

Perceptions of Acquisitions in Korea

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Owner/Management

- Korean firms are virtually all owner (founder) managed
- Relatives or close friends are placed in top management positions for:
 - Assured loyalty
 - Commitment
 - Reliability
- Professional management is not well developed in Korea (“salary President” is a derogatory designation)

Acquisitions are Threatening

- Historically, virtually all acquisition targets were failing firms
- Management of failing firms were replaced (since they were responsible for failure)
- Management of acquired firms resigned due to lack of relationship with new owner
- New owners put in family and/or close friends after acquisition (see Owner/Management points above)

Acquisitions are Insulting

An offer to acquire a Korean company suggests that:

- The company is a failure
- Existing management will be fired after the takeover

Possible Targets

Companies which are likely to be receptive to acquisitions are those where the owner:

- Is ready to retire and wishes to cash out of the business
- Has no relatives to whom he wants to leave the company
- Is ambitious and realizes that he requires a partner to grow

The 1997-98 financial crisis brought about significant changes in attitudes towards acquisitions. Many successful acquisitions were made of companies that were:

- Operationally sound but in a credit crunch
- Part of a conglomerate and designated for sale to raise funds to support the rest of the group

Supplementary Note

Today, although acquisitions are more acceptable than prior to 1997, takeovers still tend to be viewed as a “win-lose” proposition. Successful takeovers require developing personal relationships with the owners of the target and demonstrating that it is an honorable and expedient strategy offering the best possible outcome.

A recent article published in the Korea Times addressed owner managed firms and stated that 32 of 439 LISTED companies were professionally managed. The Korea Securities and Exchange Commission officially acknowledges that over 50% of listed companies are managed by their owners (not including relatives or close friends).

Korea’s largest conglomerates are managed by the founder or his direct descendent:

- Hyundai: Chairman Chung, Mong-ku is the eldest son of founder Chung, Ju-yong
- Samsung: Chairman Lee, Gun-hee is third son of founder Lee, Byung-chul
- LG: Chairman Koo, Bon-moo is the grandson of founder Koo, In-hoi
- SKC: Chairman Chey, Tae-won is son of founder Chey, Jong-hyun.