

The Value of Reform: South Korea's Push for Improved Corporate Governance

South Korea is undergoing a wave of corporate governance reforms aimed at enhancing appeal to foreign investors. These changes have the potential to catalyze listed equity capital flows and help to close the valuation discount driven by concerns over weak corporate governance structures.

Historically, South Korea has been dominated by large family-owned conglomerates, called chaebol, which often engage in cross-shareholding practices. This is a practice of affiliated companies holding stakes in one another creating complex ownership structures. While proponents argue that cross-shareholdings provide strategic alignment and deter hostile takeovers, global investors typically view them as a barrier to transparency and shareholder rights given reduced control and accountability.

The proposed corporate governance reforms seek to improve practices by expanding directors' fiduciary duties to prioritize shareholder interests and mandating electronic shareholder meetings to improve transparency and allow greater foreign-investor participation.

Capital allocation is another priority. The Korea Financial Services Commission has introduced a "Value-Up Index" to highlight companies demonstrating improved capital efficiency. Firms included in the index may benefit from tax incentives if they prioritize shareholder returns, such as dividends or buybacks.

Another notable development is the rise of domestic retail investors, who are increasingly using shareholder proposals and director elections as tools to advocate for stronger governance. This is a trend we have historically seen in Japan, where activist investors have successfully pushed for greater transparency and accountability.

Together, these reforms signal a meaningful shift in South Korea's corporate governance which could unlock value, attract long-term capital, and bring the market closer in line with global standards.

Harris | Oakmark are watching this trend to uncover investment opportunities in South Korea that are likely to benefit from improving corporate governance practices.

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