltd. was still Goo In-Whoi's personal property. It is true that the Lucky-Goldstar Group in that period established new companies one after another such as Lucky Chemical Co., Goldstar Co., Ltd., Korea Cable Co., Peninsular Trading Co., Lucky Oil & Fat Industry, Lucky Vinyl Industry

TABLE III  
SHAREHOLDERS OF THE GOLDSTAR CO. AT ONSET

Name	Number of Shares	Relation with the Director
Goo In-Whoi	68,000	Director
Goo Ja-Gyeong	12,000	Son
Goo Jeong-Whoi	36,000	Brother
Goo Cheol-Whoi	30,000	Brother
Goo Tae-Whoi	19,000	Brother
Goo Pyeong-Whoi	17,000	Brother
Heo Hak-Koo	29,000	Wife's brother
Heo Jun-Koo	29,000	Wife's brother
Heo Shin-Koo	4,000	Wife's brother
Ri Yeon-Doo	12,000	Not related
Kim Ju-Hong	12,000	Not related
Pak Seung-Chan	12,000	Not related
Yun Ik-Hyeon	12,000	Not related
Moon Mok	8,000	Not related
Total	300,000	

Source: [2, p. 272].

Co., and Kukje News Co. But these companies appear to have been nothing more than business divisions of one company. Managers of the newly established firms in fact consisted of Goo In-Whoi's brothers and sons, and his wife's brothers (the Heo family) joined by the dedicated staff at the onset, who worked together as a cohesive group.

Goo In-Whoi assumed the presidency of all these companies until 1966. However, he did not assume the function of president of all these firms. He was a symbol of the unified will of his family, having the ultimate say in major decisions. At the beginning, management included Goo In-Whoi's brothers and Heo Jun-Goo. As the business group expanded and as his children grew up, other family members joined the executive boards including his son and Heo Jun-Goo's brothers. A few experienced outsiders were also invited to join the group as executives. When Korea Cable Co. was inaugurated, Hong Seong-Eon, who had served in the Eighth Army of the United States as an assistant procurement officer, was recruited to join the group. Yun Ik-Hyeon who had been working for a trading firm and Pak Seung-Chan who worked with the United Nations Korea Reconstruction Agency (UNKRA) were other outsiders who joined the group at that time.

The composition of the executives of the Lucky-Goldstar Group until the mid-1960s can be analyzed by examining the list of stockholders of Goldstar Co., Ltd., as of December 1962 (Table III). Goo In-Whoi and his relatives accounted for 60.7 per cent and the Heo family and his relatives for 20.7 per cent of the stockholders, totaling 81.4 per cent while those without family relations accounted for only 18.6 per cent. However, this composition certainly did not fully reflect the exact distribution of power in management, for those management staff who

had been introduced from outside must have had a significant influence on the decisions due to their expertise and personal connections with administrative agencies.

In 1966, the Lucky-Goldstar Group carried out a drastic reform in its management organization. The reform focused on the introduction of "presidentship" under which individual business management and the group integration management were deliberately separated (stratified). Goo In-Whoi became president of Lucky Chemical Co. and Goldstar Co., Ltd. while the management of group member firms was entrusted to Goo Jeong-Whoi, Heo Jun-Goo, and others. In the meantime, Lucky Vinyl Industry Co. was absorbed by Lucky Chemical Co. in 1965, followed by the annexation of Korea Cable Co. by Goldstar Co., Ltd. In 1968, Lucky Chemical Co. annexed Lucky Oil & Fat Industry. Thus, the group was reorganized practically into two major companies, Lucky Chemical Co. and Goldstar Co., Ltd.

The *Twenty-five-year history of Goldstar Co., Ltd.* explains the significance of the management reform centering on stratification and annexation as "intended to get rid of the family-centered administration and establish efficient management" [2, p. 267]. Acquisition of business experience by Goo's and his wife's relatives as managers as well as participation in management of their grown-up sons certainly represented new energies invigorating the group's business. But this in turn must have had unsettling effects on the relationships between the family executives and executives recruited from outside. The reform may have been motivated to ensure the unity of the group by institutionally redefining the center of decision making. The death of President Goo in 1969 tends to corroborate this assumption.

## 2. *Group integration management*

In 1968, a structure specifically engaged in group integration management was organized: the Office of Planning and Control directly subjected to the president, to ensure that the effective exercise of the presidential power goes beyond symbolic functions conferred on the presidency. In the following year, the Yonam Foundation was established, presumably to secure the ownership of the group in the hands of the Goo family and relatives and to maintain the prestige of the president.

There are no available data indicating how the president and the Office of Planning and Control were functioning, but given his status as the head of the family and his personal prestige based on his managerial achievement, President Goo is believed to have been functioning as before.

After the group's manufacturing operations were integrated in 1968 with Lucky Chemical Co. and Goldstar Co., Ltd., the group established three new firms by 1970—Honam Oil Refinery Co., Goldstar Telecommunication Co., and Goldstar Cable Co. They were set up as independent companies partly because independent status facilitated capital and technological tie-ups with foreign firms and also because the group, now endowed with presidential functions, felt it could afford to accept independence for the sake of high managerial efficiency without risking dissipation of group energies.

President Goo In-Whoi died at the end of 1969 at the age of sixty-two. Succession problems naturally surfaced. In the Korean tradition, his eldest son, Goo Ja-Gyeong, was the natural choice. But the late president's brothers were still active on the front line. Respect for age was also part of the Korean tradition.

The Goo family and relatives after all agreed to select Goo Ja-Gyeong as new president. But in exchange, the Advisory Council was set up consisting of Goo In-Whoi's brothers and Heo Jun-Goo as well as Kim Ju-Hong and Pak Seung-Chan representing the dedicated staff at the onset. Though the tradition of the eldest son's succession was honored, the highest power of decision making was conferred on a collective body. The new president's uncle Goo Jeong-Whoi became the chairman of the Office of Planning and Control. Loyal to the group's motto, "human harmony," the group moved to ensure harmony among the founder's eldest son, brothers of his father and mother, and the dedicated staff at the onset.

Later, the Advisory Council was reorganized into the Council of the Presidential Board and the Council of Advisors. These councils have been operating until now as the highest decision-making organs of the group though some of the original members have been removed due to death and other reasons.

The structure and functions of the group integration management were clearly defined in the Charter of Management. Article 4 of the charter outlines the functions and role of the president in abstract terms as follows: "the mission of the president as the symbol of the group's values is to lay the basis of autonomous development of CUs and to help achieve the group's visions." The acronym "CU" stands for cultural unit, i.e., an enterprise affiliated with the group. The president supervises advisory committees and an organization directly subject to him in order to achieve his "mission." By examining the functions of these organizations the role assigned to the president appears clearly. The Group Policy Committee and the Audit Committee are in charge of business policies while the Appraisal of Directors Committee and the Advisory Committee for Personnel Affairs control personnel affairs. The major presidential functions are thus to work out future business plans for the group and control the posting of personnel of all the group member firms. The president has a tight grip on the management of decisive problems of the group member firms.

The Office of Planning and Control used to be the single organization assisting the president. However, the Charter of Management divided it into the presidential office, secretariat, auditing office, and the "organization to provide managerial services." These offices not only serve the president but also function as the secretariats of the advisory organizations listed above. The organizations directly subject to the president are independently supervised by the president, but organizationally belong to the Lucky, Ltd. head office.

### 3. *Individual business management*

As previously indicated, the introduction of the president system in 1966 aimed at eliminating the practice of family-centered direct administration of the group. At the group level, this reorganization process resulted in the institutionalization of the bloodline succession and concentration of family members and relatives on

commanding group posts, whereas at the individual management level, in the opposite effect—liberation of individual management from the families' direct control. As of 1991, only four of the group member firms had Goo or Heo family members as directors. Besides, these four were not the group's core firms. Goos and Heos until recently took turns as directors of the group's two core companies, Lucky, Ltd. and Goldstar Co., Ltd., but now the directorship has been ceded to persons not related to the family.

Long-term partnership between the founder of a business group and his wife's relatives is uncommon in Korea. It is not rare, however, that two families bound by marital ties start business jointly, but usually they become independent as business develops. The Lucky-Goldstar Group is an exception to this rule. But even so, with the advent of the second and third generations, the dual family characteristic of the group is being considerably attenuated.

We failed to identify who, among the group's executives, are those males who became relatives of the Goo or Heo family by marriage. There should be such persons based on examples from other *chaebols*. For a business family to marry a daughter to an able young man is an important means to absorb external human resources. The value of marriage in this sense is high in a society where kinship is essential. However, in the Korean society where the custom of adopting a son-in-law is lacking, the daughter's husband, however able he may be, cannot hope to become a central figure in the family and relative circles. Though such men must have been introduced through marriage, their position in the group's business is not significantly different from that of similar able persons otherwise recruited. For this reason, kinship seems to have ceased to carry a great weight in personnel matters as far as individual business management is concerned.

But whether there is real autonomy for individual business management remains to be determined. The executives of the Lucky-Goldstar Group met in Seoul in 1991 to proclaim self-reliant management based on a memorandum guaranteeing autonomous management which was signed by the president and the in-group firm directors [3, September 11, 1991]. The very fact that such a meeting had to be held indicates the lack of real autonomy on the part of individual management.

The Charter of Management clearly defines the autonomy of individual business management. Article 3 states that "the directors of CUs have all the powers concerning management, based on the resolutions of the stockholders' general meeting, and . . . assume full responsibilities for their business as the highest officers of the companies." Formerly, the hiring and training of future cadres (college graduates) were the responsibility of the group, but the charter states that the CUs should be responsible not only for the training and education of staff but also for the development of next top management.

The same charter, however, provides that the personnel affairs should be managed unitarily by the Committee for Human Resources Development and that the president should select his successor (Articles 4 and 6). Also, the Lucky-Goldstar Group runs a trans-group training center In-Wha-Won (Lucky-Goldstar Education Center). Division of labor between the group and its member firms in personnel training, if conceptually possible, should be as difficult in practice as



the division of functions in general between group integration management and individual business management.

The problem is to determine who has the supreme right of personnel affairs. Where there is no room for "autonomous" decision making concerning the appointment of the highest responsible officers of the group member firms, there are natural limits to the "self-reliant" management. Though not exactly the same as the Lucky-Goldstar case, autonomous management of Korean banks may be cited in this context. Korean city banks were privatized in the early 1980s, but could not become really autonomous for a long time. Even now they may not be fully autonomous, because their personnel affairs are controlled by the Korean Ministry of Finance. The Charter of Management of the Lucky-Goldstar Group is yet to be tested. So is the declaration of self-reliance of individual management. It is still premature to determine whether these provisions will be really honored.

### III. GROWTH DYNAMISM OF THE LUCKY-GOLDSTAR GROUP

Why could Korea's *chaebols* become the driving force of the country's industrialization? Can they remain the driving force in the future too? These questions can be answered by examining how *chaebols* have grown and by analyzing both the external conditions conducive to their expansion and their inherent potential.

#### A. *Mobilization of External Resources*

Jones and Il, the authors of the now classic in the study of the relationship between *chaebol* and the Korean government, characterized Korean entrepreneurship as lenticular functions, in reference to the Korean entrepreneurs' ability to mobilize a large variety of resources, combine them, and crystallize them into a business enterprise [5, p. 181]. This seems to be a precise description of the behavior of Korean businessmen, especially of *chaebols*, who, during the Pak Cheong-Hee period, mobilized from overseas all factors of production except labor and thus successfully promoted industrialization.

How then, could they mobilize external resources? By credibility, as credibility reproduces itself and accumulates. An entrepreneur who has succeeded in winning trust can expand his business quickly. This snowballing effect has produced business group.

The definition of credibility and trust varies. The kind of trust the entrepreneurs needed most in the Pak period was the regime's trust in them. This was because they had to pass through the regime's screening processes whenever they wanted to mobilize external resources.

Goo In-Whoi won the Pak regime's trust because of the remarkable achievement of his Lucky, Ltd. Even the fact that he was put on the "illicit accumulators" list ironically meant that he was appreciated as a capable entrepreneur. Subsequently, the Lucky-Goldstar Group was selected to undertake the domestic production of a variety of products—cables, equipment, and machines related to electric power and telecommunications. These were essential products for the construction of the infrastructure needed for the country's industrialization. Also,

these products were assured domestic markets as they met public demand. Certainly it would have been difficult for the group to participate in such areas of business if it had not been trusted by the government.

Taking advantage of the trust placed by the regime, the Lucky-Goldstar Group was able to obtain from overseas both funds and technology. From the end of the 1960s through the 1970s, the group marketed a number of new products and established several subsidiaries. Generally, the group relied upon its existing firms, mainly, Lucky, Ltd. and Goldstar Co., Ltd. for the output of products which could be manufactured merely by introducing foreign technology, and preferred to set up new firms in case foreign capital partnerships were required. The Lucky-Goldstar Group thus became an important medium of transplantation of new industries and products to Korea.

As its business is multifaceted, the group established relationships with a number of countries. But Japan by far surpassed other countries as the group's partner in areas of capital, loan, and technology. In particular, Hitachi Group provided ample technological support in enabling the group to produce such major electrical products as TV sets, refrigerators, as well as microwave ovens and semi-conductors. The last will be the group's most important business line. Hitachi was the major source of technological transfer for the Lucky-Goldstar Group.

The Pak regime was eager to execute two tasks—the construction of Korea's heavy industries and boosting of exports. Only by achieving these objectives could a business group expect to become a *chaebol*. The Lucky-Goldstar Group took this challenge. Its petrochemical and heavy electrical machines met the first requirement and radio and TV sets satisfied the second. However, it should not be forgotten that the group maintained a strong position in the domestic market throughout that period.

The main lines of Lucky, Ltd., such as plastics products, tooth paste, and detergents, and main products supplied by Goldstar Co., Ltd., such as TV sets, refrigerators, and washing machines, enjoyed a large popularity on the domestic market. Their sales continued to increase at a high pace. This success in the domestic market certainly generated the high credibility the group enjoyed, which in turn enabled the group to obtain the vast funds and high technology required to embark on heavy electrical and petrochemical fields.

#### B. *Accumulation of Internal Resources*

The growth of the Lucky-Goldstar Group from the 1960s through the early half of the 1980s can be characterized as "extensive expansion," namely, an expansion achieved by marketing new products and becoming engaged in new business areas through the reliance upon the mobilization of external resources. But now that the group's gross assets, the size of employment, and sales have geometrically increased, the group has emerged as a gigantic organization with streamlined internal systems and a thick layer of managerial technocrats, both at the group and affiliated firm levels. Lucky, Ltd. (then Lucky Chemical Co.) made its first open recruitment of staff in 1956 from among college graduates [9, p. 155]. Many of these people have by now climbed the ladder of promotion to the level of top management. The education center In-Wha-Won, in charge of

the education of new recruits, specialized education, and training of staff for overseas work, has assimilated the software aspects of the group's business achievements accumulated in the course of its growth, to produce ideal "Lucky-Goldstar men" to be emulated by the coming generations. But of course, a Lucky-Goldstar man merely inheriting the past experience will not be a truly competitive businessman. New staff should be thrown into the daily processes of renovation for real training.

In the second half of the 1980s, the Lucky-Goldstar Group seemed to have shifted its focus to technological development. Technological innovation is to a company what gasoline is to a car. The group for many years had depended on foreign sources for much of its business lifeline. It is the consensus among Korean business groups as well as in government quarters that though foreign supplies would be needed for some more time, internal resources should begin to play a decisive role in this regard, too, in the nearest possible future.

In the Lucky-Goldstar Group, Lucky, Ltd., the mainstay of the group, operates five specialized research institutes including a high polymer institute, in addition to its central research institute. Goldstar Co., Ltd. operates four specialized research institutes and five overseas research outfits, plus its central research institute and home electrical appliance institute. Other major members of the group also run their research institutes. The group thus has a total of thirty-nine research institutes. In 1990, the group invested 450 billion won in research and development, about a quarter of its total investment of 1,850 billion won. In 1991, it earmarked 600 billion won for R & D, over a quarter of its total annual investment [8, p. 7].

The group's technological development capacity, however, is still behind that of its counterparts in other advanced industrialized countries. Goldstar Electron Co., Ltd., assumed to become the strategic arm of the group, thus had to enter into capital partnership with Hitachi, Ltd. in starting semiconductor production. Even so, it is important to point out that the whole group is now intent on accumulating technological resources within itself.

#### IV. CONCLUSIONS

In recent years, the Korean government has shifted its policy relating to *chaebol* by emphasizing "specialization." *Chaebol* group are now urged to concentrate on two or three lines of production and abandon their department store-like diversification. However, the government does not intend to abolish the *chaebol* control of member firms in favor of independence of individual business management, nor does it want them to close down lines other than those designated by the government. The government proposal seems to be somewhere in-between: each *chaebol* can have two or three different branches as its core industries but the firms under its wing that engage in other production lines are urged to become independent.

Although *chaebols* are generally opposed to this proposal, they are prepared to comply with it to a certain extent, by informing the government which enterprises they want to retain under their direct control as their respective "main

enterprises." The problem here is whether *chaebol* member enterprises can survive when they are severed from *chaebol* control.

As previously indicated, the Lucky-Goldstar Group approaches this issue from the point of view of increasing the autonomy of individual business management. The group has already decided to eliminate the *chaebol* colors of its members as far as possible. The other step the group has taken is to consolidate its operations in preparation for the most drastic possible outcome—dissolution of *chaebol* as such. Already, Lucky, Ltd. has annexed Lucky Advanced Materials, with a view to building up the group's future core industries through merger of in-group firms manufacturing related products. Incidentally, the Lucky-Goldstar Group may have reported to the Superintendent of Banks by April 1991 that its future main enterprises would be Lucky, Ltd., Goldstar Co., Ltd., and Goldstar Electron Co. [3, April 21, 1991].

The government's specialization policy aims at achieving more equalization in wealth distribution through economic decentralization and strengthening of competitiveness by encouraging interfirm competition. But this policy may end up in the worst scenario conceivable—stronger *chaebol* domination of major enterprises on the one hand and loss of managerial capacity on the part of *chaebol*-dissociated enterprises on the other—if *chaebol* group members fail to obtain the capacity and readiness to become independent. Under these circumstances, we need to keep a close watch on how the Korean government is going to evolve its *chaebol* policy and how *chaebols* are going to respond to it.

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