

# Corporate Governance of Newly Privatized Large Firms

February 10, 2004

Seoul, Korea

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08:15-08:45      **Registration**

08:40-09:00      **Opening Session**

Welcoming & Opening Remarks  
Choongsoo Kim, President, KDI

09:00-11:00      **Session I: Corporate Governance of Newly Privatized Firms**

**Chair**            Mats Isaksson (OECD)

**Paper 1:**        Corporate Governance of Newly Privatized Firms in  
Korea: The Remaining Issues  
**Presenter:** Woochan Kim (KDI School of Public Policy  
and Management)

**Paper 2:**        Falling between the Cracks? Corporate Governance in the  
Privatized European Telecommunications Industry and the  
Case of France Telecom  
**Presenter:** Stilpon Nestor (Nestor Advisors)

**Paper 3:**        A Coherent Institutional and Corporate Governance  
Framework for Listed SOEs: the Italian Experience  
**Presenter:** Di Carluccio Adolfo (Italian Treasury  
Department)

**Discussants**    Hasung Jang (Asian Institute of Corporate Governance)  
Corinna Arnold (Hermes Focus Asset Management)

11:00-11:15      **Coffee Break**

11:15-12:45      **Session II: Comparison of Corporate Governance in Newly Privatized Firms  
and Others**

**Chair**            Hasung Jang (Asian Institute of Corporate Governance)

**Paper 4:**        Corporate Governance of Newly Privatized Enterprises  
and *Chaebol* Firms  
**Presenter:** Sang-Yong Park (Korea Securities Research  
Institute)

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|             |  | <p><b>Paper 5:</b> Corporate Ownership Structures in OECD and Greece and Policy Initiatives for Improving Greek Corporate Governance Practices<br/> <b>Presenter:</b> Harilaos Mertzanis (Hellenic Capital Market Commission)</p> |
|             |  | <p><b>Discussants</b> Do-Sung Choi (Seoul National University)<br/> Stilpon Nestor (Nestor Advisors)</p>  |
| 12:45-14:00 | <b>Lunch</b>   |   |
| 14:00-15:30 | <b>Session III: Corporate Governance of State Owned Enterprises</b>        |   |
|             | <b>Chair</b>   | Kwang-Sun Chung (Korea Corporate Governance Service)  |
|             | <b>Paper 6:</b>  | Corporate Governance of State Owned Enterprises in Korea<br><b>Presenter:</b> Joon-Ook Choi (Korea Institute of Public Finance)   |
|             | <b>Paper 7:</b>  | Management, Performance Contracts and Privatization of State-Owned Enterprises: The French Experience<br><b>Presenter:</b> Jean-François Guthmann (French Ministry of Economy, Finance, and Industry)                             |
|             | <b>Discussants</b>   | Jong-Koo Park (Office of Government Policy Coordination)<br>Harilaos Mertzanis (Hellenic Capital Market Commission)   |
| 15:30-16:00 | <b>Coffee Break</b>  |   |
| 16:00-17:30 | <b>Session IV: Role of Institutional Investors in Corporate Governance</b> |   |
|             | <b>Chair</b>   | Stilpon Nestor (Nestor Advisors)  |
|             | <b>Paper 8:</b>  | The Role of Institutional Investors in Corporate Governance: The Case of Korea<br><b>Presenter:</b> Kwang-Sun Chung (Korea Corporate Governance Service)  |
|             | <b>Paper 9:</b>  | What Shareholders Expect of Public Companies and What Companies Should Expect of Their Investors<br><b>Presenter:</b> Corinna Arnold (Hermes Focus Asset Management)  |

**Discussants** Sang-Yong Park (Korea Securities Research Institute)  
Thae S. Khwarg (SEI Asset Korea)

18:00-20:00 **Dinner hosted by Korea Development Institute (KDI)**

## NOTES TO THE AGENDA

Until 1998, Korea experienced only two corporate governance systems, the public enterprise system and the *chaebol* system. The public enterprise system is based on direct equity investment by the government, which gives not only the ownership, but also the control right to the government. The *chaebol* system allows a family (called a *chaebol* family) to play the role of a dominant shareholder-manager over the firms affiliated to a *chaebol* group. Firms are effectively controlled through a web of extensive circular shareholdings and leverage extended by the banking sector, which were made as a result of extensive government intervention in the financial market.

During 1998-2002, two notable events took place. First, many *chaebol* groups went bankrupt and in response government reformed the legal framework concerning financial regulation and corporate governance. One third of the firms affiliated to *chaebol* fell into bankruptcy during 1997-2000 in the wake of the financial crisis. The strengthened regulations concerning financial regulation and corporate governance directly contradicted the *chaebol* related policies that have been pursued for nearly four decades, at least in spirit. Many now firmly believe that Korea should not depend on the *chaebol* system as a way to finance and govern large firms in the future.

The second phenomenon to note is the progress made in the area of privatization and the emergence of a new breed of large firms with a corporate governance structure that is completely different from the two systems mentioned above. The Kim Young Sam administration (1992-1997) acknowledged the need to privatize large commercial public enterprises and the need to privatize them so that they do not fall in the hands of *chaebols*. The Kim Dae Jung administration (1998-2002) actually privatized a number of public enterprises. The list includes POSCO, KT, and KT&G.

When POSCO, KT, and KT&G were privatized, it assumed the ownership structure very much like the ones found in large listed companies in U.S. or U.K. That is, fairly dispersed ownership with a few institutional investors that hold block shares. Unlike *chaebol* firms or public enterprises, there is no longer a controlling shareholder.

In Korea, many express strong doubts about the plausibility of this new corporate governance structure. Most criticisms are based upon the fear of using a system that has not been tried before and confirmed as reliable. They are skeptical about how one can make sure that good management will be elected, that management will work reasonably well for the interest of shareholders, that bad management will be replaced in time, when there is no one who plays the role of an owner.

As the above discussion demonstrates that Korea is struggling to find a proper model of corporate governance for its large commercial firms and financial institutions. The old model does not seem to work, while there is no consensus about the future corporate governance models. It is important for Korea that the recently privatized large firms are equipped with a reliable corporate governance structure that can lead to their success. Success of the new model will also have a huge implication for other private firms and commercial public enterprises in Korea.

The main purpose of the seminar is to discuss the possible alternatives for a new model of corporate governance for large firms. We should note that the focus of the seminar would be given to the corporate governance of newly privatized firms that used to be public enterprises rather than corporate governance in general.

### **Session I: Corporate Governance of Newly Privatized Enterprises**

This session considers corporate governance during and after the privatization process. In particular, it examines how shares are sold and what restrictions on ownership or control are imposed at the time of privatization. The session also discusses any direct or indirect role government plays for newly privatized firms after privatization. Experiences of post-privatization governance successes and failures in Korea and other OECD countries are also discussed. One paper on Korea and two papers on other OECD countries are being planned. The paper on Korea will focus on the problems that Korea faces. Papers on the experience of other OECD countries are expected to provide explanation on the policy of the respective countries on the ownership and control of former public enterprises after privatization, what the ownership and control structures looked like shortly after privatization for large firms, how control was created by what mechanisms, what mechanisms there were to prevent management entrenchment. Actual success and/or failure case studies will be welcome.

### **Session II: Comparison of Corporate Governance in Newly Privatized Firms and Others**

This session compares the corporate governance quality of newly privatized firms against those in other categories, such as family firms, in Korea and in another OECD country. In particular, it examines the ownership structure, the internal governance structure, and the role of stakeholders, such as government, employees, and financial institutions (other than institutional investors) in those firms. One paper on Korea and another on other OECD countries are being planned. The Korean paper will focus on the difference between *chaebol* firms and newly privatized firms. The author(s) on other OECD countries may talk about any significant differences between newly privatized firms and other private firms that they notice. If there is no significant difference between two groups of firms in corporate governance and the roles of stakeholders, he can talk about the current state of ownership and control structures of large firms and financial institutions and the trend.

### **Session III: Corporate Governance of State Owned Enterprises**

This session covers the role played by the government before privatization. That is, it examines the detailed policy measures Korean and another OECD government took regarding the corporate governance of state owned enterprises soon to be privatized. In particular, it examines governance provisions such as the appointment, performance evaluation, and compensation of CEO, the composition of board, nomination and role of outside directors, and role of the government. One paper on Korea and another for other OECD countries are being planned. One paper on Korea and another on other OECD countries are being planned. The Korean paper will focus on the issues facing the Korean SOEs. The other paper is expected to cover other OECD countries that are of interest.

### **Session IV: Role of Institutional Investors in Corporate Governance**

Institutional investors are becoming important shareholders of large firms in some countries. They are especially important as key shareholders in newly privatized former SOEs in Korea. It seems that there are not many alternatives other than relying on institutional investors in order to privatize

large SOEs in countries in which there are few rich families who have enough resources to buy controlling interests of large SOEs. In Korea, domestic institutional investors are largely affiliated with either the government or *chaebol* groups, which makes it difficult to use institutional investors as key shareholders in large firms. Absence of properly functioning institutional investor market also works as a barrier to privatization of large public enterprises. We hope that this session covers the role of institutional investors in newly privatized large firms as well as in other private large firms, how to develop the institutional investor market, how to install a proper governance structure in institutional investors. One paper on Korea and another on other OECD countries are being planned. Korean paper will focus on the Korean problems. The other paper is expected to focus on the experience of key OECD countries.