Corporate governance and firm profitability: evidence from Korea before the economic crisis.

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Corporate governance and firm profitability: evidence from Korea before the economic crisis â˜†

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Abstract

This study examines how ownership structure and conflicts of interest among shareholders under a poor corporate governance system affected firm performance before the crisis. Using 5,829 Korean firms subject to outside auditing during 1993â€“1997, the paper finds that firms with low ownership concentration show low firm profitability, controlling for firm and industry characteristics. Controlling shareholders expropriated firm resources even when their ownership concentration was small. Firms with a high disparity between control rights and ownership rights showed low profitability. When a business group transferred resources from a subsidiary to another, they were often wasted, suggesting that â€œtunnelingâ€ occurred. In addition, the negative effects of control-ownership disparity and internal capital market inefficiency were stronger in publicly traded firms than in privately held ones.

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Keywords

Corporate governance; Ownership; Profitability; Shareholder expropriation; Business group

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