Corporate Governance Structure of Korea: An Empirical Study

Korea Institute of Finance Kim Dong-Hwan

This paper investigates the corporate governance structures of relationship-and market-oriented financial contracts between firm and bank in Korea empirically. Theoretically, the relationship-oriented financial contract or bank-led financial system can assure ex-post efficiency by liquidating a degenerative firm but rescuing a growing firm encountered with a temporary financial distress, but it may entail ex-ante inefficiency, e.g., hold-up problem. The hold-up problem can be alleviated by the market-oriented financial contract or under the firm-led financial system, however, which can not do away with a moral hazard of the degenerative firm. The results of empirical work are as follows: The relationship-oriented financial contract has not caused the ex-ante inefficiency but enhanced firms' performances. The market-oriented financial contract could not enhance the value of degenerative firm as was expected. Especially small number of large shareholders have had a negative effect on firms' performances.