

Chaebol Reform:

Politics of Introducing Business Reforms in South Korea

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ABSTRACT

Calls to implement corporate reforms in South Korea reached its apex with the strong public outrage at 2016 Presidential corruption scandal involving the largest business groups within the country. In 2017, the newly elected President Moon Jae In promised to achieve corporate reforms that past administrations struggled to engage with. Considering the lack of progress in regulating unfair corporate practices and recurrent episodes of corruption scandals, this thesis will try to answer the following question: why it is so difficult to implement effective corporate reforms in South Korea? A combination of comparative methods and narrative analysis is used to trace the new policy direction of the Moon administration in Korea Fair Trade Commission annual reports and the media coverage on the adoption of a stewardship code by the National Pension Service of South Korea. The findings indicate that combined with strong resistance from corporate circles, institutional framework of policy making accounts for the short lived attempts at introducing regulations which are best explained by the concept of imperial and fragile presidency. In that sense, the recent attempts to achieve corporate reforms suffer from similar problems faced by previous administrations, which brings its effectiveness under scrutiny.

KEYWORDS

Korean Chaebols, State – Business Relations, Imperial Presidency, Corporate Reforms, Chaebol Reform, Stewardship Code

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1. INTRODUCTION:

In 2016 South Korean President Park Geun Hye was impeached from her Office with allegations of corruption that involved top business enterprises of the country (Dostal 2017). This led to massive public demonstrations calling for more transparency and accountability in the business sector, with further demands to probe into the political connections of the large business enterprises (Bae 2017).

Within the Korean context, these large businesses are known as *chaebols*. It is a term that refers to the strong, centralized family ownership over a group of businesses in multiple industrial sectors of the country (Chang 1988). They are a product of the developmental state project starting with the 1960s as well as being a living testament to the process of industrialization (Cho 1994). Yet, this has allowed for the creation of a decades long relationship with the state and a unique mode of operation with debt-driven growth and risky investment habits that culminated in the chain bankruptcies and collapse of the South Korean economy in the 1997 Financial Crisis (Sakong & Koh 2010). With pressure from the IMF to receive a bailout plan, Kim Dae Jung government managed to introduce “5 + 3 principles” that aimed at restructuring corporate governance and improving competitive standards of the markets (Sakong & Koh 2010). These regulatory principles were the first robust measures that aimed at addressing the negative consequences of the chaebol business practices (Cho 1994). In a way, the economic devastation following the 1997 Crisis allowed for a window of opportunity for the government to implement drastic measures to regulate *chaebol* groups (Kalinowski 2009).

However, these measures that were implemented in the early 2000s were not successful in fully addressing the problematic practices and the dominant status of the chaebol groups within the economy (Kalinowski 2009). New corporate structures evolved to bypass regulations, and chaebol groups quickly adapted to the new game plan of the South Korean economy (Kalinowski 2009). They retained and expanded their power that mostly benefited the owner family through complex networks of circular shareholding structures (Park, Seo & Shin 2015). As South Korea became no stranger to continuous cases of corruption and abuse of power scandals, chaebol reform became a policy issue that sparked heated and polarized debates across the political spectrum.

In that sense, chaebol reform or corporate restructuring is a frequent campaign pledge for the South Korean politicians in every election process. However, it has remained as an unresolved policy issue for almost two decades since the first introduction of corporate regulations. In the fallout of the 2016 scandal, the Democratic Party candidate Moon Jae In won the elections with strong campaign pledges to accomplish the chaebol reform. Yet his campaign pledges targeting the chaebol groups received both support and criticism from different actors of the country. Starting 2018, Moon Jae In administration took more concrete steps to engage with the issue of chaebol reform involving the Korea Fair Trade Commission (KFTC) and the National Pension Service (NPS) (Korea Times 2019). Following these recent changes, this study will attempt to look at the politics behind the current discussions regarding the possible implementation of “chaebol reform”. The analysis will try to investigate the factors that are behind the push for implementing chaebol reforms as well as the barriers that are against it. The research question and the sub-questions that specify the scope and primary motivation of this research is as follows:

“Why has it been difficult to achieve chaebol reform in South Korea?”

- “What are the factors behind the politics of introducing corporate reforms under Moon Jae In administration?”
- “To what extent are the recent policy steps effective in regulating chaebol business practices?”

1.1 Significance and Academic Contribution:

Chaebol reform is one of the main divisive policy issues in the South Korean political landscape. Yet, despite significant public pressure and campaign pledges from numerous administrations to address it, there hasn’t been effective measures that managed to regulate criminal and controversial actions of the chaebol groups (Kalinowski 2009). This begs the question of why it has been difficult to achieve these reforms despite established popular support within the public.

In that sense, the issue of chaebol reform has been extensively discussed and researched within the academic literature, especially on the reforms implemented in the aftermath of 1997 Financial Crisis by Kim Dae Jung administration (Sakong and Koh 2010, Pirie 2012, Kim 2002). More recent studies have engaged with the study of corporate regulations and state-business relations under Lee Myung Bak Presidency with Kalinowski describing the

period as the return of the “chaebol republic” which refers to the relaxed regulations and revival of the dominance of large enterprises over political and economic landscape (Kalinowski 2009). In that sense, despite provoking heated debates within the public space, the recent actions to implement chaebol reforms by the Moon administration has not been studied as of yet. This thesis will aim to address this gap and analyze the trajectory of the recent changes in the pursuit of achieving chaebol reform, while examining the push and pull factors imposed by different interest groups.

1.2 Demarcation:

The main purpose of this study is the analysis of the factors behind the recent steps to achieve chaebol reform in South Korea. It is not a study of the specific mechanisms involved in the formation or construction of narratives by different interest groups involved in the process¹. It is rather a study that tries to identify existing narratives to understand the different dynamics involved in obtaining corporate reforms to curb and regulate chaebol behavior. The study will also look at the effectiveness of the policies aimed at achieving the chaebol reform. The effectiveness refers to an assessment of the long term prospect of retaining the intended effects of the new policy implementations in the political and economic landscape. This study recognizes that the assessment of success and effectiveness requires a longer observation on the result of the policies implemented by the Moon administration. However, considering the institutional framework of the South Korean political and legislative processes, implementing reforms that reach beyond the tenure of a Presidential term has been a difficult process (Dostal 2017, Bae 2017). These dynamics are best explained by the concepts of imperial and fragile presidency (Bae & Park 2018). These concepts will be further examined with their implications for this study in the chapter on theoretical framework.

1.3 Disposition:

This thesis will be organized in six main chapters. The first chapter is the Introduction (1) where the motivation and purposes of this study on the issue of chaebol reform is briefly presented. The second chapter is the Literature Review and Background (2) which will provide further insight into the historical process of the development of chaebol groups and the larger literature on the state – business relations that is followed by a more in depth study on the literature on chaebol reforms. The following chapter is the discussion of Theoretical

¹ A more comprehensive discussion on this point will be made in the Reserach Design section.

Framework (3) of this research project where further explanations of the analytical perspective of this study will be presented. The fourth chapter is the Methods (4) chapter where the research design will be explained in more detail. Limitations and demarcation of the study will be once again discussed in this chapter. This will be followed by the fifth section on the presentation of Findings and Analysis (5). This section will be divided in two main parts. The first part will present the findings on the comparative analysis of the Korea Fair Trade Commission policies under Park Geun Hye and Moon Jae In administrations. The second part will focus on the case study of Hanjin Group – NPS interaction on the issue of stewardship code application. These two parts will be followed by a discussion section that combines the findings with respect to the concept of imperial and fragile presidency. The final and sixth chapter will be the Conclusion (6) that will elaborate and sum up the findings of the data analysis followed by concluding remarks.

2. LITERATURE REVIEW AND BACKGROUND:

There are different approaches and fields of analysis regarding chaebols and corporate reform strategies in South Korea. Some studies focus on management style and efficiency of the chaebol model while others work on historical processes of how chaebol groups developed through the second half of the 20th century (Kim, Lim & Sung 2007, Kim 2010, Cho 1994). In the studies with a historical perspective, chaebol – state relations and the evolution of chaebol business practices are usually explored with references to the developmental state project (Cho 1994, Kim 2010).

A more specific literature on chaebol reforms can be found in the studies focusing on chaebol – state relations (Pirie 2012, Kalinowski 2009, Uttam 2014). These studies focus on the aftermath of the 1997 Financial Crisis and the early attempts at introducing chaebol reforms. The next sections will try to draw a picture on this process by presenting the unique characteristics of chaebol management style, the historical evolution of its relationship with the state and the different perspectives on the past attempts at achieving chaebol reforms.

2.1 An Overview on Chaebols:

Korean chaebols are large business groups that resemble Western conglomerates with multiple affiliates that operate in a diverse profile of industries (Kim 2010). However, unlike their Western counterparts, chaebol groups have circular and cross shareholding mechanisms to ensure control over both management and ownership of the business group (Kim, Lim &

Sung 2007). Circular shareholding mechanisms involve a chain of investments through stock ownership by at least three entities that invest in each other forming a closed loop (Park, Seo & Shin 2015). This condenses “voting rights in a controlling shareholder without any new inflow of capital” (Park, Seo & Shin 2015, p. 1455). This means that in chaebol groups, owner families have very little shares while influencing management decisions in multiple companies (Kim, Lim & Sung 2007). Therefore, top down hierarchy is usually enforced through informal means rather than direct legal control over decision – making processes (Kim 2010). For this reason, chaebol groups are banned from making new circular shareholding plans (Kim 2010). They are also encouraged by KFTC to dissolve their remaining circular equity investments (Park, Seo & Shin 2015). The development of this unique management style within the history of South Korean industrialization process will be discussed in the next section.

2.2 Historical Perspectives and Chaebol - State Relations

One of the main areas of literature involves the historical analysis of chaebols based on their corporate structure within the cultural and political context of the Korean economic development (Chang 1988, Cho 1994, Kim 2010). These works not only focus on the history of the development of chaebol groups but also the main characteristics, business strategies and the nature of state – business relations with respect to the changing economic priorities of the political regimes. Cho Soon in particular, draws a detailed picture on the economic policies and industrial plans implemented by the Park Chung Hee and Chun Doo Hwan regimes with a special emphasis on macroeconomic indicators (Cho 1994).

Under the authoritarian regime of Park Chung Hee, 1960s marks the beginning of the developmental state project of South Korea (Cho 1994). Pursuing export oriented industrialization, the state heavily interferes with private businesses to achieve ambitious growth targets (Cho 1994). The financial capital is managed in a similar manner where the state takes on the role of saving firms from bankruptcies and giving preferential treatment to companies with a larger scale to prevent massive layoffs (Cho 1994). In the 1970s, establishing heavy and chemical industries (HCI) follows the same pattern of top – down enforcement (Cho 1994). All resources of the economy is dedicated to achieving the growth targets as the combination of the two supply shocks and emerging structural problems undermine this process (Cho 1994). As a result of these challenges, state management of the industrial and financial capital reaches its top level (Kalinowski 2009). “General Trading

Companies” are established by selecting specific businesses to invest in designated areas of HCI ventures (Kim 2010). The selected companies were the same group of businesses that received preferential treatment in the management of the financial capital by the state. They later became the largest chaebol groups within the country. The businesses with larger economies of scale benefited more from the investment opportunities as the industrial balance skewed in favor of larger companies (Cho 1994).

1980s is marked with multiple changes in the political landscape with the establishment of a new military regime and the 1987 revolution that led to the democratic transition of South Korea. During this decade, the strong state control over businesses are replaced by a focus on addressing the structural problems inherited from the previous two decades. Yet, throughout the 1980s chaebol business groups work on increasing their presence within different industries, trying to monopolize scarce resources within their own groups and pursuing higher cost efficiency through economies of scale (Kim 2010). Fund raising through intra – affiliate investments and intensification of circular shareholding mechanisms become a by – product of these processes (Kim 2010). Moreover, within the context of international trend in deregulation, in the late 1980s and 1990s, top – down management of industrial capital transforms into formation of clientelist networks (Pirie 2012). Throughout this period, debt – driven growth, risky investment behavior and complicated networks of corporate structures of the chaebol groups are not properly addressed (Cho 1994). This culminated in the chain bankruptcies of 1997 with severe devastation to industries (Sakong and Koh 2010).

Within an economic environment that favored larger scale, diversification and dependency on state connections, chaebol groups developed a management style that matched this structure. On that vein, Cho argues that the condensed industrialization process of the country in terms of time, capital and power distribution led to the development of chaebol structures based on condensed ownership models and investment behavior (Cho 1994). With 1997 Financial Crisis, the chaebol business practices were put under scrutiny. This led to the first steps at introducing corporate reforms which will be explained with more detail in the next section.

2.3 Past Attempts at Achieving Chaebol Reforms

1997 is a turning point for the Korean economy as it is considered the trigger for substantial corporate reforms imposed on the South Korean business groups (Sakong and Koh 2010). There is a large literature that analyzes the causes, impact and the aftermath of the 1997 Financial Crisis with references to chaebol reforms (Sakong and Koh 2010, Lee et. al. 2002, Kim 2002, Choi and Patterson 2007, Sung and Kim 2017, Pirie 2012, Kim 2017). Some studies focus on the corporate structures that caused and intensified the 1997 Crisis (Lee et. al. 2002, Kim 2017) while some others focus on the aftermath of the crisis where the rules imposed by the government created new patterns of corporate behavior (Sung and Kim 2017, Kim 2002). These reforms were called the “5+3 principles” where the government declared a set of principles that targeted better allocation of resources as well as use of financial instruments. They were implemented by Kim Dae Jung administration with the purpose of introducing “market discipline” and addressing the problem of debt – driven growth in unsound firms (Sakong and Koh 2010). It is also important to note the IMF pressures in the process where bailout packages were given with conditions to restructure the economy (Pirie 2012).

Some studies make an impact assessment on these reforms implemented by the Kim Dae Jung government (Choi and Patterson 2007, Kim 2002). Choi and Patterson make an analysis on the ownership concentration of the chaebol groups and how much it shifted since the implementation of the new regulations in 1998. They conclude that the reforms were not fully effective in preventing aggregate concentration of ownership and in particular “one-man” management in Korean chaebols. Kim focuses on the productive efficiency of the chaebol groups with respect to the Korean economy’s performance. He points towards the costs of concentrated industrial structures on the Korean economy while recognizing there will be negative implications when firms try to adjust to the new rules in the economy. However he stresses the need for change towards more transparent, accountable and financially sound corporate behavior.

On the other hand, some studies focus on the aftermath of 1997 with a particular focus on the corporate reforms and possible shifts in the nature of state-business relations (Pirie 2012, Kalinowski 2009, Uttam 2014, Jäger and Kim 2019). These studies have a political economy approach where the corporate reforms are mostly analyzed in terms of the “politics behind corporate reforms”. These works do not necessarily focus on the post-1997 period as

they have a comparative dimension. Kalinowski looks at the dynamics of state-business relations in the period between 1980 and 2008 where the corporate reforms are assessed in terms of how much they have changed chaebol business practices and their close relations with the government officials. He argues that the period between 1982 and 1997 is best explained with the term “chaebol republic” where the state policies are heavily influenced by their close relations with the business groups (Kalinowski 2010).

The clientelist networks of relations between state and businesses have allowed for chaebol groups to maximize their own benefits within the industries (Kim 2010). They created vulnerabilities for the Korean economic system especially with their risky investment behavior and alarming debt/equity ratios (Sakong and Koh 2010). 1997 Crisis comes as a huge shock to the economy where the large chaebol groups also find themselves suffering from chain bankruptcies. However, the corporate reforms are not successful in creating durable solutions to regulate chaebol behavior as Kalinowski argues that the businesses find new ways to circumvent these measures (Kalinowski 2010). Therefore, with the election of Lee Myung Bak, former Hyundai Motors CEO, as the president in 2008, he argues that “chaebol republic” makes a return (Kalinowski 2010).

Pirie and Uttam also make similar analysis, while acknowledging the agency of the state and new administrations in the ways in which they engage with the chaebol groups (Pirie 2012, Uttam 2014). On the other hand, Jager and Kim use an event study method to see the nature of state-business relations based on the businesses’ expectations of profit from the election of particular actors. They argue that according to their empirical study, the connections of the business groups to the government do not bring benefits to the businesses (Jager and Kim 2019). Among these works, most of the emphasis is on the nature and direction of hierarchy in the state-business relations rather than the effectiveness of the corporate reforms.

2.4 Research Positioning

The main focus of this study is on the recent attempts made by the Moon Jae In administration to achieve chaebol reforms. So far, there hasn’t been any research conducted on these actions of the current government. Therefore this work addresses a clear gap in the literature on chaebol reforms. Moreover, the existing literature has an extensive focus on the nature of the state – business relations (Cho 1994, Uttam 2014, Pirie 2012, Kalinowski 2009). Although this thesis uses an institutional level of analysis to understand the dynamics of pressure on the

chaebol reforms, it will propose to use the concepts of imperial and fragile presidency to assess the government choices in implementing these reforms (Amenta & Ramsey 2010, Bae & Park 2018). Through these concepts, the discussion of institutional restraints on chaebol reform processes will be moved from a power hierarchy discussion to an analysis of the overall architecture of policy making processes based on the South Korean Presidential system. This theoretical framework and its implications for this study will be further discussed in the next chapter.

3. THEORETICAL APPROACH:

This study will draw on the institutionalist approaches to understand the dynamics of the policy decision made by the Moon administration through analyzing the implications of the pressure factors that impact the process of chaebol reform. Referring to the literature review that presented the unique development of chaebol – state relations that allowed for the evolution of problematic chaebol practices, it is important to look at the chaebol reform process from an institutional perspective. Amenta and Ramsey argue that a political intuitionist approach assumes that institutional frameworks act as a factor that imposes constraints on political choices or decisions (Amenta & Ramsey 2010). They also note that it involves analyzing “issues identified at a higher level on the outcomes at a lower level of analysis” (Amenta & Ramsey 2010). Using this perspective can help identify the difficulties in the implementation of effective chaebol reforms in South Korea especially concerning the empirical materials that will be used in this study.

However, using an approach that emphasizes structure over agency does not necessarily undermine the impact of agency decisions in an analysis. This study recognizes the impact of agency decisions on the formation of specific forms of institutional factors (Lowdnes, Vivien, Roberts, Mark 2013). Building on this premise, it is argued that specific choices on the agency level have allowed for the creation of particular institutional arrangements, which then act as a constraining agent on the spectrum of the policy decisions. In that sense, the concept of imperial presidency is particularly relevant to this discussion. It is a concept that draws on both the structural and agency level factors that affect decision – making processes specifically observed in South Korea.

3.1 Imperial Presidency vs. Fragile Presidency

The imperial presidency concept is a reference to the strong executive power enjoyed by the Presidential Office of South Korea that has very little restraints and checks on its use of policy making processes. Therefore, when a candidate wins the elections, they are allowed to make significant changes in the policy directions. Dostal refers to this process as winner – takes – all politics (Dostal 2017). With high levels of approval ratings in the initial period of their term, South Korean Presidents go through a honeymoon period where they start pushing for changes without seeking consensus from the opposition groups (Bae & Park 2018). This becomes a problem when figures that advocate for more accountability, become the main actors or alleged perpetrators of corruption themselves as in the case with President Kim Dae Jung (Bae & Park 2018). This feature is mostly associated with the term fragile presidency where incumbent Presidents lose support within the public to complete their policy aspiration or pledges within their tenure after a series of corruption scandals (Bae & Park 2018). Bae and Park argue that South Korean Presidential system rather looks like a Janus face containing both the imperial presidency side and the fragile presidency side (Bae & Park 2018). Therefore they advocate using both concepts to explain the different dimensions of retaining or using political power at its highest level in the country (Bae & Park 2018).

This study draws on Bae and Park's description of the Presidential system as Janus face of imperial and fragile presidency where winner – takes – all politics cause a whiplash of drastic policy changes from one political administration to the other (Bae & Park 2018, Dostal 2017). The large scope of executive power does not extend to making changes permanent or long lasting enough to outlive the end of the administrative term. The prospect of using constitutional reforms as a way to address this problem have not been successful and so far the 1987 Constitution has remained untouched ever since the democratic transition period (Bae 2017). One of the biggest limitations of the Presidential power is on pushing for constitutional reforms (Bae 2017). Without sufficient parliamentary support, making legislative changes is hard within the South Korean polity where strong regionalism does not easily allow for incumbent Presidents to secure the support of a majority to get legislative or constitutional changes approved (Park 2003). In that sense, policy implementations usually follow the track of being processed within the executive branch. This particular form of institutional arrangement and the limited choices it provides to the political administration is at the focus of the analysis on the recent chaebol reforms in this thesis.

4. METHODOLOGICAL APPROACH:

4.1 Research Design and Empirical Materials:

The study will focus on two issues to address the research question. The first part of the analysis will be based on the actions of Korea Fair Trade Commission that is tasked with regulating business conduct. In 2017, Kim Sang Jo, a previous university professor known with his reformist and critical perspectives on chaebol groups was appointed as the head of this institution (Yonhap 2017). He was later appointed as “chief policy secretary” in the advisory board of President Moon in 2019 (Yonhap 2019a). His successor as the new head of KFTC also had a reputation of having critical views on the negative effects of chaebol groups in the Korean economy (Lee 2019a). Joh Sung Wook is also a former university professor and both of these figures are referred to as “chaebol sniper” by various news outlets (Yonhap 2017). Therefore the appointment of these figures as the head of this institution is very much connected to the political discussions surrounding the application of the “chaebol reform”, or at the very least, particular steps that demonstrate the engagement level of the current administration with the issue of implementing “chaebol reforms”.

In that sense, Korea Fair Trade Commission (KFTC) will be the main subject of research in this first step. This part of the empirical analysis will have a comparative research design (Bryman 2016). The actions of the KFTC under President Park and President Moon will be compared and contrasted based on their differences, similarities and possible continuities. A comparative design is more suitable to understand whether Moon administration was able to take steps towards addressing the “chaebol reform” issue as this can highlight what differentiates the two administrations from each other (Bryman 2016). Highlighting the differences is crucial to understand if substantive steps were taken to address the unfair advantages of chaebol business practices as well as the commitment level of the current administration to the issue.

There are annual reports published by the KFTC in English where the institutional policies and actions are presented as well as the policy objectives, actions and future plans. These reports will be the main empirical materials for this comparative analysis. They initially seem very detailed and comprehensive in terms of the recording and presentation of policy issues, however they leave a lot of information out about procedures and the legislative framework they operate on. Also the annual reports published each year actually refers to the

activities done in the previous year. This means that the 2013 annual report actually involves the summary of the department actions in 2012 and in a limited fashion 2013.

Following this, the approach to maintaining competitive standards, the revisions to the regulations as well as the approach towards the case studies that outline the KFTC procedure on the application of their regulations will form the main basis of comparison. Also, the press releases will be examined to piece together information that can't be found within the annual reports.

In the next part of the analysis, the main empirical material will be based on the news reporting on the introduction of “stewardship code” to the National Pension Service (NPS). The implementation of this code allows for NPS to be more active as a shareholder in the companies that it invests in; if the company management makes decisions that are not in line with protecting the interest of the stakeholders (Yonhap 2018). Due to the unique concentrated ownership structure of chaebol groups, corporate decisions are not always based on the interests of the shareholders as a whole but rather the interests of the owner family (Kim 2010). Therefore the decision to introduce more active role to other shareholders, in this case NPS, is an issue directly related to the agenda of chaebol reforms and corporate restructuring. Although the government has not actually made legislative decisions to strengthen the rights of minority shareholders, under the lead of Ministry of Health and Welfare, NPS investment code was revised which gave the Moon administration a setting to regulate chaebol corporate governance. The main case study of this part will involve the Hanjin Group and NPS standoff in Korean Air management. The empirical materials will be the news coverage and op-eds in the English websites of the Korean news outlets. Narrative analysis will be used to analyze these empirical materials.

This case has been the only instance NPS used its shareholders right actively after the introduction of the stewardship code. Therefore it is the only available issue with respect to corporate reforms which makes it necessary for this research. A retrospective study was conducted in five different Korean newspapers that published content in English in the time frame between May 2017 and December 2019 to determine the use of the stewardship code by the NPS. As mentioned before the Hanjin Group – NPS dispute was the only case where stewardship code was actively used. There were speculations of it being used in other cases, where the second most widely discussed case was Elliott Co – Hyundai Motor Group standoff. NPS was presented as a key figure in the development of the conflict between the

two companies. Despite provoking heated debates on the issue of chaebol reform, this case will not be included in the study since NPS did not use its stewardship code in this conflict.

4.2 Narrative Analysis:

Narrative analysis can be described as the analysis of data based on how people, groups or actors “make sense of” a particular issue (Bryman 2016, p. 582). It looks at how events are received as well as expressed by individuals or the relevant actors underlining the differences in perceptions (Bryman 2016). This approach to analyze the news articles as well as the op-eds that refer to these cases is necessary to show how different groups perceive the issue of chaebol reform differently. This can effectively reveal the tensions between interest groups regarding the implementation of the corporate governance reforms.

However, it is very crucial to note that the narrative analysis used in this study does not serve the function of making an analysis on the formation of narratives or its reception by social actors. It is only used as a methodological approach to identify common themes and repetitive arguments from the different interest groups within the discussion of chaebol reforms. As this study relies on English sources, it is impossible to piece together a healthy picture on the chaebol reform without resorting to indirect approaches where the English newspapers are examined to create a wider picture to identify the main interest groups involved in the process. To eliminate the “media bias” five different news outlets were selected to identify the main interest groups and their arguments. These news outlets are Korea Herald, Korea Times, Yonhap News Agency, Korea Joongang Daily and finally the Chosun Ilbo.

4.3 Limitations:

One of the main challenges for this study is the time frame of the issue. Moon Jae In government will be in power until 2022 and there is still time for the administration to implement corporate reforms. There are ongoing developments related to the reform issue which makes the situation slightly volatile. Therefore looking at KFTC actions and analyzing the discussions and cases about strengthening shareholders rights may not be the most significant or relevant cases to analyze if more drastic steps are taken by the government.

Another issue to consider is that selection of the empirical materials limits the spectrum of actors that can be analyzed regarding the discussions surrounding corporate reforms. This is because the primary sources that are directly engaged with is the news outlets

and KFTC reports published for a foreign audience. In that sense, the ideological filter of the news outlets acts not only as a setting for the research but also as a limiter for the level of inferences that can be made. Although the starting point of this paper recognizes the narrative differences in the news outlets and uses it as the main analysis framework, this can also become a double edged sword where all the information regarding the cases comes from the narrative of the news outlets rather than the direct engagement with the actors such as the politicians and labour unions. Moreover, the media can be also seen as an actor that is part of the interest groups. In that sense, having a focus on this type of material may inevitably distort the engagement of this study with the other actors involved in the discussions.

Lastly, the biggest issue regarding the limitations of this research is the language barrier, which also impacts the second limitation that was explained above. This will be further discussed in the next section as it is highly relevant to the reflexivity of the research.

4.4 Reflexivity and Ethical Considerations:

Due to the language barrier regarding the access to Korean resources, the research is being conducted on available English content on media outlets and government documents. However, news related to the specific mechanisms and detailed accounts or analysis of chaebol groups are mostly found in Korean resources. The English websites of Korean news outlets are also limited in terms of the transfer of daily content to an English audience. This barrier clearly puts limitations on the type of research and methods that can be used on the chosen research topic. This not only puts conditions on the type of resources that can be accessed but also the process of research as well. So far, any search conducted on the available materials ended up with a particular approach where the full picture about a case or event relevant to the chaebol reform discussion can only be put together piece by piece. This means that, an inductive approach is used to retrospectively piece together information to understand cases or events that seem relevant to the issue (Bryman 2016). The style and method of approaching the subject has a profound effect on the way it is being analyzed as another researcher may have come up with a different picture if they worked on a similar subject with similar resource limitations. Therefore, simply from the existence of a language barrier, several filters are automatically added to the study.

On the other hand, since this study is not based on interviews, ethical issues regarding harm to individuals or infringements on data privacy is not an issue relevant to this study (Bryman 2016). Yet, the discussion on reflexivity is closely associated with ethical

considerations. In that sense, this section is highly critical for the explanation of certain choices that were made by the researcher as well as the recognition that those choices have an impact on the direction of the analysis itself.

5. FINDINGS AND ANALYSIS:

There are two parts of analysis in this study. As discussed in the methods chapter, these two parts are necessary to complete the full picture on the recent attempts made by the Moon administration to implement chaebol reforms. The first part deals with the KFTC on its actions, policies and organization under different political administrations between 2013 and 2020. It is aimed to be a comparative study of the direction of policies under Park Geun Hye and Moon Jae In administrations. The second part deals with the adoption of a stewardship code by the NPS. It will be analyzed through a case study on the Hanjin Group and NPS dispute. Together these two parts will help identify the focal points that put pressure on the process of implementing chaebol reforms. In the last stage, imperial and fragile presidency concepts will be used to analyze the implications of the policy choices made by the incumbent administration to achieve chaebol reforms. Next section will start with a brief introduction to the foundations and function of KFTC in the Korean context.

5.1 Comparative Study of KFTC Policies Under Park Geun Hye and Moon Jae In Administrations

Korea Fair Trade Commission was founded in 1981 as a regulatory body to address rising concerns over market structure of Korean industries and risky business practices (Cho 1994). It was aimed at improving the performance of these businesses by implementing regulations to boost the competitive standards. However, until after the 1997 Crisis, these policies were limited in its scope and did not target ownership structures and cross-debt guarantees within large business groups that enabled the inefficient and risky business practices (Cho 1994).

The commissioner of the institution is appointed by the elected president and the policy direction of the institution is influenced by the political priorities and narratives of the administration in power (Bae & Park 2018). In that sense, KFTC is not only a regulatory institution but also a highly politicized institution where political direction of the administration has a direct effect on the policy priorities and organization of the institution. Therefore, looking at the annual reports published by the KFTC and supported with the news coverage on its actions can reveal the policy targets and actions of the governments in power as well as the different sides and stakeholders that are involved in the application/obstruction

of such policies. Following this, in the next section, the impact of the political administrations of Park Geun Hye and Moon Jae In will be discussed with further details and compared with each other.

5.1.1 Park Geun Hye Presidency (2013 - 2016)

Former President Park Geun Hye declared her first KFTC commissioner nominee on 14th of March as Han Man Soo, a law faculty professor from Ewha University (Lee 2013). However within two weeks he retracted his nomination after allegations of tax evasion were directed at him (Yonhap 2013a). After this scandal, Park nominated Noh Dae-lae, chief of Defense Acquisition Program Administration as head of KFTC and his nomination was received with questions about his experience in dealing with issues on competition and market regulation (Yonhap 2013c). Tax evasion allegations were also brought up against Noh and he was questioned over them during his confirmation hearing (Yonhap 2013c). Yet he was approved by the parliament and took office in April 19. After a rough start with the appointment process, the management of the KFTC under Park administration was marked with controversies from the very beginning.

The KFTC reports under this administration usually include “economic democratization” as a key policy target (KFTC 2014, 2015, 2016). This is parallel with the administration’s main policy narratives on economic affairs (Yonhap 2013b). It refers to the policy objective to curb unfair business practices against small and medium sized companies (SME) by chaebol groups (Yonhap 2013b). In the 2014 report this is presented as “Promoting shared Growth Culture Between SMEs and Large Conglomerates” (KFTC 2014). The same section is titled “Creation of Fair Trade Ecosystem between Conglomerates and SMEs” in 2015 with sub sections referring to “improvement of unfair transactions in subcontracting”, addressing the “imbalance between large distributes and suppliers” and promoting “fair transaction in franchise businesses” (KFTC 2015).

The change in the description of the relationship between SMEs and large enterprises from promoting mutual growth to stressing the unfair terms of engagement is an important indicator of the increasing government focus on the structural imbalance within industries. New amendments are made to the Monopoly Regulation and the Fair Trade Act regarding the enforcement of SME and large business relations (KFTC 2015). This pattern is also followed in the 2016 report (KFTC 2016). Then, it can be said that the reports between 2014 and 2016

show increasing trend in regulatory measures to identify the unfair practices in transaction, franchise and subcontracting sectors by large enterprises.

The second feature of the KFTC reports during this period is the emphasis on the functional importance of the measures taken on “fields closely related to ordinary people’s lives” (KFTC 2014, p. 10, 11, 20, 34). It is a phrase used extensively in the 2014, 2015 and 2016 reports (KFTC 2014, 2015, 2016). Most regulatory measures taken by the KFTC is justified using this phrase (KFTC 2015). There is also a trend in paying closer attention to consumer rights legislation through this period (KFTC 2014, 2015). In that sense this phrasing also contributes to the economic democratization narrative through framing the KFTC actions on their function to serve public interest.

With the appointment of Jeong Jae Chan as the new Chairman in 2014, the agency starts making moves to expand its litigation capacities (KFTC 2015, 2016). He was already within the ranks of the KFTC when he was chosen as the new head of the institution after working closely on price rigging cases (Yonhap 2014). In the reports published under his tenure increased attention and space is given to the section covering review of competition hindering legislations (KFTC 2015). The reports start including a more detailed analysis on how much the KFTC recommendations are represented in the final legislation processes and ways to improve the success rates (KFTC 2016). This process also parallels the establishment of new enforcement mechanisms on the SME – chaebol transactions (KFTC 2015). Starting this year there is also a trend in expanding the litigation capacity and investigative quality of the commission as there were many cases lost in the court after appeals process against the KFTC decisions (KFTC 2015). More transparency is also observed with the disclosure of budgetary information and personnel organization (KFTC 2015, 2016).

Moreover, the ownership structures of chaebols are given a special attention starting with 2014. The ideal models versus ownership systems based on circular equity investments are contrasted with each other with detailed graphics and investment practices (KFTC 2015, KFTC 2016). Circular shareholding systems are explained through a critical approach on the unfair advantages they create on the owner families (KFTC 2015). In that sense, the tone of the reports regarding chaebol corporate structures is very serious and elaborate. Also for the first time inheritance processes in chaebol groups are mentioned. More tables are used to describe how second or third generation “owners” inherit a complicated web of shares that give them exponential advantage in controlling the affiliate groups and in the decision making

processes (KFTC 2015, 2016). They also give a detailed break-down on the governance structure of the companies based on the composition of boardroom directors (KFTC 2015, 2016). The involvement with the inheritance issues can be linked to the rising trend of chaebol groups receiving new generation of family heads such as the case of Samsung Group (Yonhap 2019a). However, from a retrospective perspective it can also be seen as President Park's leverage against chaebol groups to compel them into making certain business transactions, as it was revealed in the corruption case brought up against her (Dostal 2017). It can be seen as the instrumentalization of KFTC policies and the impact of having such a politically influenced institution as a regulatory body.

In the fallout of the Presidential corruption scandal, investigations also were directed at KFTC actions. In 2018 Jeong Jae Chan was implicated in a bribery scandal that involved guaranteed spots in conglomerates from KFTC personnel after retirement (Yonhap 2018). The collusion between KFTC and conglomerates regarding this issue is still under investigation, although Jeong and other KFTC officials are formally indicted (Yonhap 2018).

5.1.2 Moon Jae In Presidency (2017 – 2019 onwards)

With the election of Moon Jae In as the President in 2017, a new narrative was formed on the agenda of economic targets. In that sense, economic democratization is replaced by the term “fair economy” in the Presidential speeches and KFTC reports in 2018 and 2019 (KFTC 2018, 2019). Considering it refers to the same process to address the industrial imbalances between SMEs and large enterprises, this may be interpreted as a way to distance the new government from the narratives of the previous administration marked with corruption scandals.

One of the biggest policy changes during this administration was the appointment of symbolic figures as the chairperson of the KFTC. In 2018, Moon appointed Kim Sang Jo as the KFTC chief who is a former Hansung University professor specializing in competition policies and trade (Yonhap 2017). He was repeatedly reported as the “chaebol sniper” regarding his reformist views on corporate structures and chaebol ownership models (Shin 2018). His appointment received strong objections from the parliament yet the appointment was officially finalized by the Moon administration (Yonhap 2017). In 2019, Kim Sang Jo was replaced by Joh Sung Wook (Lee 2019a). She was also named as “chaebol sniper” by various media outlets regarding her position on corporate reforms (Lee 2019a). In these two cases, the Moon administration used its appointment rights to place two symbolic figures with

a reputation of having critical perspectives on chaebol behavior, as the director of an institution designed to regulate their practices (Bae & Park 2018). Therefore, it can be said that the Moon administration is using the existing policy options provided by Presidential system of South Korea to signal its policy directions.

The opening statements of the new KFTC commissioners refer to growth as an overall economic target (KFTC 2018, 2019). Considering the criticism on growth levels under Moon presidency, this shows that the incumbent government is trying to give the message that growth and tougher stance on chaebol groups are reconcilable positions (Lee 2019b). From the opening remarks the new narrative of the government on economic policy is represented as innovation, growth and fair economy, making up three pillars in the new policy direction (KFTC 2019). Following this emphasis on fair distribution of resources, the SME – chaebol interactions receive more attention in the 2018 and 2019 reports (KFTC 2018, 2019).

One novel feature of the KFTC policies under Moon administration is on the attempts at providing more transparency. Starting with 2018, the names of the officials who drafted the annual report are referenced in the text together with their divisions (KFTC 2018, p.79). With the previous KFTC management under investigation, this new policy can be seen as an attempt to be more accountable within the public space.

Similarly, the term chaebol is used for the first time in the KFTC reports in 2018 (KFTC 2018). In the previous administration, they were usually referred to as “large enterprises” or “large conglomerates” (KFTC 2015, 2014). Moreover, the business practices of the chaebol groups especially with regards to the SMEs are seen as a cause for market failure and a hindrance to innovation and growth in the new KFTC reports (KFTC 2018, 2019). There is a stronger tone in explaining “market dominant positions” of the large conglomerates with respect to their transactions with SMEs (KFTC 2018). The market oriented competition argument for a better economy is also more widely used within the backdrop of these reports. In that sense, market efficiency is correlated with more transparent governance, better distribution of wealth among different businesses and increased innovation parallel to the economic targets set by the government (KFTC 2018).

Compared to the previous administration, there is a stronger trend in correcting SME and chaebol relations regarding the franchise, subcontract and distribution sectors. They specifically use the term “power gap” in describing the structural imbalance as the narrative shifts towards a power discussion (KFTC 2018). In the previous years there is no clear

communication of the power factors. Employing more punitive measure to address this issue, the agency can be seen to be expanding its capacities to create better institutional systems for enforcement (KFTC 2018, 2019). New amendments are made to the law on Subcontracting Act and Franchise Businesses Act parallel to this shift.

With the 2019 annual report, the change in the importance given to the industrial structure and unfair business practices of chaebols reach a new dimension (KFTC 2019). The 2019 report shows signs of reorganization in terms of the changes in the layout and content of the sections (KFTC 2019). Compared to the previous reports that placed the SME – chaebol business transactions in the fifth chapter (KFTC 2015), the 2019 report puts this issue as the second chapter with the title “Fair Transactions between Larger Enterprises and SMEs” (KFTC 2019). This marks a clear break from the previous administration in terms of framing the SME – chaebol relations. Following this pattern, the way SMEs are handled in the 2019 report is more cohesive in terms of issue approach than previous reports. In other words, previous reports dealt with the franchise, monopoly transgressions, subcontracting and distribution issues as a separate chapter with no clear framing of the issue as a larger problem of chaebol and SME power gap (KFTC 2014, 2015, 2016, 2017, 2018). However, in this report, all these issues are framed under the SME – chaebol debate and taken as a larger issue related to the problems with industrial organization, as a “side effect of chaebol business model” (KFTC 2019).

This new layout signals a shift in the priorities of the agency. Also there are increased punitive measures on the SME – LE transactions where the big businesses abuse their market dominant position (KFTC 2019). New task forces are established most of which are collaborative task forces with different ministries. Especially with Ministry of Small and Medium Sized Enterprises and Startups (SSM) new connections are created (KFTC 2019). The increased collaborative and cooperative work with ministries also raise the question of how the political administration is using KFTC activities to institutionalize its influence over the KFTC policy enforcement. In that sense, the Moon administration is once again using the executive power of the Presidency to extend its control over market regulations.

Between 2017 and 2019 there is an increasing trend of giving more detailed focus on business combinations. Circular shareholding and equity investment aside, business mergers become a pressing policy focus in the annual reports (KFTC 2018, 2019). One striking aspect about the description of large business groups and their ownership/equity investment

structures is that there is not much detail compared to the reports drafted under Park Geun Hye administration. Comparatively, in the 2014, 2015 and 2016 reports, ownership models and equity investments are very much explained in detail with charts and graphs (KFTC 2014, 2015, 2016). But in the more recent reports, these details are missing and instead there is more clear communication of what the agency considers as a violation (KFTC 2019).

Yet the narrative on the large business groups show a significant change between the reports under two administrations. Under Park Geun Hye administration the reports refer to the problems with concentrated family ownership and cross shareholding as issues that have detrimental side effects on the economy:

“The large business groups in Korea carried out the role of a locomotive for the nation’s economic development by producing the world’s first-class companies [...] However, in the course of forming business groups, a gap between ownership and control appeared [...] and after forming a business group, various side effects appeared such as the family of the group owner taking unfair rewards” (KFTC 2014)

In the 2018 annual report the narrative directly puts the emergence of large enterprise groups as the main setting of the creation of side effects:

“However, during the formation of large enterprise groups, there have been many side effects: 1) the owners of large enterprise groups use mutual investment among their affiliates as a leverage to control the entire enterprise groups although the owners only have a small percentage of shares of the affiliates... 2) in this process, the owners’ families obtained unjust gains by forcing exclusive intra-group deals ... monopolized or oligopolized the market, infringing rights and interests of the economically disadvantaged people”. (KFTC 2018)

In that sense, these narratives in the recent KFTC reports match the symbolic power of the KFTC directors. Rather than a concrete policy approach through the use of more drastic legislations to control chaebol behavior, these signals are communicated by the incumbent administration to larger economic audiences.

In contrast with the more indirect signals of the Moon administration towards corporate circles, the 2019 report outlines the adoption of a stewardship code by the NPS as a result of the government initiatives (KFTC 2019). The adoption of a stewardship code by the National Pension Service is mentioned in the beginning of the report with references to improving the financial supervision and efficiency of management in state institutions (KFTC

2019). Then in the large enterprises section there is a new sub section for the first time on the minority shareholders and their status in the corporate governance (KFTC 2019). This is very much parallel to the government's efforts to promote stewardship code and put pressure on the governance structure of chaebols through strengthening minority shareholder rights. In that sense, this development is one of the most concrete steps Moon Jae In administration took to engage with the chaebol reform process. The implications and the debates surrounding the stewardship code will be examined with more detail in the next section through a case study on the first use of the stewardship code by the NPS in Hanjin Group dispute. Yet, even this policy framework is a result of the unique choices available to the executive branch of South Korea. Adoption of the stewardship code by the NPS can therefore be understood as an extension of the Moon administration's use of the power of the Presidential office to exert indirect forms of pressure and influence over the market structure.

To sum up this section, it is important to indicate that KFTC is a political institution that is highly dependent on the policy frameworks of the incumbent administrations. Its political links became more pronounced under Moon Jae In administration as the creation of joint task forces institutionalized the political links between the government and the KFTC. This makes it easier to see the policy objectives and choices of the incumbent administration: using symbolic appointments, symbolic narratives and establishment of indirect means to regulate business practices.

Compared to the previous terms, there were changes in the narrative on the annual reports on chaebol power and its place within the economy. However, most of the concrete policies on the SME – chaebol relations were built on the footsteps of the previous government. 2019 marks a clear break from this pattern as Moon administration created an entire new framework on approaching the issue of industrial imbalance, especially through the use of joint task forces with the relevant ministries. The adoption of the stewardship code by the NPS also follows a similar pattern of policy choices to create indirect networks of regulations through political influence. Therefore, the inclusion of the stewardship code application in the 2019 report becomes very crucial as it represents the most concrete break from the chaebol policies of the previous administration. The next section will dedicate more attention to the adoption of the stewardship code by the NPS through the case study of the NPS – Hanjin Group dispute.

5.2 Case Study of NPS - Hanjin Group Dispute

5.2.1 Case Description:

National Pension Service (NPS) used its shareholders rights for the first time to intervene in the management decisions of Hanjin Kal – Korean Airlines Co. after a series of scandals involving the Cho family members that control the Hanjin Group (Yonhap 2019b). Hanjin Group is a family owned business group with a typical concentrated ownership model where vertical decision making and control over group affiliates are managed through cross shareholding structures. Cho family has been involved in multiple public scandals starting with the 2014 nut-rage incident where the eldest daughter of the family caused a scene in a Korean Air flight boarding off from New York when an air hostess served macadamia nuts in a packaged bag rather than a plate in the first class (Yonhap 2019c).

More recently, the Hanjin Group chairman himself has been implicated in embezzlement, smuggling and tax evasion allegations and his youngest daughter has been accused of throwing water at an advertisement agency personnel in a business meeting (Yonhap 2019c). On top of that, his wife was also under investigation for assaulting and abusing staff in the construction site of the Group's hotel project next to the Incheon Airport (Yonhap 2019d). These issues have created an outrage towards the family and its ownership over the Hanjin Group that controls the national flagship carrier Korean Airlines.

In the aftermath of these scandals, NPS declared its decision to use its shareholders rights in Hanjin Kal, the holding company of Korean Air Co. with the claim that the implicated family members and their questionable behavior damaged the brand value of the company and that the pension fund needed to protect its investments, invoking the guidelines that were adopted as a result of the stewardship code (Yonhap 2019c). NPS publicly announced their decision to not support the reappointment of Cho Yang-ho as the board director in the upcoming shareholders meeting (Nam 2019). Several local equity funds and minority shareholders were also not in support of his reappointment. Therefore, in late March 2019, Cho Yang Ho was not re-elected as the board director in Hanjin Kal and shortly after the decision he passed away while receiving treatment for an existing health problem (Kim 2019). These events created heated debates about the implications of the NPS stewardship code.

5.2.2 Narratives in the Newspapers:

Yonhap

Yonhap coverage on the NPS – Hanjin Group stewardship code mostly refers to the timeline of the events, statements from the involved parties, very brief summary of the alleged illegal actions of the Cho family and the background of the stewardship code application by the NPS. The latter usually emerges in the narratives of the statements by the involved parties and as a summary of the government recommendation on the adoption of the stewardship code. The parties that are in the coverage are mainly the Hanjin Group, NPS, other minority shareholders, business associations, Cho family, the government and specifically the Welfare and Health Ministry and the KFTC. Unlike the other media outlets, Yonhap also references and directly publishes op-ed pieces from different Korean newspapers on this issue mainly the Korea Herald, Korea Times and Korea Joongang Daily. This allows for different narratives on the issue of the adoption of the stewardship code to be available to the readers.

The pieces are structured in a way that first starts with the news update on the issue which is followed up with the statements from NPS, the Health and Welfare Ministry and finally the Hanjin Group management or business associations (Yonhap 2019b). Then a very brief summary of the NPS stewardship code is presented to the readers which is followed by Cho family's alleged actions (Yonhap 2019b, 2019c, 2019d). The final part of the news coverage breaks down the shareholder structure of the Hanjin Group and Korean Air (Yonhap 2019d). It refers to the control NPS has over shareholding structure as the third largest shareholder in the Hanjin Kal holding company (Yonhap 2019b). Mostly the focus is on the novelty of the situation as the coverage constantly frames the news around the fact that NPS decisions are the first of its kind in South Korea.

On top of the novelty of the situation in South Korea's corporate governance, Yonhap also refers to the possibility of this move encouraging more shareholder activism in the boardrooms as well as its function as a warning to family owned businesses to move towards more transparent and accountable corporate management systems (Yonhap 2019d). Within this narrative the focus is on the "positive side of stewardship code", a phrase that is used by government officials in support of the adoption of the stewardship code (Yonhap 2019d). The government officials from the Ministry of Health and Welfare as well as Ministry of Economy and Finance refer to the stewardship code as only a tool that can promote more transparency and accountability in corporate management and not in any way a policy that

can hinder independent business decisions (Yonhap 2019c). It also stays within the market logic and language by emphasizing the impact of questionable chaebol family actions on the damage it can cause in the brand value of their corporations. The main argument is that, when chaebol families engage in immoral or illegal activities, they damage the brand value causing financial losses to the companies within the group and that shareholders are responsible with keeping their investments safe.

There are also negative reactions to the use of the stewardship code by the NPS mostly from the Hanjin Kal management and business associations such as the Federation of the Korean Industries. The arguments they provide is that the move towards rejecting the appointment of Chairman Cho as the executive director of the board, disregards all the contributions, the network and value that Cho Yang-ho has brought to the business and it was a regrettable decision (Yonhap 2019d). In a broader reaction from business circles, the use of stewardship code is received as an intervention on the independent management rights of a company. KFTC responds to this criticism by stating that the use of stewardship code in this way will only be limited to when business owners are involved in serious unlawful activities (Yonhap 2019b). The response of the government officials and the KFTC regarding this criticism is given more space in Yonhap than the critical statements by the business circles.

Korea Herald

Korea Herald coverage on the use of stewardship code by the NPS in Hanjin Group begins before the adoption of the code as the public scandals of the Cho family prompts discussions over corporate governance and its accountability. The newspaper refers to a statement made by a Democratic Party parliamentary member Lim Jong-sung that calls for the adoption of the stewardship code by the NPS to hold chaebol businesses accountable to their conduct with regards to their management rights (Shin 2018b). Most of the early coverage of the issue gives detailed account of the alleged illegal behavior by the Cho family members and how it damaged the image and share values of the companies they controlled due to their scandals.

The coverage over the issues is framed with a wider scope as it covers the larger discussion on the impact or the need for the stewardship code in the Korean industries that is marked with owner family misconduct in chaebol business groups (Shin 2018b). Industry watchers are cited as stating the necessity for a long term transparent corporate governance by the businesses in Korea as they also underline the damage that owner families cause on the value and profits of the brands they control (Kim & Nam 2019). From the Korea Herald's

coverage, NPS use of stewardship code will set a precedent for the new standards for corporate governance and accountability in the markets (Korea Herald 2019).

Within this narrative, the adoption of the stewardship code by the NPS is seen as a step towards increased shareholder activism in Korean industries (Korea Herald 2019). Therefore low dividend payouts in Korean companies to the shareholders is also mentioned with respect to the possible pressure NPS will put on these companies to increase their rates (Jung 2019). In that sense, the coverage of Korea Herald on this issue gives a picture that NPS stewardship code will have multiple stages of impact to the Korean economy. Not only it will put pressure on Korean chaebol families to adapt more transparent and accountable corporate systems but also reforming the financial sector of Korean economy that had a reputation of not having shareholder friendly environment with “stingy” dividend plans (Korea Herald 2019, Jung 2019).

The coverage on the negative reception of the stewardship code is also explained in detail with statements from the business circles. The business circles claim that the possibility of NPS intervention on management decisions of independent companies raise concerns for hindering business operations (Korea Herald 2019). From their perspective, pressure on increased dividend payouts as well as management interventions could reduce funds in companies to invest in more research and development as well as reducing job creation potential within the economy.

Despite the inclusion of the critical position towards NPS action, in general, adoption of the stewardship code is received as a positive step in the narrative of Korea Herald. They also frame it with a narrative that refers to the “increasing pressure to apply stricter yardsticks to [...] investments” (Shin 2019). Therefore it is signaling to the reader that NPS took these steps to not only hold Korean firms more accountable in the boardroom but also to make its own operations more transparent and accountable. There is also extensive news coverage on the allegations against the Cho family not only as main articles but also as a summary form in the NPS stewardship code coverage which enhances the impression that corporate governance with bad behaving chaebol owners should be regulated and held to account (Shin 2018b).

The editorial pieces in Korea Herald also support this position. There are two editorial pieces one of which is written by the Korea Herald and the other by individual authors (Korea Herald 2019, Kim & Nam 2019). In the individual pieces the chaebol management style and opaque family ownership is problematized and the NPS stewardship code adoption is seen as

an improvement in Korean corporate governance (Kim & Nam 2019). The sudden death of Cho Yang-ho is even referenced as a result of this opaqueness where nobody (stakeholders) was aware that the Chairman had a serious health condition. However in the opinion piece published by Korea Herald editorial department, the possible negative effects of this process is discussed with a very strong language calling for oversight mechanisms to prevent the use of this code as a political tool, at the “arbitrary” discretion of the government.

“What is most worrisome is that its[NPS] actions might be swayed by political considerations. Companies out of favor with the government could be the primary targets.”
(Korea Herald 2019)

Despite this opinion piece that cautions against the use of the stewardship code as a political tool, most of the coverage is still positive about the process bringing the focus on the positive impact it will have on the Korean corporate governance. It can be said that this editorial piece is a result of the narrative that was set at the beginning of the coverage on this case where the adoption of the stewardship code was received as a signal for other chaebol groups to fix their behavior.

Korea Times

Starting with the initial piece that covers the case of NPS involvement in Hanjin Kal management, Korea Times frames the issue as a “managerial control” competition between the Chairman Cho Yang-ho and the NPS (Nam 2018).

“They said the pension service could influence small shareholders to join a crusade to change the firm's board of directors at a shareholders meeting in March next year.”(Nam 2018)

The NPS adoption of a stewardship code is not framed as positively here as it was in Yonhap and Korea Herald coverage on the issues. The decision of NPS to actively use its shareholders rights in the management is seen and framed as a “crusade” (Nam 2018). Also within this narrative, from the very beginning, the potential of NPS intervention becoming a political tool is hinted at readers by suggesting that despite the size of investment NPS has in the largest companies in the country, it has stayed away from intervention to not be accused of opening the doors for political meddling.

There are multiple pieces on the worries firms have over the adoption of the stewardship code by the NPS. The term “excessive intervention” comes up several times in

the context of NPS actively using its shareholders rights in corporate management (Jhoo 2019). The narrative is framed around the potential problems with NPS action rather than the positive aspects argued by the government officials. In that sense, the coverage on the alleged illegal behavior of the Cho family members are not mentioned as the other media outlets.

However in the opinion piece published by the editorial department of the Korea Times, stewardship code is framed with a more positive light (Korea Times 2019). The contrast between the general coverage of the issue with clear presentation of the worries cited by the business circles and this opinion piece seems to have a deviation from the main narrative of the newspaper. In that sense, it can be said that there are mixed messages in the coverage of Korea Times with respect to the NPS stewardship code. While the worries of business circles are widely explained in terms of loss of funds for investment in new operations that leads to employment opportunities as well as the independence of the management decisions, the rubber stamp position of shareholders in corporate management is also criticized (Jhoo 2019). However it can't be said that the Korea Times coverage of the issue includes an extensive presentation of the government position or arguments.

Korea Joongang Daily

The coverage of the stewardship code of the NPS in Joongang Daily refers mostly to the risks and negative effects of possible government intervention to the corporate sector through NPS decisions in the market. There is a very critical tone on the possible use of the stewardship code as a tool to "tame chaebol" (Korea Joongang Daily 2018). Although the problems associated with the Cho family and their alleged behavior is acknowledged, there is a sense that this is seen as a bad apple case where the actors need to be very careful not to change the market dynamics with excessive responses to overhaul or change the entire system. At one point, one of the opinion pieces even allege that the death of Cho Yang-ho was triggered by the shareholder activism of NPS where his reappointment as the director of board was not approved, with the government sharing the responsibility for causing this situation to happen simply to meddle in and regulate chaebol business activities (Yi 2019).

In that sense, the political intervention aspect is very much a repetitive narrative with quotations from Moon Jae In to support the storyline that suggests stewardship code was adopted to target and regulate chaebol business practices, and rather penalize their actions. Moon is even accused of trying to create a socialist state with plans to increase regulations

and intervention options, starting with using NPS as a stepping stone to influence corporate spheres (Korea Joongang Daily 2018).

The tone of the opinion pieces and overall coverage against the government arguments for the adoption of the stewardship code is highly critical. There is a very clear message that is being sent to the readers that President Moon Jae In is excessively trying to intervene in the corporate sector through the NPS stewardship code, as NPS is largely managed by Health and Welfare Ministry which is under the control of the President. Also the campaign promises and the calls of the President for more accountable corporate management is seen as an issue different from making sure that the problematic Cho family receives the appropriate punishment for their actions (Korea Jongang Daily 2018).

Also, the negative outcomes of shareholder activism is discussed over two main arguments: the first one focuses on the “greedy shareholder activism” where increased dividend payments to shareholders would mean less resources for businesses to create more employment and secondly the problems with “management stability” where activist shareholders may challenge the management decisions too frequently causing efficient decision making to be very difficult. One of the opinion pieces is titled “Be afraid of NPS” in an attempt to emphasize the dangers of political meddling on corporate value, management efficiency and job creation prospects in the business sphere if the Moon government uses it in a penalizing manner (Yi 2019b). In that sense, the quotation above can be seen as a summary of the main critique of the newspaper as it brings the attention to the pressure Moon government has been under to address slowing growth rates as well as increased youth unemployment in Korean society while also tackling with calls to not have another Cho family scandal in corporate management.

Chosun Ilbo

There is significantly less coverage in Chosun Ilbo English website compared to the other media outlets with only seven articles for the time frame of the case. However, the critical stance towards the possible excessive political meddling is a repetitive theme. The alleged illegal behavior of the Cho family members is covered only once and most of the focus is on the possible impact of the NPS decision on Korean markets (Chae & Shin 2019).

There is an interview with an old NPS director, with the veiled message of asking NPS not to become an activist fund, as the NPS should be more involved in the long-term value

creation of the firms, which would be a better way for the fund to be managed (Yang 2018). This means that there is a call for the NPS to not use the stewardship code and protect the companies from increased dividend rates, while enabling them to expand and invest more in their business operations which can create employment. In that sense, Chosun Ilbo takes a very indirect approach to deliver the narrative to the readers that political use of the NPS is not a positive development, and the stewardship code does not guarantee protections from political meddling.

There is also some direct pieces with quotes from business circles accusing the government and the NPS with running arbitrary standards of intervention through allowing NPS to use the stewardship code in a penalizing manner and also as a warning towards other misbehaving companies, comparing this approach to a third world country policy with no clear rule of law (Chosun Ilbo 2018). The inclusion of this accusation at a global level is very much in contrast to Yonhap and Korea Herald coverage on the issue as in their narratives, the global reporting or the information that build the context of the pieces referred to the adoption of stewardship code in Korea as moving towards the more developed world standards like Japan and the UK.

5.2.3 Evaluation:

Korea Herald and Yonhap have a more positive tone towards the debate around the stewardship code and the two main cases of its implications in the management of Korean Air by the Cho family scandals. Korea Times has a mixed position of underlining the problems with having NPS too closely influenced by the government and the long term negative impact of shareholder activism on business growth while stating the need for a way to regulate and optimize corporate governance towards more transparency and accountability. On the other hand Korea Joongang Daily has a very negative coverage of the NPS stewardship code and also directly the government. In the Korean Air and Cho family dispute although they clearly underline the problems with the Cho family and their very public scandals, the news coverage brings attention to the negative impact of the stewardship on the future business growth and job creation. The editorial pieces are even more provocative and accusatory of the NPS actions. Chosun Ilbo on the other hand, does not have extensive coverage. They also focus more on the negative implications of the indirect influence of the government over the economic sphere by the NPS stewardship code and the emergence of local and international activist shareholders. Despite having a wide range of ideological positions, the main actors

that can be identified from these readings are; the political administration, business associations/ corporations as well as the public with a very few references. In the next section these interest groups will be further investigated with their arguments with reference to the debate on chaebol reforms.

5.2.3 Main Interest Groups:

Corporate Groups and Business Associations

From the multiple different narratives and opinions presented by the news outlets, business circles emerge as the main interest group that acts as a pressure factor in the larger discussion of using stewardship code as a regulation tool to leverage a step towards chaebol reform. Their position was often cited through the statements made by business associations or through industry watchers that indirectly communicated the sentiments of the business circles. There are several repeating narratives and arguments provided by the business circles ranging from being critical to simply being cautious about the new developments.

The most prominent argument provided by the business groups is the potential dangers of political meddling and government interference in business activities. Even in the media narratives that did not include as many critical voices from the business circles, the political connections of NPS is seen as a cause for concern for the business operations and potential government favoritism (or reverse in this case). Even with the alleged problematic behavior and embezzlement allegations against the Cho family, business associations and commentators on the critical end of the media coverage defended their objections by claiming that using political or social matters as an excuse to meddle in corporate affairs is fundamentally against the idea of a market economy.

Within this narrative the idea is that this type of criteria is arbitrary and opens the door for more invasive interventions by the government to a larger sector of businesses in the future. One opinion columnist even cautions against emotional responses to the scandals that Cho family got involved in (Yang 2018). Moreover, shortly after NPS supports the local and international funds in a bid to reject the reappointment of Chairman Cho as the director of board, it also proposes to amend articles on the requirements of being directors, specifically proposing to suspend a director if they are “found guilty of embezzlement or breach of trust” (Yonhap 2019e). This proposal received a rejection from Hanjin Kal’s shareholders and it clearly shows the business stance on this issue.

Another argument provided by the critics of the business circle is that promotion of shareholder activism is detrimental to the potential growth and expansion of businesses that carry most of the Korean economy. NPS adoption of stewardship code and its use in the Hanjin Group shareholders meeting opened up discussions about shareholder activism in Korea. While some media outlets referred to the low-dividend policy of Korean chaebols as a notorious problem, the critical media outlets mostly focused on the implications of opening up the opportunities to pressure companies into increasing their dividend rates. These include putting these companies in a financially challenging situation by decreasing their funds to invest in new ventures, for R&D projects and also curbing their potential for job creation through these expenses. In another perspective, these narratives that are closely emphasizing the impact of increased pressure for higher dividend rates on employment is targeting the incumbent government's main economic challenges, almost as a veiled signal to the government.

Political Administration/Incumbent Government

The political administration has very clear messages in response and anticipation towards their promotion of stewardship code as a new measure to achieve better transparency and accountability in corporate spheres. The main argument they provide is that stewardship code will be used very carefully and after significant considerations. This message is mostly repeated in the media outlets that portray the adoption of the stewardship code in a positive light. The tone and statement that can be found in these newspapers is very careful not to create an image of overstepping boundaries of political intervention and also very clear on the criteria of possible reasons for intervention: damage caused by the owner family or a corporate official on the brand value of a firm through illegal and immoral behavior.

On the critical side of the coverage, more statements can be found about President Moon's speeches on the use of stewardship code as a regulatory measure to hold chaebol families accountable with their conduct and management decisions. President Moon clearly declares that stewardship code will be used for cases similar to Cho family scandals as a first step towards reforming the corporate sector.

In that sense, from the two different narratives in the media outlets, it can be said that the government is trying to actively use stewardship code of the NPS as an indirect regulatory tool to pressure chaebol groups into transforming their business practices. Although they are trying to stay cautious with the application of the code and to not antagonize business circles,

the political connections of NPS with the Ministry of Health and Welfare is an undeniable fact. The government circles are hoping to induce a voluntary shift in corporate culture as a result of these pressures from shareholder activism.

Public Reactions

Public outcry towards Hanjin Kal Chairman and the remaining family members is an important factor for NPS decision to use its shareholders rights. Rising negative sentiments towards chaebol families and lack of corporate accountability acted as a pressure factor for this issue to be brought forward as a policy priority. It was also followed by the need to save NPS reputation from the fallout of the controversial merger decision between Samsung C&T and Cheil Industries, which happened to have connections with the Presidential scandal of 2016 (Yi 2019b). The complacency of NPS was highly criticized calling for more active use of shareholders rights to push chaebol corporate structures into more responsible systems for its shareholders and the larger public.

5.3 Discussion

It is important to combine the comparative analysis of the KFTC and the Hanjin Group – NPS case study as the two parts on their own do not create a full picture on the state of recent implementations of chaebol reforms in South Korea. From the comparative analysis of the KFTC policies under Park Geun Hye and Moon Jae In administrations, it was revealed that the narratives presented in the annual reports showed subtle changes in the attempts at achieving transparency. However the main policy change occurred through the adoption of a stewardship code. It showed that the Moon administration wished to use government controlled market actors to influence chaebol boardrooms. Combined with the appointment of individuals labeled with the term “chaebol sniper” as the head of the top watchdog of businesses, these actions clearly set the stage for this administrations choices in how they wanted to achieve the chaebol reform.

On that vein, the implications of the fragile and imperial presidency phenomenon in South Korea becomes very relevant. The institutional framework of policy making in South Korea involves the executive power of the President on budget decisions, right to appoint key figures in public offices and the large discretionary power of legislation through executive decrees and direct introduction of bills to the parliament (Bae & Park 2018). This means that through executive decrees and symbolic appointment to the right institutions, the South

Korean President can create a whole new wave of policy direction. But as easily it is adopted, it can be reversed in just next election year. Therefore, the adoption of the stewardship code comes as a very traditional use of the institutional power of the office of Presidency to achieve intended outcomes. If we assume that the institutional framework of the country constrains the policy choices of President Moon Jae In, the use of indirect methods through NPS stewardship code as well as increasing collaborative work of the KFTC with public institutions, are easiest choices to control the process of chaebol reform.

In that sense, the second part of the analysis, the case study on Hanjin Group – NPS standoff, traces the implications of this policy choice through identifying how it relates to the three different interest groups within the society. From the narratives of each interest group, including the incumbent government itself, the support and barriers on the issue of chaebol reform can be examined. The main discussion revolves around the issue of securing the independence of legitimate business activities from political meddling. Therefore, the focal point of the critical pressures on this process is aimed at the issues of political interference. This once again ties well with the imperial presidency argument as an institutional framework that constrains the policy decisions made by the Moon administration.

In that sense the effectiveness of the chaebol reform in the recent applications of policies under the Moon administration can be received with doubts as by design these policy steps do not aim for a long term change in the institutional frameworks. If policy applications are dependent on the existence and control of one particular actor to be in power, then the chances of it having a longer life span is very slim, given the regionalist and volatile political landscape of the South Korean politics.

6. CONCLUSION:

Within a narrative of promoting fair economy, Moon Jae In government has been slowly moving in the direction of introducing regulations on Korean chaebols. Yet there has not been a dramatic break away from the policies of previous administration until 2019 where clear changes were introduced in KFTC narratives as well as the impact of the introduction of the stewardship code to the NPS.

The KFTC policies and operations in the first two years of the Moon administration mostly build on the policies that were introduced by the previous administration under the impeached President Park Geun Hye. This is especially the case for the trend in strengthening the litigation capabilities, expansion of the divisions into more specialized units and creation of task forces, promotion of better standards for SMEs in distribution, subcontracting and franchising businesses. Although there were changes in the narratives between the respective administrations, narrative change is not an indication of a concrete step at implementing a policy. If that was the case, the significant emphasis on the chaebol circular shareholding systems and its illegality portrayed with very elaborate designs in the 2014 – 2016 KFTC reports would mean that Park Geun Hye administration was particularly sensitive to preventing illegal means used by chaebol owner families to condense and extract funds for their personal enrichment. The 2016 Presidential scandal showed otherwise.

Starting 2019 with the appointment of Jo Sung Wook, the KFTC narratives and policy priorities started to move drastically in a direction to promote better economic and industrial standards for SMEs with respect to the dominant existence of chaebols in the economic sphere. Also greater and more institutionalized forms of governmental coordination settings were created where the demands of the government in office could be clearly represented.

The largest signal in the change of directions in the policy making process is the promotion and the subsequent adoption of a stewardship code by publicly run financial institutions, especially by the NPS, which is the second largest shareholder in the most prominent chaebol business groups. Combined with the analysis on the case study of the Hanjin Group – NPS dispute; business circles, bureaucrats, KFTC, the incumbent government, civic groups and international funds emerge as the main actors that are involved in the discussions related to the stewardship code and the government strategy to indirectly regulate chaebol corporate structures.

By the corporate circles and business association groups, it was argued that the Moon administration is seeking to exert influence over chaebol boardrooms through the NPS where it has introduced stewardship guidelines and has been encouraged to meddle with the corporate management when the directors/managers of these groups are involved in criminal behavior and public scandals. The main critique towards the introduction of NPS stewardship code and the political administration is that encouraging shareholder activism will set a precedent for more Private Equity Funds (local and international) to target businesses for higher dividend payments and hostile takeover risks, where short term profits are pursued in the expanse of investment potential to long term growth, R&D and job creation of the businesses.

It is indeed used by the Moon administration as another layer of indirect pressure to encourage chaebol groups to reform their corporate structures. Rather than introducing punitive measures and more strict market regulations, the incumbent government has opted for an option of seeking indirect influence to balance out excessive or destructive chaebol business behavior using the execute power of the Presidential office. The NPS director and the Minister of Health and Welfare have been trying to calm the corporate circles by pointing towards the negative impact on the brand value when the management/owner family is involved in scandals. They emphasize that the NPS needs to have its investments profitable and well managed and if the owner family is involved in embezzlement or tax evasion scandals, it needs to take an action to protect its investment. Therefore, the discussions surrounding the stewardship code boils down into the question of political independence of the NPS.

In sum, 2019 is a turning point for the Moon administration in terms of pursuing its campaign pledges to implement the chaebol reform. However, so far most of the changes have occurred in the form of policy narrative and with the introduction of an indirect layer of pressure by the NPS on corporate boardrooms, instead of a long – term change in the institutional configurations of the policy making process. The narrative changes that can be seen in the KFTC reports signal an important break from the continuities from the previous government that existed in the first two years under the Moon administration. The introduction and promotion of a stewardship code on public entities, especially the NPS is also strong signal for the chaebol groups to be mindful of their shareholders. However, there are no indications of having these reforms stay in place after the Moon Jae In administration. The new administration may easily remove all of these policy implementations.

Both the KFTC and NPS governance has been encouraged to be more transparent with their actions but transparency does not remove the long term risks associated with having two powerful market actors that have direct and de facto influence over business proceedings to have close government connections. Not only the formal connections of NPS to the Ministry of Health and Welfare but the increased connections of the KFTC with government bureaucracy in Task Forces and advisory panels invites the risk of political influence and the inconsistencies that can come with the changing political administrations and actors.

Therefore it is still very early to say that Moon government has successfully implemented corporate reforms and that the process is very challenging with attempts to balance powerful resistance by the business circles, the decreasing rates of economic growth and the increasing youth unemployment. This indirect strategy and slow change in the policy narratives is a by-product of the consideration that the government has to make regarding the perceived poor performance of the economy compared to the other terms, the necessity to work with the business owners to figure out ways to address this issue and also staying loyal to the campaign pledges. Yet the main imposing factor on the life – span of these reforms is the Korean Presidential system itself. Without addressing the whiplash of policy change from one administration to the other, any reform by a political administration may not be effective or resilient to change. The policy choices made by the Moon administration on this issue has shown that they have opted for using the choices available in the system rather than changing the system.

With the latest changes in the world regarding the coronavirus pandemic and its devastating effects in social and economic conditions of the countries across the world, chaebol reform may no longer be prioritized by the South Korean government for many more years to come.

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