

Comments on

Governance Transparency and Firm Value:
Evidence from Korean Chaebols
(by Chattopadhyay, Shin, and Wang)

June 16-17, 2023, Seoujl
2023 Global Corporate Governance Colloquium (GCGC)

Discussed by
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In a nutshell,

- Empirical paper that examines the relationship between
(1) removal of the loop structure in Korean chaebols (X), and
(2) valuation of non-loop member firms (Y)
- Main Findings: removal of loop structure is associated with
 - (1) + relationship between SUE and CAR
 - (2) larger (smaller) Q in low (high) wedge } non-loop firms
but only for lower in the group (i.e. high *Position* value)
or low direct ownership firms
- Interpretations: improved transparency may improve earnings informativeness and valuation, but it depends on the degree of relative agency problem within the group

Overall

- A very interesting paper that examines a well-known phenomena (at least in Korea) from a different angle
- Empirically supports the regulatory reforms of the Korean government to suppress loop structure (with appropriate caveats)
- But I have more questions than answers.....

Big Picture Issues

1. Unconditional Effect of SUE

58

R. Bhushan / Journal of Accounting and Economics 18 (1994) 45–65

Table 4

Regression tests of size as an explanation for drift

Panel A: Tests using announcement period returns over the four subsequent quarters

Model: $AR_1 + AR_2 + AR_3 - AR_4$ (%) = $b_0 + b_1SUE + b_2SUE * Size$

Variable	Coefficient	t-statistic	Alternative t-statistic	# of yrs (max = 12) w/coeff. > 0
<i>SUE</i>	4.65	28.25	8.58	12
<i>SUE * Size</i>	− 3.18	− 17.65	− 7.07	0
<i>N</i>	77,741			
Adj. R^2 (%)	1.02			

	<i>Sample</i>				
	All	Lower in Group	Higher in Group	Low Direct Own	High Direct Own
	(1) <i>Forward CAR</i>	(2) <i>Forward CAR</i>	(3) <i>Forward CAR</i>	(4) <i>Forward CAR</i>	(5) <i>Forward CAR</i>
<i>Removal Fraction</i> \times <i>Forward SUE</i>	0.592** (0.29)	1.162*** (0.25)	-0.157 (0.84)	1.107*** (0.37)	0.070 (0.72)
<i>Forward SUE</i>	0.029 (0.02)	0.012 (0.01)	0.045 (0.04)	0.014 (0.02)	0.059 (0.04)
<i>Removal Fraction</i>	0.062* (0.03)	0.099 (0.08)	0.075 (0.05)	0.157 (0.10)	0.059 (0.04)
<i>Centrality</i>	-0.005 (0.01)	-0.053 (0.05)	-0.003 (0.02)	-0.078* (0.04)	0.015 (0.02)
<i>Ultimate Ownership</i>	0.002 (0.01)	0.015 (0.05)	0.007 (0.02)	-0.076 (0.05)	-0.024 (0.02)
<i>Control</i>	-0.012* (0.01)	-0.029 (0.02)	-0.010 (0.01)	-0.021 (0.02)	-0.006 (0.01)
<i>VR</i>	-0.010 (0.01)	0.037 (0.05)	-0.015 (0.03)	0.024 (0.04)	0.007 (0.02)
<i>ROA</i>	0.034 (0.04)	-0.036 (0.06)	0.045 (0.06)	0.023 (0.05)	-0.020 (0.08)
<i>Log Market-cap</i>	-0.000 (0.00)	0.005* (0.00)	-0.003 (0.00)	0.000 (0.00)	-0.002 (0.00)
<i>Log Leverage</i>	0.008 (0.02)	0.017 (0.03)	0.023 (0.03)	0.045 (0.03)	-0.017 (0.04)
<i>Returns</i>	-0.011** (0.01)	-0.020*** (0.01)	-0.008 (0.01)	-0.013* (0.01)	-0.008 (0.01)
Industry FE	Yes	Yes	Yes	Yes	Yes
Time FE	Yes	Yes	Yes	Yes	Yes
Group FE	Yes	Yes	Yes	Yes	Yes
Observations	699	234	459	326	365
R-sq	0.0374	0.0386	0.0386	0.0171	0.0378

Big Picture Issues

2. Distribution and Definition of Removal Fraction

: group-year level variable defined as the fraction of group firms that had loops removed in a given year

	<i>p25</i>	<i>p50</i>	<i>Mean</i>	<i>p75</i>	<i>p95</i>	<i>SD</i>	<i>Count</i>
<i>CAR</i>	-0.03	-0.00	-0.00	0.02	0.08	0.05	1,154
<i>Centrality</i>	0.00	0.00	0.05	0.05	0.32	0.11	1,950
<i>Control</i>	0.00	1.00	0.54	1.00	1.00	0.50	1,951
<i>Direct Ownership</i>	0.00	0.01	0.12	0.20	0.49	0.19	1,951
<i>Log Leverage</i>	0.01	0.09	0.11	0.17	0.28	0.10	1,941
<i>Log Market-cap</i>	12.34	13.49	13.60	14.83	16.55	1.67	1,843
<i>Loop</i>	0.00	0.00	0.16	0.00	1.00	0.37	1,951
<i>LTE Expectations</i>	0.08	0.12	0.14	0.18	0.32	0.10	1,156
<i>Net RPT</i>	-0.04	0.01	0.06	0.11	0.58	0.23	1,569
<i>Position</i>	1.24	2.00	1.96	2.38	3.27	0.81	1,951
<i>Q</i>	0.88	1.00	1.18	1.24	2.33	0.64	1,843
<i>Removal Fraction</i>	0.00	0.00	0.02	0.00	0.10	0.06	1,951
<i>Returns</i>	-0.22	-0.03	0.03	0.18	0.73	0.39	1,790
<i>ROA</i>	0.01	0.04	0.04	0.07	0.16	0.06	1,908
<i>Separation</i>	-0.01	0.00	0.10	0.22	0.44	0.17	1,951
<i>SUE</i>	-0.03	-0.01	-0.03	-0.00	0.02	0.11	1,180
<i>Ultimate Ownership</i>	0.08	0.17	0.22	0.32	0.57	0.18	1,951
<i>VR</i>	0.08	0.33	0.32	0.49	0.73	0.24	1,951

Big Picture Issues

2. Distribution and Definition of Removal Fraction

(1) Number of business groups with loops in 2011 (KFTC): 13 groups

-Samsung, Hyundai Motors, Lotte, Hyundai Heavy Industries, Hanjin Keumho-Asiana, Daelim, Dongbu, Hyundai, Hyundai Department Store, Dongyang, Youngpoong, Taekwang

(2) Number of business groups with loops in 2018 (KFTC): 6 groups

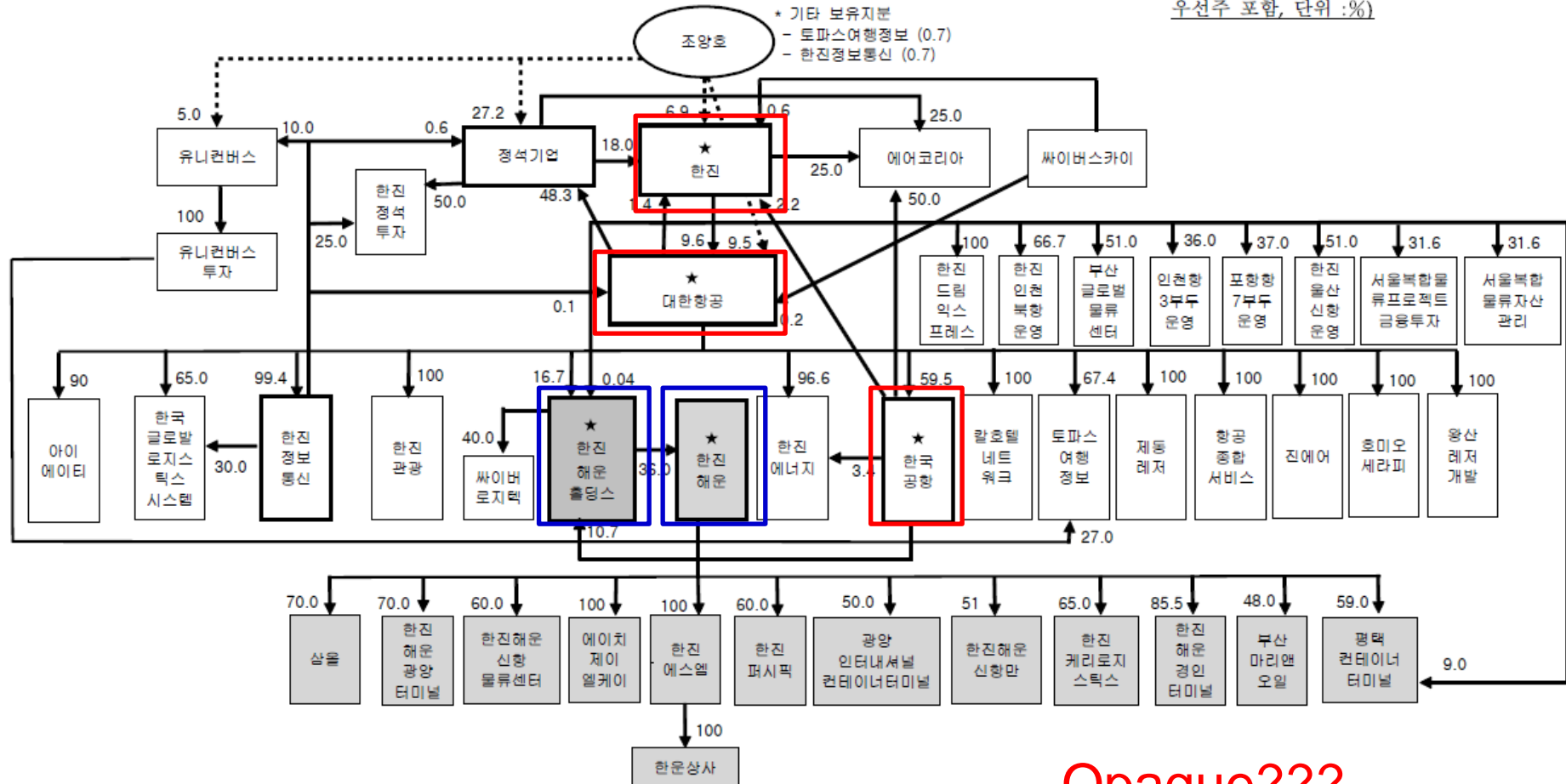
-Samsung, Hyundai Motors, Hyundai Heavy Industries, Youngpoong, SM, Hyundai Industrial Development

(3) Number of business groups that removed loops in between: 8 groups

-Lotte, Hanjin, Keumho-Asiana, Daelim, Dongbu, Hyundai, Hyundai Department Store, Taekwang (Dongyang exited KFTC reg)

14. 한진 지분도 (2013.4.1. 기준)

(음영은 지주회사 등, ★은 상장사, 우선주 포함, 단위 :%)



< 2세 주식소유현황 >

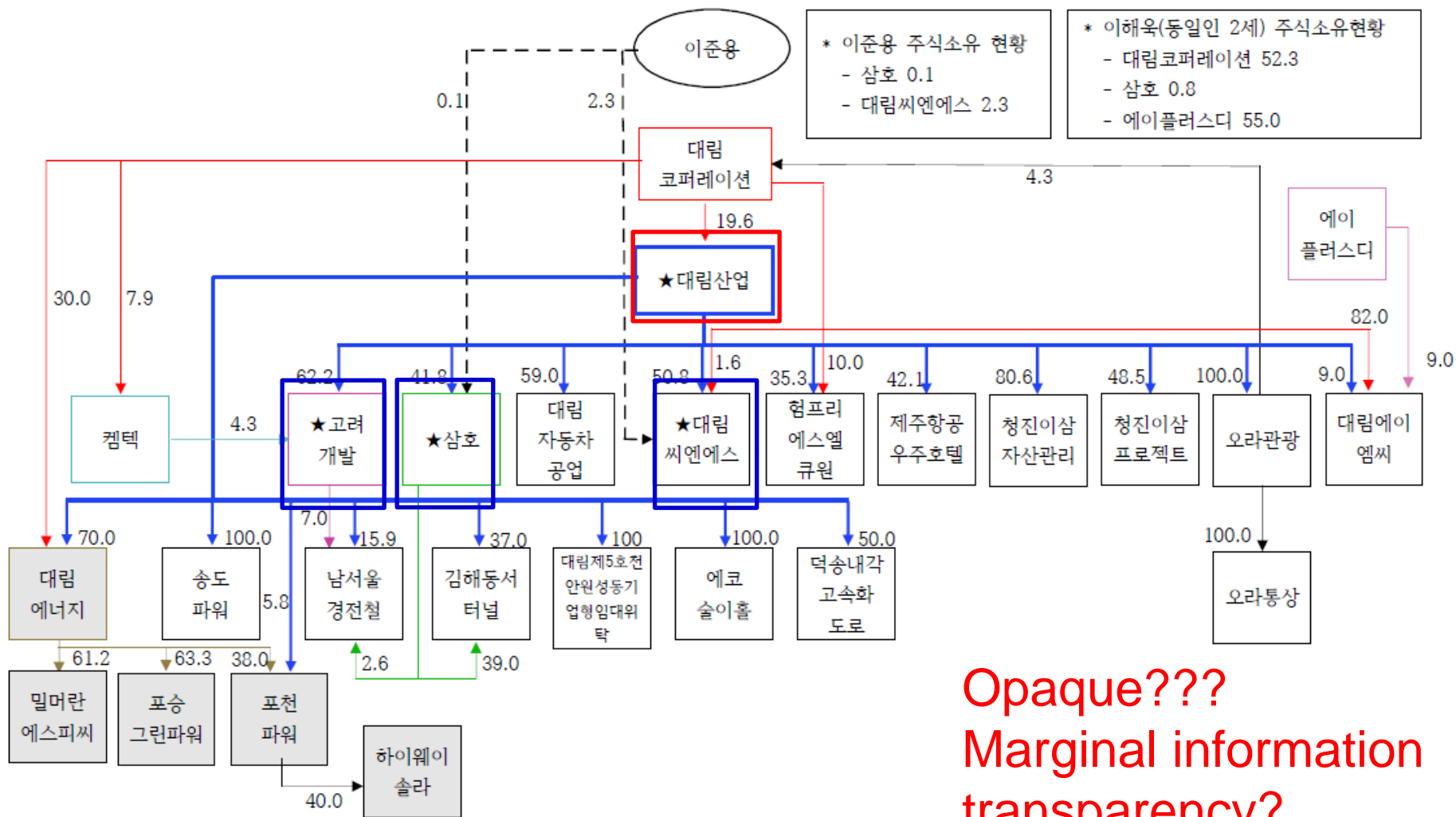
- 조현아 : 한진 (0.03), 대한항공 (0.11), 정석기업 (1.3), 유니컨버스 (25.0), 싸이버스카이 (33.3)
- 조원태 : 한진 (0.03), 대한항공 (0.12), 정석기업 (1.3), 유니컨버스 (35.0), 싸이버스카이 (33.3)
- 조예밀리리 : 한진 (0.03), 대한항공 (0.11), 정석기업 (1.3), 유니컨버스 (25.0), 싸이버스카이 (33.3)

Opaque???

Marginal information transparency?

18. 「대림」 소유지분도

(음영은 지주회사, ★은 상장회사, 2017. 5. 1. 기준, 발행주식총수기준, 단위 : %)



Opaque???

Marginal information
transparency?

Big Picture Issues

3. Cross-sectional Variation in Agency and Uncertainty

(1) Separate high vs. low separation or 'wedge'

⇒ Proxy for incentive conflicts or agency problem

⇒ OK in the literature, but does 'wedge' really capture degree of agency in the Korean context? That is, would the family exercise low control with 30% VR (voting rights) compared to 90% VR?

⇒ Perhaps just Ultimate Ownership (or Cashflow rights) may be a better measure of agency conflicts, given that control is full for all firms?

(2) Within high vs. low

further separate high vs. low position or direct ownership

⇒ Proxy for uncertainty about severity of incentive conflicts

⇒ Perhaps trying to tease out too much???

⇒ Clearly (1) and (2) are correlated, e.g. high position ⇔ low separation

Bigger Picture Issues

1. Valuation Consequences for Loop Firms

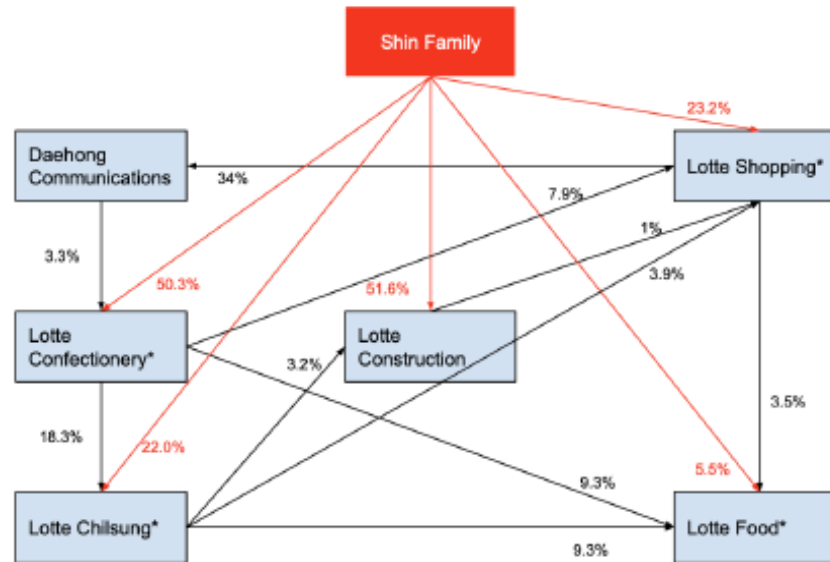


Fig. 2. A partial example of Lotte's ownership structure in 2016

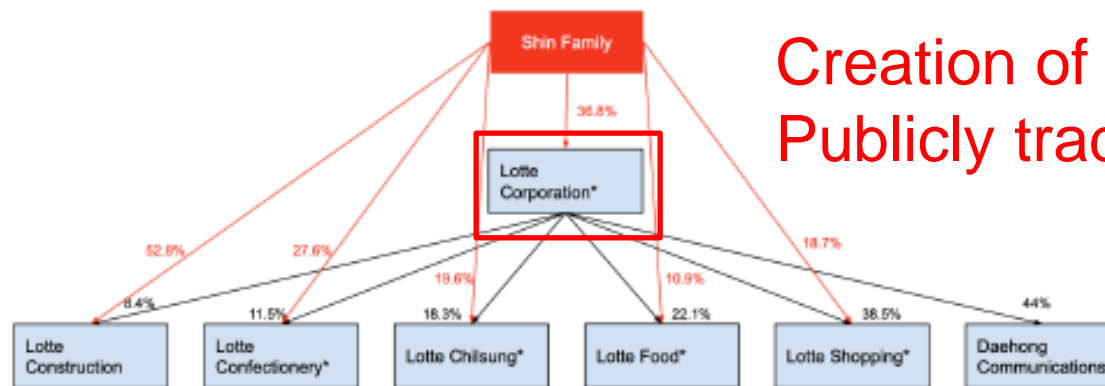
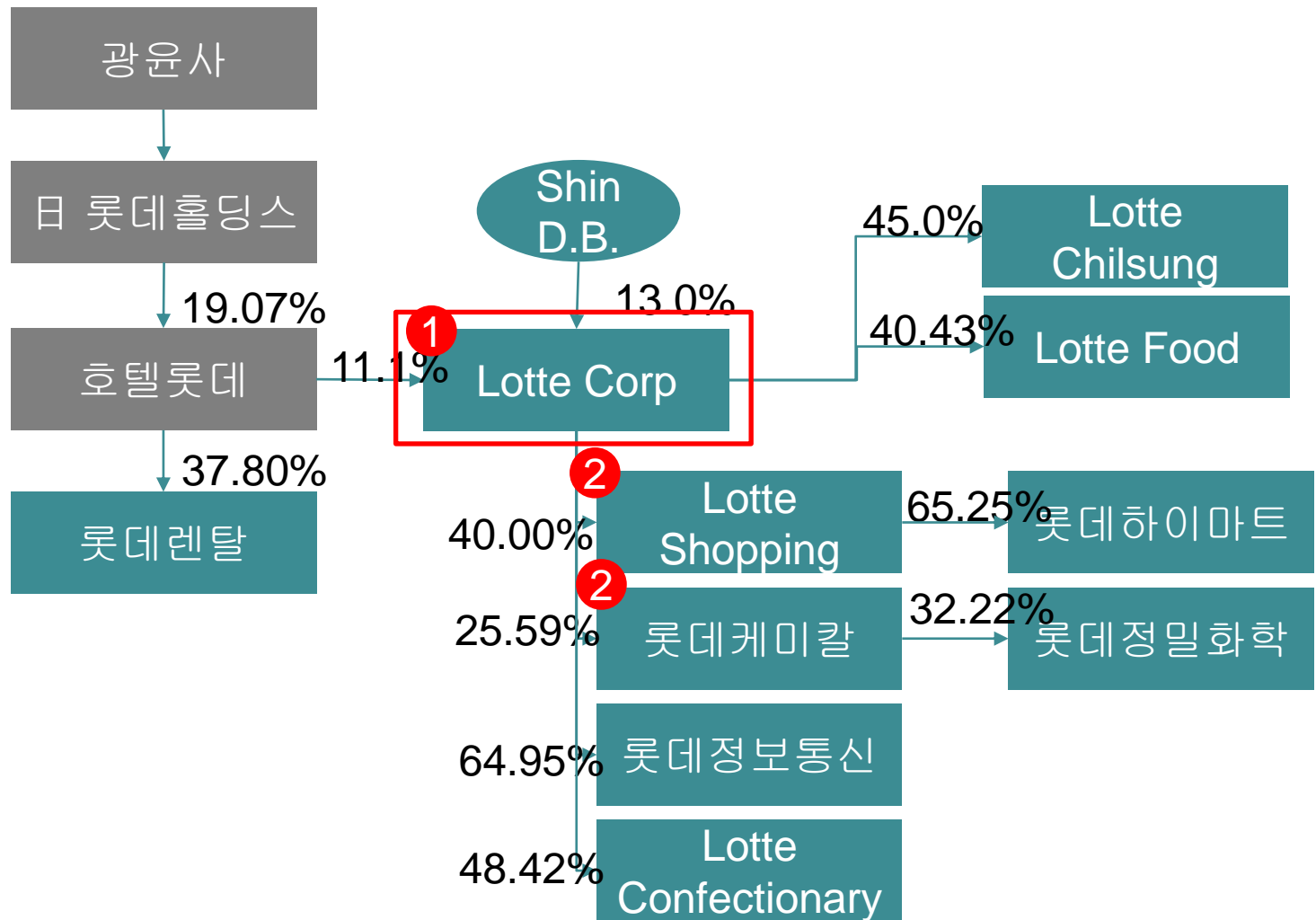


Fig. 4. A partial example of Lotte's ownership structure in 2017

Lotte as of 2021-12-31
Green: Public firms



What is the valuation consequences for the additional publicly traded (holding) company?

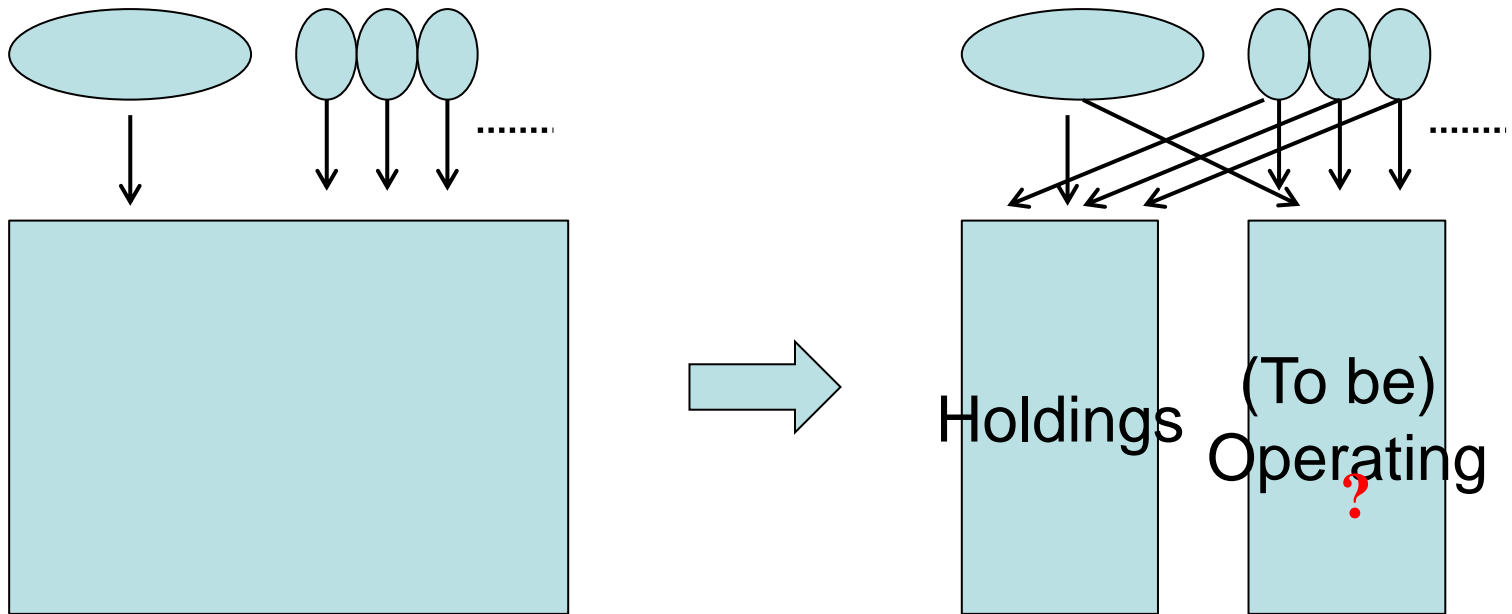
그룹	Business Group	Holding Company	Level	Number of Public	Holdings	Value of Public	A / B
79 SK그룹2		에스케이케미칼		2Subsidiaries	2Mkt Cap (A)10	Subsidiary	0.24
61 애경그룹		AK홀딩스	1	3	256,340,305,350	Shares (B)	0.25
143 하이트진로그룹		하이트진로홀딩스	1	1	290,084,562,500	1,100,418,098,009	0.26
165 새로닉스그룹		새로닉스	1	1	339,784,748,900	1,165,458,081,799	0.29
136 코오롱그룹		코오롱	1	4	397,732,419,000	1,302,448,312,978	0.31
20 비비안그룹		광림	1	2	145,773,839,920	456,531,713,748	0.32
166 원익그룹		원익홀딩스	2	4	393,913,703,100	1,206,205,408,018	0.33
125 일진그룹		일진다이아몬드	2	1	427,509,547,500	1,173,585,652,224	0.36
167 심텍그룹		심텍홀딩스	1	1	178,513,111,810	467,778,089,955	0.38
202 명신산업그룹		엠에스오토텍	1	1	201,934,045,500	522,948,827,558	0.39
163Samsung		Samsung C&T	1	5	22,052,675,558,000	54,634,469,741,950	0.40
48 영풍그룹		영풍	2	2	1,247,061,080,000	3,043,701,883,806	0.41
134 코스맥스그룹		코스맥스비티아이	1	2	130,613,325,600	307,646,090,725	0.42
121 농심그룹		농심홀딩스	1	2	358,037,388,000	842,826,067,968	0.42
79 SK그룹2		에스케이디스커버리	1	3	906,201,898,000	2,080,188,714,301	0.44
151 한일시멘트그룹		한일홀딩스	1	2	409,184,076,000	936,923,943,526	0.44
140 하림그룹		하림지주	1	4	879,094,126,400	2,012,017,084,324	0.44
114 LG그룹		LG	1	5	13,166,093,114,100	29,399,398,539,322	0.45
12 두산그룹		두산	1	2	1,974,598,282,500	4,319,884,163,987	0.46
75 화승그룹		화승인더스트리	2	2	342,430,800,000	745,116,456,334	0.46
13 DB그룹		디비아이엔씨	1	1	185,281,192,293	394,272,781,016	0.47
78 SK그룹1		에스케이스퀘어	2	4	9,167,098,600,800	18,987,106,427,308	0.48
164 에코프로그룹		에코프로	1	2	2,972,983,328,000	5,654,644,981,586	0.53
68 티웨이그룹		티웨이홀딩스	2	1	74,993,057,656	139,956,165,517	0.54
148 한국콜마그룹		한국콜마홀딩스	1	2	364,103,692,400	678,156,545,677	0.54
153 한화그룹		한화	1	3	2,413,671,267,000	4,434,032,822,202	0.54
17 한라그룹		한라홀딩스	1	2	509,466,205,500	929,382,789,115	0.55
40 알루코그룹		케이피티유	1	1	32,232,200,000	57,577,729,608	0.56
101 세방그룹		세방	1	1	227,842,542,000	404,850,600,000	0.56
65 KEC그룹		한국전자홀딩스	1	1	98,754,616,960	175,131,237,204	0.56
52 오리온그룹		오리온홀딩스	1	2	1,017,988,107,500	1,775,055,791,746	0.57
172 NICE그룹		NICE홀딩스	1	5	613,693,260,000	1,069,962,932,779	0.57
5 대덕그룹		대덕	1	2	280,271,540,500	486,476,122,591	0.58
106 아세아그룹		아세아	1	2	276,069,024,000	475,512,605,349	0.58
21 BGF그룹		비지예프	1	2	509,213,328,120	876,551,960,820	0.58
149 한세그룹		한세예스24홀딩스	1	3	296,800,000,000	510,694,623,046	0.58
93 무림그룹		무림페이퍼	2	1	105,063,507,750	180,646,887,971	0.58
198 아이디스그룹		아이디스홀딩스	1	4	140,212,093,800	240,902,601,923	0.58

그룹	Business Group	Holding Company	Level	Number of Public Holdings	Value of Public Holdings	A / B
				Subsidiaries	Mkt Cap (A)	Subsidiary
1	SNT그룹	SNT홀딩스	1			0.59
113	LX그룹	엘엑스홀딩스	1	3	778,063,038,000	1Shares (B)
105	CJ그룹	CJ	1	4	2,529,645,726,600	4,205,057,711,882
45	F&F그룹	F&F홀딩스	1	1	1,341,622,788,100	2,215,786,945,527
181	초록뱀그룹	초록뱀컴퍼니	1	1	120,744,265,740	195,802,811,537
124	일동그룹	일동홀딩스	1	1	162,142,620,000	261,221,653,198
54	웅진그룹	웅진	1	1	136,675,306,800	218,959,497,995
276	슈프리마그룹	슈프리마에이치큐	1	2	73,931,190,400	116,094,529,537
150	한솔그룹	한솔홀딩스	1	6	149,970,619,890	234,032,686,565
47	영원무역그룹	영원무역홀딩스	1	1	659,962,652,800	989,467,990,605
82	넥센타이어그룹	넥센	1	2	249,514,932,820	368,886,354,515
126	JW그룹	JW홀딩스	1	3	240,228,548,820	353,153,811,097
155	크라운해태그룹	크라운해태홀딩스	1	2	127,241,763,790	186,911,135,171
48	영풍그룹	영풍정밀	1	1	148,680,000,000	211,351,885,412
10	미원그룹	미원홀딩스	2	3	345,680,000,000	488,563,761,020
166	원익그룹	원익	1	1	79,322,482,800	110,020,097,276
92	Lotte	Lotte Corp	1	6	3,262,677,270,700	4,500,187,018,053
212	휴맥스홀딩스그룹	휴맥스홀딩스	1	1	51,882,212,250	71,470,807,838
16	이지홀딩스그룹	이지홀딩스	1	6	261,234,838,450	359,860,213,130
4	종근당그룹	종근당홀딩스	1	3	390,769,158,000	536,128,726,899
86	동아에스티그룹	동아쏘시오홀딩스	1	2	749,005,708,000	1,023,782,108,415
288	매일그룹	매일홀딩스	1	1	125,248,115,520	170,536,377,396
137	다우그룹	다우기술	2	3	1,038,662,183,550	1,402,438,496,197
108	HDC그룹	에이치디씨	1	3	639,236,414,700	844,784,733,679
28	세아홀딩스그룹	세아홀딩스	1	2	420,000,000,000	548,904,438,367
137	다우그룹	다우데이터	1	4	557,265,000,000	714,817,866,264
218	제이에스아이그룹	아이즈비전	3	2	72,171,152,220	90,551,559,605
186	덕산그룹	덕산하이메탈	1	1	429,379,668,900	522,661,057,676
174	녹십자그룹	녹십자홀딩스	1	4	1,293,275,775,000	1,569,926,701,758
158	현대중공업그룹	한국조선해양	2	3	6,617,286,346,000	7,815,752,090,245
125	일진그룹	일진홀딩스	1	2	276,345,904,800	321,578,744,185
78	SK그룹1	SK	1	7	18,945,153,559,500	21,791,889,508,531
189	삼지전자그룹	삼지전자	1	1	200,717,820,600	226,760,813,337
132	KG그룹	KG케미칼	1	2	425,689,147,200	471,661,458,284
69	풍산그룹	풍산홀딩스	1	1	310,203,934,400	336,515,530,224
20	비비안그룹	쌍방울	2	1	204,559,268,491	220,980,398,934
37	아모레퍼시픽그룹	아모레퍼시픽그룹	1	1	3,788,953,371,000	3,927,238,934,915
81	금호아시아나그룹	금호건설	1	1	443,270,480,400	447,626,570,754

Bigger Picture Issues

2. How to and Why form a Holding Company Structure?

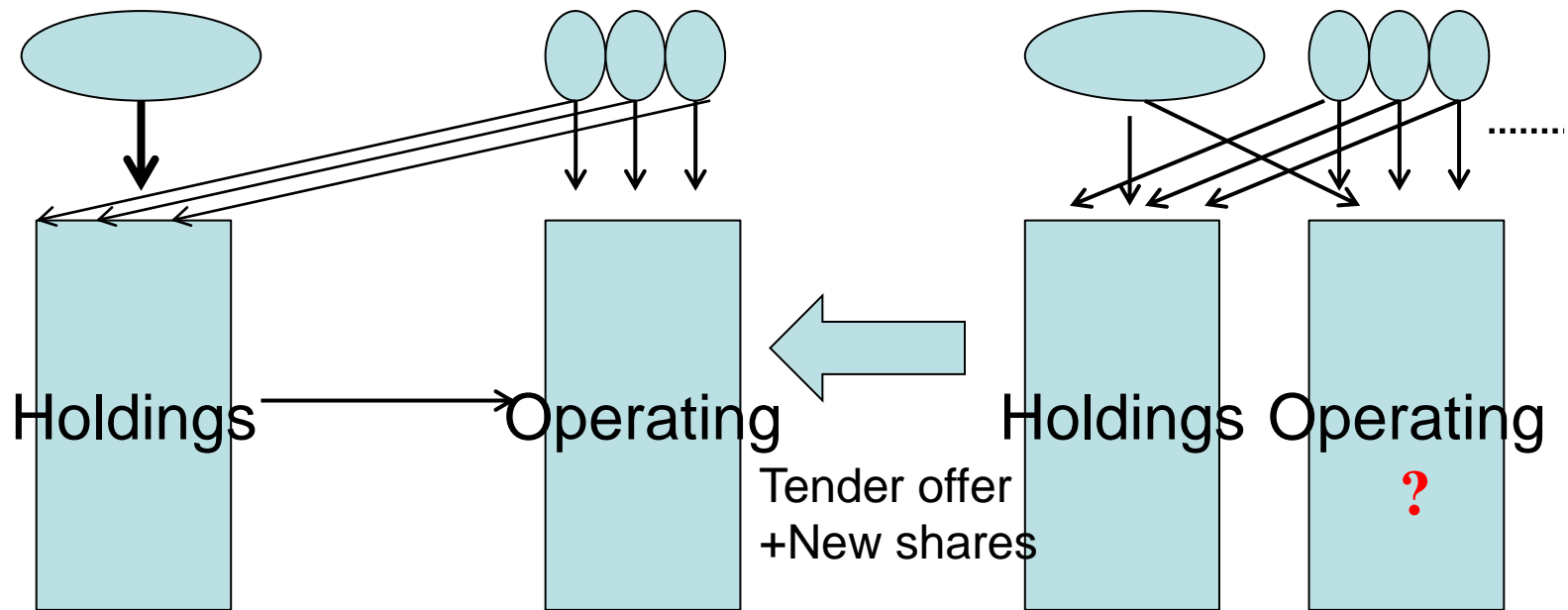
Stage 1: Spin off



Bigger Picture Issues

2. How to and Why form a Holding Company Structure?

Stage 2: Tender Offer paid by Holding's New Shares

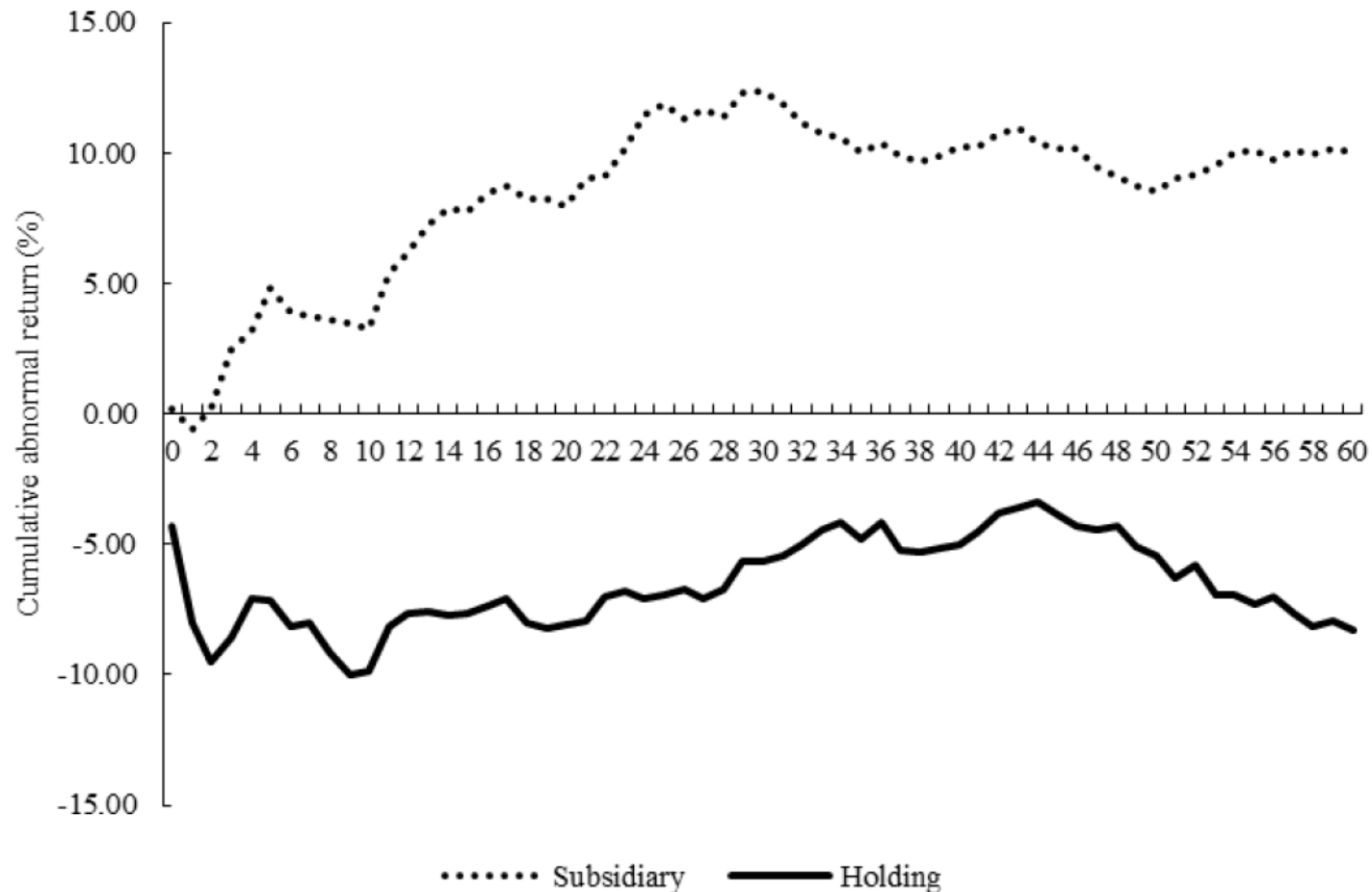


- Most minority shareholders do not tender....
- Family's ownership in Holdings almost doubles.....
- Why do this? To prepare for succession....pay inheritance tax.....

Bigger Picture Issues

2. How to and Why form a Holding Company Structure?

Cumulative Returns since Re-listing: H vs. S



Bigger Picture Issues

2. How to and Why form a Holding Company Structure?

Tendering Decisions by Investor Types

		Mean	Median	Min	Max
Subsidiary	Subscription ratio	88.45	79.73	50.77	403.42
	Family tender/family held	80.51	97.55	2.20	100.00
	Affiliated tender/affiliated held	39.90	9.16	0.00	100.00
	Outsider tender/outsider held	7.11	3.17	0.00	31.12

Bigger Picture Issues

2. How to and Why form a Holding Company Structure?

Changes in Ownership Structure

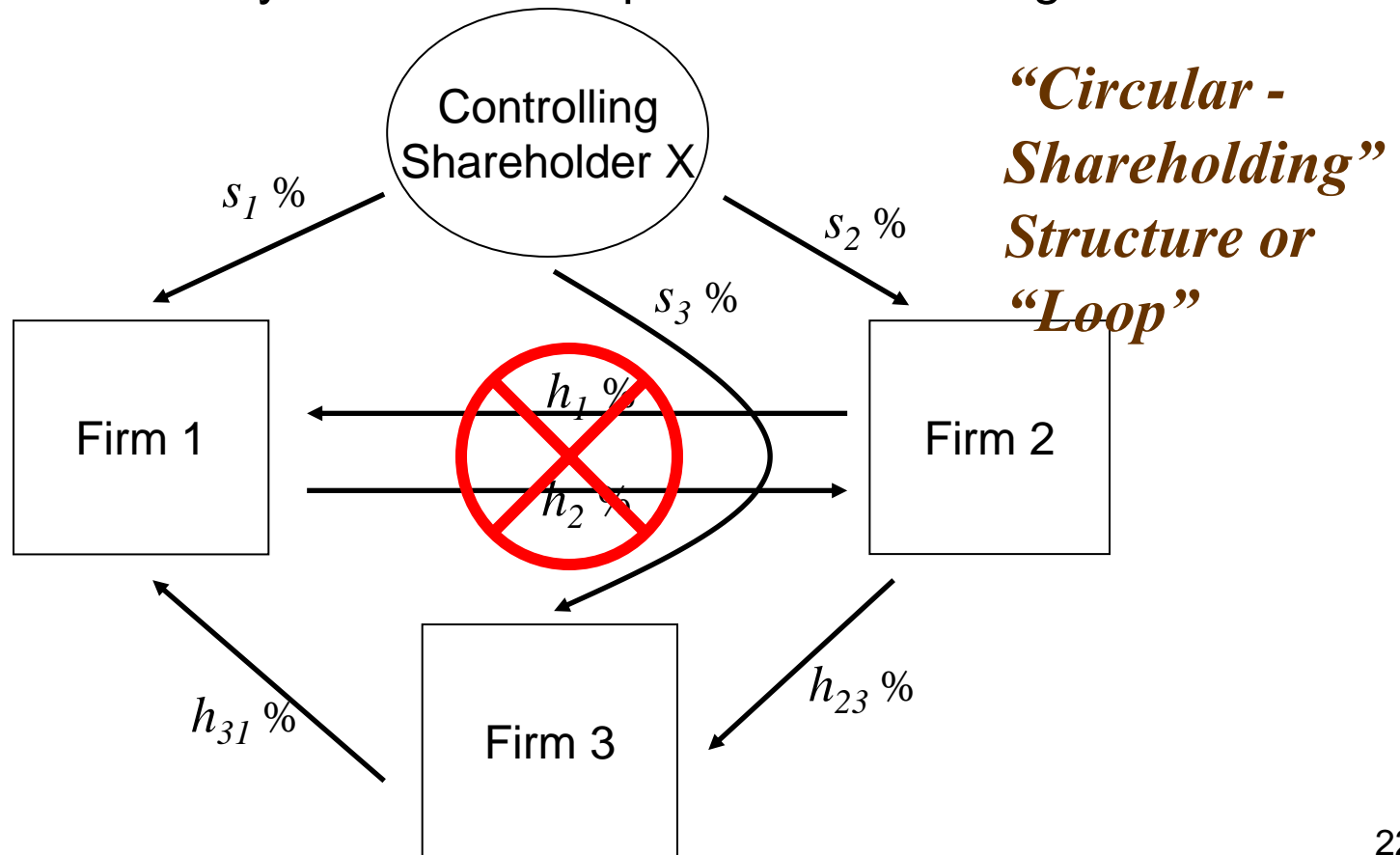
Panel B: Family ownership change

Family → Holding	Before (%)		24.88	24.71	0.99	65.91
	After (%)	25%+ α	48.14	47.31	2.25	89.26
	Increase in number of shares held (%)		431.40	273.10	54.60	2,143.88
Family → Subsidiary	Before (%)		24.75	24.71	0.99	65.91
	After (%)		5.16	0.39	0.00	26.10
	Increase in number of shares held (%)		-80.99	-99.07	-100.00	30.08
Holding → Subsidiary	Before (%)		10.90	7.66	0.00	42.09
	After (%)		36.63	35.30	17.20	67.09
	Increase in number of shares held (%)		813.18	205.10	15.53	11,376.84

Other Comments / Questions

1. Cross or Reciprocal-shareholdings Regulation

- Banned for Large Business Groups already in 1986, **not in 2002**
- Loop structure naturally arose as a response to above regulation.....



Other Comments / Questions

2. Degree of Family Control

(1) “Family controls 54% of listed group firms”

- ⇒ Family effectively controls all group firms (by appointing executives etc.)..
- ⇒ This is how the boundaries of groups are defined by KFTC, regardless of ownership percentage....

(2) “Families controlled about 57% of chaebol firms in 2011 and in 2018”

- ⇒ Are non-family business group (e.g. POSCO, KT) included in the sample?

Other Comments / Questions

3. Distribution of Separation or “Wedge”

	<i>p25</i>	<i>p50</i>	<i>Mean</i>	<i>p75</i>	<i>p95</i>	<i>SD</i>	<i>Count</i>
<i>CAR</i>	-0.03	-0.00	-0.00	0.02	0.08	0.05	1,154
<i>Centrality</i>	0.00	0.00	0.05	0.05	0.32	0.11	1,950
<i>Control</i>	0.00	1.00	0.54	1.00	1.00	0.50	1,951
<i>Direct Ownership</i>	0.00	0.01	0.12	0.20	0.49	0.19	1,951
<i>Log Leverage</i>	0.01	0.09	0.11	0.17	0.28	0.10	1,941
<i>Log Market-cap</i>	12.34	13.49	13.60	14.83	16.55	1.67	1,843
<i>Loop</i>	0.00	0.00	0.16	0.00	1.00	0.37	1,951
<i>LTE Expectations</i>	0.08	0.12	0.14	0.18	0.32	0.10	1,156
<i>Net RPT</i>	-0.04	0.01	0.06	0.11	0.58	0.23	1,569
<i>Position</i>	1.24	2.00	1.96	2.38	3.27	0.81	1,951
<i>Q</i>	0.88	1.00	1.18	1.24	2.33	0.64	1,843
<i>Removal Fraction</i>	0.00	0.00	0.02	0.00	0.10	0.06	1,951
<i>Returns</i>	-0.22	-0.03	0.03	0.18	0.73	0.39	1,790
<i>ROA</i>	0.01	0.04	0.04	0.07	0.16	0.06	1,908
<i>Separation</i>	-0.01	0.00	0.10	0.22	0.44	0.17	1,951
<i>SUE</i>	-0.03	-0.01	-0.03	-0.00	0.02	0.11	1,180
<i>Ultimate Ownership</i>	0.08	0.17	0.22	0.32	0.57	0.18	1,951
<i>VR</i>	0.08	0.33	0.32	0.49	0.73	0.24	1,951

Median Separation too low, given that these are public firms?

Separation = 0 implies (1) CF = VR and (2) position = 1

More than half of the sample (public firms) are directly held by the family?