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The Owner’s Risk of Family-Owned Korean Chaebols and Its Correlation to Enterprise

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The Owner’s Risk of Family-Owned Korean Chaebols and Its Correlation to Enterprise

Despite of its miraculous economic success followed by the Korean War, South Korea is going through a transitional period after the impeachment of the president Park Gyun Hye. In order to expedite the speed of economic development, most of the economic resource was allocated to few companies, and they were the important factors in prospering the country.

However, going into more stable phase, problems began to rise. The Korean society is having a problem of dichotomy. The discrepancy gap between rich and poor is getting increased every year, and this does not only apply to the standard of living among people, but also within companies as well. The unemployment rate is higher than ever, and the fierce competitive society that measures the success by the name of the university and the name of the companies, the desire to get into good universities and good companies created a phenomenon which there is an unbalance.

Very recently, the word “Gapjil“ is getting widely popular among young people. Gapjil means overuse of one’s power or one’s status to exploit others. Surely, Gapjil has been existed for the history of mankind, but the fact that it is becoming a social phenomenon is another issue. Young people are starting to feel that the society is not providing the same opportunities and the inequality and imbalance of opportunities are more than ever.

What I aim to gain by writing this paper is to correctly diagnose problems that reside in Korean society through two actual cases that are different in nature, but at the same time resulting in loss of people’s wealth. It is very important to testify if these problems are creating a negative impact in the Korean society. Two cases are Korean Air’s family moral wrongdoings and the analysis of merger and acquisition between Cheil Industries and Samsung C&T. Next, I would like to propose actual and ideal remedies to alleviate the ongoing situation in Korea and how to improve things to challenge the status quo.
Owner’s Risk of Family-Owned Korean Chaebols and Its Correlation to Enterprise Value

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1. Abstract

**a) Research Question/Issue:** Owner’s risk Is owner’s risk of Korean conglomerate (Chaebols) causing a negative impact on the Korean society and a decrease in the wealth of shareholders by analyzing impact of two actual cases (The Merger and Acquisition between Cheil Industries, and Samsung C&T, and the Korean Air)?

**b) Research method:** Most of this research paper is based on quantitative analysis, but for a small part when event study was conducted, for the analysis of the Korean Air, the data was extrapolated from the web portal, "Naver Finance" to find the correlation between Owner’s risk and its negative correlation to its enterprise value.

**c) Owner’s risk is arising problem in the south Korea and well recognized by the people. However, it seems like many people are afraid of finding out what had happened, and the impact of owner’s risk of Korean Chaebols on the Korean society. I, myself too, was aware of the incidents, but had a very light knowledge about this topic. As a Canadian-Korean who does not have a deep knowledge of the Korean society, I wanted to cover the ongoing yet most sensitive management issue in Korea. As I dig deeper about the topic, I came to better understanding of the history of the Korean economy up to present economic structure.

**d) This topic is relatively sensitive topic as there is an element of politic deeply involved in the system of chaebols. I tried to stay away from the politics as much as possible and stating only facts if I had to explain topics that are related to politics. The approach method that I used throughout the whole paper is outside-in. Since it does not involve any Japan-related subjects, the paper starts off from explaining briefly about the history of the Korean economy because it is crucial to have a slight knowledge about how the chaebols were formed and what kinds of power they have in the present years. Giving macro perspective, I zoomed in and specifically covered two actual cases that represent two different characteristics of Owner’s risk in Korea. By examining the actual case, I think people will better understand the storyline and the actual impact. The most difficulty or rather incomprehensive point was suggesting solutions. Many solutions that can practically solve owner’s risk of chaebols are mostly related to enforcing legislation and solutions can be very abstract at times.
2. Introduction

South Korea’s economy has achieved a miraculous success since the Korean War. Therefore, considering its size of economy and influence on the global economy, it is safe to state that South Korea has become an ideal exemplary for newly developing countries in terms of both safely implementing political stability and achieving great economic prosperity. In the process of achieving a great prosperity, the South Korean economy has formed a unique, yet heavily minor-favored economy structure, which is known as chaebol-oriented economy. This select and concentration strategy of chaebol dominant strategy, seemed inevitable due to lack of economic resource that Korea possessed after the Korean War. Moreover, it is undeniable that chaebols played a key role in driving the Korean economy to success. Research by Lee explains the impact of Chaebol and the government as follows:

The extraordinary beneficial treatment by the government drove the Chaebol to develop the relatively primitive economy at a fast rate, achieving an annual growth rate averaging 8% over the last 40 years (Lee, p2).

However, putting behind two decades of prosperity, South Korea first faced a major crisis in 1998. The South Korean economy was nearly wiped out by the Asian financial
crisis of 1998, and this resulted in the country forcefully borrowing antagonizing US$58 billion bailout package from the International Monetary Fund (IMF) (Terry and Phyllis 2001). Surely, $58 billion bailout package from the IMF was not granted for nothing. This bailout by the IMF forced South Korea to implement significant yet revolutionary conditions on improving the country’s corporate finances as well as both reducing huge and stricter conditions on loans. Every day, renowned chaebols were busy filing for bankruptcy, and statistics related to the South Korea economy were plummeting at the country’s record. The unemployment skyrocketed to 7% in 1998 from 2.6% from the previous ear with the negative gross domestic product growth rate at -6.9% (Kim, 2010).

Surely, there was a huge controversy in the Korean society, and the main topic was what and who caused this gigantic turbulence. A research argued that the major factor of this devastating financial crisis was mainly by-products of macroeconomic and banking problem (Johnson et al., 2000). The paper explained that the financial crisis within a country, a huge responsibility is put on the government officials because they were reluctant to forecast, emphasizing their inability to reserve enough foreign exchange reserves. Also, banking problem surely played important role. Banks at the time relentless financed short-term debts to big, middle, and small companies without correctly verifying their solvency (Cho, 2005). Nevertheless, problems of macroeconomics and
banking problems do not explain fully why countries in East Asia had different degrees of sufferings. Furthermore, equally emerging markets in Latin America and Eastern Europe, there was also a huge variation among countries between East Asian countries, Latin America and Eastern Europe. (Terry and Phyllis, 2001). Why was South Korea so susceptible and vulnerable to external forces? Recent studies explain that the unique market structure of South Korean economy, which is dominantly run by Chaebols (large family run and controlled conglomerates), was the main reason why South Korea had to go through such a difficult time of bailout period. The unique market structure of South Korean Chaebols can be often compared to keiretsu structure of Japan. However, the main difference is that South Korean chaebols have a far more share in the economy than that of Japanese Keiretsu. The largest five chaebols in 1998 (Samsung, LG, Daewoo, Hyundai and SK) accounted for 20% of all outstanding debt as well as three quarters of new borrowing in 1998. (3). The sales of the top five chaebol also accounted for almost half of Korea’s GDP as well as half of all exports in 1998. However, unlike chaebols in South Korea, keiretsu firms took about 17% of sales, 13% of profits and 6% of the total employment in Japan in 1987 (Kang and Shivdasani, 1995). Therefore, the entire of South Korean economy was very much dependent on the performance of these chaebols in South Korea, and at the time of Asian Financial Crisis, one of the largest chaebols at the
time, Daewoo, was dismantled due to its inability to redeem its debt. Daewoo was considered one of the most ambitious and encouraging companies within the chaebol group in South Korea. However, Owner of Daewoo, Kim Woo-Choong, ruthless expanding the group with insurmountable debt leading to hollow financial structure, the bankruptcy of the company was inevitable when Asian Financial Crisis hit South Korea. When the investigation initiated on Daewoo, Kim was later accused of embezzlement and accounting fraud, which led to 10 years of sentence in jail and a seize of 21 trillion won ($22billion worth) of his assets. However, instead of taking a full responsibility of his misleading management, Kim Woo-Choong has still not fully committed to his service, instead fled to Vietnam, which became his lifetime sanctuary. If Daewoo was managed under the right person, who could have foreseen that having a stable financial balance, Daewoo would not have gone into history.

Although chaebols played an important role in driving the Korean economy to success, it is also true that they were selected groups under the government. Possibly, the root of chaebol is deeply rooted and tightly connected to the government and politics, thus this custom still prevails in their mindset in modern days. The chaebol enjoyed unrestrained market power and expansion, which caused enormous damage to
the Korean economy (Lee, 2000). Lee in his paper describes further categories of these harmful effects include:

excessive and illegal debt financing, boundless expansion of capacity, charging excessively high prices, suppressing technological improvements of venture and middle companies, persuading government to restrict new entry or open market policies, speculation in real estate and the stock market, and illegal inheritance or transfer of property, and lastly owner’s mis-judgement towards managing their companies effectively and not considering significant risks coming ahead. (Lee, 2000)

All these harmful effects were not solely conducted by controlling families of chaebols but considering the unique management style of South Korean Chaebols, it is undeniable that major decisions are commonly controlled by a powerful controlling family (Classens, Djankov, & Lang, 2000). Moreover, investment decision decisions were based not on economic feasibility, but on the private interest of the owners (Lee, 2001). The management of a large corporate was monopolized by the founder and / or his family, who alone appointed the members of the board of directors (Lee, 2001). There have been many different interpretations why IMF broke out, but one common lesson is that the decision makers who are mostly affiliated with family members of chaebols under
nepotism were full responsible for their managements, whether their decisions were intentional or unintentional. Therefore, I firmly believe that IMF was mainly a result of owner’s risk of chaebols. Sadly, 20 years after the possibly biggest disaster of Asian Financial Crisis, South Korean people are still witnessing the same problems of owner’s risk of South Korean Chaebols. Especially in recent years, owner’s risk of South Korean chaebol is more magnified and brought the anger of Korean people with the development of Social Network Service. There are different types of Owner’s risk from dogmatic management style to an erratic behavior of individual. Although owner’s risk in 1997 Asian Financial Crisis and owner’s risk of recent cases differ in nature, it is undeniable that they are both exerting negative influence not only in the South Korean economy, but overall South Korean society.
3. **Background and Hypothesis**

South Korean economy is still heavily dependent on the performance of Chaebols. This tendency has increased significantly since the Asian Financial Crisis, and social responsibilities of Chaebols are more emphasized than ever. Despite the increased responsibility, CSR activities are often deceived by Chaebols and researches show that according to Choi, Lee, Park (2013) explains in his paper:

Chaebols manipulative use of CSR driven by managerial opportunism is expected to be more prominent in chaebol firms compared with non-chaebol firms” (Choi et al., 2013).

Rather, CSR activities (e.g., new investments for job creation, contribution to economic growth, and donations to charity) are served to act as an ostentation to deflect the attention of stakeholders and public reputation from their unethical financial practices (e.g., accounting fraud, earnings manipulation, and embezzlement) (Choi, et al., 2013). In recent years, owner’s risk of chaebols and their unexpected behaviors are becoming serious issues in South Korea. At the time of Asian Financial Crisis, chaebols were mostly accused of wrongly managing insurmountable debt and having a cozy relation between politics and business due to its ruthless expansionary plans under the existing weak
corporate governance. The IMF crisis was a huge misfortune to the country, but it was also a critical time to reform the Korean economy that was forcefully proposed by the IMF. Although moral and legally wrongdoings committed by family members of chaebols were excused at the time of prosperity, nowadays most South Korean people believe that there should be a drastic reform policy to prevent those by chaebols because their social responsibilities are not aligned with modern global standards. Many South Korean people believe that family members of chaebols are overusing their power to abuse less powerful people, and this is explicitly portrayed in the case of the Korean Air, known as *Gapjil* or *Power Harassment*. Few chaebols such as Samsung, Hyundai, LG, and Lotte that have survived through the time of the IMF have now become more globally renowned, and their presence in the Korean economy is more than they have ever been. Considering the influence that chaebols have in the Korean economy, family members of chaebols are required to take more responsibility and try not to be involved in any misbehaviors because owner’s risk of one member of the family owned chaebols can have a significant impact on the wealth of the whole nation. For example, the National Pension Service of Korea, the third largest pension in the world with around $430 billion in assets, invested around 131 trillion won in domestic stocks (Yoo, Kim 2018), and is major shareholder to majority of chaebols and chaebols affiliated companies. If owner’s
risk is prevalent and will continue to happen, millions of assets can be vanished because of one person’s misbehavior.

There is still a big controversy in the Korean society whether the existence of Chaebols is favorable or unfavorable to the Korean society. Nevertheless, regardless of the ongoing debate, I believe that it is very important to dissect actual events that are caused by owner’s risk in recent years and verify if these cases cause negative impact on the Korean society and its stock price. My hypothesis is that owner’s risk of chaebol is negatively impacting the stock value of the company, thus decreasing the wealth of the shareholders involving National Pension Service. Moreover, not only on the stock price, but also it brings the gloom and pessimism inserted in the Korean society as well. Hence, this paper aims to analyze the impact of two predominant events of Owner’s risks. First case is the M&A between controversial Cheil Industries., and Samsung C&T and moral wrongdoings of family members of the Korean Air. First case is the controversial Merger and Acquisition between the de facto company of Samsung family and the biggest construction and trading company of Samsung that eventually resulted in the impeachment of president Park. Second case shows somewhat more explicitly of owner’s risk. Different family members who are directly involved in the management of the
Korean Air and its affiliated companies committed power harassment on employees and subcontractors, and their seemingly minor actions triggered the anger in the Korean society and eventually led to decrease in wealth of shareholders and National Pension Service (Which was the biggest shareholder of the Korean Air). After reviewing and analyzing each case, I will propose for several solutions that can prevent owner’s risk at the end of this paper.
4. **Merger and Acquisition between Cheil Industries and Samsung C&T**

In 2015, Elliot Management, which is world famous vulture fund, sued Samsung C&T because Elliot Management believed that Samsung C&T artificially depreciated its value. Elliot Management was infamously known for its aggressiveness and ruthless, but also ostensibly trying to defend the rights of the shareholders. Elliot Management was the second major shareholder holding around 7.16% of Samsung C&T. Elliot Management filed a lawsuit twice, but both times, the verdicts were in favor of Samsung. In the summer of 2015, Cheil Industries, which is the de facto company of Samsung, officially announced that it will be merged with Samsung C&T, and the merger ratio was 0.35 to 1 (Cheil Industries 0.35 to Samsung C&T). Many shareholders of Samsung C&T spoke their voice out and protested against the M&A as they believed that Samsung C&T’s value is depreciated than the market value. Please refer to the Table 1 to compare the size of the two companies.
Table 1: The comparison of Cheil Industries and Samsung C&T

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<th>Samsung C&amp;T</th>
<th>Cheil Industries</th>
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<td><strong>Sales (2014)</strong></td>
<td>28.3 (兆ウォン)</td>
<td>5.13 (兆ウォン)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit (2014)</strong></td>
<td>6500（億ウォン）</td>
<td>2100（億ウォン）</td>
<td></td>
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<tr>
<td><strong>Assets (2015 1Q)</strong></td>
<td>29.5（兆ウォン）</td>
<td>9.5（兆ウォン）</td>
<td></td>
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<tr>
<td><strong>Market Cap</strong></td>
<td>8.63（兆ウォン）</td>
<td>22（兆ウォン）</td>
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Source: The data was taken from the web portal, Naver Finance.

At a glance, it is evident that Samsung C&T has a higher value than the value of Cheil Industries. However, the deal was officially agreed with the agreement of National Pension Service, which was the highest shareholder at the time. Although Samsung C&T has around three times higher sales revenue, three times higher operating profit, and more than three times bigger in assets, but how did Cheil Industries come to have a competitive advantage in market capitalization. Some people started to question how the merger ratio was decided, but since 99% of reports published by investment banks in Korea agreed with it did not become a huge controversy in Korea. This scandal once again came into the scene in 2016 when president Park was on the verge of facing impeachment for taking bribes from multiple chaebols, in which Samsung was mainly
involved, and last year, when the Financial Supervisory Service officially indicted Samsung Biologics (subsidiary company of Cheil Industries) for accounting fraud.

There are many reports about the reasoning behind the merger and acquisition between Cheil Industries., and Samsung C&T, but I believe that it is closely associated with the success process from the chairman of Samsung Group, Lee Kun-Hee to Lee Jae-Yong. Chaebols have been known to have a weak corporate governance, especially in its byzantine ownership structure. 23.2% of Cheil Industries' share, which is the de facto company in the complex byzantine ownership structure, was owned by Lee Jae-Yong but himself did not have any direct share in Samsung’s core company, Samsung Electronics. However, on the other hand, Samsung C&T held 4.1% share of Samsung Electronics, which is worth tremendous amount of money. Moreover, Samsung C&T is the second biggest shareholder of Samsung Electronics followed by 3.5% of Lee Kun-Hee. Because Samsung Electronics is the main company, it is crucial for the Lee family to possess as much share as possible. Additionally, Samsung C&T hold 11.7兆ウォンworth of Samsung’s other major companies. By this merger and acquisition, it can be implied that Samsung’s complex cross-shareholding structure, providing Samsung the entrenchment from vulture funds such as Elliot Management. Thus, by merging Cheil Industries, and
Samsung C&T with the ratio of 1:0.35, Lee Jae-Yong automatically receives notable amount of Samsung Electronics shares. The motivation for the merger and acquisition is evident, the de facto company, Cheil Industries’ share is mostly owned by the Lee’s family. On top of the merger, with Lee Kun-Hee’s 3.5% of Samsung Electronics, Lee’s family can more freely manage the gigantic Samsung Electronics.

The motivation for merger and acquisition was now clear, but how did they end up with seemingly incomprehensible merger ratio. It is not 100% clear of what their intention was, but owner’s risk, adopting an expedient in the process of succession, can be a very persuasive hypothesis behind this. To fully grasp of this, I needed to see the trend of stock price for both Cheil Industries and Samsung C&T from 2014 December. Cheil Industries was listed in 2014 December, and to easily compare the trend the stock prices of two companies, I set two stock price indices as 100 starting from December 18th, 2015. From this point, right before the merger and Acquisition was officially announced, Cheil Industries’ share price rose 44.7% reaching 144.69 from the base index 100, while Samsung C&T approximately dropped 10% decreased to 89.19 from the base index 100. Few interpretations can be derived from this trend. The first hypothesis is the stock price of Cheil Industries is highly appreciated because it is the de facto company of
Samsung conglomerate. People somehow knew that Samsung will start to heavily invest in the company as it is such an important part of the system. Second hypothesis is that Cheil Industries value is increased due to earning surprise of its affiliated companies.

Conducting a deeper research on this subject, there was an unusual account in the Cheil Industries’ financial statement that recorded a huge revenue. Samsung Biologics, which was established in 2011, was owned by Cheil Industries b 40%. In 2012, Samsung Biologics with Biogen created a joint venture named Samsung Bioepis, which was bio-similar producing company. At the time of the joint venture, 85% of share was funded by Samsung Biologics and 15% of share was funded by Biogen, but Biogen held a call option which can increase their share up to 50%-1 in the future. Since its establishment in 2012 up to 2015, Samsung Bioepis recorded huge operating revenue deficits in three consecutive years. All of a sudden, Samsung Biologics recorded profit of 1兆9000億ウォン when Samsung Bioepis was changed from consolidated subsidiary to an affiliated company. When it was a consolidated company, the value of Samsung Bioepis was calculated by its acquisition value. However, when it turned into affiliated company, the value of the company depends on the market value. The unexpected revenue came from this transformation. Samsung claimed that Biogen promised to exercise their call option, and for that year, Samsung Biologics recorded 4兆5000億ウォン worth of investment
profit recorded on the financial statement. However, according to accounting rule, Samsung should not have recorded this before Biogen exercised this call option on the accrual basis. Now, it was evident that there was a reason behind the increased stock price of Cheil Industries, because Cheil Industries owned 40% share of Samsung Biologics. Moreover, Samsung Bioepis’s value jumped from 4,621億ウォン to 4兆5000億ウォン in one year, which is ten times more than the previous year. As seen above, the merger and acquisition between Cheil Industries, and Samsung C&T can be seen as a moral wrongdoing of Owner’s family of chaebols. Owner’s risk of Lee’s family has decreased the wealth of Samsung C&T’s shareholders significantly, and but not just the shareholder of Samsung C&T, National Pension Service, the biggest shareholder of Samsung C&T, lost around 6000億ウォン worth of its investment after the merger. In conclusion, the true intention of Lee’s family cannot be interpreted until the final verdict. However, it can be deemed as a major issue of Owner’s risk of chaebols for the following reason. National Pension Service recorded a significant dip in its investment, which it voted in favor of. The Minister of Health and Welfare, Moon, was arrested for exerting pressure on National Pension Service to vote in favor of the M&A, and also the president Park was arrested and found guilty of giving an order to Moon to do so. It is safe to question that National Pension Service’s money was exploited to cheat the succession
plan of Lee’s family.
5. The Korean Air scandals

There have been several scandals committed by the family members of the Korean Air. Unlike very complicated case of Owner’s risk of Samsung which involve a lot of different interpretations The Korean Air is perceived as one of the key beneficiaries of “Chaebol” system in Korea during the time of the development. In fact, it was the only legitimate airline company consented by the government before the foundation of Asiana Airlines in 1988. Hence, the monopoly was secured for very long time. The unique feature of the South Korean Chaebol system is nepotism, and most likely the case of the Korean Air scandals that broke out in recent years best represent the ugly side of the culture within chaebols deeply rooted in nepotism. There is a total of three incidents of Owner’s risk all related to power harassment, but most specifically in this paper, I will examine the most famous incident, “Nut Return” featured Cho Hyun-Ah, who is the daughter of the chairman Cho Yang-Ho in 2014. Simply summarizing, “Nut Return” scandal, Cho, who was seriously dissatisfied with the service by the cabin crew about the standard procedure of serving the nuts, started to shout and scold cabin crew during the flight. Not being able to suppress her anger, she ordered the flight to return to the departing airport, so that a flight attendance can be removed from the service. The only
reason behind the return was because the attendant had served Cho nuts in a bag instead of a plate, which was not appropriate in the Cho’s manual. After the incident broke out, Cho was sentenced to one year in Prison for violating aviation safety in 2015 February.

5.1 Analyzing the “nut Return” scandal by using event study

This method is derived from the paper, “Using Daily Returns: The Case of Event Studies” written by Stephan J. Brown, and Jerold B. Warner. This method is used to practically validate that event of owner’s risk committed by one family of the Korean Air (Sample = 1) can have negative impact on the price of stock. The name of the stock is the Korean Air, and the data is extracted from the web portal, Naver Finance (https://finance.naver.com/item/main.nhn?code=003490). The method is as follows. Firstly, under the market model, normal return is calculated during the period T-20 to T-180. After calculating the normal return, cumulative abnormal return (CAR) is calculated from the day the event (in this case, the first day when the scandal is released on the media) between t=0 to t+20. Cumulative abnormal return is CAR = Actual Return − Expected Return. As a result of calculation of cumulative average abnormal return on the stock price of the Korean Air, I measured t-statistics to verify if CAR is meaningful or not.
The number for CAAR is -2.9951%, T-statistics at -2.16%, and p-value of 0.039 during the 20 days. After the test, t-value of -2.16% proved to be meaningful in the 5% region. This clearly proves that owner’s risk of Korean air is negatively affecting the stock price of Korean Air. Looking more closely on the duration, after the incident happened on Dec 5, the stock price did not show a significant drop until 5 days after the event. However, from between 5 days to 15 days after the event broke out, stock price began to decrease significantly. This can be implied that certain event can have a worsening effect as the time progresses largely due to the fact that the negativity is spread in the media after the media closely dissected the event. This trend is highly aligned with the owner’s risk of the Korean Air. When the event broke out instantly, the Korean Air immediately responded saying that Cho did not commit any wrongdoing, rather blaming on the cabin crew, saying that she was educating the cabin crew. Moreover, with the advent of Social Network Service, the negativity about the news can be spread. However, when the media started to gather more information about the actual event, it soon realized that the event was solely caused by Cho, who did not abide the International Flight Security Law. If the Korean acknowledged what had actually happened in the plane and publicized the public apology to the Korean society,
By analyzing how the stock price reacted to this individual event, it is evident that the impact of owner’s risk is massive on the stock price and on its enterprise value. Also, Owner’s risk will result in decrease in the wealth of all stakeholders (Especially including minority shareholders) of the stock market. As seen previously, the second biggest shareholder of the Korean Air is National Pension Service. National Pension Service held nearly 12.5% share of the Korean Air, and as a result of this scandal, it resulted in 250億ウォン loss in one week.
6. Amendments and Conclusion

In conclusion, by two cases presented above, owner and owner’s family under nepotism can have a negative influence on the Korean society, and this was proven by mostly significant decrease in shareholder’s assets. Furthermore, most importantly, any related events about owner’s risk can also have a significant impact on short-term stock return. Many shareholders believe that owner’s risk cannot be managed after a series of unexpected action. Hence, all the damage is directly shouldered on shareholders of the company, and this can create vicious cycle in investor sentiment.

The case of the merger and acquisition between Cheil Industries and Samsung C&T is an example of exploiting public wealth to pursue one’s interest and the case of the Korean Air represents simple individual wrongdoing. How can we improve to prevent owner’s risk of chaebols in South is very difficult and complex discussion in South Korea?

Firstly, stewardship cord should be implemented. National Pension Service currently invests in more than 100 companies in Korea with more than 5% share. It manages total of 650 兆ウォン (Yoo, 2018). National Pension Service was reluctant to exercise voting rights in the past, which opened doors to owner’s risk allowing too much discretion to chaebols. National Pension Service should closely monitor activities of
owner’s risk and serve to protect the interest of shareholders, not standing by chaebols’ sides. Witnessed in the case of Samsung, the M&A deal could have not been passed if the National Pension Service tackled and questioned the merger ratio. However, closely tied with Samsung, knowing that the merger ratio was falsefully created, the National Pension Service agreed to the deal, which created a huge loss on the wealth of many shareholders.

Secondly, encouraging chaebols to be more involved in CSR activities on regular bases. Chaebols were often accused of using CSR as to strengthen the close business ties with government or hide their opportunistic behaviors (Choi, at el., 2013). The government should give incentives to those chaebols who regularly contribute to the society. Also, the government should consistently promote CSR activities to chaebols by telling them by CSR, chaebols can build so-called reputational wealth. Creating reputational wealth can be as effective as any asset to chaebols, and if chaebols conduct CSR activities on regular basis, it would also help them to eradicate accumulated distrust between chaebols and the Korean people.

Lastly, implementing an institutional strategy is also important to protect the wealth of minority shareholders and also hard and adding additional punishments if
chaebols who are more renowned in the society committed moral wrongdoings. Laws to protect the small shareholders’ rights should be more enforced. Since 2005, laws that enforce to protect the small shareholders’ rights and improving companies’ transparency are implemented, but only 7 lawsuits were filed during 10-year time span. The main reason for a lack of participation is because it is a long, and tedious process of trial. Time and money were heavily burdened for individuals. The government should consider legislating a law that even the minority shareholders can easily and quickly ask for their rights if they unfairly lost their wealth by the events of owner’s risk, so that chaebols cannot overlook the important of minority shareholders. Also, many chaebols were excused of their crimes or even received much reduced sentences than average people under the pretext of contributing to the Korean economy. The law should be fair and equally applied for everyone, but more socially responsible chaebols were somehow punished much less. Thus, they look down on the law, and not afraid of re-committing. It is highly encouraged that at least the law should be applied equally regardless of their wealth, status, and power. Moreover, family members of chaebols should be stricter and taking more responsibility of their actions, so one way to prevent owner’s risk is to implement additional punishments measured by their social responsibility and seriousness of their actions.
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