

## Industrials

### [INTERVIEW] Chaebol negligence on governance creates value discount: Morrow Sodali chief

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**[THE INVESTOR]** South Korean chaebol, or family-run conglomerates, are suffering from a value discount due to their poor governance but some of them still leave the problem unfixed, a US expert on investor relations said.

"Frankly, some family owners don't care about a value discount. But they should reconsider their corporate governance, because when you decided to go public and you take capital from shareholders, it's part of a deal that they will try to maximize the company's value," said John Wilcox, chairman of Morrow Sodali, a New York-based shareholder service provider, in an interview with The Investor on Nov. 10.

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**Park's options**

**1 Do nothing**  
Park's relatives may be  
• "I don't see them 2017 in a presidential election year"  
• "Public would scrutinize him"  
Consequences may be  
• Political career, administrative penalties in cabinet or cabinet  
• Being forced out via impeachment

**2 Give up some power**  
Park's relatives  
• "Family is a big risk"  
• "A lot of things to do"  
• "A lot of things to do"  
• "A lot of things to do"  
Consequences  
• Diplomatic relations system overhaul  
• "Cabinet Cabinet" formed by opposition, in 100 million vote election in November 2017

**Face impasse**  
Park's relatives  
• "I don't see them 2017 in a presidential election year"  
• "Public would scrutinize him"  
Consequences  
• "Park's relatives"  
• "Family is a big risk"  
• "A lot of things to do"  
• "A lot of things to do"  
• "A lot of things to do"

**Resign vol**  
Park's relatives  
• "Family is a big risk"  
• "A lot of things to do"  
• "A lot of things to do"  
• "A lot of things to do"  
Consequences  
• Diplomatic relations system overhaul  
• "Cabinet Cabinet" formed by opposition, in 100 million vote election in November 2017

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John Wilcox, chairman of Morrow Sodali

While chaebol are deemed to have made a positive contribution to the country's rapid economic growth, they are criticized for their opaque governance defined by a sprawling cross-shareholding structure designed to strengthen the owners' control.

**Samsung Electronics**, in which nearly half of the shareholders are foreign investors, is the latest chaebol that was challenged by activist investors over its governance issue.

In October, US hedge fund Elliott Management urged the tech giant to split into two companies -- a holding company and an operating company -- and list the latter in New York to increase the value of shareholders.

However, Wilcox stressed that ultimately, it's up to the company to make the optimal choice.

"Activists look at the company from the external perspective. But in the end, it's up to the board of directors to make choices for the best of companies and shareholders," Wilcox said.

He said some activist investors are simply out to make short-term profit and cause trouble for the company, others are more substantively interested in the business if the companies have done a thoughtful analysis of the business and structure of its governance and capital allocation.

"So you have to make a judgement if they are serious proposals or just an effort to make a quick buck," he said.

Including Samsung, other major chaebol are currently undergoing transition to the third and fourth generations of their family leadership.



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"It can't just be that a successor is a family member. There has to be training, knowledge and expertise to run the company and those things need to be explained and endorsed by the board," Wilcox said.

Listed companies with family ownership suffer from so called 'Korea discount' in the market place and that can be alleviated to a certain degree if it's clear that there's no loss of efficiency because of the family ownership, he said.

Because most of chaebol have a top-down management structure, top executives at the companies need to be educated about governance first, he added.

South Korea is more like an emerging market in terms of corporate governance, the ownership structure of companies are typical in the early stage of evolution before going fully public.

"Globally, increasingly the thrust of corporate governance and environmental and social issues are focused on the role of directors because in all the non-financial issues and policy questions they are the ultimate decision makers," he said.

Morrow Sodali is a leading global firm in M&A, shareholder activism, governance advisory, shareholder services and proxy solicitation with more than 600 global clients including IBM, Boeing and Merck.

Headquartered in New York and London, it has offices in 14 cities including Tokyo and Beijing.

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