A CONSIDERATION OF THE OWNERSHIP AND GOVERNANCE STRUCTURE IN A PRIVATIZED PUBLIC ENTERPRISE: CASE STUDY OF KOREA TELECOM -

By

Pyung Hwan Yang

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
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ABSTRACT

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This study examines corporate governance and ownership structure in a privatized public enterprise focusing on the KT case. KT is the Korean representative public enterprise that accomplished a perfect privatization on May 2002 in the stream of privatizing the public sector. Through the summarizing the background of public enterprise management and privatization and comparing the KT with other privatization and corporate governance structure of foreign developed telecommunication firms such as BT and NTT, this paper inquire the efficient ownership and governance system of KT, the privatized public enterprise. Especially, we consider the board management and organization.

Key words: corporate governance, ownership, board, principal committee

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Ⅰ. INTRODUCTION

The political and economic policy of privatization, broadly defined as the deliberate sale by a government of state-owned enterprises or assets to private economic agents, is now in use worldwide. Since its introduction by Britain's Thatcher government in the early 1980s to a skeptical public (that included many economists), privatization now appears to be accepted as a legitimate- often a core – tool of statecraft by governments of more than 100 countries. Privatization became one of the most important elements of the continuing global phenomenon of the increasing use of markets to allocate resources.[1]

A privatization is a changing ownership from the government to the private and the main constituent is an origin owner, the government. Also, a privatization should be decided and progressed in the point of national people economic view because the possession and the selling decision of public enterprise were committed as 'an agency of the people'. In other words, it means that it should be presented explicitly: why privatization is desirable in the point of national people economic view? , what appearance and what process is needed in order to attain this purpose?

[1] After almost a decade of steady growth during the 1990s, and peaking at around USD 100 billion in 1998, privatization proceeds dropped to just over USD 20 billion in 2001. OECD *Recent Privatization Trends in OECD Countries,* 2002, pp. 43-45

In addition, a core ingredient of privatization is the change of corporate ownership, governance and a behavior of management that will happen after privatization. Thus, the grasp of the point that the national economic meaning of privatization is the same as the work that analyze the extending efficiency caused by the change of a corporate ownership and governance with a relevant firm. This is not a problem that can be concluded theoretically but a subject that be able to change according to the situation such as Korean economy and a characteristic of the government and company. On the other hand, there is a viewpoint that it must be discussed that a privatization that contain the meaning of changing a ownership structure should be separated from a problem of corporate governance after a privatization. However, this assertion is based on the groundless belief. Namely, they believe the corporate governance related to private motive and selection after a privatization will be consistent with the desirable result in the point of national economic view. Therefore, the government should drive a privatization with considering desirable corporate governance after a privatization. It must be prohibited by standardized approach to a privatization and be a work that is based on the concrete analysis to a objective firm and situation

The purpose of this paper is to inquire corporate governance and ownership structure in privatization focusing on the KT case.[2] KT is the Korean representative public enterprise that accomplished a perfect privatization on May 2002 in the stream of privatizing the public sector.[3]

The paper is organized as follows: In the next section, we summarize the background of public enterprise management and privatization. In section 3, we compare the KT with other privatization and corporate governance structure of foreign developed telecommunication firms such as BT and NTT. In section 4, we inquire the privatization of KT and efficient ownership and governance system in the privatized public enterprise. Especially, we consider the board management and organization.

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[2] The rapid change in technologies and convergence between industries in the telecommunications area worldwide have made many countries pay much attention to the telecommunications policy at the government level intentionally. In spite of numerous benefits enjoyable from the coming of the information age, however, each of those countries is facing important but difficult problems concerning with how it does bring up and manage its own telecommunications industry. In Korea, privatization of telecommunications services, which had been provided by the government-owned telecom operator during the last several decades, and limited competition were introduced into the telecommunications market in the 1980s.
Hwi won Kang, "Privatization and Competition in the Telecommunications Industry and Changing Role of Government in Korea" *A collection of learned papers in Pyung Taek University,* 1997, Vol.9 No.2,pp.435-437

[3] So far, there have been two actual waves of reform efforts aimed at privatizing the public enterprise sector. In late 1997, the Kim Young Sam administration introduced the Act for Privatization and Improvement of the Efficiency of Large Public Enterprises, generally referred to as the 'Special Act on Privatization,' to promote privatization of four large public enterprises. The act aimed at reforming corporate governance structures of commercial public enterprises to be privatized, while at the same time preventing takeover by *chaebols* , Korean conglomerate, during their privatization. The second wave of reform, initiated by the current administration that came to power at the peak of the economic crisis, is still unfolding. The current administration turned over large shares of public enterprises to private hands. It is also transforming the electricity industry from a vertically integrated public enterprise monopoly into a competitive industry operated by private interests.
Il Chong Nam, *Recent Developments in the public Enterprise Sector of Korea*, Dec.2001, Korea Development Institute. pp.8-10

Ⅱ. A BACKGROUND OF PUBLIC ENTERPRISE MANAGEMENT AND PRIVATIZATION

1. The private and public: ownership & corporate governance

The problem of corporate governance becomes interesting only when ownership and control are separated, as in a firm owned by shareholders and controlled by managers.[4] When the same person has both ownership and control, as in the case of a firm directly managed by its owner, there is no meaningful corporate governance problem: Presumably, the owner-manager can perfectly monitor his or her own performance.

When ownership and control are separated, however, it is important to devise an incentive and monitoring scheme to make sure that the managers work in the interest of the owners rather than their own. The reasoning is as follows: The owners bear the residual risk and receive the residual reward. In other words, the owners have a claim on risks and rewards in situations not specified in contracts. It is, however, the managers who control the decision-making process and therefore make critical decisions that influence those risks and rewards, and the managers'

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[4] Fama, Eugene and Michael C. Jensen, "Separation of Ownership and Control,",1983, *Journal of Law and Economics* 26, pp.327-349.

objectives may diverge from the owners' interests. It is not difficult to imagine cases in which managers sacrifice the interests of shareholders for the gratification of their own interests, through pay raises, empire-building, and so on.[5]

It is important to note that this problem of corporate governance arises from three factors: (1) The owner (the principal) and the manager (the agent) have different objectives; (2) The owner cannot perfectly monitor the behaviour and decision of the manager; (3) The owner cannot anticipate and specify all contingencies in the contract with the manager. Under the conditions of asymmetric information and incomplete contracts, the principal must formulate an efficient incentive scheme to ensure that the agent acts in the principal's rather than the agent's best interest.[6]

This problem of corporate governance exists in *both* public *and* private firms as long as ownership and control are separated. After all, most large private firms are owned by shareholders and controlled by professional managers. While shareholders presumably want to maximize profit, managers may pursue their own

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[5] Hart, Oliver, *Firms, Contracts and Financial Structure,*1995, Oxford University Press.

[6] The problem of corporate governance in both public and private firms would disappear under complete contracts and symmetric information. The principal and the agent originally may have different interests, but the principal could use complete contracts and perfect monitoring to make sure that the agent's interests are brought in line with those of the principal's. In reality, however, the principal cannot anticipate and specify all contingencies, the agent will look for loopholes in the contract, and the principal cannot perfectly monitor the agent's performance.

agenda.[7] It is simply wrong to assume that the divergence of their interests is smaller than that between the owners and managers of public enterprises.

Now, if the basic nature of the corporate governance problem in both private and public firms is identical, any difference in performance between public and private firms must arise either from differences in objectives or differences in incentives schemes. Otherwise, it should be possible for the government to make public managers to pursue profit maximization and eliminate the differences between public and private ownership regimes-- without resorting to privatization.

This may sound obvious once explained, but it is a point often missed in the debate on privatization. For instance, Stephen P. King(1998: 8) writes: "A key difference between ownership regimes is the beneficiary of increases in the value of the assets that underlie the business."[8] A public sector *manager* has no claims on these assets. The assets belong to the government. In contrast, a private *owner* retains the assets and has the right to sell them and receive the value of the assets through this sale." King implicitly assumes that the private manager and

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[7] In order to have managers pursue profit maximization, an appropriate incentive compensation scheme must be devised. As risk-averse managers with superior information have to be paid risk premium and information rent, however, firm performance may still deviate from the objective of profit maximization.

[8] King, Stephen P., "Privatization: Does Reality Match the Rhetoric?," *Department of Economics Research Paper in the University of Melbourne,1998, No. 634.* pp.5-16

the private owner are one and the same person and in effect eliminates the principal-agent problem under private ownership.[9]

2. A privatization & ownership and governance structure of public enterprise in recent Korean context

The core difference between state and private ownership, from a governance perspective, is the rights, obligations and pay-offs attaching to ownership. Government ownership confers only a very limited set of rights on the ostensible owner or shareholder. Stakeholders of the public enterprise include employees and managers, just as in private firms. But the most important stakeholders are the bureaucrats and politicians. The nature of ownership and control of public enterprise differs fundamentally from that of a private firm in two respects. Most of all, as the owner or a dominant shareholder, the government pursues not only financial return, but policy objective as well. In another sense, bureaucrats and politicians who control a public enterprise on behalf of the general public do not have personal financial stakes, unlike shareholders of private firms. The main five Korean Public Enterprise Ownership

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[9] Won Hyuk Lim ,"Liberalization Before Privatization: A Corporate Governance Perspective on Market Institutions and Ownership Regimes "November 1999,Korea development Institute pp.10-12

structure is as follow.

<Table Ⅱ-1 > Main Shareholders of the “Big Five” and Their Shares (Dec., 2000)

Name	Main Stockholders
KOGAS	- Korean Government: 26.9% - KEPCO: 24.5% - Local Government: 9.8% - Daeshin Securities: 7.2% - Foreigners: 2.1%
KT & G	- Korean Government: 13.8% - Industrial Bank of Korea: 35.2% -The Export-Import Bank of Korea: 7.0% -Daehan Investment Trust: 7.0% - Foreigners: 5.0%
POSCO	- Industrial Bank of Korea: 4.9% - Foreigners: 48.6%
KEPCO	- Korean Government: 52.2% - Korea Deposit Insurance Corp.: 5.1% - Foreigners: 26.0%
Korea Heavy Industries and Construction Co., Ltd. (Doosan Heavy Industries and Construction Co., Ltd.)	- Doosan Corp.: 36.0% - Korea Development Bank: 12.6% - KEPCO: 11.7%

Source: National Information & Credit Evaluation.

The corporate governance of a public enterprise before the introduction of the 1997 Special Act on Privatization depended on whether or not it was subject to the Framework Act. The Framework Act required that a State-Owned Corporation (SOC) board consist of a member from the line ministry, another from the then Economic

Planning Board (EPB),[10] and the rest were recruited from outside of the government. The board members who were not from the government were mainly lawyers and professors appointed by the government. The board reviewed and made decisions on the issues of importance, such as key investment decisions and appointment of executives. In reviewing and making decisions on the agenda, the board was required by the act to put priority on public policy considerations.

Although there were nine board members, the one from the line ministry played a decisive role. The board member from the economic planning board played a secondary role of checking for wasteful activities. The remaining members from outside the government generally were not expected to play a significant role and usually approved an agenda that had already been negotiated by the two members from the government. The board member from the line ministry intervened heavily with the management of a SOC. The board members were paid only token amounts of money for their services and did not have any monetary incentives in the financial performance of a public enterprise for which they worked.

The government without active participation of the board selected the CEOs of the

[10] The Economic Planning Board was charged with the task of planning and budgeting as well as that of coordinating economic policies of various ministries. The board later merged with the Ministry of Finance.

SOCs. Political appointment was not rare. The rest of the top executives were usually selected from the bureaucracy of the SOCs themselves.

<Table Ⅱ-2 > The main revised contents in the Basic Management Law of State-Owned Corporations on Oct. 1998

	Before revised	After revised
Management institution	The managerial evaluation Committee of SOC	The operation committee of SOC
Board system	Non-executive director	Executive or non-executive co-existence
Government board appointment	Two member	Abolished.
Number of the board	Within ten member	Within fifteen (half non-executive)
Nomination Committee of CEO	No	Introduction (comprised by non-executive and civil member recommended by the board
Process of appointment of CEO	Asked by Minister →The president was appointed.	Recommended by Nomination Committee→ Asked by a Minister→The president was appointed.
Management Contract system	No	Introduction
Asking for Auditor appointment	Asked by a Minister of main office	Asked by a operation committee
Announcement of Management	No	Announce a balance sheet & management result
Minor shareholder right system	No	Introduction

Source : The Report data of the Ministry of Budget & Planning

Law barred appointment of ex-government officials to a position in a SOC other than

CEO. Executive pay was generally lower than that in private firms. Incentive-based management contracts were not used. Top executives, in particular CEOs, usually considered themselves as bureaucrats belonging to the government rather than executives of a business organization. The SOCs had to submit annual budget plans to the government, which regularly evaluated their performance. In addition to being subject to a strict quota on the number of employees and the number of managerial positions, they were also regularly audited by the Office of the Inspector General and the National Assembly.

Ⅲ. A PRIVATIZATION & CORPORATE GOVERNANCE STRUCTURE OF FOREIGN DEVELOPED TELECOM BUSINESS

1. British Telecom

1.1 Privatization

In 1973, the BT[11] got a large amount of financial losses because the government suppressed the BT's raising of a charge in order to control rapid inflation rate after oil shock. Of course, however, it could not cope with the

[11] Until 1981 what later became British Telecom was the Post Office Telecommunications and therefore part of the Post Office corporation. In 1981 it was separated from the Post Office and became a free standing corporation through still publicly owned.
Stephen Martin and David Parker, *The impact of Privatization: Ownership and corporate performance in the UK,* 1997,London and New York: Routledge, pp.43-44

enormous financial loss and at last raise a charge by 75 percent. This measurement result in only customer's dissatisfaction. In this situation, the government decided to sell it's stock share of BT for the purpose of reducing the national debt and strengthen the external competition.

In November 1984 50.2 percent of the share capital was sold through an offer for sale targeted at the small shareholder and with some shares set aside for employees. Under the terms of the sale no person was permitted to own more than 15 percent of the share capital. The remainders of the company's shares were sold in two further trenches in 1991 and 1993.

<Table Ⅲ-1 > The result of a stock sale (unit: million)

	Date	The No. of share	The ratio of share(%)	The sale price(£)	The ratio of subscription for stock (abroad)	
					Individual(%)	Institute(%)
First[12]	Nov.1984	3060	50.2	3900	39	61(17)
Sec.	Nov.1991	1580	25.9	5400	67	33(13)
Third	July.1993	1220	21.9	5400	55	45(17)
Total		5860	97.0	14700		

Source: Internal data of KT ' The process of privatization and the result in BT'1999

In the first selling, the BT stock was sold by 15 the UK bank consortium that is

[12] Before the first selling, the BT's stock was listed in the London, New York, Toronto stock market, and there was a constraint that one stockholder could not own over 15percent of voting right stocks. But to the foreigner, there was no restraint article.

based on Kleinwort Benson as a main bank in the domestic market. Also, a acquisition institution which was consist of the Morgan Stanley, Mcleod Yong Weir of the Canada and Normura stock company of the Japan bought the stock and distribute each other. The UK government designed a separated payment system to minimize hardship preparing for payment funds and extending efficiency in the stock market.[13] Moreover, the government tried to broaden employee stock ownership. It assigned total 12million stocks by allocating 54 stocks per capita and sold stocks at a reduced price by 84 million numbers to employees. Also, the government encouraged to invest through an incentive in order to prevent a wrong behavior that the stakeholders sold their stock to gain profits through a differentiation of time immediately.[14]

1.2 Ownership & Corporate governance

1.2.1 Attainment of distributive ownership

The BT achieved wide distributive ownership through the people's share program and the prevention of obtaining excessive shares over regular boundary.

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[13] Therefore the stakeholders could pay their money with separated way like 50 pence per stock on November 1984, 40 pence on June 1985 and 40 pence on April 1986.

[14] If stakeholders have a stock over 3 years, they can take a incentive : to a bill voucher, it was given a 18 pound gift right per stock and as a bonus share, it was provided one stock per retained 10 stocks by maximum 400 stocks with free.
Kee Jin Yang, " The study of privatization of public enterprise "*A collection of learned papers in Dong-yui university* Dec. 2002 pp.34-35

On April 2000, total number of stakeholders are 1.8million, and there are only seven persons who have stakes over one percent.[15]

<Table Ⅲ-2 > The present condition of ownership in BT

Size of Shareholding (at 31 March 2000)	**Number of Shareholder**	**Percentage of total**	**Ordinary Shares**	
			Number of shares held (million)	**Percentage of total**
1-399	816,165	45.0	173	2.7
400- 799	524,396	28.9	283	4.3
800- 1,599	317,874	17.6	347	5.3
1,600- 9,999	147,638	8.2	395	6.1
10,000- 99, 999	3,742	0.2	96	1.5
100,000-999,999	1,378	0.1	482	7.4
1,000,000-4,999,999	377	0.0	839	12.9
5,000,000 and above	173	0.0	3,892	59.8
Total	**1,811,743**	**100.0**	**6,507**	**100.0**

Source : BT Annual Report

Also, the stakeholders who owned over 3 percent stocks must notice to the BT and basically there was a constraint 15 percent share per the same person. In fact, the UK government really wanted to induce foreign capital, however, it regarded transferring the right of management to a foreigner as undesirable things. The government designed the Golden share and applied to 50 public enterprises. Golden share was a system that give special right which prevent to transfer a large

15 The largest stakeholder is Legal & General Investment Management Ltd., 3.01 %

number of property and revise the article of association the government. The UK government could commit veto about taking a director and changing the article of association but not exercise a voting right. In addition, the government had a right that could appoint two directors. On September 1997 when BT merged MIC, this was abolished. In a nutshell, after privatization, the government was related to the corporate governance to some degree.

1.2.2 Current corporate governance

1.2.2.1 The board

As the distribution of ownership grows extended, the management separates from an owner, and manager-controlling system is established by what we called professional manager.[16] A core corporate governance of the BT is the board. The BT's board has a balance of executive(5) and non-executive(6) directors,[17] with the latter outnumbering the executives. The roles of Chairman and CEO are split (Currently, Sir Christopher Bland is the Chairman, Ben Verwaayen is CEO). The non-executive directors are independent of BT. In fact,

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[16] Because the producible resource is governed by a manager, we call this characteristic system 'management control' or 'managerial capitalism'

[17] An outside director is a person who is not a full time director of a relevant firm and comes from other part. Due to this reason, we also call an outside director non-executive director. In the BT, non-executive directors are appointed initially for three years. At the end of that period, the appointment may be continued by mutual agreement.

when we compare the board of the UK with that of the U.S., we can find some things. Like the BT, in the almost UK's firm, the chairman and CEO are separated and the board strengthen the role of check to a manager. Only one- third firm has a system that the chairman hold a position of CEO at the same time (*CEO duality*) in the UK.[18]In the governance, this point is very important. Because CEO is the chairman at the same time, CEO has a great excessive effect on the selection of director. The average ratio of an outside director in the UK is 42 percent of total listed company in the stock market.

The board of the BT is responsible for the group's system of internal controls and risk management and for reviewing the effectiveness of these systems which are designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Key features are (ⅰ) a group risk register identifying the group's key risks and the means to manage and mitigate them, (ⅱ) a well established system of financial and business controls, the operation of which are regularly reported to the Group Finance Director and annually to the CEO, (ⅲ) regular assessments of internal controls by BT's internal audit department and (ⅳ) the review of the effectiveness of the internal control processes by the Audit committee, on behalf

18 Monks, Robert A.G. and Neil Minow, *Corporate Governance* Blackwell Business, 1995 pp.183,188

of the board.

1.2.2.2 The principal board committees

If it let the board fulfill its function very well, the board must be operated with a several professional committees because some specialized committee consist of a professional person is not preparing for contents which will be discussed in the whole the board meeting until the board can exert function substantially.[19] Especially, the board can be classified three parts like the size of the board, CEO duality, and the board committee.[20] The BT also has four principal board committees in order to enhance its function.

Operating Committee: The Chief Executive chairs this committee. The committee has collective responsibility for running the group's business end-to-end. To do that, it develops the group's strategy and budget for agreement by the Board, recommends to the Board the group's capital expenditure and customer quality of service performance of the whole group, plans and delivers major cross-business

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[19] In the UK, the Report of the Committee on the Financial Aspects of Corporate Governance(Cadbury Report 1992) and the Report of the Committee on Corporate Governance Final Report(Hampel Report 1998) are the first sample rule about corporate governance. These reports have a basic sight that the board is the best system for check between a manager and stakeholders. Moreover, these reports assert a guarantee of independent the board, the audit committee consist of minimum 3 members and remuneration committee taken a lead by non-executive directors.
World Bank , *The Business Environment and Corporate Governance*, 1998.
[20] Kim, Yong-Min, "The design and operation of creating value board", *The future management and development research Institution ,* 2000, pp.232

programmes and reviews the senior talent base and succession plans of the group.

Nominating Committee: This committee, consisting of the Chairman, the Deputy Chairman and two other non-executive directors, recommends to the Board appointments of all directors. To ensure an appropriate balance of expertise and ability, it has agreed, and regularly reviews, a profile of the skills and attributes required from the non-executive directors of candidates put forward by the directors and outside consultants. Candidates short-listed for appointment are met by the Committee before it recommends an appointment to the Board.

Remuneration Committee: The committee comprises solely non-executive directors and is chaired by the Deputy Chairman. The committee sets the remuneration policy for the Chairman, the executive directors, the members of the company's Operating Committee and senior executives reporting to the Chief Executive. Specifically, this committee agrees their service contracts, salaries, other benefits, including bonuses and participation in the company's long-term incentive plans, and other terms and conditions of employment. It also agrees terms for their cessation of employment and their appointments as non-executive directors of non-BT Group companies and other organizations. It also approves changes in the company's long term incentive plans, recommends to the Board those plans which require shareholder approval and oversees their operation.

Audit Committee: This committee comprising solely non-executive directors is chaired by the Deputy Chairman. This committee reviews BT's systems of internal control and risk management, considers the company's published financial reports for statutory compliance and against standards of best practice and recommends to the Board appropriate disclosure in these reports. This committee also reviews annually the performance of the company's auditors to ensure that an objective, professional and cost-effective relationship is maintained. It recommends to the Board the auditors' fees for their audit services.

2. Nippon Telegraph and Telephone corporation

2.1 Privatization

In 1974, the Japan's economy showed a minus growth rate after the World War Ⅱ for the first time and the public financial deficit was continued. Also, each national business and project such as the Japan National Railroad and the Medical Insurance Management Corporation etc. was confronted a severe management hardship and they were regarded as a crucial inefficient national problem. Thus, the government reform stated and as a set of this work, the public enterprise was inquired in the whole part. At last, on March 1981, the Provisional Commission on Administrative Reform was created, and it presented the way of privatization. It selected the NTT as the main public enterprise for privatization because telecommunication technology grew fast and it was hard to keep the monopolized position. The core purpose of privatization of the NTT is as follow: first, securing money for returning its national debt, second, the abolishment of the government's irrational control to a price policy, third, improving a management efficiency. A sale of the NTT started in 1986 and the process of a stock sale was found in a below table.

< Table Ⅲ-3 > The result of a stock sale (unit: thousand)

	Date	The no. of share	The ratio of share(%)	The sale price (billion¥)	The change of the gov't owned ratio
First - first stage - sec. stage	 Oct.1986 Nov.1986	 300 1650	 1.3% 10.6%	 2400	 100→88%
List stock	Feb. 1987	100	0.6%		
Second	Nov. 1987	1950	12.5%	5000	88%→75.5%
Third	Oct. 1988	1500	9.6%	2800	75.5%→65.9%

Source : KISDI, *A study of KT privatization strategy* , 1993, annex A-5

In the first sale, the government wanted to sell 7800 thousand shares which was 50% of the total stocks by separating 4 time with each 1950 thousand through offering stocks for public subscription after setting the stock price in the way of competitive tender. However, after the second sale, the stock price in the market radically decreased due to the black Monday on Oct.1987, the Gulf War, the NTT recruit scandal and a proposal of undecided dissolving the NTT etc. For this reason, the fourth sale could not be progressed.[21] When the NTT listed its stocks in the market on February 1987, the government gave the NTT a privilege like below.

< Table Ⅲ-4 > The privilege when the NTT stock was listed.

Existed rule	**Privilege for the NTT**
It is possible to list after 5 years establishing a firm.	It is possible to list after transfer as a Limited company.
It is possible to list after flowing over 50% of total stocks	This rule didn't apply to the NTT. (only 12.5% flowed)
When it is listed for the first time, it can be enrolled only the second market.	It enrolled the first market in spite of first list.
It must be traded only a unit of a thousand.	It is possible to trade with one unit.

Source : KISDI, *A study of KT privatization strategy* , 1993, pp.102

Comprehensively, a privatization of the NTT is not successful for some reason. First and foremost, it is very hard to attain real benefit due to a continuous interruption of the government in a transitional period of a privatization. Moreover, it can really contrast with the BT. In the NTT case, the government didn't cope with the worse stock market actively, however, the UK government inquired a capital market

[21] After this time, the government tried to sell its share and accomplished selling stocks on Dec.1998 and Oct. 2000 each one million numbers.

and prepared for an investment incentive to sell BT's stock sale in advance.

2.2 Ownership & Corporate governance

2.2.1 Still the largest shareholder: the government

As Japan rebuilt its economy in the years following World War Ⅱ, it developed a unique corporate governance structure. One of the most notable features of this structure is powerful government intervention, dominated by the Japanese Ministry of Finance(MOF). MOF has maintained strong regulatory control of all Japan's business, supervising every aspect of industrial activity including capital flows.[22] This rule also can apply to the NTT. The NTT Law requires the government to own at least one-third of the total number of shares outstanding. Pursuant to the NTT Law, the proportion of voting rights of foreign nationals and foreign corporations is limited to less than one-third of the total voting rights. As of the end of March 2002, the number of shares owned by foreign nationals and foreign corporations was 2,187,752 or 13.59% of the 16,134,590 shares outstanding. Moreover, there is a constraint of foreigner's ownership until 20% of the total shares, and one person or institution can't get 10% according to the 10% test rule of the Foreign exchange and foreign trade

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22 Robert A.G. Monks & Nell Minow, *Corporate Governance* , Blackwell, 1995 pp.271

control law. A below table shows more detail ownership condition.

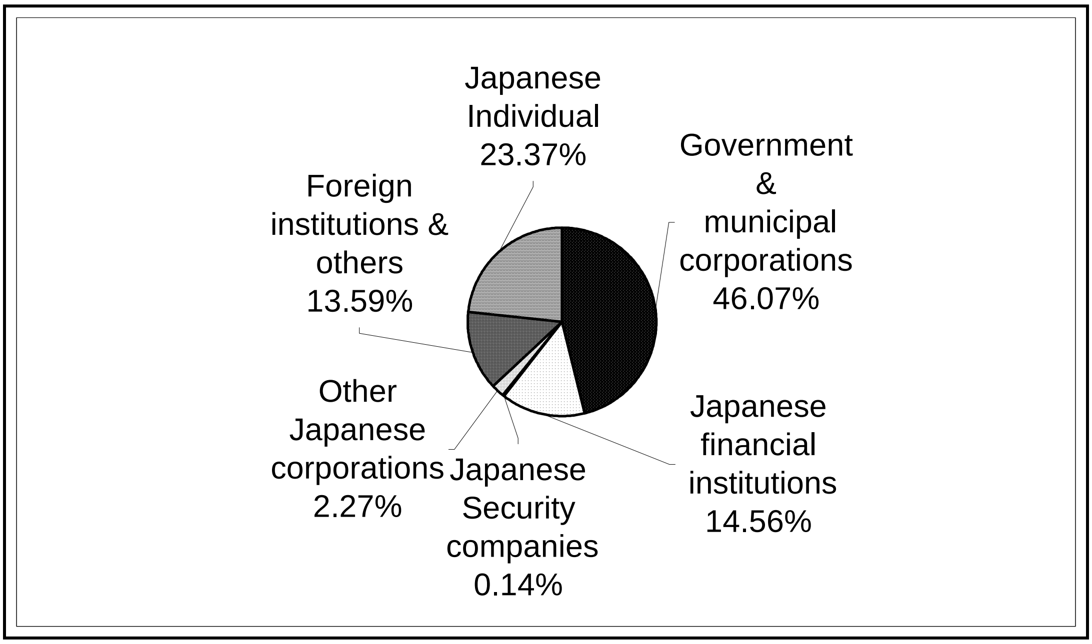
< Table Ⅲ-5 > Principal shareholders of the NTT as of March 31, 2002

Name	Number of shares held	Ratio of the number of shares held to the total number of shares issued(%)
The Ministry of Finance	7,413,823.26	45.95
Japan Trustee Services Bank, Ltd.	378,148.00	2.34
The Mitsubisi Trust & Banking Corporation	340,604.00	2.11
Moxley and Company	250,612.00	1.55
The Chase Manhattan Bank, N.A. London	240,976.00	1.49
UFJ Trust Bank, Ltd.	191,093.00	1.18
State Street Bank & Trust company	163,479.00	1.01
NTT Employee Share-Holding Association	133,381.22	0.83
Nippon Life insurance Company	112,297,68	0.70
Boston Safe Deposit BSDT Treaty Client Omnibus	111,956.00	0.69

source: NTT annual Report 2002

In addition, on the ground of the NTT law, NTT must obtain authorization from the Ministry of Public Management, Home Affairs, Posts and Telecommunications for certain financial matters including (1) any new issue of shares, convertible debentures or debentures with preemptive rights to acquire new shares; (2)any resolution for (i) a change in the Articles of Incorporation, (ii) an appropriation of profits or (iii) any merger or dissolution; and (3) any disposition of major telecommunications trunk lines and equipment or providing mortgages on such properties.

< Figure Ⅲ-1 > Distribution of Ownership among Shareholders (% of total)



source: NTT annual Report 2002

2.2.2 Current corporate governance

The board

Currently, the NTT is functioning as a holding company for shares issued by NTT East Corporation and NTT West Corporation (hereinafter referred to as the Regional

Companies), and exercising rights as sole shareholder and owner. In fact, boards of Japanese companies are predominantly composed of directors promoted from within the company itself. When we compare the NTT with the BT, the most striking difference in the NTT boards is that most of the executive directors will have formerly been middle managers within the company who were promoted from inside so there is much less distinction between the firm's 'managers' and the board. Also, Japanese company boards usually consist of a president (and sometimes a chairman who is nominally above the president in rank but often not in power), senior executive directors(*senmu torishimariyaku)* and other executive directors (*jomu torishimariyaku and torishimariyaku).* The board is therefore hierarchically ranked rather than functionally divided, although there may also be functional divisions between executive directors.

Although it's not a duty, but there is also an outside director system in Japan. However, even the minor outside director came from related financial institution or subsidiaries. The role of directors from 'outside' the company is legally the same as that of inside directors and they are not regarded as independent of the company. A below table shows that currently outside directors make up 25 percent in the 2200 odd companies listed on Japanese stock exchanges and that there has been little change since 1985.

<Table Ⅲ-6> Origins of company directors of listed companies in Japan (unit: percent)

		1984	1989	1994	Average 1984-1994
Company Director	Internal	74.2	75.6	73.1	75.1
	External	25.8	24.4	26.9	24.9
	Other company	17.1	16.3	18.3	16.7
	Bank	5.4	5.4	5.8	5.4
	Government	3.3	2.7	2.8	2.8
Senior Executive	Internal	•	•	•	•
	External	n.a	40.0	33.9	n.a
	Other company	n.a	29.7	22.7	n.a
	Bank	7.1	6.3	6.8	6.8
	Government	4.7	4.0	4.4	4.5

Source: Morten Balling, Elizabeth Hennessy and Richard O'Brien *Corporate Governance, Financial Markets and Global Convergence*, 1998, Kluwer Academic Publishers pp.123

In the NTT, the board is composed of 16 directors: one president, four executive vice presidents, seven senior vice presidents and four auditors. Of these members, only two directors are an outside director in accordance with Paragraph 2,Item 7-2 of Article 188 of the Commercial Code. Also, they are internal senior vice presidents. In 1993, the Japanese Commercial Code was revised and one of the important amended contents was a duty of creation of outside auditor. The NTT also must follow this law and it put two corporate outside auditors in accordance with Item 1 of 18 of the Law of Special

Exceptions to the Commercial Code regarding corporate auditing. However, due to the lack of independence of outside auditor, there are scarce effects.

The remuneration committee and advisory board

When we inquired the BT board, we could find the principal board committee such as *the Remuneration Committee, the Nominating committee and the Audit committee etc.* because the BT's board and an outside director system was developed very well. However, in the NTT (or most Japanese corporation), the board plays rarely their role. In other words, the board has a weak role of supervising to a manager because most directors are managers. In this condition, the NTT operated only *the Remuneration Committee* that is one of the crucial three committee for enhancing the board's fulfillment was set up at the same time to ensure transparency, objectively and consistency in determining compensation for NEC's top management. This committee reviews salary structures for directors and executive officers and deliberates on performance-linked remuneration and other topics. Moreover, the NTT established the Management Advisory Committee. This seeks to (1) evaluate research plans and achievements objectively and in a timely manner, (2) dispatch information effectively to the world through board members, and (3) reinforce systematic research cooperation with the board-member organizations. However, it's main role is not supervisory of managers. In a nutshell, in the NTT, the board, the core institution of corporate governance is not active and don’t check the manager.

Ⅳ.THE DESIRABLE CORPORATE GOVERNANCE AND OWNERSHIP OF PRIVATIZED KT[23]

1.A plan and process of privatization in KT

1.1 From 1993 to 2002

The government announced the panning of public enterprise privatization in 1987 for the first time. However, because the condition of stock market worse off after 1989, the privatization schedule was delayed. The real divestiture of KT started in 1993. During the 1993 - 1996 period, the government attempted to sell 49 percent of KT shares, but were able to sell only 28.8 percent for KRW2.751trillion to domestic investors. In 1999, the government sold 6.67 percent to foreign investors through issuing DRs that were listed on the NYSE and LSE and reduced its shares from 71.2 percent to 56.8 percent.[24]

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[23] KT is one of the firms Fortune magazine’s Global 500 list. In recent Fortune(as of July 2002), a total of 12 Korean firms were ranked in Fortune magazine's Global 500 list, with Samsung Electronics taking 105th place. According to the U.S. business magazine, Samsung Corp. was ranked 118th this year, followed by SK Corp. (120th) and Hyundai Motor (133rd). Among other firms, LG Electronics ranked 202nd, Hyundai Corp. 219th, LG International 248th, Samsung Life Insurance 286th, SK Global 289th, KEPCO 324th, **KT Corp. 413th** and POSCO 494th, the magazine said.

[24] The Donga Ilbo, May 6th 2002

The sales brought in USD24.8566 billion, of which USD11.4723 billion went into the government coffer. Another effort at selling additional shares domestically early those year was unsuccessful. In 2001, KT had successfully raised $2.242 billion (2.9125 trillion won) by selling a 17.78 percent stake held by the government to foreign investors.[25] Telecom operator sold off 111 million American depositary receipts (ADRs), representing around 55.5 million underlying shares listed on the Korea Stock Exchange, at $20.20 per share, or at a premium of 0.35 percent above the closing price of KT's shared on the Seoul bourse. But the issuing price of new ADRs, was at a discount of 0.74 percent of the closing price of KT's existing ADRs, listed on the New York Stock Exchange on the same day.

However, most market experts hailed KT's ADR issue as a success, citing the compelling unfavorable conditions surrounding telecom companies around the world. After issuing DR, the government still had a 40.1 percent stake in Korea Telecom and was trying to sell up to 15 percent of shares to a foreign strategic investor. At last, the government and KT formed a strategic alliance with the world's largest software giant Microsoft Corp. as the government agreed to sell an 11.73 percent stake in KT valued at

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[25] KT and the government were reportedly to set the issuing price at around 58,500 won ($44.86) and thus raised around $2.5 billion by selling the stake. The issuing price of KT DRs was higher than its current share price. KT shares closed at 54,200 won

$1.82 billion to overseas investors and Microsoft. Finally the government share was reduced to 28.3percent.

1.2. In May 2002, the final stake sale

Actually, the government regarded the privatization as the main duty during their tenure. To accomplish the perfect privatization within their tenure, the government announced that the state stake of 28.3 percent, or 88.57 million shares, in KT Corp., the state-run telecommunications giant, would be entirely sold off in shares and exchangeable bonds (EB) by the end of May. As for the detailed stake sale plan, the government would sell off 14.5 percent in shares and 13.87 percent in EB (exchangeable bonds)[26]. The domestic allocation plan is the same as following. The ministry said it would offer 14.5 percent of KT shares to various local investors. Of the amount, about 5.67 percent would be allocated to KT employees, 2 percent was going to be placed with local institutional investors, 1.83 percent with retail investors, and 5 percent with a strategic alliance partner. (Total 14.5%) The remaining 13.87 would be offered to local investors in the form of exchangeable bonds. The prospective alliance partner would be able to buy exchangeable bonds representing up to a 10 percent stake in the company. No single buyer would be able to buy more than a 15 percent stake, the

[26] Exchangeable bonds were a type of bonds that can be converted to equity shares.

MIC (Ministry of Information and Communications) said. To prevent form any dominant rule by conglomerate and follow the model of POSCO CO., this complicated rule was planned.

However, the result was very different. Unfortunately, the MIC failed to grab due credit. Instead it was SK Telecom that stole the show by acquiring an 11.34 percent stake in KT with its enormous cash reserves. SK Telecom was known to have spent around 2 trillion won to become the largest shareholder in KT, showing off its powerful information-gathering capabilities and strategy to triumph over other conglomerates, notably Samsung and LG Group. SK Telecom was now scrambling to portray its KT stake purchase as a benign attempt to defend its business. SKT said it had no other choice but to purchase the stake in an unusual way in order to handle the share overhang problem and block its rival Samsung Group from securing a significant portion of the KT stake.[27] Due to the lambaste and pressure of the MIC, SKT sold 1.79% EB to the other institutional investors on July 16th, 2002. Finally, the KT privatization was over.[28]

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[27] KT has a 9.27 percent stake in SK Telecom.

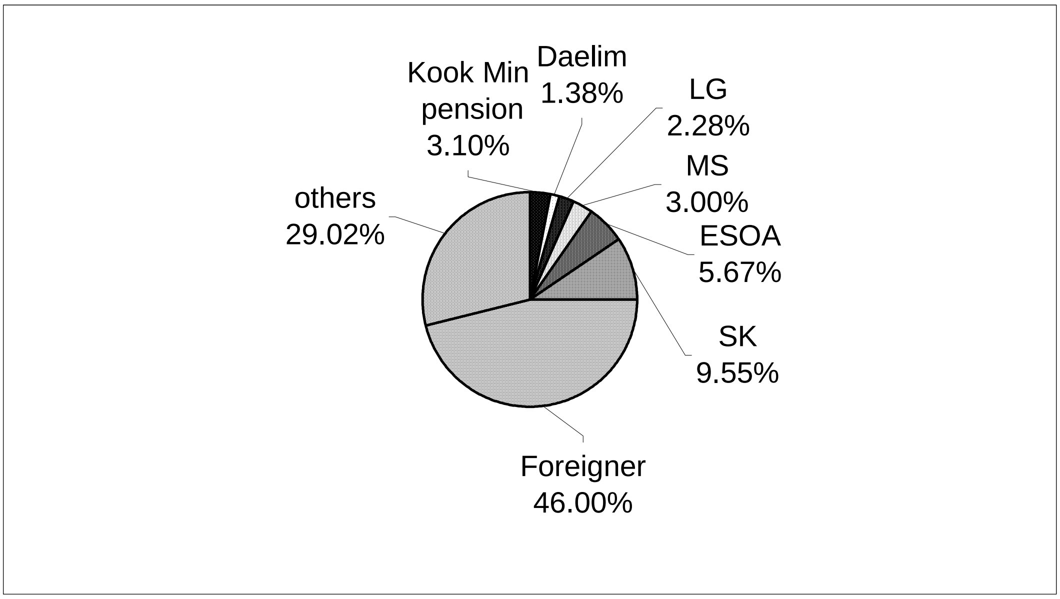
[28] Originally, a holding share-limitation of foreigners was 37.2% according to the Law regarding the Management Structure Enhancement and Privatization of Public Enterprise, however, after privatization, on the ground of Articles of Incorporation, a constraint ownership of foreigners extended to 49%.

< Table Ⅳ-1 > Equity and EB Allocation Result of total the government share

	Total Allocation	Equity		EB	
		Original plan	**result**	**Original plan**	**result**
Institutional Investor Group	4%	2%	2.22%	2%	1.78%
Strategic Investor	15%	5%	10.77%	10%	4.23%
Individual Investor	3.66%	1.83%	2.17%	1.87%	1.49%
ESOA(Employee Stock Ownership Association)	5.67%	5.67%	5.67%		
Additional EB Subscription	0.04%				0.04%
Total	28.37%	14.5%	20.83%	13.87%	7.54%

Source: Korea Telecom company data

< Figure Ⅳ-1 > The shareholders of KT as of May 25, 2002



Source: Korea Telecom company data

<Table Ⅳ-2 > A summary of KT privatization

Date	Content
May-1987	The government announced a plan of PE privatization.
Oct- 1993	1st domestic sale (10%)
Apr-1994	2nd domestic sale (4.96%)
Nov-1994	3rd domestic sale (5.04%)
Oct-1996	4th domestic sale (0.05%)
Nov-1996	5th domestic sale (2.43%)
Nov-1996	6th domestic sale (3.32%)
Dec-1996	7th domestic sale (3%)
Dec-1998	Listed on the Korea Stock Exchange
May-1999	1st issued oversea DR (6.67%)
Feb-2001	8th domestic sale (1.07%)
June-2001	2nd issued oversea DR (17.87%)
Dec-2001	Finally formed a strategic alliance with MS. as the government agreed to sell an 11.73% stake in KT
May15th 2002	Book building for institutional
May 17th	Announcement of equity price
May 17th- 18th	Equity subscription for strategic, institutional & retail investors
May 20th	Additional subscription for equity
May 23rd	Announcement of equity allocation
May 25th	Stock delivery → finishing a privatization
July 16th	SKT sold its exchangeable bonds (EBs) of KT Corp., equivalent to 1.79 percent equity, to institutional investors

Source: KISDI , "A study of KT strategic alliance" 1999 pp.2-5 , KT Annual Report

2. An issue related to an ownership & governance of privatization in KT

2.1 The largest owner, the government in the process of privatization

In practice, the government asked the KT to play a role as a public enterprise even if privatizing process. Moreover, on October 1997, the KT was changed as a

Limited company by the Commercial Code. According to the Commercial Code, the changed governance item was as below table.

< Table Ⅳ-3 > The changed governance item when transferring as the State-Owned Corporate

	Before SOC	After SOC
Purpose of management	Minster of finance gave it.	Decided in the board.
Evaluation of management	The part of gov't management evaluation graded it.	Evaluated in the board
Supervise	Comprehensible supervise	After work regulation by the shareholder's right
Outside Audit	The Board of Audit and Inspection & the Parliamentary inspection of the administration	1) If there is a specific reason 2) If there is a parliamentary resolution

Source: Korea Telecommunication internal news letter, Sep.1997 pp.36

However, in spite of transferring as a SOC, the KT still was controlled by the government like regular Parliamentary inspection of the administration.

The government owns 59% of outstanding shares and is committed to selling down to 33% by the end of 2000 and still committed a variety of pressure to KT. For example, although in 1998, KT is given complete independence to set its own budgets and business plan without interference the Ministry of Information and Communications (MIC) requested the firm to hurry up constructing ADSL without the managerial efficiency and improvement. To make this basement, it needed around 8 trillion won. In addition, it asked 750billion won for establishing new network. Also, in the first privatization stage, although KT wanted to find oversea sale for maximizing earning, the MIC preferred to sell the SK. That is, the government had contradictable behavior: while propelled the privatization, it still asked to pursue the attainment of nation's goal. A unilaterally synthetic intervention in the process of privatization results in the delay, confused direction and managerial inefficiency finally. In the process of a privatization, although the government is the largest shareholder, it should not intervene a management of a public enterprise. Issuing DR or forming a strategic alliance with other foreign companies, the government's willing has a great effect on the contract. Also, foreign investors always watch the behavior of government. If there is a deep managerial interruption of government, it gives an effect on the stock market. At last, the sale of public enterprise gets an effect such as postponement.

2.2 A foreign ownership limitation problem

Revision of KT Corporation's Articles of Incorporation will enable foreign investors to purchase an additional 11.8% of common shares through the Korea

Stock Exchange starting August 21, 2002 after privatization. [29] The Telecommunications Business Law limits the aggregate foreign ownership of KT Corporation ("KT") to 49%. In addition, pursuant to authorization granted under the Privatization Law, KT's Articles of Incorporation currently allows the following methods for foreign investors to acquire KT shares: 5% through the Korea Stock Exchange, ADRs, withdrawal of underlying shares under ADR programs, exercise of warrants, conversion rights of convertible bonds or exchange rights under bonds exchangeable into shares, and direct investments under the Foreign Investment Promotion Law. Due to these restrictions, effective shareholding of KT's shares by foreign investors have been limited to 37.2% so far. With the completion of the privatization of KT in May 2002, the Privatization Law will cease to apply to KT after the extraordinary general shareholders' meeting scheduled for August 20, 2002. At the meeting, KT plans to propose for an elimination of above restrictions from its Articles of Incorporation. As a result, upon the resolution of the shareholders' meeting, foreign investors will be able to increase their aggregate share ownership

[29] KT: Listed on the Korea Stock Exchange in December, 1998

Increase in foreign ownership through issuance of DR

Government	Domestic Shareholders	Foreign shareholders	
		Domestic market	DR
59.0%	21.6%	5.0%	14.4%

from the current 37.2% to 49% by purchasing additional shares through the Korea Stock Exchanges starting August 21, 2002.[30] In the event that the foreign ownership is increased above 37.2%, elimination of above restrictions in the Articles of Incorporation may adversely affect the ability of KT to deliver shares to foreigners upon conversion of convertible notes issued on January 4, 2002 and the exercise of bonds with warrants issued on January 3, 2002.

If foreign investors acquire an additional 11.8% and conversion of convertible bonds or exercise of warrants result in the violation of the 49% foreign ownership limitation under the Telecommunications Business Law, such conversion or exercise will be effectively prohibited. In such an event, KT will pay cash to the relevant CB or BW holders exercising conversion rights or warrants, in accordance with the terms of the convertible bonds and the bonds with warrants.

However, as the share of foreign investor grows, the KT should consider foreign investors. Because the most of foreign investors buy stocks for the purpose

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30 There are two restrictions on the ownership of KT shares in addition to the 15 percent ceiling for any single party. First, the Telecommunications Industry Act puts a ceiling on the combined ownership in KT by foreign investors at 49 percent. Second, the act also forbids a foreigner to become the largest shareholder of KT. The last restriction on the ownership of KT was introduced to maintain KT as a Korean firm. But, no such restriction exists for SKT or any other telecom operator in Korea.

of portfolio, the KT must try to more consider allocation policy, a management of stock price and induce long term investors like pension fund, insurance.

2.3 A hardship of accomplishing distributive ownership

In the sale of public enterprise, it is very important that economic concentration. In fact, telecommunications has economic characteristics that are different to those found in more normal markets in many countries. There is almost one market. The KT is a kind of natural monopoly type in Korea.[31] Therefore, the government put its heart not concentrating on one large shareholder like a *chaebol.* In fact, there is no domestic investor who can take over a pubic enterprise with a large amount of capital except *a chaebol*. One of the most crucial reason that brought out a financial crisis was a wrong corporate governance structure of a *chaebol.* Thus the government really tried to prohibit converging a *chaebol's* ownership. It designed equipment that would make the largest stockholder. For instance, no single buyer will be able to buy more than a 15 percent stake. Also, it classified a *chaebol* as a strategic investor.[32] A strategic

[31] After a privatization, in order to prevent this radical change of governance and management rights, the BT used Golden Share and the France government used the GAS(groupe d'actionnaires stables).

[32] In those days, the Samsung, a major family-owned conglomerate or *chaebol*, was expected to purchase slightly less than 3 percent stake in KT while its rivals – LG and SK – might make a similar move.

investor would be able to receive a 5 percent stake, institutional investors 2 percent and retail investors 1.83 percent. The strategic investor would be given a right to purchase EBs (exchangeable bonds) worth 200 percent of the stake it bought, while institutional and retail investors would be allowed to purchase EBs worth 100 percent of their holdings. However, these government's efforts became bubbles. SK Telecom had secured a 9.55 percent stake in KT Corp., by additionally subscribing to acquire a 5.77 percent stake, on top of the 3.78 percent stake.[33] Although the government exercised great efforts, it failed to show a prohibition of the largest shareholders. Moreover, this result that was like oligopoly with alliance was on the verge of no competition, delay of developing next communication method and collusion price policy.

3.Efficient distributive ownership and professional management structure

3.1 Rearrangement of the board role

In principle, the board of directors was responsible for monitoring and

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[33] SK Telecom high position official announced SK Telecom's massive acquisition of KT Corp. stock was aimed at preventing Samsung Group's possible takeover of the wired carrier. He also said the company wanted to offset KT's ability to influence the price of SK Telecom stock with its 9.27 percent stake in SK Telecom. The two company agreed on equity swap on Nov. 2002: securities to be sold to SK Telecom-8,266,923 common shares of SK Telecom owned by KT Corporation and securities to be purchased by KT Corporation-29,808,333 common shares of KT Corporation owned by SK Telecom.

disciplining managers and for mitigating opportunistic behavior by controlling shareholders. In Korea Telecom, even though governing under the Commercial Code, however, few boards of directors pursued such actions. The legal responsibilities of directors were based on the principle of “duty of care” .Under this principle, directors were given the benefit of the doubt when questions of conflicts of interest arose. Their willfulness or negligence had to be legally proven beyond a shadow of a doubt. After privatization, the main principle between the board and the manager of KT was established. In the new Article of Incorporation, the new role of board was given: the BOD could (1) conduct performance review to determine if the new President performed his duties under the management contract or hire a professional evaluation agency for such purpose (2) submit a proposal for dismissal based on the result of its performance review, to the General Shareholders’ Meeting (3) determine yearly management goals for the president within the scope of target achievements during the term of office, which are subject to approval of the General Shareholders’ Meeting (4) report the result of its performance review to the General Shareholders’ Meeting. The board had a position that could check the management confirmly. Therefore, in the privatized KT, the follow rule must be manifested. According to the Basic Law Regarding the Management of Government-Owned Corporation since Feb. 1999, the internal board system of the KT was changed. The government –appointed board of directors was abolished and changed to a coexistence system of executive and non-executive directors. The outside director became a core of the board: (1) participates and admits the management strategy making (2) decides a main managerial purpose and result (3) evaluates manager and decides compensation. On the other hand, the inside director and managers have a full right about company's operation. The size of the board increased from 13(inside 5, outside 7) to 15(inside 6, outside 9)[34]. Thus because the privatized KT board pursues to the Anglo-American boarding system which regards the outside director as core part, it must reorganize centering outside director and must accomplish efficient managerial system. In addition, after privatization, the Articles of incorporation of KT was amended or deleted such as Article 26.[35] That is, after financial crisis, Korea was transferred to the shareholders capitalism containing small shareholders. The following table shows the changes in the minimum proportion of shares required for each minority shareholders right.

[34] The current CEO is LEE, Yong-Kyung.
[35] Top 13 shareholders in proportion to their respective shareholdings as of the record date or the date of closing of the register of Shareholders.

< Table Ⅳ- 4 > Minority shareholders rights in Korea

	Security Exchange Law (applicable for listed company)			Commercial Code (applicable for unlisted company)	
Minority shareholders right	Revised April 1997	Revised Feb. 1998	Revised May 1998	Before Revision	Revised Dec. 1998
Derivative suit against the management	1% (0.5%)	0.05%	0.01%	5%	1%
Request to remove directors	1% (0.5%)	0.5%	0.5% (0.25%)	5%	1%
Opening financial books	3% (1.5%)	1% (0.5%)	1% (0.5%)	5%	3%
Shareholder proposal to shareholders meeting	1% (0.5%)	1% (0.5%)	1% (0.5%)	-	3%

The numbers in the parenthesis is for a company with a paid-in-capital over 100 billion won.

Source: Ha-sung Jang, "Privatization and Corporate Governance of SOEs in Korea", 2000, OECD pp.6

Improved shareholder's rights enhance the market monitoring function. Therefore, the current board should try to consider the minority shareholders rights in order to reach amicable result in the Shareholder's committee.

3.2 Trying to find efficient Outside director[36] appointment method, process and remuneration

[36] The director can be classified with large five category: executive director(inside director), affiliated director, family director, shadow director, outside director etc.
Finkelstein, S. & D.C. Hambrick, 1995, "Strategic leadership: Top executives and their effects on organizations" St. Paul, MN: West Publishing Company.

Outsider directors are not dependent on the chief executive for promotion, or for legal or consulting business. Thus, they are relatively free from conflicts of interest, and better able to protect the owners' interests. This philosophy prompted companies to raise the number of outside directors in KT's boardrooms, and, more importantly, the ratio of outsiders to insiders on the typical board. Currently, the ratio of outside director is increased after a financial crisis, the origin structure is as follow.

< Table Ⅳ-5 > Comparing with the origin structure of outside director (unit:%)

	Manager	Academic People	Leagal profession	Accouter	The press, Doctor	Gov' officer	Etc.
Korea	30.2	19.3	11.0	8.7	3.3	3.3	23.2
U.S	81.1	9.8	1.3	2.3	1.9	1.9	1.0

Source: Yong Yul Kim, Chang Hyun Cho, Myung Hyun Cho," The Corporate Governance Reform for a leap of advanced economy" 2000,Seoul, *Korea Institute for Industrial Economics & Trade* pp.202

On the other hand, the KT origin structure is the same as a below table.

< Table Ⅳ-6 > Comparing with the origin structure of outside director of KT

	Manager	Academic People	Leagal profession	Accouter	The press, Doctor	Gov' officer	Etc.
KT	3	2	2	•	2	•	•

Before privatization, the Shareholers' Committee was able to recommend candidates for non-standing director, however, now right to recommend candidates for non-standing director was transferred to Outside Director Candidates

Recommendation Committee within the board of directors (the Article 41 in the Articles of Incorporation). In fact, the largest shareholder's intention had a great effect on the appointment of an outsider director considering not his professional background but his relationship with the largest shareholder. The most important role of outside directors is not representing interests of specific shareholder such as largest shareholder and minority shareholders' group but maximizing benefit of whole shareholders. Thus, through professional committee, the outside directors should be elected.

< Table Ⅳ-7 > List of stock-option grantee

No.	Name	Postion	Title	Max. # of shares for stock options	# of shares linked to performance
1	Yong Kyung Lee	President	Standing Director	300,000	100,000
2	Tai-Won Chung	Senior Executive Vice President	Standing Director	100,000	30,000
3	Young Han Song	Executive Vice President	Standing Director	60,000	20,000
4	Joong Soo Nam	Executive Vice President	Standing Director	60,000	20,000
5	An Yong Choi	Executive Vice President	Standing Director	60,000	20,000
6	Hong-Seek Chun	Executive Vice President	Standing Auditor	100,000	30,000

- Formula for # of shares paid based on 2003 performance
  - # of shares linked to performance x (100/30 x (performance score –70))%
- Exercise price: 70,000 won
- Exercise period: December 27, 2004 ~ December 26, 2009
  - 2004.12. 27 ~ 2005.12. 26 – 1/3 is exercisable
  - 2005.12.27 ~ 2006.12.26 – 2/3 is exercisable
  - 2007.12.27 ~ 2009.12.26 – 100% is exercisable
- Some of the treasury shares acquired from the equity swap with SKT will be used for the stock options

Source: KT internal data

In addition, it needs additional incentive system in order to guarantee independence and enhance responsibility of outside director. Table Ⅳ-7 shows a current incentive system of KT. To strengthen shareholder-oriented management, and to reinforce responsible management, KT Board of Directors has approved to grant stock options to five standing directors and a standing auditor. Moreover, among the total number of shares granted to each grantee, some portion will be paid based on their 2003 performance.

Recently, when we consider the importance of outside directors, it is hard to induce to maximize the value of a KT only regular salary. Also, it is desirable to give stock-option and prohibit sell for a decided period. Thus, by connecting their interest relationship to long term corporation value, it has them to induce to improve the value of KT.

3.3 Actualizing principal board committees

According to the Basic Law Regarding the Management of Government-Owned Corporation since Feb. 1999, the CEOs of the KT[37] were recruited openly by a "presidential nomination committee" and were recruited to sign management performance contracts for their jobs. Also, there was external monitoring of management and the CEO, the knowledge-based management systems, and the economic value-added (EVA) system. The managerial technique of EVA might provide employees compensation and enhance share values before might provide employees compensation and enhance share values before privatization (MPB,2000)

In addition, to attain efficient corporate governance and ownership system, KT should actualize other committees. Now, KT has several committees: the legal committee, the nominating committee which is composed of one executive director and four outsider directors, the management committee, remuneration committee which is consist of five outsider directors, the budget consulting committee which

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[37] Former CEO background of KT

1st: 1981-1988 Army general, Parliament member

2nd: 1988-1990 Deputy minister of Ministry of Communications

3rd: 1993-1995 Professor

4th: 1995-1996 Army general

5th: 1996-1997 Deputy minister of Ministry of Communications

6th: 1997-2000 the first internal promotion comprises four outsider director and a temporary executive director. As the former BT case, vigorous principal board committees can enhance the transparent management.

3.4 Strengthen the audit committee function

Within the system of corporation governance, the audit is often regarded as highly important. At the same time, however, there is the so-called expectation gap-i.e., a discrepancy between what the shareholders and other addresses of the audit expect and what the audit is actually able to achieve-to be observed on either side. In accordance with current law, the auditor already has two functions within the system of corporate governance: on the one hand, the auditor guarantees the reliability of the information disclosed by the company; on the other hand, the auditor also has to evaluate and to report on the economic position of the company in the auditor's report that must not become subject to public disclosure.

Under Korean law and KT articles of incorporation, KT must have one statutory auditor. A statutory auditor[38] was elected by the shareholders and serves a three-year term which expires at the close of the general shareholders meeting convened in respect of the last fiscal year of that term. A statutory auditor was not required to be a certified public accountant. With the completion of the privatization of KT

[38] The most current statutory auditor was Hong-Seek Chun, who has served in his current position since March 2000.The statutory auditor was entitled to attend and express opinions at meetings of the board of directors, but does not vote.

Corporation, KT should establish an audit committee to replace the statutory auditor in accordance with the Securities and Exchange Act.[39] On March 2003, KT will abolish a statuary auditor and establish audit committee.With the board, the audit role is the core of governance. Thus, the KT must clarify the duties of audit committee: examining the agenda for, and the financial statements and other reports to be submitted by the board of directors, a general meeting of shareholders and reviewing the administration of each affairs by the board of directors.

Ⅴ. CONCLUSION

This paper has investigated the process of perfect KT privatization and searches the efficient ownership and governance structure. In fact, the main difference between a public enterprise and a private corporation is the ownership problem, what is called a principal-agent problem. Consequently, in the present situation, the crucial ingredient of corporate governance and ownership problem is the board. Like BT and other western nations, outsider director problems, sub-committees and the auditor or audit committee are core parts. In KT case, the

[39] According to the Securities and Exchange Act, a listed firm which has over 2 trillion must make a audit committee.

allocation of stake on May this year has many meanings.

In a nutshell, including SKT's share–purchase and probability of monopoly issue, first and foremost, KT should accomplish distributive ownership and professional management structure: trying to find methods actualizing the board commitment, appropriate outsider director works, practical plans boosting the principal methods and audit function.

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