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

Kon Sik Kim (Seoul National University)
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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: Base Salary + STIP + LTIP + Perquisite + Voluntary Company Contribution + Compulsory Company Contribution

Source: Towers Perrin 2000 Worldwide Remuneration Database

2006-05-05
Global CEO Pay - Incentive as % of Base Salary

Source: Towers Perrin 2000 Worldwide Remuneration Database

LTIP: Long-Term Incentive
STIP: Short-Term Incentive
### Annual Salary of CEOs of Listed Firms (2004)

Source: Annual Reports (2005)

(Won: 1000 Won ≈ US$1)

<table>
<thead>
<tr>
<th>Firm</th>
<th>Annual Pay</th>
<th>Asset</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kumho Industrial</td>
<td>270,000,000</td>
<td>2,287,785,000,000</td>
<td>1,260,067,000,000</td>
</tr>
<tr>
<td>Korea Shell Oil</td>
<td>172,328,000</td>
<td>62,055,336,440</td>
<td>91,739,109,212</td>
</tr>
<tr>
<td>Kyungnam Wool</td>
<td>127,500,000</td>
<td>75,716,000,000</td>
<td>31,247,000,000</td>
</tr>
<tr>
<td>Kumho Paper Tech.</td>
<td>123,260,000</td>
<td>209,798,000,000</td>
<td>125,033,000,000</td>
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<tr>
<td>Zati Electronics</td>
<td>68,064,300</td>
<td>24,036,000,000</td>
<td>22,425,000,000</td>
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<tr>
<td>Coco Enterprise</td>
<td>60,000,000</td>
<td>19,453,000,000</td>
<td>11,790,000,000</td>
</tr>
</tbody>
</table>
### CEO Pay of Two Larger Listed Firms

(Won: 1000 Won=US$1)

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

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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?

Religion in Korea

- Buddhist: 47%
- Protestant: 36.8%
- Catholic: 13.7%
- Confucian: 0.7%
- Won-Buddhist: 0.4%
- Others: 1.4%

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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

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Large firm</td>
<td>1</td>
<td>3</td>
<td>15</td>
<td>51</td>
<td>54</td>
<td>57</td>
</tr>
<tr>
<td>Small &amp; medium</td>
<td>-</td>
<td>5</td>
<td>20</td>
<td>55</td>
<td>57</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>8</td>
<td>35</td>
<td>106</td>
<td>111</td>
<td>118</td>
</tr>
</tbody>
</table>
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!