



CEO Pay in Korea: An Intersection of Culture and Corporate Governance?

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I. INTRODUCTION

- Corporate governance discourse continues in the 21st century
- Issues overlap: outside directors, shareholder suits, etc.
- Local discrepancy: CEO pay

I. INTRODUCTION

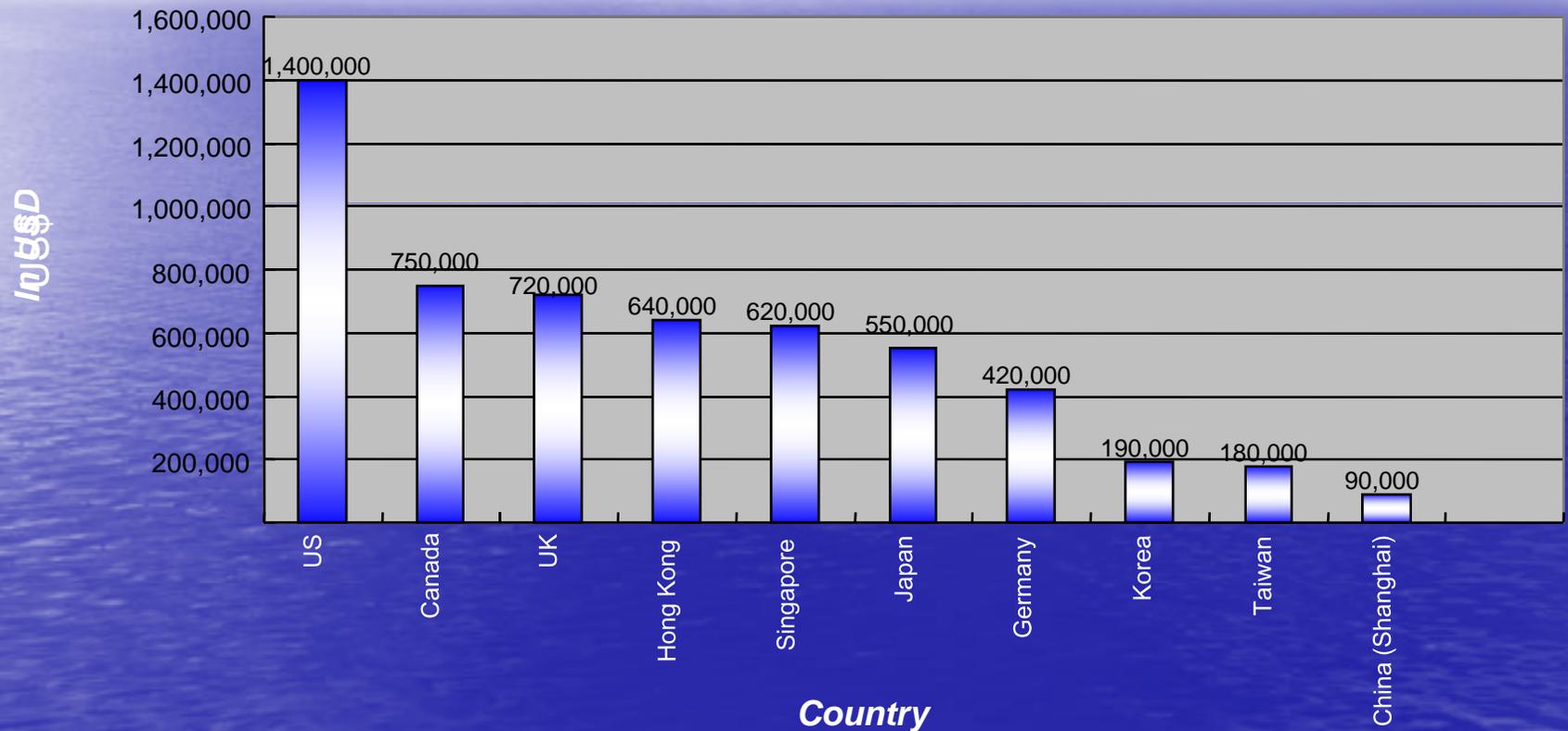
- Excessive CEO pay attracts attention in countries like US and UK
- CEO pay is generally low, and **NOT** an issue in Korea
- Why CEO pay remains low in Korea?
- Two possible answers: culture and corporate governance

II. STATE OF CEO PAY

- No reliable statistics on CEO pay
- Some available evidence
 - - generally believed to be low
 - - egalitarianism: small gap between CEO pay and employee pay
 - - long term incentive ignored

CEO Pay - General Industry

Total Remuneration

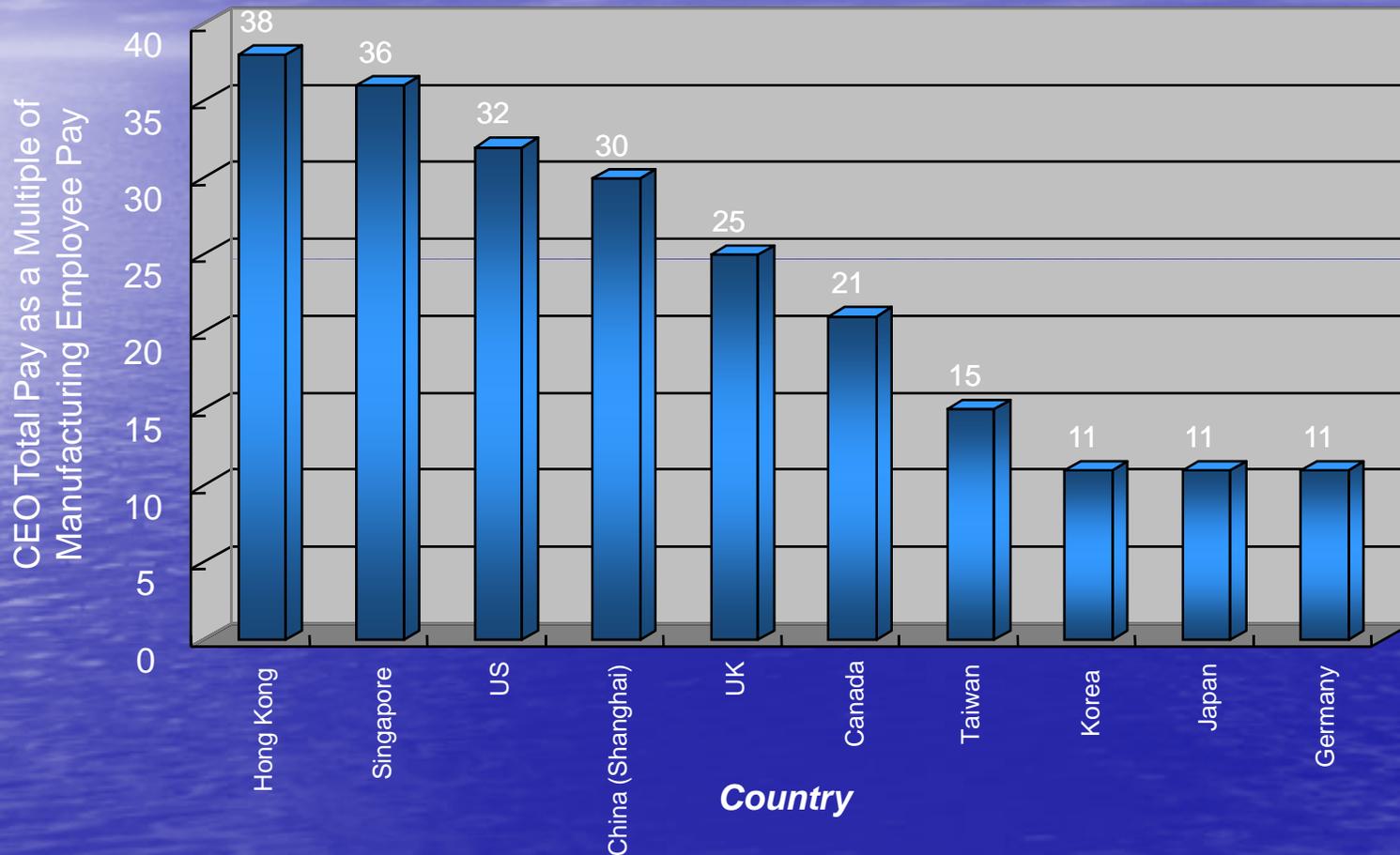


Source: Towers Perrin 2000 Worldwide Remuneration Database

Total Remuneration: Base Salary + STIP + LTIP + Perquisite +
Voluntary Company Contribution + Compulsory Company
Contribution

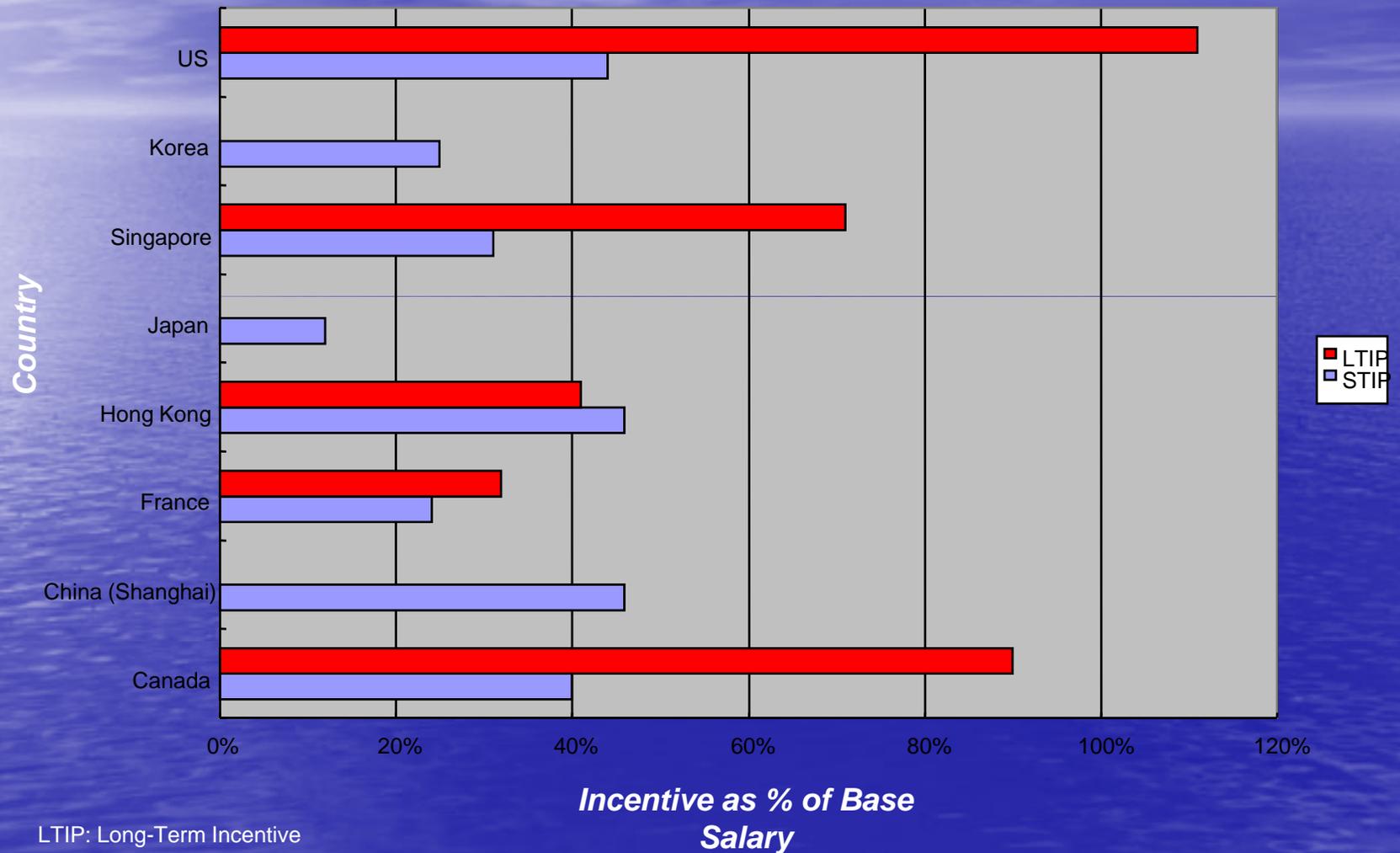
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CEO Total Pay as a Multiple of Manufacturing Employee Pay



Source: Towers Perrin 2000 Worldwide Remuneration Database

Global CEO Pay - Incentive as % of Base Salary



LTIP: Long-Term Incentive
STIP: Short-Term Incentive

Source: Towers Perrin 2000 Worldwide Remuneration Database

Annual Salary of CEOs of Listed Firms (2004)

Source: Annual Reports (2005)

(Won: 1000 Won=US\$1)

Firm	Annual Pay	Asset	Sales
Kumho Industrial	270,000,000	2,287,785,000,000	1,260,067,000,000
Korea Shell Oil	172,328,000	62,055,336,440	91,739,109,212
Kyunghnam Wool	127,500,000	75,716,000,000	31,247,000,000
Kumho Paper Tech.	123,260,000	209,798,000,000	125,033,000,000
Zati Electronics	68,064,300	24,036,000,000	22,425,000,000
Coco Enterprise	60,000,000	19,453,000,000	11,790,000,000

CEO Pay of Two Larger Listed Firms

(Won: 1000 Won=US\$1)

	A			B		
	Base	Performance	Total	Base	Performance	Total
1999	99,000,000	89,340,000	188,340,000	NA	NA	NA
2000	168,000,000	102,180,000	270,180,000	NA	NA	NA
2001	168,000,000	153,468,000	321,468,000	NA	NA	NA
2002	152,741,930	175,672,000	328,413,930	NA	NA	NA
2003	276,000,000	132,315,200	408,315,200	286,000,000	NA	286,000,000
2004	276,000,000	293,112,000	569,112,000	414,700,000	NA	414,700,000
2005	311,201,600	279,496,600	590,697,600	595,200,000	NA	595,200,000
2006	NA	NA	NA	618,240,000	NA	618,240,000

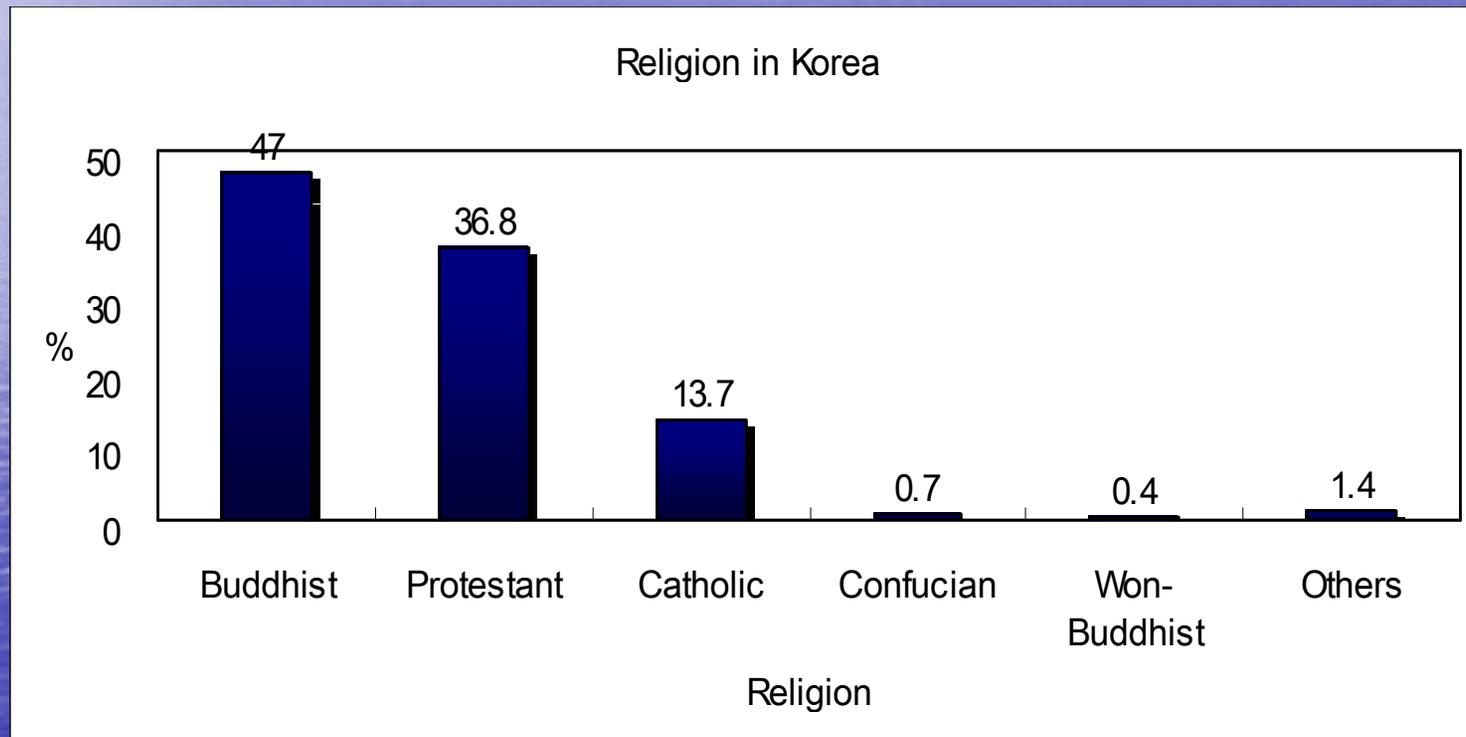
II. STATUS OF CEO PAY

- Anomaly of Samsung Electronics
- 49 billion Won for six top executives (US\$ 8 million each): 2005
- about 10 times as much as executive pay of LG Electronics, its rival in Korea
- Why do they pay so much?

III. CONFUCIAN LEGACY?

- Culture may play a significant role in determining people's perception of money, and thus the level of CEO pay.
- Confucian influence in Korea is strong even among Asian countries

III. CONFUCIAN LEGACY?



Confucius



The superior man
understands
righteousness; the
inferior man
understands profit.

III. CONFUCIAN LEGACY?

- Confucian legacy not to be exaggerated
- Change of Korean society
- Admonition against money is not limited to Confucianism alone

IV. CORPORATE GOVERNANCE

- Coffee: difference in ownership structure leads to difference in the kind of scandals
- Hypothesis: difference in ownership structure (=existence of controlling SH) affects CEO pay?

IV. CORPORATE GOVERNANCE

- Presence of controlling SH may affect CEO pay in **TWO** ways:
 1. owner manager more interested in private benefit of control (PBC)
 2. underdevelopment of the market for professional managers

V. CHANGES: STOCK OPTION

- Spread of stock options
- 80% were granted in Korea's IT boom years(1999 and 2000)
- Employed in 118 out of 675 listed firms as of 2002

Firms with stock options

	1997	1998	1999	2000	2001	2002
Large firm	1	3	15	51	54	57
Small & medium	-	5	20	55	57	61
Total	1	8	35	106	111	118

V. STOCK OPTION: cases

- Samsung Electronics: Yoon made more than \$14 million in 2005
- Kookmin Bank: Kim made \$10 million – donated \$5 million
- Woori Bank: Hwang had to give up stock option worth \$1 million
- Existence of strong sentiment against high CEO pay

VI. TOPICS FOR EMPIRICAL RESEARCH

- does the level of CEO pay rise if PBC is restrained?
- is the level of CEO pay higher in firms without the controlling shareholder?
- does the CEO pay rise with the development of the market for manager?
- is the percentage of stock options in the CEO pay package higher if the portion of foreign shareholders goes up?
- is the CEO pay on the increase in Korea? If yes, what are the reasons for such increase?

VII. CONCLUSION

- CEO pay may be related to culture
- Corporate governance may better explain low CEO pay in Korea
- Presence of controlling SH may be the most important factor in restraining CEO pay
- What happens to CEO pay, if controlling SH disappears?



Thank you!