

PROSPECTS OF M&A's IN KOREA

In-Suk Hwang
(hwangis@hri.co.kr)

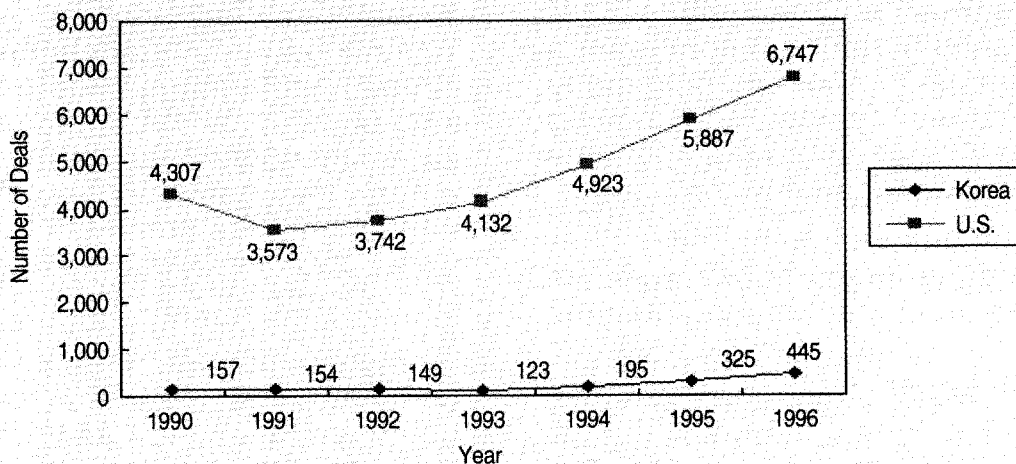
Trend and Characteristics of M&A's in Korea

Different from the general perception, mergers and acquisitions (M&A's) in Korea are not a truly prevalent practice among Korean companies yet. Although the trend in the M&A deals appears to be upward as shown in Figure 1, relatively fewer M&A activities took place in Korea when compared to the U.S. One of the reasons why Korean companies have paid such little attention to M&A activities can be insufficient understanding about M&A. In other words, Korean companies have considered M&A's not as a strategic tool to strengthen corporate competitiveness by creating synergy effects, but as a simple physical combination between companies for expansionary purposes or

financial purposes such as securing the necessary capital or filtering improperly run subsidiaries. In addition, the negative public perception of M&A's as means of business expansion by conglomerates has been a burden to Korean companies to actively pursue M&A's.

There are some distinctive characteristics about M&A's in Korea. First, the M&A's among large firms' subsidiaries occupy a great portion of the overall Korean M&As. For example, Hyundai Construction joined Hyundai Engineering to form Hyundai Engineering & Construction in 1999. Samsung Corporation merged with Samsung Construction to create Samsung Corporation in 1995. This kind of M&A's were mainly conducted for the purpose of filtering improperly run companies. Second, many M&A's were made across different

Figure 1. M&A Activities over the Past Years



Source : *The Perryman Report*, September 1996 (U.S.)
The Fair Trade Commission's Report, 1997 (Korea)

business sectors. According to a report by the Korean Fair Trade Commission in 1997, 56.7% of all M&A's was done across different sectors. The merger between Keumkang Development Inc. from the department store sector and Seojin Aircraft in the traveling business sector in 1995 is a cross-sectoral example. It was possible for this sort of M&A's to be made because many Korean M&A's were done largely for financial or business expansion purposes. Quite a few number of M&A's between large firms' subsidiaries contributed to the increase of deals done across different sectors. Third, for the purpose of financial restructuring, many M&A's are actively under way as of late. Particularly in

Many M&A's are expected to take place not through the government's initiative but by the companies' voluntary will. . . . In step with the profit-oriented managerial mindset, M&A activities in the future are expected to take place mainly in the industries of over-capacity or lowered productivity.

the banking sector, several banks were merged to bigger and safer banks in the course of restructuring. Fourth, the government took the initiative in the M&A's among large firms since last year, better known as "Big Deals". The mergers between Hyundai Electronics and LG Semicon, and between Hyundai Petrochemical and Samsung Petrochemical are typical examples. Similar kinds of M&A's are being driven in other sectors including aerospace, rolling stocks, power-generation plant and ship engine industries, based on the belief that it would enhance industrial competitiveness.

Prospects of Korean M&A's in the 21st Century

Unlike in the 1990s, more M&A activities are expected in the coming years. Since the financial crisis hit the nation in late 1997, the mindset of Korean businesses is changing more toward sharpening corporate

competitiveness and to boosting profit rather than expanding the mere size of their businesses. Thereby, owners and managers are becoming interested in advanced management techniques such as M&A. Furthermore, in the process of recent Big Deals or financial restructuring, they came to grasp the essence of what M&A's were about. Given this, many M&A's are expected to take place not through the government's initiative but by the companies' voluntary will. As a matter of fact, many M&A specialists predict that M&A activities in Korea will reach the peak in the next five years.

In step with the profit-oriented managerial mindset, M&A activities in the future are expected to take place mainly in the industries of over-capacity or lowered productivity. In Korea, pharmaceutical and securities industries can be typically considered to be in these categories. In accordance with the worldwide trend in M&A's, international mega-M&A activities are expected to flourish in the next century. In today's world of global competition, many CEOs are expected to focus on international M&A's in the light of securing overseas markets. In other words, there is a high possibility that many CEOs will start considering international M&A's as one of their survival strategies in the future. The Korean market or Korean companies cannot be exceptions to this bigger trend.

An M&A in itself does not guarantee success in achieving a company's management goal. The real success of an M&A lies in how well the integration process holds after the M&A deal is concluded. In reality, studies continue to show that over half of all M&A's fail to cover the cost of capital investment. Furthermore, a number of M&A's are easily found to have turned into failures due to poor integration strategies after the actual M&A deal was drawn. However, as concerns are rapidly arising out of climbing number of M&A's these days, Korean firms will pay more attention to post-M&A integration strategies. **VIP**