DEVELOPMENT AND SOCIETY
Volume 32 Number 2, December 2003, pp. 253~270

CHANGING CORPORATE GOVERNANCE IN KOREA: RISE OF A MARKET FOR CORPORATE CONTROL OR THE STRATEGIC ADAPTATION OF *CHAEBOL*?*

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The Asian crisis at the end of the 20th century has brought many changes in the Korean economy and business organizations. In this paper, we focused on corporate acquisitions during the period 1997-2000. We draw theoretical insights from institutional theory, network theory, resource dependence, and financial economics. Taking advantage of detailed event-level data of mergers and acquisitions between 1997 and 2000, we apply hazard rate models to explain correlates of major acquisition offers. We were able to identify substantial amount of heterogeneity in the corporate acquisitions, and drew two major division lines for different types of acquisitions depending on who made offers: foreign/domestic and member/non-member of business group. Model estimation results show that the sets of variables affecting acquisition offers differ by the types of acquisitions. Acquisitions by business group members depend less on the market evaluation of target firms when compared to the acquisitions by foreign firms. Foreign firms are more likely to follow rules of market for corporate control in making decisions on acquisitions. These results provide partial support for the theoretical insights we examined in this paper.

INTRODUCTION

One of the important changes that have emerged in the Korean business scene after the Asian crisis is the rise in the number of corporate acquisitions. The situation immediately following the sudden outbreak of the crisis was one of an absolute lack of liquidity. The cash pipelines from abroad to the *chaebol* through merchant banks were shut down. The Korean government took the austerity approach following the IMF's advice. Even if there was some liquidity available domestically, the general atmosphere was one of a credit crunch where everyone distrusted everyone else; the typical bad

* Research for this paper was made possible by a generous support from the Korea Research Foundation (Grant # KRF-99-042-C00189 C3101) granted to the second author. We would like to thank Kim Byung-Soo, Kim Young-Ran, and Cha Young-Ju for assistance with data compilation.

equilibrium in a multiple equilibria game. On the other hand, the *chaebol* badly needed liquidity, in order to have liquidity supply flow again. For example, they were required to lower the debt-to-equity ratio down to or below 2 within about two years.

In a situation like this, receiving foreign capital investment or selling off part of the asset was generally viewed as a strong signal toward the firm's recovery. However, until just a few years before the crisis, words like mergers and acquisitions had been extremely alien to the Korean *chaebol*. The *chaebol* had been able to mantain family control for decades by means of hierarchically organized cross-shareholdings. Debt financing, rather than reliance on the capital market, had been the key to capital mobilization. A *chaebol* subsidiary becoming an acquisition target was virtually unheard of in the Korean capital market. The legal system was also generally inclined toward business stability by means of large shareholder protection rather than small shareholder rights. Institutional investors, for example, were prohibited by law from exercising their voting rights no matter how many shares they held.

The sudden increase in corporate acquisitions in a market like the one described above, especially when it is immediately after a major economic crisis, is an intriguing phenomenon by itself. Even more significant is its possible impact on the corporate governance in Korea. If this increased number of acquisitions meant pulling out inefficient management and plugging in a more efficient team, it could mean long overdue corporate governance reform by market forces diagnosed by many economists and the IMF. In other words, one could argue that the market for corporate control has finally been activated in Korea.

We examine this phenomenon by identifying factors affecting the likelihood of a *chaebol* subsidiary becoming an acquisition target. For this purpose, 140 *chaebol* subsidiaries, 40 of which became acquisition targets, listed in the Korean Stock Exchange for the period January 1997 through February 2000 are analyzed. We use event history techniques.

CORPORATE ACQUISITIONS, MARKETS, AND ORGANIZATION THEORIES IN THE CONTEXT OF POST-CRISIS KOREA

Acquisitions and Organization Theory

In a well-functioning capital market, firms that are poorly managed by either inefficient or opportunistic managers provide investment opportunities (Manne, 1965). Investors can take over these firms and realize capital gains by replacing the incumbent management with a more efficient team. The market can also evaluate the firm's performance reasonably well, thereby making the market-to-book ratio of the share price a reliable signal for these investment opportunities. A low market-to-book ratio means that this firm is undervalued, and signals poor management. Researchers from the financial economics perspective agree that high market-to-book ratio is negatively related to becoming takeover targets (Palepu, 1986; Morck, Shleifer, and Vishny, 1988, 1989).

Ideas differ based on the organization theory viewpoint. Corporate acquisitions and takeovers provide extremely interesting data in which organization theorists can still encounter *knights*, *raiders*, *poison pills*, and *golden parachutes*, as if we were in one of those fantasy novels. On the other hand, we are relatively poorly equipped with organization theories that can deal with these interesting cases. Focusing on the relationship between organizations and their environments, open-systems organization theories have tried to identify the theoretical engines that distinguish organizations that can 'adapt' to environmental requisites and those that fail to do so and eventually 'die' (Davis and Stout, 1992). However, acquisitions and takeovers confound this way of thinking because they are neither 'adaptations' nor 'deaths,' but 'transformations.' In a sense, they are a way in which organizations that have failed at adaptation survive by transforming themselves rather than dying away. Davis and Stout (1992) point out that this kind of difficulty that organization theories have at explaining takeovers is due to the implicit premise of accepting managerial revolution as the *status quo*. Shareholders are assumed dispersed and powerless, while professional managers of large corporations seek growth and environmental certainty, immune from takeover threats. In the U.S., this implicit premise was effectively nullified by the 1980s merger wave in which large corporations became acquisition targets. As Herman and Lowenstein (1988) state, "the former stability of corporate control and irrelevance of shareholder ownership and voting rights to corporate power has been badly shaken and weakened."

Since the 1980s, organization theorists have made numerous attempts to devise theoretical engines that can deal with takeovers and acquisitions. We focus on two lines of such efforts: network theory and institutional theory. Combining theoretical insights and empirical evidence from various related perspectives such as 'embeddedness' (Granovetter, 1985), 'resource dependence' (Pfeffer and Salancik, 1978), 'inter-organizational power structure' (Mintz and Schwartz, 1985), 'inner circle' of business elites (Useem, 1984), and 'strategic embedding' (Burt, 1992), network theorists suggest that firms better located in the inter-corporate network are less susceptible to predatory takeovers (Palmer et al., 1995).

Institutional theory focuses on somewhat different factors that might affect takeovers. To some, takeovers and acquisitions are basically diffusion processes. Accordingly, they attempt to identify institutional settings that allow for such diffusion processes to begin. Stearns and Allan (1996) find that increases in the amount of capital stock that can be invested in the corporate sector, and easier access to such capital by newcomer-experimenters in the market are critical for such diffusion. In the case of the 1980s merger wave in the U.S. market, the accumulation of Eurodollar, growth of mutual funds, and the relaxation of antitrust laws met such conditions. Others argue that how people view firms — the conception of control — is the key to understanding corporate acquisitions. Takeover waves are a result of changing conceptions of control from manufacturing to finance (Fligstein, 1990).

Within the boundary of organization theories, debates have been ongoing between the two camps (Palmer, Barber, and Zhou, 1995). For example, arguing that an economic sociology must be institutional and historical, Fligstein criticizes the network approach for ignoring: (1) important societal institutions such as state, politics, law, and family; (2) the interplay among these institutions; and (3) cultural frames of action of which the finance conception of control is an example (Fligstein, 1995). Although we can perfectly agree with Fligstein, we do not see any reason why network theory cannot be integrated with institutional theory. Rather than viewing these two theoretical camps as contradicting each other, we interpret Fligstein's criticism as an advice that the meaning of networks has to be interpreted in the context of the institutional as well as the competitive environment. We attempt to contribute exactly such an endeavor in this paper.

Post-Crisis Korea: The Institutional Context

The turnover rate in the largest Korean *chaebol* has traditionally been significantly higher than their American counterparts. Of the 30 largest Korean companies as of 1999, 77% were either not on the list or yet to be established in 1989, while the comparable figure is about 60% among American firms (SERI, 2000). This means that the *chaebol* had been more accustomed to the survival-or-death way of doing business than were Fortune 500 companies.

However, the bankruptcy domino immediately after the Asian crisis forced *chaebol* to reconsider the viability of this familiar practice. The general lack of liquidity and credit crunch were definitive signals that the survival-or-death way of doing business was no longer viable. For the *chaebol*, selling off part of the business group by becoming an acquisition target was one way of refusing death.

Also, the policy changes after the Asian crisis were generally favorable for corporate acquisitions. Those changes largely met the conditions necessary for major takeover waves in the U.S. The Foreign Capital Inducement Law and the Securities Exchange Law were amended in February, 1998, to allow hostile takeovers of Korean firms by foreigners. Before this, foreigners had been required to get permission from the Minister of Finance and Economy in order to acquire Korean firms with assets of more than 200 billion won. This regulation was lifted. Further, the percent of shares held by foreigners above which needed approval of the board of directors was re-set from the previous 10 percent to 33.3 percent. Generally, things became easier than ever before for foreign capital to acquire Korean firms.

As in the U.S. experience, MRFTA (Monopoly Regulation and Fair Trade Act), the Korean counterpart to the U.S. antitrust law, was revised to loosen the basket regulations on *chaebol's* equity holdings. This was a significant change because MRFTA has been the major regulatory tool for the government to control big businesses since its second revision in 1986. The MRFTA originally prohibited *chaebol* subsidiaries from holding shares of other firms belonging to the same business group that exceeded more than 40% of the holding firm's assets. The original intent was to regulate *chaebol's* ruthless pursuit of growth by means of share crossholdings. After the crisis, the *chaebol* took the opportunity to loudly voice that they were experiencing difficulty in complying with the government reform policy because the MRFTA regulation did not allow reshuffling of ownership. This important regulation was also lifted, though temporarily, to allow business streamlining and other changes implied in the reform policy. The lifting of MRFTA regulations resulted in a more favorable environment for takeovers, especially when the *chaebol* subsidiaries were the acquirers.

Another factor that was conducive to corporate acquisitions was the philosophy of the corporate restructuring program devised by the Korean government. After several chaotic months had passed since the outbreak of the crisis, the Korean government officially announced its corporate sector reform program in May 1998. According to the official account announced by the Financial Supervisory Committee, the underlying philosophy of the corporate restructuring program was the "London Approach." This guideline was originally formed by the Bank of England through the 1970s and 80s, and closely copied by the FSC at the end of the 20th century. This reform philosophy is interesting, especially for economic sociologists, because it is based on the principle of “trust,” rather than “market forces” or “state leadership” (Chang, 2001). It was designed that way to avoid both excessive state intervention and the market’s over-killing of viable firms over the long-term. The Corporate Restructuring Agreement among creditor institutions and the Financial Structure Improvement Agreement between creditor banks and *chaebol* were arranged by the government to “replace the ‘gentlemen’s agreement’ in Britain until the creditor institutions accumulate mutual trust” (FSC, 1999). Note that this trust-based philosophy and the consequent government-mediated Agreements have some commonality in the sense that they allow business organizations that have to die according to the predictions of organization theory to avoid deaths. When the government was actively mediating debtor firms and creditor institutions to avoid corporate deaths, takeovers and acquisitions as a way of avoiding death were not only allowed, but even encouraged.

CORPORATE ACQUISITIONS IN KOREA, 1997-2000: A BROAD DESCRIPTION

In this section we provide a brief sketch of corporate acquisitions in which Korean firms were involved as either acquirers or targets for the period January 1997 through March 2000. Together with the theoretical review and the institutional context discussed in the previous section, this sketch will lay the groundwork for the analyses in the following section.

Figure 1 shows the distribution of corporate acquisitions involving Korean firms by month and by type for the period between January 1997 and March 2000. Excluding the small number of cases in which information on either the acquirer or the target or both was not disclosed, the number of corporate acquisitions involving Korean firms has been on a steep rise from 85 in 1997 to 160 in 1998 and to 247 in 1999. Entering 2000, the number suddenly drops. Casual observers and business presses have cited this increase as evidence for the operation of a corporate control market in Korea.

Going back to the raw data and classifying these 492 acquisitions into several categories, we made the following observations.[1] First, in terms of the number of acquisitions, there is some evidence that in Korea the corporate control market has begun to operate. Second, the overall trend is deter-

[1] See Chang (2002) for more detailed explanation.

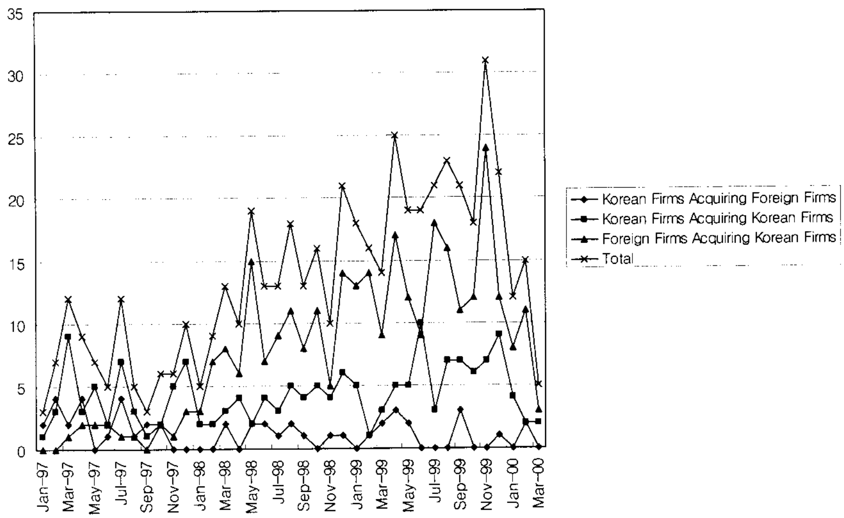

FIGURE 1. CORPORATE ACQUISITIONS INVOLVING KOREAN FIRMS, 1997-2000
Source: Chang (2002).

mined by Korean firms' acquisition of Korean firms before the crisis, while it is determined by foreign firms' acquisition of Korean firms after the crisis. Third, judging from the acquisition synopsis, the cases of Korean firms acquiring other Korean firms seem to reflect either *chaebol's* responsiveness to major government economic policies such as the corporate restructuring policy and the selection of telecommunications service providers, or the *chaebol's* need to rearrange equity ties within the business group boundary, rather than the operation of market forces. Fourth, foreign firms' acquisitions of Korean firms demonstrate some pattern according to the year of acquisition. The most favored targets were finance and telecommunication companies in 1998 and on-line businesses smaller in size in 1999, reflecting that foreigners' acquisitions of larger Korean firms were affected by the undervalued Korean won in the previous year.

How do we assess this general trend in terms of the operation of market forces? The broad description we provided in this section suggests two answers. First, although there is some evidence for the existence of a corporate control market operation, it is likely that its impact is exaggerated. Second, acquisitions by domestic firms and by foreign firms might be working on different principles. In the following sections, we provide more specific answers by identifying characteristics affecting a firm's vulnerability to acquisition through event history analysis of the same data.

DATA AND METHOD

Sample

The initial sample consisted of *chaebol* subsidiary firms that were listed on the Korean stock market from 1997 to 2000. As our research interest lies in whether the rising number of acquisitions had any effect on the corporate governance of *chaebol*, we restricted our observations to subsidiary firms of *chaebol*. Although it is possible for firms not listed on the stock market to be acquired, we focus our attention on the functions of the capital market in mediating the acquisitions. Our observation covers the period between 1997 and 2000. As we have already seen in Figure 1, acquisition activities were quite active and on the rise during our chosen period. Although some acquisitions occurred before the economic crisis, a wide and abrupt diffusion of acquisitions took off only after the crisis.

Data

The data were compiled from a number of sources. The list of acquisition offers were coded from the news releases at the time of the potential acquirer's announcement of intention of acquisition. We first identified all the acquisition offers made in our observation period and then selected cases in which *chaebol* subsidiaries were the target of acquisition offers. We coded information on who made the offers, whether the offer was successful, and whether the acquisition offer concerned the dominant share of the target firm or just a part of assets or a division of business.

Based on the information of who made the offers, we distinguished between three different types of acquisition offers. The first is the offers made by members of the same *chaebol*. This type of acquisition attempt differs from other types of acquisitions in that they are more likely to reflect the decisions of *chaebol* headquarters. Such acquisition offers should reflect less of the market situations and more of the inner dynamics of organizations. The other two types of acquisition offers are made by the outsiders of *chaebol*. These offers are again differentiated by the nationality of the offering firm. One of the distinct changes in the recent Korean corporate scene is that foreign influence is rapidly increasing, reflecting the globalization of the economy. The acquisition offers from abroad differ in characteristics from those of domestic firms. They tend to have higher chances of success — about 60% compared to less than 30% success of offers from domestic firms. They also focus more on specific parts of assets — 84% of offers from abroad compared to less than half from domestic, rather than the dominant share.[2] Therefore we compare three distinct types of acquisition offers from *chaebol* insiders, foreign outsiders and domestic outsiders.

Our measure of the dependent variable was the number of days from January 1, 1997 until the firm became subject to an acquisition offer. Firms that were not subject to such an offer by March 1, 2000 were considered right-censored. We allowed the event of receiving offers as repeated events and firms that received more than one offer during the observation periods repeatedly entered the risk set.

We obtained annual data on price-to-book ratios, returns on equity, free cash flow, and the amount of capital from the internet homepage of the Korean Information Service (http://www.kisinfo.com), which provides detailed information on the firms listed on the Korean stock market. As some measures of our independent variables are ratios, there are occasions in which small denominators led to extreme outliers. We excluded such firm-years because of outlier values. Measures are sometimes not defined due to a negative value of the denominator, and such cases are also excluded from our final samples. This decision did not substantially affect the statistical results.

Data on the dominant ownership block of the firms came from the on-line data analysis, retrieval, and transfer (DART) system of the Financial Supervisory Service (FSS) of the Korean government. All the financial reports submitted by the firms listed on the stock market are disclosed on the homepage. We distinguished between family ownership, cross-shareholding ownership, and diffused ownership. The first two types are the dominant ownership patterns of *chaebol* in Korea. We also coded the shares held by the dominant shareholder, and counted the number of shareholders holding shares larger than 5% of the total. Age was calculated using information on the year of founding from the on-line DART system of FSS.

Models

The primary statistical technique we employed was event history analysis with time-varying explanatory variables (Blossfeld and Rohwer, 1995). Event history models are analogous to multiple regressions in which the dependent variable is the (unobserved) hazard rate, the rate at which events happen. Intuitively, the notion of a hazard rate is that at any given moment

[2] Special caution is needed in interpreting the foreign shares of Korean *chaebols*. Officially disclosed foreign shares of *chaebols* are often hidden friendly shares of the *chaebols* themselves. We thank an anonymous reviewer for pointing this out.

each member of the risk set (those for whom the event in question is a possibility) faces some underlying risk that the event will happen and that this risk is related to time and to characteristics of the individuals in the risk set.

A number of techniques have been developed to parameterize both components of the hazard rate (Tuma and Hannan, 1984; Blossfeld and Rohwer, 1995). As our primary interest in this study lies in testing hypotheses on the characteristics of individual firms that made them more or less susceptible to acquisition bids rather than in any particular temporal patterns of such offer, we can employ a semi-parametric model, commonly known as the Cox model, based on the proportionality assumption in the following form:

$$h(t) = q(t) \exp[\alpha \mathbf{x}(t)].$$

where $h(t)$ is the (unobserved) hazard rate for an acquisition offer, $q(t)$ is a baseline hazard function, $\mathbf{x}(t)$ is a vector of the independent variables that can vary over time, and α is a vector of coefficients corresponding to the independent variables. The baseline hazard function, which is not estimated, is common across the population and can take any form as a function of time, thus allowing estimation of the effects of the variables of interest without specifying patterns of time dependence.

As we are interested in comparing different types of acquisition offers, we utilized Cox hazard rate models with one origin and multiple destinations. The same sets of covariates are employed in predicting destination specific rates at the same time. In our data, most of the independent variables vary over time, and thus each firm's history over the decade is divided into annual spells from 1997 to 2000. For a firm that neither became a target of an acquisition offer nor was deleted from our population for other reasons, the firm's history was considered right-censored. In estimating the event history models, we used the Transition Data Analysis (TDA) program version 6.2, developed by Gotz Rohwer (Rohwer and Potter, 1998).

RESULTS

Figure 2 shows the plot of the survivor function of firms receiving acquisition offers. Twenty eight percent of the firms in our sample experienced at least one acquisition offer during the thirty eight months between January 1997 and February 2000. The empirical hazard rate of receiving an acquisition offer accelerated at two points around 200 and 900 days. According to the graph, acquisition activities proceeded at an accelerating rate after the economic crisis at the end of 1997.[3]

Figure 3 presents the distribution of timing of offers by the three different types of acquisition offers that we identified. Among the three types of offers, offers made by domestic outsiders came first and those from foreign outsiders were last, with acquisition attempts by group member firms coming in between. This result suggests that the time-dependence we detected from the survivor function presented in Figure 2 could be an artifact of heterogeneity of events. In other words, it could be that different processes have alternated and succeeded each other to generate the time dependence we observed in the survivor function plot of Figure 2.

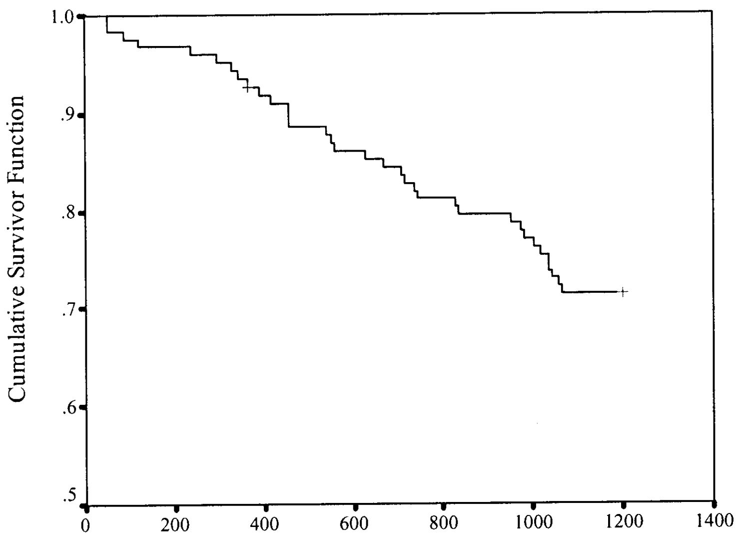

FIGURE 2. CUMULATIVE SURVIVOR FUNCTION OF FIRMS RECEIVING ACQUISITION OFFERS

[3] However, in analyzing the reorganized firms after M&A, externalities still remain that cannot be explained entirely by the concept of survival function. It is mainly due to the fact that a market for corporate control itself is a relatively new phenomenon in Korea, and that transactions in this market follow the Western notion of contract rather than the Korean notion of relations, which is rather unexpected by Korean *chaebol*. Corporate actors, in both acquiring and acquired firms in the market, suffer from the problem of 'bounded rationality' with limited information. We thank an anonymous reviewer for bringing this point to out attention.

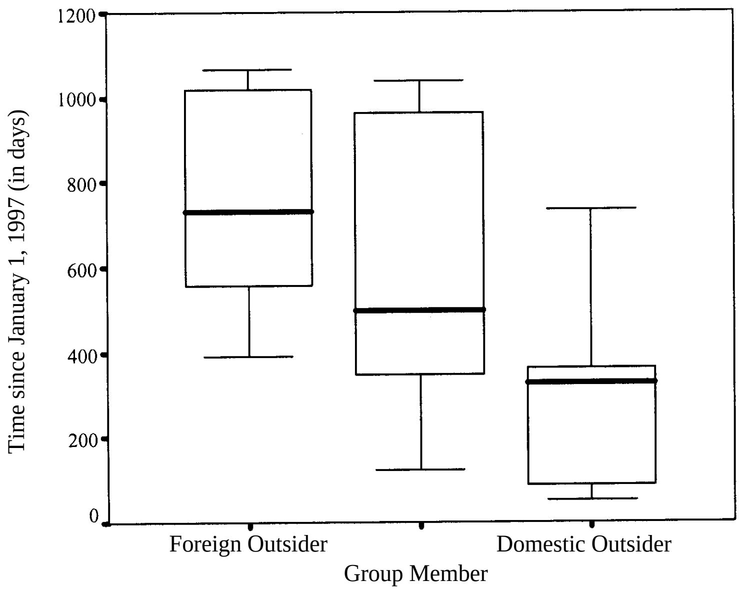

FIGURE 3. DISTRIBUTION OF TIMING OF OFFERS BY TYPES OF ACQUISITION OFFERS

We further investigated the relationship between the three types of acquisition offers by applying a multi-destination Cox hazard rate model to our data. Table 1 shows the results from estimation of the model. Effects of same sets of covariates on each type of acquisition offer are simultaneously estimated.

The age effect is positive and statistically significant ($p<0.05$) for the hazard rate of receiving acquisition offers by foreign firms. The age effect is positive for offers from domestic outsiders, but not significant. The direction of the age effect is reversed for acquisition attempts by group member firms, but it is not statistically significant. Positive age dependence of receiving acquisition offers from foreign firms support Davis and Stout's (1992) inertia argument. They pointed out that older organizations are less likely to be agile in the face of uncertainty and transform themselves internally to avoid the threat of acquisition.

Free cash flow and the amount of capital both have positive effects on the rate of receiving acquisition offers for all three types. However the effects of capital on acquisition offers are significant only for offers by foreign and group member firms. These results are consistent with the general notion that firms with slack resources are more attractive targets of acquisition offers (Cyert and March, 1963; Thompson, 1967; Jensen, 1986; Davis and

TABLE 1. ML ESTIMATES OF MODELS OF DESTINATION-SPECIFIC HAZARD RATES OF DIFFERENT TYPES OF ACQUISITION OFFERS

	Acquisition by foreign firm	Acquisition by group member firm	Acquisition by non-group member domestic firm
Age	0.0364**	-0.0261	0.0146
	(0.0183)	(0.0354)	(0.0246)
Cash flow	0.0001	0.0000	0.0003
	(0.0002)	(0.0003)	(0.0002)
Amount of capital	0.0055**	0.0056**	0.0020
	(0.0013)	(0.0016)	(0.0029)
Price to book	-0.0350	-0.2993	0.0242
	(0.1737)	(0.4864)	(0.0349)
Return on equity	-0.0011**	0.0045	-0.0003
	(0.0004)	(0.0139)	(0.0016)
Number of major shareholders (>5%)	0.1002	0.1646	0.0115
	(0.1425)	(0.1871)	(0.1860)
% Shares held by dominant shareholder	0.0471**	0.0170	0.0523*
	(0.0230)	(0.0325)	(0.0270)
Family ownership	-0.0081	-1.0257	-0.0557
	(0.4854)	(0.8402)	(0.6827)
Number of events	25	11	14
Number of spells		427	
LL of null model		-493.555	
Maximum of LL		-210.921	

*p < 0.1, **p < 0.05

Stout, 1992). High price to book ratio turns out to have lowering effects on acquisition offers from foreign firms and group member firms, but these effects are statistically not significant. However, return on equity (ROE) does have a significant effect of lowering the chances of acquisition offers from foreign firms. As Davis and Stout (1992: 613) state, "while market to book provides a long-term measure of the capital markets' evaluation of the firm, return on equity provides a more immediate measure of corporate performance." The negative effect of price to book and return on equity on chances of acquisition offers may imply that general rules of the capital market are working to discipline the underperforming firms. However, the effect of return on equity on acquisition from foreign firms alone is statistically significant.

Consistent with earlier studies, family control tends to decrease the risk of acquisition offers. However, the negative effect of family ownership is not

TABLE 2. ML ESTIMATES OF MODELS OF HAZARD RATES OF SUCCESSFUL AND UNSUCCESSFUL ACQUISITION OFFERS

	Unsuccessful acquisition offers	Successful acquisition offers
Age	0.0094 (0.0222)	0.0255 (0.0169)
Cash flow	0.0001 (0.0002)	0.0001 (0.0002)
Amount of capital	0.0052* (0.0013)	0.0048* (0.0013)
Price-to-book ratio	0.0403 (0.0607)	0.0077 (0.0529)
Return-on-equity	-0.0014* (0.0005)	- 0.0001 (0.0013)
Number of major shareholders (>5%)	-0.0516 (0.1735)	0.1597 (0.1149)
Dominant shareholder's %	0.0352 (0.0266)	0.0449* (0.0184)
Family ownership	0.1370 (0.5181)	-0.5298 (0.4775)
Number of events	21	29
Number of spells		427
LL of null model		-475.764
Maximum of LL		-214.007

*p < 0.1

significant for any type of acquisition offer. Among the covariates related to ownership structure of the firms, the percent of shares held by the dominant shareholder has a significant positive effect on acquisition offers from firms outside the business group. This result is somewhat confusing in that those who are looking for takeover targets will favor firms with dispersed ownership. However, it is consistent with the Korean economic situation right after the economic crisis. As numerous firms faced shortages of liquidity, their primary banks became major shareholders by converting their loans to investments. Such firms would have a high percentage of shares held by the dominant shareholder, but this does not necessarily mean that the ownership is stable. These firms can be attractive as targets for take over.

As a whole, the results imply that the three different types of acquisition offers are affected by different sets of covariates and comprise distinct processes of changes in corporate control. As the three different types of acquisition offers coincide with different timings of acquisitions as is shown in Figure 3, institutional or policy changes at these different timings might have induced the differences among the three types of acquisition offers. However, it is impossible to disentangle these institutional or policy effects from other effects in this study.

Table 2 presents results from estimating hazard rate models for successful and unsuccessful acquisition offers. Overall patterns of covariates' effects do not differ very much between successful and unsuccessful acquisition offers. However statistical significance of effects differs between successful and unsuccessful offers of acquisitions. The amount of capital tends to increase the risk of acquisition offers regardless of whether or not they are successful. While the negative effect of return on equity is significant for unsuccessful bids, the relative shares held by dominant shareholders have significant positive effects on successful bids of acquisition. The significant effect of dominant shareholders implies that the success of acquisitions depends on the coordination action of dominant shareholders, who are mostly major financial institutions.

DISCUSSION AND CONCLUSION

The Asian crisis at the end of the 20th century has resulted in many changes in the Korean economy and business organizations. Of such changes, we focused on corporate acquisitions during the period 1997-2000. Acquisitions, especially *chaebol* subsidiaries becoming the targets, had been extremely rare before the crisis. Therefore, the sudden and steep rise in the number of acquisitions in the Korean market is in itself an intriguing phenomenon. Also, compared to the financial economics perspective, which views acquisitions as the market's sanctioning of inefficient management, these acquisitions occupy an interesting position in the context of organization theories, which are accustomed to classifying organizations into those that adapt and those that fail. Further, within the boundary of organization theories, there has been some debate between network and institutional approaches.

Thus, the increasing number of corporate acquisitions involving Korean firms after the Asian crisis suggests a few interesting research questions. First, does this trend signal the beginning of the operation of market forces in the Korean capital market, thus implying corporate governance by the market? Second, what was the institutional context in which such a rise in the number of corporate acquisitions could occur? Third, what are the characteristics of the firms that become exposed to acquisition attempts? Fourth, can we find any patterns in this first ever 'wave' of corporate acquisitions in

Korea? For example, do firms acquired by foreign firms have different characteristics from those acquired by domestic firms? Does ownership concentration have any effect on a firm's susceptibility to acquisition attempts? We attempted to answer these questions by analyzing the firm-level data on acquisitions, including members of business groups.

We were able to identify a substantial amount of heterogeneity in the corporate acquisitions. We drew two major division lines for different types of acquisitions depending on who made offers: foreign / domestic and member / non-member of business group. Corporate acquisitions initiated by a member of the same business group would better be taken as a case of group restructuring or strategic adaptation of business groups. Although they may count as acquisitions at an individual firm level, they comprise rearrangement and relocation of resources within certain boundaries at a higher level of the business group. Acquisitions initiated by firms outside the business group should be more true to the meaning of market for corporate control.

We found that these two types of acquisitions not only are temporally distinct, but also are affected by different sets of variables. Acquisitions by business group members preceded those by foreign firms, and depend less on the market evaluation of target firms when compared to the acquisitions by foreign firms. When we compared the two types of acquisitions initiated by firms outside business groups, we found that foreign firms are more likely to follow rules of a market for corporate control in making decisions on acquisitions. However, foreign firms are not yet fully active in constructing a market for corporate control in Korea. They seem to be more interested in acquiring parts of assets from *chaebol* subsidiaries at a bargain rather than in pursuing investment opportunities for undervalued firms.

Going back to the first question, "Does this trend signal the activation of a corporate control market in Korea?" The evidence from our analysis gives the following answer. Although the activation of a corporate control market argument is partially true, acquisitions by *chaebol* firms are better explained as restructuring within the business group or rearrangement of equity ties. Those by foreign firms seem to reflect market forces, but only partially. Price-to-book ratio, or the capital market valuation of the incumbent management, tells little about the vulnerability. However, return on equity, basically a real sector performance index, has a significant impact on this vulnerability. This result suggests that even when foreign firms consider a Korean firm as a potential target, they are viewing it not in terms of 'finance conception' but in terms of bargain opportunity.

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