First, by the mid-1980s Korean consumers were more sophisticated than they had been during the 1960s and 1970s, and were increasingly aware of and demanding higher quality products. Also, the rising standard of living increased the ability of Koreans to afford higher quality products and services. Most Korean consumers were no longer happy with low quality, even if it did come at a low price.

Second, under international pressure, the Korean government began to relax trade barriers that made it easier for foreign companies to compete with LG in Korea. In many cases, these foreign companies had significantly higher product quality and features and, because of lower trade barriers, were increasingly price competitive with domestic Korean companies. This was extremely important given that a vast majority of LG revenues came from domestic sales (approximately 70 per cent in 1980).

Third, the cost competitiveness of Korean companies began to slip. As wage rates increased in Korea, low cost labor began to erode as a source of comparative advantage. In addition, other countries, such as China, had significantly lower labor costs and were also coming up the technology curve. Consequently, competitors in developing Asian countries were quickly pushing LG out of its traditional low cost position. For example, Chinese companies were increasingly able to produce consumer electronics (such as fans) that, while not technically sophisticated, were reasonably reliable and significantly cheaper, allowing them to under-price and out-position Korean competitors.

By the mid-to-late 1980s, these external changes started showing up in LG's financial performance. Between 1986 and 1987, sales dropped by US$1 billion (about a seven per cent decline) and profits fell by 18 per cent.

Refurbishing the Ship

Although the ship was not in any real danger of sinking, LG was listing badly and taking on water. It needed some serious refurbishing and restructuring. It was unthinkable for the aging Chairman, Cha-Kyung Koo, to hand over the helm until the ship was righted. To assist in turning LG around, Chairman Koo retained McKinsey & Co. as an advisor and undertook an extensive internal audit.

Given the environmental shifts, it was clear that LG had to become a value rather than a low cost player. This meant that customers, rather than low cost, had to become the dominant force in company decisions. But, what did customers really want? How did they use LG's products? What did they expect in terms of product reliability or service? These types of questions began to dominate LG and put customers at the center of its new strategic philosophy.

It was also clear that LG had to change its decision-making style. Like many Korean organizations, LG had a history of relatively centralized decision making and a top-down management process. This worked fine as long as the organization was small enough for top management to know everything that was going on and as long as the marketplace was fairly homogeneous. However, by the late-1980s LG had become a huge organization with revenues approaching US$20 billion and over 80,000 employees. Furthermore, whereas early in its history LG had been primarily focused on the domestic Korean market, increasingly it focused more on international markets. These markets and their customers often differed, not only from Korean markets and customers, but from each other as well. Consequently, it was impossible for top managers to know everything that was going on in such a large organization and across such diverse markets and customers. LG's management approach had to become more decentralized and more participative in nature. Decisions needed to be pushed down to where the action was.

The new management approach was implemented and was typically referred to in LG as "management by self-control." It allowed for much greater autonomy than had ever existed in the Group. Although most managers