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The Search for the Korean Standard on Shareholder Democracy

From unprecedented post-war economic growth to rapid democratization, in a myriad of ways, the Republic of Korea has served an exemplary role for the world. This peculiarly fast-paced economic and political success placed South Korea in a strategic position among the middle-power states, leading numerous international dialogues and providing hopeful socioeconomic guidance to underdeveloped regions. However, behind the applauded miracle lies a fragility where the economic prosperity of renowned Korean-based corporations is undervalued in the global stock market–known as the Korea Discount.

The problem at hand is not that the Korean corporations lack development–it is instead the fact that the development is not fairly represented in valuation compared to global firms. The price-to-book ratio (PBR), calculated by the firm's market value divided by its book value per share, exhibits such devaluation. Data from the Korea Exchange suggests that the KOSPI index results in a 0.9 price-to-book ratio as of 2023. Such a number is even lower than that of developing nations– of which the average is approximately 1.6. While most global firms retain higher market value than their book value, the Korean market certainly displays deformity. Depreciated market value results in a vicious cycle of degradation of trust and fewer investments in the stock market, as people tend to switch their attention to real estate for trustable assets. The distrust in the Korean stock market due to the Korea Discount would explain why the public tends to equate investing with betting.

Extensive studies have shown that low stock prices result from low return on equity and low total payouts for shareholders–which boils down to the ultimate reason behind devalued stocks: the inadequate governance system in Korean corporations. As Korean shareholders have less power to hold corporations in check, Korean firms are more likely to decide upon critical matters that benefit the major shareholders and the corporation itself but neglect the gains of each and every shareholder. The inconsiderate acts include excessive stock splits and unequal merger ratios between companies.

The vulnerabilities of Korean corporate governance have been dealt with repeatedly as the key to solving Korea Discount. Then why, among all nations, does the Republic of Korea suffer from such debilitation of devaluation? Shedding light on Korea's exorbitantly swift developmental phases, the fundamentals of corporate governance and shareholder democracy could not keep up with such exceptionally rapid development. I propose two leading solutions to restoring shareholder democracy, borrowing the basic principles of democracy in the political realm: restoring suffrage and promoting democratic awareness.

Suffrage for Shareholders

Democratic government is presupposed on the grant of political rights to its citizens. The principles of universal suffrage can also be applied in corporate governance. Every shareholder is endowed with the political right to act–yet it is peculiar that such an exercise of rights is hardly witnessed in Korean society. A general stockholders' meeting is an example that shows how stockholders are not properly provided a right to participate in corporate management. The meeting, in principle, decides upon the compelling matters such as but not limited to appointment and dismissal of directors, consideration of mergers, and more, all of which leave a significant impact on the valuation of stocks. This seemingly arduous process is open to shareholders because they own the corporations.

However, Korean companies seem to disregard this notion, which can be observed in their impudent proceedings in general meetings. In 2024, a staggering number of 700 corporations have set their meeting on the 28th of March. Minor stockholders are thus virtually unable to exercise their voting rights at meetings of all companies in which they hold shares. The locations where the meeting takes place also ironically serve as a barrier. The general meetings of Kakao Corporation consistently taking place in none other than Jeju Island is one of the questionable corporate decisions that went against shareholder rights.

To ensure shareholder suffrage in corporate governance, the barriers of time and place in shareholder meetings must be removed. One out of ten corporations utilizes virtual meetings and voting, yet because the implementation is voluntary, the growth rate of such usage has been steady. The legal enforcement of virtual meetings and online voting systems in general meetings must be implemented.

Promoting Democratic Awareness Among Shareholders

Democratic citizens are obliged to be aware of the very principle that the nation is not without its citizens. The need for democratic awareness also remains a task in regard to corporate governance, as the rights and responsibilities of shareholders and investment management must be adequately educated among the Korean public, especially the younger generation. An investigation by the Korea Development Institute (KDI) revealed Korea's shocking realities of economics education. Preliminary economics courses take 0.7% of the total courses in secondary education, and economics courses remain an elective subject in high school with one of the lowest popularity, as only 1.1% of high schoolers selected the subject in CSAT. This would be why Korean students' financial literacy scored 46.8, well below the failing mark of 60. Lack of financial knowledge inadvertently leads to difficulties participating as an active investor in stock markets.

Ensuring the rights of shareholders first entails the notion that the shareholders themselves are well-educated about what they can and should do. Following the exemplary cases of nations such as Britain, where financial education ranging from credits to proper investment management is a mandatory requirement rather than elective, Korean educational reforms remain mandatory to foster a basic understanding of the stock market and, most importantly, the constant reminder that the pillar of corporate governance is the shareholders.

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The devaluation of the Korean stock market results from the rapid progress of the Korean economy and the neglect of shareholders' irreplaceable role in the market economy. Korea Discount, dealt in a wrong manner that disregards such a role, will ultimately lose national competitiveness in global markets. Dealing in a way that prioritizes stockholder rights will give Korea a more irreplaceable position in the global economy than ever before–the nation of 'miracles in Han-river,' also successfully managing the consequences in stock markets resulting from rapid prosperity. In a way, the Korea Discount is not an indelible mark of shame. Instead, it is an exciting opportunity to devise a new Korean Standard for shareholder democracy.

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