



Corporate Governance Reform and Privatization of SOEs in Korea

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Public vs. Private Provision: A Corporate Governance Perspective

- The separation of ownership and control creates a principal-agent problem for large companies in the public *and* private sector.
- In developing countries, there is room for public enterprise reform under continued state control while the institutional infrastructure to support privatization is strengthened.
- Privatization should be part of a comprehensive reform program designed to enhance the operation of market forces.



Korea's Public Enterprises: Vehicles of Economic Development

- Network Industries: Railway, Electricity, Gas, Telegraph & Telecom
- Heavy and Chemical Industries
- Financial Industries
- Infrastructure Industries
- Promotion Agencies



The Evolution of Korea's SOE Policy

- Colonial Legacy, Crony Capitalism, and General Neglect (1945-1960)
- Centralized Control by Technocrats (1961-1979)
- Liberalization and Deregulation (1980-1997)
- Post-Crisis Privatization Drive (1998-2002)
- Consolidation of Supervision on Remaining SOEs (2003-Present)



Public Enterprise Reform of 1983

- Reducing “Parachute Appointments” and Changing the Board Structure
- Streamlining the Budget Planning, Procurement, and Audit Procedure
- Clarifying Managerial Objectives and Linking Incentives to Performance



Privatization: Corporate Governance and Competition Issues

- KEPCO
- KT
- POSCO
- KOGAS
- KT&G
- Hanjung



Lessons from Korea's Experiences with Public Enterprise Reform

- Minimize political interference.
- Clarify the firm's objectives using performance indicators.
- Increase managerial autonomy to meet these objectives.
- Evaluate managerial performance.
- Link reward to performance.
- Consider corporate governance and competition issues related to privatization.