

The courage to dream: MANAGEMENT THE KOREAN CHAEBOL: Despite their recent troubles the future potential of the chaebol should not be under-estimated, write Sumantra Ghoshal and Donald Sull;

Ghoshal, Sumantra, Sull, Donald. Financial Times. London (UK): Apr 2, 1998

Throughout the recent turmoil in Asia one group of companies has attracted nearly universal criticism - the Korean *chaebol*, or large, family-run conglomerates.

Western critics accuse the *chaebol* of sacrificing earnings and strategic focus in their reckless pursuit of sales growth. The *chaebol's* recent troubles are cited as conclusive proof that the Asian model has failed, and vindication of the Anglo-American model stressing strategic focus and strict adherence to shareholders' interests.

While reassuring for western managers, this interpretation ignores the historical dynamism of the *chaebol* and under-estimates their future potential.

The *chaebol's* troubles in the past year should not obscure their remarkable performance in the past decade. The chart, produced by a large European electronics company, plots the performance of several of the world's most-admired companies from the mid-1980s through the mid-1990s. The vertical axis measures internal funds from operations - a more insightful measure of financial performance than accounting profits. The chart demonstrates that Samsung outperformed every company but General Electric in terms of cash flows generated from operations.

More astounding, however, is Samsung's record of revenue growth, here plotted on the horizontal axis. While Samsung generated cash flows comparable to GE, the company increased revenues by 25 per cent on average per year against GE's modest 4 per cent average sales growth. This gap in growth rates adds up quickly. Philips, for example, had revenues of \$21bn (£13bn) in 1982 compared with Samsung's figure of \$6bn. By 1996 Samsung's revenues of \$70bn were twice Philips'.

Undoubtedly some of the *chaebol's* astounding performance can be attributed to government support, cheap capital and protected domestic markets. While few companies in the US or Europe enjoyed the same level of government support, western companies did possess overwhelming advantages in technology, economies of scale and scope, dominant brands and worldwide sales and marketing networks. Despite their advantages, western companies presided over a steady decline in their global market share in important industries.

Ambitious corporate goals, rather than government support, fuel the *chaebol's* growth. In their sheer audacity these ambitions transcend the incremental sales goals found in most companies and achieve the status of corporate dreams. These dreams force managers fundamentally to rethink their strategy and to take significant risks, since these ambitious goals are unattainable through incremental improvements in the status quo.

In the early 1980s Samsung's founder Byung-Chul Lee dreamt of achieving global leadership in consumer electronics. To achieve his dream it would be necessary to

build and leverage competency in semiconductors - the technical core of electronic products - and Mr Lee decided to produce chips. Samsung entered the memory chip market at a time when American producers, including technical pioneer Intel, were abandoning the industry *en masse*. Business pundits decried Mr Lee's "megalomania". In 1996, however, Samsung's semiconductor business contributed \$300m *per month* in positive cash flows.

Samsung plans to invest \$5bn to enter the automotive industry, and aspires to be one of the world's top 10 automakers by 2010. Chairman Mr Lee explains that entering the automotive industry is necessary to maintain leadership in electronics, since electronic parts contribute 30 per cent of a car's value and that proportion is expected to increase to 50 per cent by 2010. Again western pundits are crying competitive suicide.

Ambitious dreams drive other *chaebol* as well. At the London Business School we teach a case on the LG Group's "Leap 2005" initiative to increase its revenues from Won40,000bn (£18bn) in 1995 to Won400,000bn by 2005. Scepticism yields to grudging respect and then excitement, however, as students discuss LG's aggressive entry into China and India, its investment to develop cutting-edge technology and to build a global brand, and its commitment to attracting, selecting and retaining the best people from around the world. By the end of the class many students still doubt that LG will achieve its precise revenue goals, but they begin to grasp how a company driven by the courage to dream and a passion for growth can achieve the seemingly impossible.

There is no question that the *chaebol* must impose more discipline: they must adjust their capital structure, prune some businesses from their portfolio, and perhaps even let go of some employees. The challenge they face is to rein-in organisations whose entrepreneurial passion has driven double-digit growth for decades. Most western companies, by contrast, now face the more daunting challenge of reigniting entrepreneurship in conservative bureaucracies. After years of re-engineering, redundancies, and refocusing, many western managers now preside over companies with low costs but no growth. Cutting costs was painful, but managers find it an order of magnitude more difficult to stimulate growth.

An LG manager once recounted how, as a young recruit to the company, he would pick up the visiting purchasing agent from Zenith, then a leading consumer electronics company and one of LG's largest customers. As was the custom, the LG manager would carry the bags of the visiting purchasing agent to his hotel room. Twenty years later, after successive chief executives repeatedly downsized and re-engineered the company, Zenith was acquired by LG. When the LG manager - now the head of LG Electronics in the US - first visited Zenith's headquarters he met the same purchasing manager whose bags he had carried 20 years earlier. This time it was the Zenith manager who rose to greet him.

The LG manager used the tale to illustrate how a management approach focused solely on efficiency can destroy a company as strong as Zenith once was.

The *chaebol* can learn much from the Anglo-American management model, but would err by adopting it wholesale. European and American managers risk a graver

error by ignoring the way in which the *chaebol* have harnessed the power of dreams to drive growth