

# Evaluation of POSCO's Success and its Future Strategies

OH, YEON CHEON

*Professor, Graduate School of Public Administration, Seoul National University  
Assistant Director, Board of Audit and Inspection, Korea*

## I. The Korean Economy and POSCO

A key factor in the growth of the South Korean economy has been the government's ability to achieve stability and efficiency for the nation. The development of five-year plans has worked to focus attention on all aspects of the economy and society. Rebuilding its country from the ashes of the Korean War in the early 1950s, South Korea has carried out successfully six five-year plans and embarked on its seventh in 1992. It strives for long-term growth while attempting to eliminate factors that detract from the planned course, encouraging more efficient use of its national resources—like people and money. Korea demonstrated that it had come of age and joined the ranks of the international community when it hosted the 1988 Olympics in Seoul.

In developing countries, like Korea at its early stage, the government supported industry expansion through financial assistance and trade policies while promoting exports. National self-sufficiency was a goal that could not be achieved in Korea without state intervention in certain industries—particularly steel. But once it was off and running, supplying competitive product to the local market and bringing in hard currency through export, Korea's other industries—like automotive, electronics, petroleum, petrochemical, shipbuilding, and manufacturing—likewise took off and prospered.

Pohang Iron and Steel Company Ltd. (POSCO) has played a very important role in Korea's rapid economic development by providing the nation with a stable supply of low-cost, high-quality steel, the core industrial material. In particular, POSCO made a decisive contribution to the development of Korea's major steel consuming industries such as shipbuilding, automobile manufacturing and home appliances.

Today, POSCO is a giant in steelmaking. Surging from 1.03 million tons of crude

steel output since it began steel production in 1973 to an output of 21 million tons in late 1992, POSCO is a global company with revenues of \$7.6 billion and net profit of \$190 million for the year ended December 31, 1991. In the same period its regular work force has grown from 3,700 to 24,300—supplying nearly 72 percent of steel production to its home market—approximately 60 percent of domestic demand—with the balance of shipments exported. Now a public company with the balance of shipments exported. Now a public company with 91.8 million common shares of stock outstanding at \$28.60 per share, POSCO is the third largest capacity steel producer in the world.

## **II. Partial Privatization of POSCO**

When POSCO was established in 1968 the Korean government held 75% of its equity. On June 10th, 1988, however, it went public by listing the first “National Stock” on the Korean Stock Exchange. Today the government controls only 20% of POSCO's total equity.

A plan to privatize the 23 government-owned companies in Korea was in the works as far back as 1975. At the time, the Korea government indicated that three companies—POSCO, Korea General Chemicals Corp, and Korea Fertilizer Co., Ltd.—would be the first candidates. POSCO vigorously objected to its inclusion. On the grounds that POSCO was still in the middle of heavy construction, the government postponed its decision with approximately 71 percent of POSCO capital remaining government-owned at that time.

The privatization issue was renewed again in early 1986. A Plan for a public offering of the government-owned portion was initiated for five companies, with POSCO heading the list. Although it initially responded once again that its construction was not yet complete, POSCO decided later that fall to go public. It would benefit everyone—the employees, the country, and the nation. Subsequently, POSCO commissioned the Korean Securities Association to study its own offering plan. The prospectus, in turn, was submitted formally to the government in April 1987, along with a favorable report from the Association.

The government formed an official committee to select businesses and recommend appropriate policies. Three companies—POSCO, Korea Electric Power Corporation, and Korea Telecommunications Authority—were designated candidates. Although a certain percentage of shares would be sold to the public beginning in 1988, the government intended to retain 51 percent in order to ensure some degree of government control. However, a revision of the Securities Trade Law which would limit private holdings to 5 percent and specifically affected POSCO's stock, did not pass the National Assembly in time. The Ministry of Finance announced in September 1987 that the public offering of POSCO, therefore, would be postponed.

〈Table 1〉 Ownership of POSCO Common Stock

(in %)

	1968	1992, Jun.
Ministry of Finance	75.0	20.0
Korea Development Bank	-	15.0
Korea Tungsten Company	25.0	2.3
Public Share	-	62.7
National Stock	-	32.8
Commercial Banks	-	20.8
Employees	-	9.0
Total	100.0	100.0

Again the government's privatization plan took another turn. On November 3, 1987, the Ruling Democratic Justice Party announced a new proposal. Under a new national stock program, the shares of seven companies, including POSCO, would be allocated to 5 million low-income households, as social welfare policy for a fair and just distribution. Details of this national program were not determined until February of 1988. This time it was settled. Everyone agreed and everything was finally in place.

Then, on June 10, 1988, POSCO went public. Pioneering the process, POSCO became the first national stock listed on the Korean Securities Exchange and was offered at \$20 per share, with a par (book) value of \$7. The government's combined 71.3 percent ownership—the Ministry of Finance (33.4 percent) and the Korea Development Bank (37.9 percent)—decreased to 35 percent after privatization with the Ministry of Finance retaining a 20 percent controlling interest. Employees—with the exception of Managing Directors—given the opportunity initially to purchase stock at \$14 per share, now owned 10 percent of the company. It is interesting that POSCO today has the second largest market value (after Korea Electric Power Corporation) on the Korean Stock Exchange, and 650,000 shareholders.

After October 13th, 1992, Korea allowed foreign investors to own stock in public companies like POSCO with a ceiling of 8% of total shares and 1% per individual. With increased investment by foreign investors, POSCO does not only remain as a Korean company but also expand into an international company.

### III. The Evaluation of POSCO's Growth

The factors of POSCO's growth into today's national enterprise can be considered from political, management, and policy, and other viewpoints, but I would like to suggest the following basic factors.

First, the attaining of continuous and stable management leadership under the absolute trust from the chief executive,

Second, the decision making ability, crisis surmounting ability, and adaptability of top management staff possessing solid management philosophy,

Third, the public policy supporting the choice of the steel industry as a strategic industry and POSCO's autonomous management position,

Fourth, the guarantee of product efficiency that makes comparative advantages of products possible, such as low construction periods, domestication of facilities, introduction of loans with advantageous conditions, and the development of new manufacturing skills,

Fifth, internationalizing efforts such as guarantee of raw materials and the promotion of foreign markets,

Sixth, the creation of a unique enterprise culture giving rise to the unity of POSCO members and competitiveness of the company.

We can find the reason for POSCO's success as a model national enterprise in <Fig. 1>. It illustrates that POSCO succeeded in the combining of the challenging aspect of the private sector and the advantages as a public sector enterprise such as utilizing government policy means to the fullest. In other words, although POSCO is a public enterprise in the broad sense, it minimized the inefficient factors (i.e. direct government intervention, rigid management, input of bureaucratic interests, loose management, etc) contained in the operation of public enterprise, and also the weaknesses (the lack of connection with national economic policy goals, the arising of monopoly profits due to profit maximization) contained in the private sector.

The reason POSCO can concentrate on innovative management as efficient as profit seeking private sector despite being started as a public-owning business is above all the guarantee of autonomous management under stable and continuous leadership, combining with a challenging attitude. POSCO is a typical case that shows a successful incorporation of the strengths of both public and private enterprise.

All factors that make today's POSCO must be understood in the context of national economic development stages from 1968 when POSCO was founded, to the late 1980's when POSCO became a so-called "public-owned" stock company.

It is obvious that the steel industry was established by government ownership in

classification		private enterprise	
		strengths (+)	weaknesses (-)
public enterprise	strength(+)	POSCO	
	weaknesses(-)		Korea Tungsten Co.

<Fig. 1> The aspects of combining the advantages of public and private enterprise

the early stage of economic development during which private sector capital and technology were lacking. The efficient political leadership which set national goals for rapid economic growth has devoted to founding steel industry as means of developing the Korean economy.

However, the factors of POSCO's rapid growth must be reevaluated in the 1990's during which economic scale and structure, government's role and level of intervention in economic development, and political atmosphere are changed. The factors responsible for POSCO's success in the past have become somewhat burdensome to POSCO. No longer such factors are the driving forces for POSCO's growth in view of the new trend of opening of the market, demand for autonomous management and political decentralization. Therefore, under the more autonomous managerial base, POSCO should concentrate on efficient management which guarantees it domestic and international competitiveness. The situation is expected to impose POSCO share greater business responsibility and receive more evaluation from the public.

#### IV. The Future Tasks of POSCO

##### 1. Sustaining Strong Competitiveness

POSCO is faced with maintaining its competitiveness in the world steel industry despite sweeping changes in the business environment, such as rising labor costs and fluctuating raw material prices. POSCO realized a profit of US\$ 120 million in the first half of 1992 in spite of the worldwide recession and a depressed domestic econ-

Growth motive in development stage	Change of growth factors
Absolute trust in political leadership	→ National enterprise and institutionalized relationship toward government
Founders's ability	→ Collective management ability
Continuous management leadership and internal management responsibility	→ Periodic post-evaluation and responsibility to shareholders
Strategic aid as growth leading sector	→ Guarantee of self generative industrial competitiveness
Management like private company in the structure of public enterprise	→ Emphasis on quality of national enterprise
Guarantee of economy of large scale and monopolistic character	→ Creation of competitive business circumstances

<Fig. 2> The aspects of Evaluation of POSCO's Driving Forces for Growth

omy.

Regarding the future direction of POSCO, Mr. Peter F. Marcus of World Steel Dynamics has commented that increased labor productivity, especially office productivity, continuous investment in R&D, and upgrading of mix are required to retain the competitive advantage in the future. (Peter F. Marcus, *Core MM*, Ny, 1991)

## **2. Expanding the Business Scope by Diversification**

It is predicted that the domestic steel demand in Korea will continuously increase at least until the early 2000s, but for the last ten years the demand increase rate in the world steel market has obviously slowed down. Especially steel industry in the third world has developed, but in developed industrial countries demand has decreased. Such long term prediction of steel industry will affect POSCO's future investment plan. Business diversification is one of the major factors that must be considered in POSCO's future management strategies.

The steel industry produces relatively low profits compared to revenue volume and is very susceptible to changes in the economic cycle. Because of the characteristics, steel industries in the developed countries have actively carried out business diversification into non-steel sector in order to cope with the possible price declines during recession in the international steel market.

POSCO has launched its long-term management strategy, "POSCO 2000". It aims to establish a stable growth base for the steel sector and, in turn, to make POSCO a comprehensive material maker based on steel. By actively utilizing management resources accumulated through the management of its steel business, POSCO will expand its business scope into future growth areas such as information and telecommunication, semi-conductors and precision chemical industries. These all require advanced technologies and long-term investment. POSCO hopes to be a world class company with US \$ 20 billion of revenue and 30% of diversification ratio by early year 2001.

Diversification is considered to be the key to maintaining stable growth even in times of depressed markets. The company is dedicated to pursuing growth as an integrated manufacturer through continued investment in the steel-related business. It will expand upstream and downstream facilities, while securing stable access to raw materials supplies. Product mix and enhancement are pivotal to increasing POSCO's potential. Additionally, the unraveling of Russia and entrance to the market in China with their tremendous resources not only offer potential raw materials sources, but present unmerous marketing opportunities and challenges as well.

Although there are now 23 subsidiary companies of POSCO, including joint ventures in strategic market areas like UPI in the U.S., POA in Hong Kong for the China Market, POI in Japan, and POSVINA in Vietnam, not all of the ventures are involved

in steel or steel-related business. In the future, the company intends to develop new products based on the technologies researched in programs underway at POSCO's subsidiary companies. New business then will be launched to apply POSCO's research and expertise to high technology goods and services not available in the domestic market. Participation by POSCO in expanding demand in the local market contributes immeasurably to economic development in Korea. It also builds good will and esteem for POSCO in its home market as a world-class producer with technological proficiency.

### 3. Cost Curtailing Efforts and Value-added Approach

Sales and earnings in the steel business are tightly focused on curtailing costs. To maintain its competitiveness, POSCO constantly should pursue rationalization with technologies that lower production costs. POSCO has two of the most modern integrated steelworks in the world—equipped with the latest facilities, computerization, and environmental protection.

New technology applied to steelmaking is increasing applications of computer control with processing refinements and integration, which leads to better operating ratios and shorter processing times with higher quality product.

The demand for higher value-added products will test POSCO's ability to fit the material requirements of its customers to certain performance specifications—thus enabling to expand market share and refine product mix.

With steel products that are less expensive, stronger, more durable, and cheaper to fabricate, the value-added approach is essential to assure POSCO's ongoing growth. POSCO should continue to upgrade its product mix and expand its sales of cold-rolled and coated sheets, particularly galvanized products, with the coming on-line of the new Kwangyang facilities.

### References

- Graham, Cosmo and Tony Prosser (1991), *Privatizing Public Enterprises: Constitution, the State, and Regulation in Comparative Perspective*, Oxford: Clarendon Press.
- Innace, Joseph J. & Abby Dress (1992), *Korea's POSCO Lights the Way Igniting Steel*, New York: Global Village Press.
- Kwak Sang Kyeong (1992), *POSCO and National Economy*, Seoul: Sujeongdang.
- Ott, Attiat F. and Keith Hartley eds (1991), *Privatization and Economic Efficiency: A Comparative Analysis of Developed and Developing Countries*, Edward Elgar.
- Song Dae Hee & Song Myeong Hee (1992), "The Economic Analysis for Privatization of Public Enterprise by National Stock," Seoul: KDI.
- Song Dae Hee (1987), "The Implication of Publicness and Public Enterprise Management," *Korean Development Research*, Seoul: KDI.

The Institute of Social Science in SNU (1988), *A Study on POSCO's Role in National Economy and Business Culture*.

The Institute of Social Science in SNU (1989), *A Study on Business Diversification of POSCO: Necessity and Direction of Implimentation*.

The Institute of Social Science in SNU (1992), *Nation, Human and World: the Business Culture and Ideology of POSCO*, Seoul: Orom System.

The Korean Telecommunication Authority (1988), *The New Understanding of NTT*.

The Korean Telecommunication Authority (1988), *The Privatisation of NTT*.

Yu Hoon (1991), *The Public Finance Law*, Seoul: Seoul National Univ. Press.

Yu Hoon (1992), "A Study on Policy Instrument", *Korean Journal of Public Administration* 30 (2).