

CHANGE IN FIRMS' AWARENESS ON CORPORATE GOVERNANCE

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Evaluating corporate governance

Regular shareholder meetings were held for firms that settled their accounts in December. These were mostly companies listed on the Korea Stock Exchange and the tech-heavy KOSDAQ.

This year's meetings were an opportunity to judge whether firms sufficiently adapted to the corporate-governance laws institutionalized on the basis of "OECD Guidelines" since 1998 and the laws revised to match international standards of accounting and auditing.

This article aims at observing the atmosphere and major issues of this year's shareholder meetings with a survey¹⁾. In addition, it will observe the "independent-outside-director system and board of directors-led management", "non-controlling shareholder activities and cumulative voting rights", and "financial transparency", which are the most controversial issues to domestic firms among the 5 provisions of OECD guidelines.

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Issues & atmosphere of shareholder meeting

The most outstanding changes felt by domestic firms in this year's shareholder meeting were the greater importance of shareholder meetings due to the increased size of the stock market, and the increased number of small investors. It is judged that shareholder meetings were more active compared to the previous year in the duration of the meetings and the number of participants. In addition, it is expected that the invigoration of shareholder meetings will continue. The most important issue of this year's shareholder meeting was "responsibility for the recent stock price downturn", which reflects the recently worsened stock market. Thus, firms promised shareholders that they would try to control stock price, mainly by "invigorated investor relations" and "promotion of new projects".

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1) The subjects of this survey were executives in the shareholder meetings of 187 of the companies that settled their accounts in December listed in the Korea Stock Exchange and the KOSDAQ. 125 (66.8%) of the total subjects were Korea Stock Exchange-registered firms and 62 (33.2%) were Kosdaq-listed firms.

Figure 1. Change in Shareholder Meetings

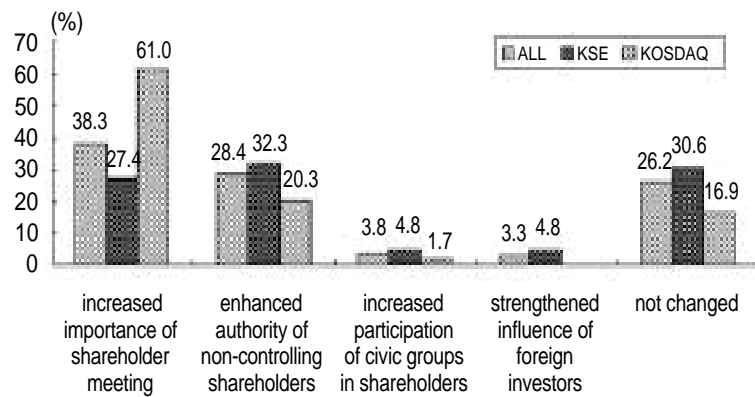
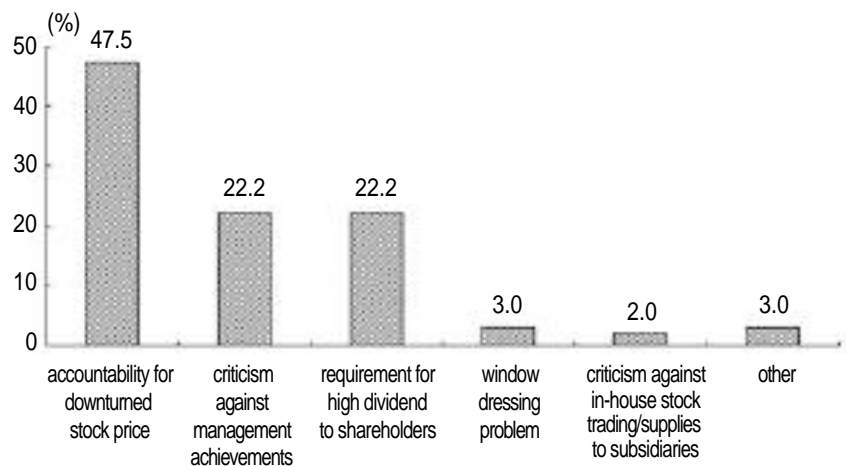


Figure 2. Major Issues



Outside Director System & Board of Directors

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By profession, outside directors were experts in a given field, managers, accountants, and tax accountants. Managers were the most desired outside directors while professors were the least desired. The popularity of accountants and tax accountants as outside directors shows the increased importance of financial auditing.

The most urgent issues in establishing director-driven management in domestic

Figure 3. Problems in nominating Outside Directors

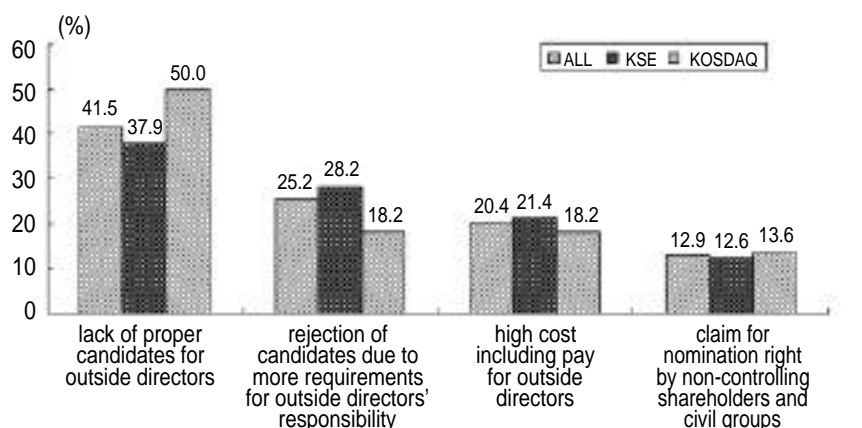
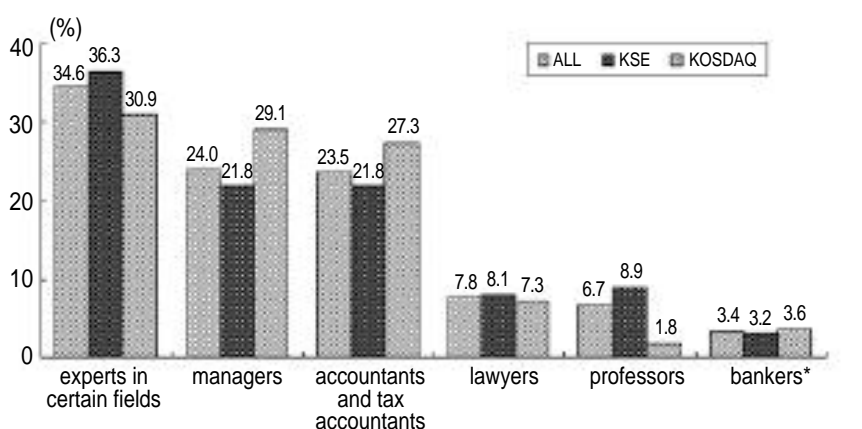


Figure 4. Preferred Jobs for Outside Directors



* Since the survey mainly targeted financial institutions that settled their accounts in December and excluded those that settled their accounts in March, the demand for bankers may be under-represented.

Table1. Outside Directors in South Korea and the U.S.

(unit: %)

	managers	bankers	professors /researchers	lawyers	accountants/tax accountants	experts	former civil servants	other
South Korea*	32.5	15.9	20.2	9.4	7.9	-	6.2	7.9
United States**	81.1		9.8	1.3	2.3	2.5	1.9	1.0

* South Korea shows jobs of outside directors in listed firms in March, 2001 (source: Korea Stock Exchange, April 16, 2001)

** U.S. shows jobs of outside directors in 78 of 1997's Fortune 500 global companies (source: Samsung Economic Research Institute - 'CEO Information', 285th issue, p.12)

companies were “fairness and diversity in the composition of the board of directors” and “consolidating rights and responsibilities of outside directors”.

Activities of Non-controlling Shareholders & Cumulative Voting Rights

Means shareholder meetings have taken a more important place in the management process since 1998.

Although most firms (70.5%), said that the activity of noncontrolling shareholders was “similar” to last year, 8.3% said they were “less active” and 20.6% stated they were “more active”, which means shareholder meetings have taken a more important place in the management process since 1998. This consolidated the rights of noncontrolling shareholders and has promoted their activities. Almost all firms responded that civil groups were desirable for promoting the activities of shareholders, but the firms also said that civil groups should not infringe on a firm’s autonomy, and that they could evaluate firms from a long-term perspective.

Figure 5. Firms' Suggestions for Civil Groups' Representation of Non-controlling Shareholders

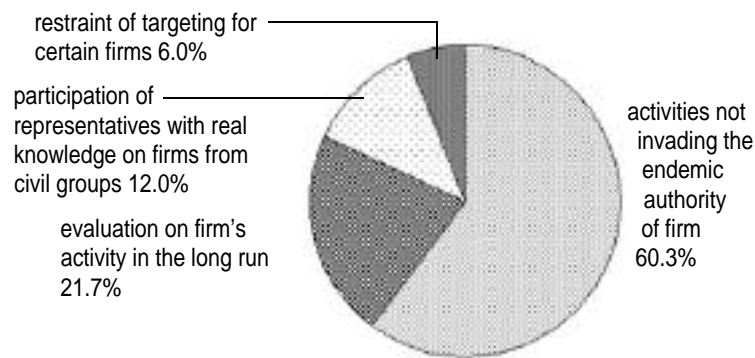
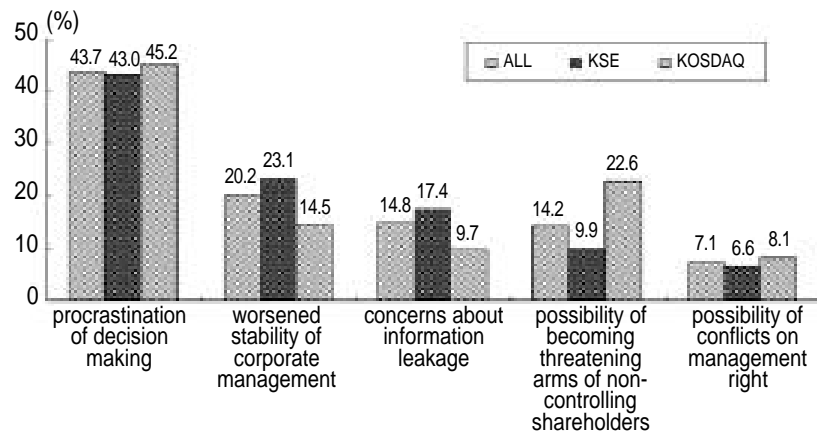


Figure 6. Shortcomings of Outside Director Nomination supported by Non-controlling Shareholders



More than 8 out of 10 companies were opposed to cumulative voting rights. That is allegedly because cumulative voting rights would have faults such as impeding fast decision-making and management stability, than merits such as transparency. This would be especially true if the outside director was supported mainly by non-controlling shareholders.

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Financial Transparency

Certain conditions are needed for the complete disappearance of false accounting in domestic corporations. Firms should reform practices such as record-driven management, false records for raising funds, illicit deals like slush funds, quasi-tax expenses, which are the main causes of false accounting.

Firms' Self-regulation

According to the results of the survey, most companies recognize the importance and necessity of a functioning board of directors and transparent management. Companies without transparent management or systems to protect shareholder interests, or those that neglect stock prices, will have a hard time raising funds in the stock market.

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The preface to the OECD Guidelines admits that there is no corporate governance style that fits all companies, and firms need to regulate themselves to create corporate governance that fits their culture and management style. Corporate governance is, in principle, a private promise between firms and shareholders. It is desirable, therefore, to restrain excessive regulation on corporate governance and allow the market to function freely.

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Currently, Korea lacks qualified candidates for outside directors, companies are still in their first or second generation of management, and the capital market is not mature. In particular, the society has excessive hopes for the outside director system because of frustration over the high-handed management styles of the past. Therefore, Korea's corporate governance should develop with the goal of enhancing competitiveness in the global market and thoughtfully considering the management environment, culture, and social consensus. **VIP**