

Dominant Stockholder Illegality and Enterprise Value : Focusing on Korean Firm Cases

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Abstract

This research is a case study that focuses on how conglomerate illegality and corresponding penalty affects corporate performance and strategy. The research aims to provide base information for policy-makers as well as the general public about the corporate environment. The analysis results can be summarized as follows. First, profitability is represented as an M-curve. Profitability falls from indictment to the final pronouncement of the corporate head and increases upon his or her return. The result suggests that the absence of a corporate head could result in low profitability as the firm is exposed to owner risk. Secondly, significant effects on investment were not found. Investment showed a continuous increase from indictment to final judgment. This could have resulted from investment decisions made prior to the indictment, which are generally long-term. Meanwhile, the rate at which investments rose for core subsidiaries were lower, which makes it reasonable to suspect dwindling executive capacity due to the absence of a corporate head. Thirdly, employment showed a slight increase, but the rate was found to be greater during the periods following the final judgment. From a political perspective, this increase can be inferred from a give-and-take tradeoff between corporate employment and the pardon of the corporate head.

Keywords Chaebol, Head of Conglomerate, Business Groups, Owner Risk, ISR, CSR

1. Introduction

Business groups are organization forms that appear internationally. Business groups since the 1990s have been studied mostly by various schools primarily on business groups in developing countries. New institutionalist theory, which is one of the various theories explaining the occurrence of business groups, suggests that business groups replace the institutional voids. The discussion about whether a business group is an efficient business organization naturally leads the discussion to the topic of corporate governance structure. These discussions provide a theoretical background to business groups.

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The primary interest of this research is the illegality of corporate heads. Many investors who voluntarily or involuntarily rely on disclosed information are exposed to unsystematic risks inherent to a firm. Among them, misconduct of corporate insiders is different from general incidents that could occur from the process of normal business operation in the aspect that it could lead to a temporary fall in stock prices from the disclosure of unfavorable corporate conditions as well as further exposing investors to greater potential threats. In the case of Korean business groups, where the head of a conglomerate acts as the dominant stockholder, the illegality of corporate heads has a significant social influence (Albrecht et al., 2008).

Corporate scandals, which can be seen as an end result of opportunistic conduct and moral hazard of firm insiders, can result in not only a short term decline in stock prices but also a loss of confidence that could label the firm as a potential distrusted company and cause a further plunge in enterprise value (Kaminski et al., 2004). Furthermore, it could affect the survival of the firm itself and cause financial damage to investors as well as other stakeholders such as employees, partner firms, and financial institutions. Notably, a significant amount of investment loss from embezzlement is likely to concentrate on small individual investors who face an information disadvantage compared to institutions and foreign investors and lack the analytical skills to assess disclosed information. For the above reasons, dominant stockholder conduct is regulated by the Korea Fair Trade Commission.

However, regardless of this regulation, conglomerate misconduct has not been declining and many of the major conglomerate heads have been mentioned as the accused or as testifiers by the media in recent presidential discussions. This research intends to look into the role of conglomerate heads within a firm. In reality, the applied logic for the legal application of conglomerate heads is divided into two parts. The issue of whether to differentiate conglomerate heads from other offenders is discussed during every amnesty period. Specifically, the logic in favor of applying lenient legal application coexists with an argument that calls upon the stringent application on conglomerate heads.

The position in favor of lenient legal application argues that the absence of conglomerate heads could contract corporate investment and cause a negative impact on the national economy, considering the weight of Chaebol in the Korean economy. Consequently, this could slow down economic growth and exacerbate economic loss on the part of the public.

A firm's executive makes important corporate decisions. The absence of his or her presence could deter efficient decision-making and threaten the survival of the firm. The negative impacts from the absence of executives are as follows.

First, the firm loses its corporate vision or mission. Executive officers set long-term visions of the firm and require members to accomplish short-term missions. The firm's endeavor to achieve

its visions can set the path of sustainable growth to become a long-lived company. If the absence of executives lengthens, the organization would be unable to properly carry out its visions and missions. This is because the dissolution of a pivotal figure within the organization eventually mars organizational cohesion. As a result, financial loss would be inevitable and default probability would increase.

Secondly, strategic decision-making would face a setback. The recent rapidly changing corporate environment requires executives to adopt a flexible way of thinking. For example, there are cases where firms that have achieved certain positions carrying out merger and acquisitions to achieve economy of scale and economy of scope. These strategic decisions are executed upon the final approval of the executives. A recent domestic case involving the return of President Kim Seung Youn and his lead in carrying out M&A of Samsung's chemical subsidiary last November is a direct example of the importance of executive decision-making. Therefore, the absence of executives could hold-up strategic decision-making and possibly miss out on an opportunity for growth.

Thirdly, an absence of executives could cause problems for personnel management. Authority over personnel affairs is the sole discretion of the executives, which, if performed well, could make the organization flexible and efficient. For example, the appointment of board members and the management of the board could be difficult and could even cause disputes over ownership that could result in a transfer of managerial rights. Therefore, the absence of managers could deter an organizations stability and efficiency.

However, if the absence of a manager happens to be from his or her ill will, the above-mentioned negative impacts have much greater influence. In the case of Korea, Chaebol, a representative business group, has multiple subsidiaries through cross-shareholding and an abnormal management structure that involves the head of Chaebol, who acts as the dominant shareholder, taking control of all the affiliates through ownership of core subsidiaries.

Meanwhile, those who oppose lenient legal application of Chaebol argue that Chaebol heads are the same as everybody else in terms of being members of this nation and that they should be subject to stringent punishment for serious crimes. The heads of Chaebol are more likely to be less professional than a management specialist and also more likely to misappropriate corporate resources using their influence. This is why most violations committed by Chaebol have to do with a breach of trust and embezzlement. Moreover, the public opinion of Chaebol is worsening due to lax management, economic concentration, cases of the illegal transfer of managerial rights to the second generation Chaebol, and an abuse of dominance. In addition, the funneling of business and distortions in economic order due to the Chaebol's dominant position cause further social conflicts. There are possibilities that these social side effects could be alleviated if these Chaebol heads do not exist. In this sense, the logic is that stringent law enforcement on Chaebol heads could

pave the way towards a fair and better society.

With regards to these differing arguments, insufficient research has been done on the effect of the absence of Chaebol heads in corporate management. This research is a case study that looks into how illegality of Chaebol heads influence business performance and strategies. The aim of the research is to provide base information to governmental policy makers and consumers about the corporate environment.

The research structure is as follows. Following Chapter I: Introduction is Chapter Two, which looks into precedent studies. Chapter III deals with research methodology. Chapter IV is the conclusion.

2. Precedent Studies

2.1 Definition of Chaebol

'Chaebol' is a general term for Korean business groups that play a pivotal role in the domestic economy. There is no consensus on the definition of 'Chaebol,' but it is generally defined as a business group owned and controlled by a specific individual or that individual's small number of relatives that operates diversified business in multiple markets and industry segments. The term 'business group' here refers to a group of legally independent firms integrated into a single body through formal and informal connections (Granovetter, 1995; Luo and Chung, 2005).

Scholars have given an array of explanations regarding the occurrence of business groups and their function in society. In this context, Leff (1978) asserted some positive functions of business groups.

First, business groups provide access to scarce resources and information and mitigate uncertainties of the market. Business groups can realize economies of scale and enhance efficiency in management. This can be explained through the role of the internal capital market. The internal capital market literally refers to the internal procurement of capital from a firm's internal structure without utilizing external financial institutions. This is advantageous in terms of making the flow of capital flexible through the exchange of information among subsidiaries and reducing capital costs (Myers and Majluf, 1984). Kanna and Palepu(2000) asserted that the formation of internal capital market plays a role of complementing the external capital market and actually boosts the management efficiency of the firms subsidiaries. The logic from these scholars can be applied to the Korean business groups, or Chaebol. There is also a view that Chaebol has a more vulnerable capital structure than independent firms due to higher leveraging despite the tendency of higher performance.

Secondly, business groups establish diversified business portfolios that provide solutions to mitigate corporate risks. An executive officer could diversify to minimize his or her own investment risks (Amihud and Lev, 1981). It is likely that major and dominant stockholders may

branch out business segments for the purpose of risk diversification among subsidiaries that are considered to be within their investment portfolio. Shin and Park (1999) differentiated and analyzed independent firms and firms that belong to 30 representative business groups and found that firms that participate in business groups are unrestricted from internal capital flow and carried out investments proportionate to their future growth potential. Stein (1997) also argued that the internal capital market within business groups allows executives to allocate funds to core businesses and to prevent funds from flowing into less competent businesses, which leads to the maximization of management efficiency. Chang and Choi (1988) claimed that a business group can minimize transaction costs as it replaces the incomplete capital market.

The arguments about the positive functions of business groups assume that executives make decisions for the sake of shareholder interests. But if executives carry out decisions that have to do with scale maximization through business diversification or decisions for their own interests rather than the shareholders, numerous negative side effects take place (Johnson et al., 2000). The case of Korean business groups had a comparatively greater adverse effect due to the agent problem between dominant and small shareholders, mutual loan guarantees and cross-shareholding among subsidiaries, a lack of internal audit and check, and inter-subsidiary wealth transfers (Bae et al., 2002). Lang and Stulz (1994) argued that diversified firms showed significantly lower enterprise value than non-diversified firms in the 1980s. In a similar context, Berger and Ofek (1995) also found that the average enterprise value of diversified firms was lower than that of non-diversified firms by 13% to 15%. This suggests that business diversification in the U.S. disperses corporate capacity rather than focusing it, which could lead to a decrease in enterprise value.

Problems of the representative business group, Chaebol, under tacit governmental protection, are coming to the fore. These Chaebols contributed to imbalanced growth under the export promotion policy of previous administrations, which directed resources to strategic industries. However, government intervention further distorted the incomplete market, which contributed to the outbreak of the financial crisis of 1997.

2.2 Status Quo of Korean Chaebols

In this section, we will explore overall trends of Korean Chaebols. In accordance to the objective of this study, we will focus mainly on governance structure. First of all, the category of Korean Chaebol is designated and announced by the Fair Trade Commission (FTC) each year. A business group is defined as a "group of corporations whose business is governed by the same person". Companies designated by the FTC are regulated under the standard 14-year basis. Such a regulation was introduced in order to prevent problems caused by Chaebols such as the

concentration of economic power and the impediment of market competition.

The history of designation as Chaebol in Korea is as follows. The designation of Chaebol in Korea began in 1987, 6 after 1981, when the fair trade regulation was introduced. In 1987, when the regulation was first introduced, the criterion of the gross amount of assets was over 400 billion KRW. In 1993, the regulation was modified and the criterion was changed from the absolute amount of assets to the top 30 business groups in terms of gross amount of assets. In 2002, the term "large business group" became obsolete and was replaced by term "business groups of mutual investment restriction." Around the same time, after the reintroduction of Restrictions on Total Amount of Shareholding in April 2001, two new categories of "business group of mutual investment/debt guarantee restriction (total amount of assets over 2 trillion KRW)" and "business group of total amount of shareholding restriction (total amount of assets over 5 trillion KRW)" were designated. These were abolished for deregulation purposes. As a supplementary measure in accordance to the abolishment of Restrictions on Total Amount of Shareholding, "Public Disclosure System of Status Quo of Business Group" has been in effect since July 2009.

The affiliates owned by Korean Chaebols are organized by year in <Table 1>. In the 2000s, the number of Chaebols started from 30, and 68 Chaebols were registered to FTC in 2008. In the most recent data, 49 Chaebols were registered in 2014. The number of affiliates tends to increase or decrease proportionally to the number of Chaebols. These numbers started with 544 affiliates in 2000 and shows the largest number of 1,740 affiliates in 2012. In the number of affiliates per Chaebol, it started from approximately 18 affiliates per Chaebol and marked the largest number in 2012 by 34 affiliates per Chaebol. It means that usually a Chaebol owns 34 affiliates, and it seems that the government's Chaebol-friendly policy played a role in that along with the business expansion by Chaebol, according to the analysis.

Table 1 Affiliates Owned by Korean Chaebol

Year	Chaebol(A)	Affiliate(B)	(B)/(A)*100
2000	30	544	18.13
2001	30	624	20.80
2002	34	665	19.56
2003	42	815	19.40
2004	43	842	19.58
2005	46	910	19.78
2006	52	1,083	20.83
2007	55	1,156	21.02
2008	68	1,604	23.59
2009	40	1,096	27.40

Year	Chaebol(A)	Affiliate(B)	(B)/(A)*100
2010	45	1,222	27.16
2011	47	1,512	32.17
2012	51	1,740	34.12
2013	51	1,680	32.94
2014	49	1,579	32.22

This table organized the number of Chaebols and their affiliates by year. Data were cited from materials of Fair Trade Commission.

Following <Table 2> indicates the total assets owned by Chaebols. It started from approximately 422 trillion KRW in 2000, but it shows a constantly increasing tendency in all years except 2002. Especially since 2005, when the domestic economy in Korea was in a boom, it has been showing an increase rate of over 10%. However, due to the recent economic recession, there has been a decreasing tendency since 2013.

Table 2 Assets Owned by Chaebol

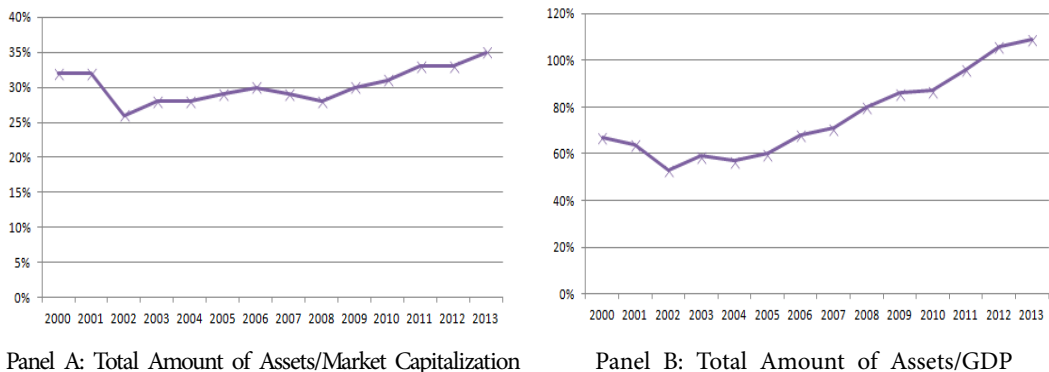
Year	Total Amount of Assets	Increasing Rate
2000	422,797	-
2001	437,857	4%
2002	405,160	-7%
2003	478,313	18%
2004	499,507	4%
2005	554,157	11%
2006	656,999	19%
2007	738,943	12%
2008	883,122	20%
2009	988,942	12%
2010	1,106,213	12%
2011	1,278,681	16%
2012	1,461,200	14%
2013	1,558,249	7%
2014	1,596,336	2%

This table indicates the total amount of assets owned by Chaebols. Unit for the total amount of assets is billion KRW, and the data were cited from materials of Fair Trade Commission.

The dependency of the Korean economy on Chaebol is indicated in <Figure II-1>. First of all, Panel A indicates that the ratio of total amount of assets to market capitalization remains around 30% on average, and it has been showing a constant increasing tendency since 2008. Panel B indicates the ratio of the total amount of assets owned by Chaebols to GDP. It has been showing a constant increasing tendency since 2002, and in 2012, it is over 100%, which means that the total

amount of assets owned by Chaebols is more than the total amount of GDP. That is, the Korea economy, including the capital market, highly depends on Chaebols and the economic power is concentrated among Chaebols.

Figure 1 Dependency of Korea Economy on Chaebols



Panel A: Total Amount of Assets/Market Capitalization

Panel B: Total Amount of Assets/GDP

This figure charts how the Korean economy depends on Chaebols. Panel A is the ratio of the total amount of assets owned by Chaebol to market capitalization of KOSPI, and Panel B is the ratio of the total amount of assets owned by Chaebols to GDP. The source for the assets owned by Chaebols is the Fair Trade Commission, and the data for market capitalization of KOSPI are cited from materials provided by the Bank of Korea.

2.3 Misconduct of Executives

What impact would misconduct of executives have on corporate management? There are various forms of misconduct of executives, but the most frequent ones are seizure and malpractice. Seizure and malpractice could be defined as an action by an insider of a company inappropriately possessing or abusing resources of the organization for personal benefit in comprehensive terms. They are grave events that greatly impact investors and stakeholders. Kaminski et al. (2004) defined seizure as an extreme form of corporate misconduct, which is expressed in the comprehensive combination of executive's earnings management and earnings manipulation, rather than explaining it through the differences between the financial characteristics of each company.

Exploring the studies conducted regarding corporate misconduct, they mainly study inaccurate financial reports such as the fabrication of financial records by executives or the omission of measurement and recognition, rather than theft and seizure of the economic resources of a company (Albrecht et al., 2008). Beasley (1996) focused on monitoring the function of the board of directors and empirically analyzed the relation between variables related to the board and dishonesty in financial statements. According to the analysis, dishonesty in financial statements holds a significant negative (-) relation to the proportion of nonexecutive director, share ratio of

nonexecutive director, and length of service of nonexecutive director.

Xie et al (2003) report that the number of meetings of the board may reduce earnings management. In detail, they report that the higher the participating rate of nonexecutive director, the lower the chance of the company being corrupted. Hence, they predicted that the activity indicator of the nonexecutive director such as the meeting participating rate, would determine the possibility of enhanced effectiveness of the nonexecutive director's monitoring function and lower the possibility of seizure in the company.

3. Methodology

3.1 Sample

This study sampled the heads of top 10 business groups. The reason for their sampling is that financial material is readily available. Sampling was conducted within the listed companies in the Korean stock market, based on the Fair Trade Commission's business group of total amount of shareholding restriction and business groups of mutual investment restriction. 2005, the initial year, is based on the date of indictment, not the date of pronouncement. It was aimed at heads who received final judgement and 5 cases were ultimately selected. <Table 3> organizes the related information. With the exception of the case of President Kim Seungyeon, who was prosecuted for assault, most of heads were prosecuted for seizure or malpractice, though the amounts were different.

Table 3 Organized Sample Cases

Number	Head	Business Group	Date of Indictment	Date of Final Pronounce	Result of Trial
1	ParkXX	Doosan Group	2005.11	2006.7.21	3 Years of Imprisonment with 5 Years of Probation
2	KimXX	Hanwha Group	2007.06	2007.9.11	1 Year and 6 Months of Imprisonment with 3 Years of Probation
3	JeonXX	Hyundai Motor Group	2006.05	2008.6.3	3 Years of Imprisonment with 5 Years of Probation
4	LeeXX	Samsung Group	2008.04	2009.8.14	3 Years of Imprisonment with 5 Years of Probation

After sample cases, President ChoiXX, the head of SK group, was released on August 15, 2015, and Jaehyeon Lee of CJ group was released in 2016, but they were excluded from the samples because of an unavailability of financial materials.

Also, this study distinguishes overall affiliates and core affiliates in order to control the influence based on the share of the head. It is based on the listed affiliates, and <Table 4> lists the affiliates included in the sample.

Table 4 Affiliates and Core Affiliates of Chaebols

Doo San	Oricom
	Doosan Engine
	Doosan Engineering & Construction
	Doosan Heavy Industries & Construction
	Doosan Infracore
Doosan	
Hanwha	Hanwha Galleria Timeworld
	Hanwha Chemical
	Hanwha Fine Chemical
	Hanwha
Hyundai	Hyundai WIA
	Hyundai BNG Steel
	Hyundai Rotem
	Hyundai Engineering & Construction
	Hyundai Mobis
	Hyundai Hysco
	Hyundai Steel
	Kia Motors
	Hyundai Glovis
	Hyundai Motor
Samsung	Credu
	Samsung SDS
	Cheil Industries
	Hotel Shilla
	S1
	Samsung Engineering
	Samsung C&T
	Cheil Worldwide
	Samsung Heavy Industries
	Samsung Fine Chemical
	Samsung SDI
	Samsung Techwin
	Samsung Electro-Mechanics
	Samsung Electronics

Note1) Based on late 2014

Note2) The last company in the affiliates list is the core affiliate and is .

The measurement indexes are profitability-investment-employment, considering the aspects that may be affected by the absence of the head. First, profitability was measured through returns on assets (ROA). ROA is the ratio of net profits during the term to the total amount of capital, and a higher ratio represents a higher profit. Profitability is expected to be low because the absence of the head makes a negative impact on the decision-making by the company management. Second, total R&D expenditures appropriated in the income statement are used as the investment. The invested amount is expected to decline, as the absence of the head constricts corporate investments. Third, the number of total employees is used as the variable for employment. Because there is a high possibility of absence of the head working as a negative aspect in employment planning, it is expected that the employment would decrease during the period between the date of indictment and the date of final pronouncement.

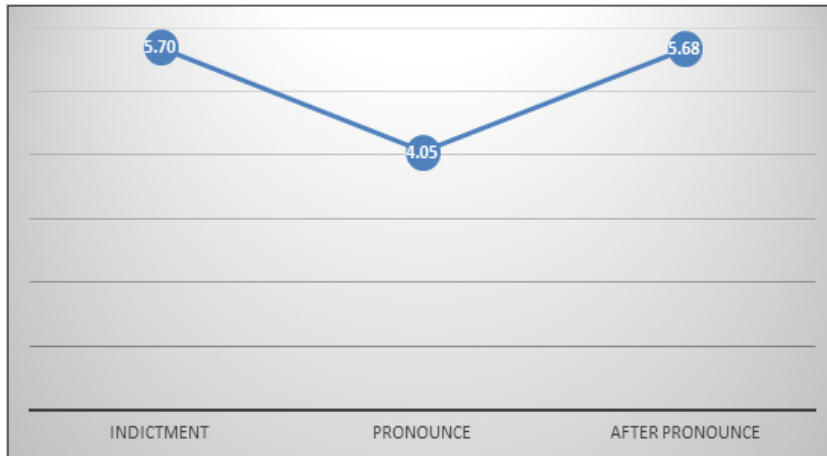
The analysis is focused on the date of indictment ($t-1$), the date of final pronouncement (t), and the period after the final pronouncement ($t+1$). It is on a yearly basis because available materials are based on the financial statements. To facilitate understanding, if a head is prosecuted in 2012 and receives the final pronouncement in 2013, the absence period of the head is between the date of indictment and the end of the trial. Also, in order to explore the performances in the period when the management is normalized after the return of the head, we would compare the numbers of the next year.

4. Analysis Result

4.1 Profitability

The results of profitability analysis is shown in the following <Figure 2>. First of all, if we take a look at overall affiliates, the mean of ROA in the moment of indictment was 5.70%, but it decreased to 4.05% in the year of the trial. However, during the period when the head returned after the trial, the profitability was 5.68%, showing a tendency of returning to the level at the indictment. Based on such results, we can analyze that the absence of the head makes a large impact on profitability. That is, it is analyzed that so-called owner risk negatively affects profitability. The head of the group has a large influence in the Korean Chaebol system. We could say that absence of the head influences the morale of the organization or major decision-making.

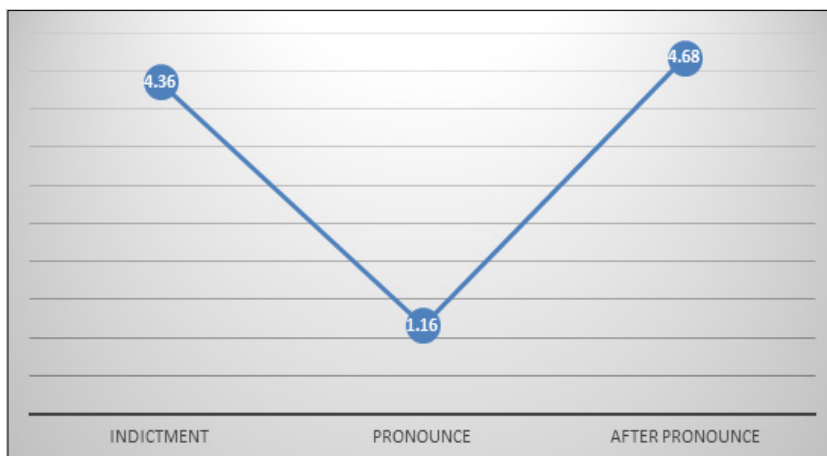
Figure 2 Result of Profitability Analysis on Overall Affiliates



unit: %

In terms of governance structure, Chaebols own other affiliates through acquiring ownership in core affiliates by cross-shareholding. This leads to Chaebol heads often holding the title of CEO simultaneously, which in turn leads to the higher possibility of a negative impact on the management of core affiliates from the absence of the Chaebol head. This is shown in <Figure 3>. As shown in the figure, profitability was 4.36% at the moment of indictment, but it decreased to 1.16% during the trial. After the trial, it increased to 4.68%, showing a similar tendency with overall affiliates but with a larger increase/decrease rate. This indicates that the absence of the head may have a larger negative impact on the performance of the core affiliate.

Figure 3 Result of Profitability Analysis on Core Affiliates

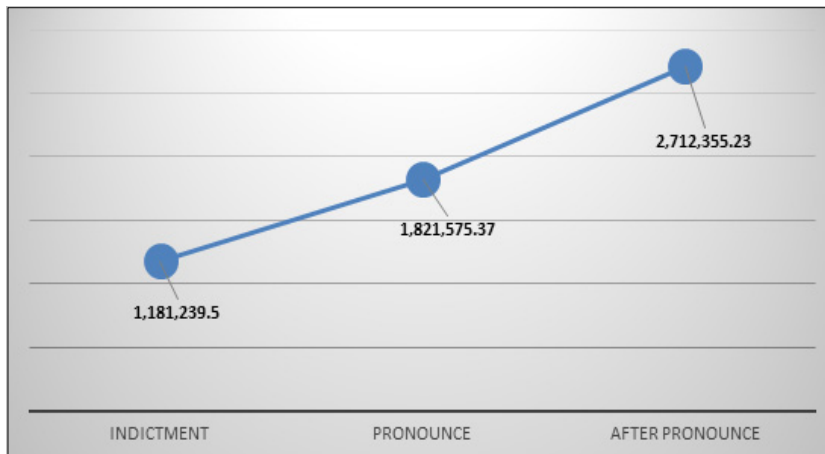


unit: %

4.2 Investment

People who insist on the mitigated legal enforcement on Chaebol heads often argue that the absence of the head would constrict corporate investments. This study conducts the analysis on what impact the absence of Chaebol head would have on corporate investments. <Figure 4> shows R&D expenditures. Starting from the moment of indictment, it had increased to 1.8 trillion KRW by the end of the trial. This contradicts the opinion that the absence of the Chaebol head has a negative impact on investments. Also, it was found that there was a great increase after the pronouncement (from 1.1 trillion KRW to 2.7 trillion KRW).

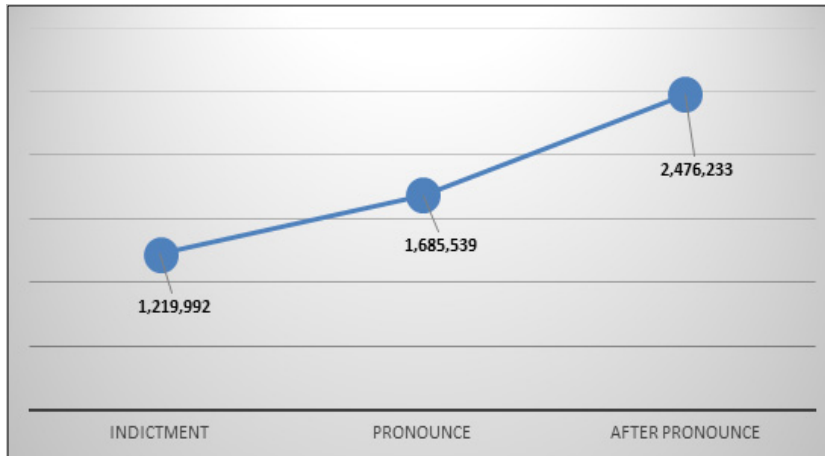
Figure 4 R&D Expenditure of Overall Affiliates



Unit: billion won

The investments of core affiliates also show the similar tendency as that of overall affiliates. <Figure 5> indicates the average investment amount of core affiliates. First, at the moment of indictment, it is 1.2 trillion KRW, and at the moment of final pronouncement, it is increased slightly to 1.6 trillion KRW. However, by the pronouncement, when the management is normalized, it had increased to 1.9 trillion KRW.

Figure 5 R&D Expenditure of Core Affiliates



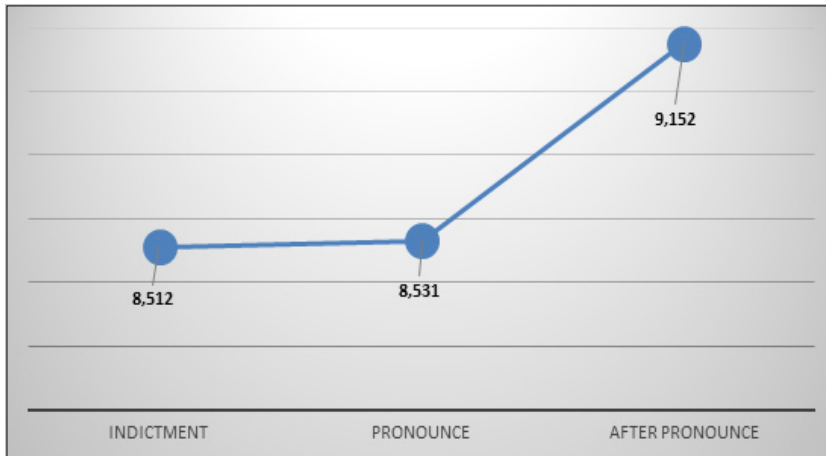
Unit: million

In summary, there is no empirical grounds for the statement that the absence of Chaebol head would reduce corporate investment. It seems that investments are made with no problem because an investment plan is an example of long-term decision-making. However, the difference between the increase rate during the period between the indictment and pronouncement and that during the period after the pronouncement still exist.

4.3 Employment

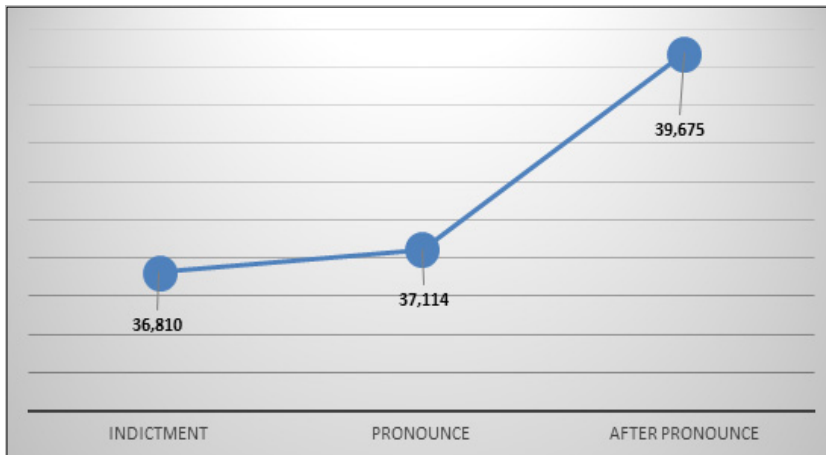
The absence of the Chaebol head causes a great problem in the utilization of human resources in the company. For example, reduced new employments from constricted investments or hardships in appropriate deployment might take place. We conducted an analysis on whether such phenomenon actually happens. If the impact of the absence of the head works in the company, workforce reduction would take place. If the impact is limited, there would be no significant change in the workforce. The results of the analysis are presented in <Figure 6>. As the following figure shows, there was no significant change in workforce during the absence of the head, between the indictment and the end of the trial. However, after the pronouncement, the employment largely increased to 9,952. Considering that there were more new employments than resignation, there is an actual tendency of hiring more employees after the trial.

Figure 6 Employment in Overall Affiliates



<Figure 7> below is the information on the increase and decrease of workforce in core affiliates. As shown in <Figure 7>, there is no significant difference in the case of overall affiliates. However, there is a difference in change rates. It was found that although the increase rate during the period between the indictment and pronouncement was slight, there was great increase from 37,114 to 39,675 after the pronouncement.

Figure 7 Employment in Core Affiliates



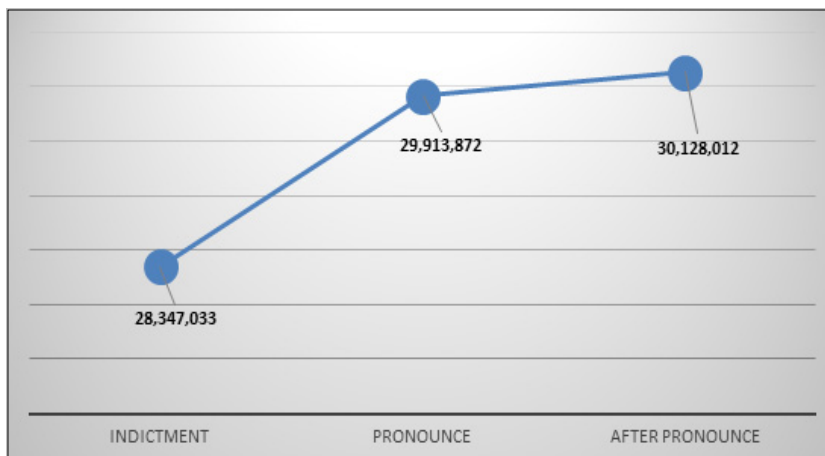
Unit: erson

4.4 Additional Analysis

In this section, we will focus on the capital market in respect to the absence of Chaebol heads. Using core affiliates as the sample, we will explore the change in market capitalization, which refers to the market value. Market capitalization is the monthly material and refers to the amount of issued stocks multiplied by the stock price. We were able to secure more samples because the material uses monthly data and updates are reflected more rapidly.

Results of the analysis is shown in <Figure 8> below. During the period between the indictment and pronouncement, the stock price increased so that the market value of the company increased. More specifically, it was found that the market value significantly increased from 28.3 trillion KRW to 29.9 trillion KRW. After the pronouncement, the market value was 30.1 trillion KRW. Actually, because the arrest or absence of the Chaebol head is an unfavorable event for the employees in the company, crisis management is conducted. Especially because the stock price is the asset of Chaebol head who is the owner of the business group, they put more effort into defending stock price. Also, in the capital market, it seems that the expectation of investors that the arrest of the head may lead to improvement in the governance structure and transparent management leads to an increase in stock price.

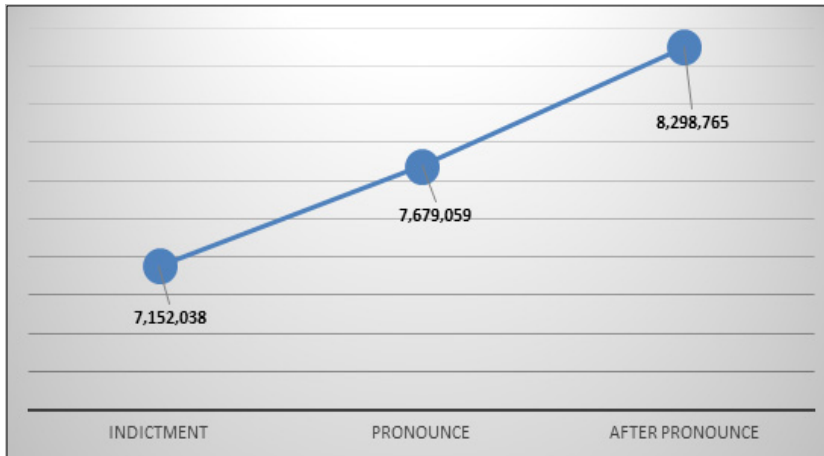
Figure 8 Change in Market Capitalization of Overall Affiliates



Unit: Million of Won

Change in the market capitalization of core affiliates has shown a larger increase. At the moment of indictment, the market value was 7.1 trillion KRW but at the moment of final pronouncement, it was 7.6 trillion KRW. And after the final pronouncement, it was 8.2 trillion KRW, indicating that the absence of the head makes a rather positive impact on the capital market.

Figure 9 Change in Market Capitalization of Core Affiliates



Unit: million of Won

5. Conclusion

This study analyzed what happens in the management strategy or performance of affiliates and core affiliates during the absence of the Chaebol head and when such absence is resolved. The results of analysis are as follows.

First, the profitability shows M pattern. It was found that profitability decreased from indictment to the pronouncement and increased again when the head returned after the pronouncement. This indicates that the absence of the head may expose the company to owner risk and lead to reduced profitability.

Second, in terms of investment, there was no significant impact. Investments constantly increased from the indictment to the pronouncement. This seems to be because planned investments are made since investments are long-term decisions of a company. However, in the case of core affiliates, the increase rate is relatively small. We suspect declined executive capability caused by the absence of the head.

Third, employment showed a slightly increasing tendency. However, the amount was much larger after the pronouncement. In a political perspective, it seems that such an increase in employment is the return of amnesty for the Chaebol head.

Fourth, indicators in the capital market and the analysis indicates that the absence of the head is recognized as a rather positive sign for the company in the capital market. An increase in the stock price seems to be caused by the expectation that the arrest of the head would lead to the improvement of governance structure and transparent management.

Although everyone must be equal under law regardless of political ideology, it is undeniable that the law enforcements in the past were too generous to those in power. Such cases infringe social good and hinder social convergence by raising discontent and distrust among society members. We can see that corporate social responsibility (CSR) is just an illusion and tool for corporate promotion or marketing, and what ultimately matters is individual social responsibility (ISR) of the CEO. Famous billionaires such as Bill Gates, Warren Buffett, and Mark Zuckerberg accumulated great wealth, but they are still socially respected. They understand what entrepreneurship is and what their social obligation is. They did not participate in illegal conduct. Furthermore, they did not practice CSR with corporate money but practiced social contributions with their private wealth. Some established foundations with their own assets or entrusted their funds to a foundation known for best utilizing funds for good causes. It is now time for entrepreneurs to think about why Bill Gates, Warren Buffett, and Mark Zuckerberg are socially respected. Entrepreneurs should keep in mind that their company and they could be recognized as a respected company and entrepreneur in the consumers' mind when the head's true entrepreneurship pervades the company.

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