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Unlocking Korean Market Value

Institutional Investor–Driven Governance Reform and the Resolution of the Korea Discount

You Jung Lee

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Shorenstein Asia-Pacific Research Center
616 Jane Stanford Way E301
Stanford, CA 94305-6055

650.723.9741 | **aparc.fsi.stanford.edu**

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About the Author

You Jung Lee was a visiting scholar with Shorenstein APARC during the 2024–25 academic year. She is a journalist for the *Korea Economic Daily*, having spent about 15 years covering areas including international affairs, the stock market, and, most recently, construction and the real estate market. While at APARC, she conducted research on Korea's housing and real estate markets, the stock market, its policies and financial structure, and the Korean system in comparison to that of the United States. She is the translator of the Korean edition of *The World Ahead 2025*, published by the *The Economist*.

Summary

This paper examines the "Korea discount"—the chronic undervaluation of South Korean stocks compared to other developed markets. Despite Korea ranking 13th globally in market capitalization, its stock market has grown only 25% over the past decade, while the S&P 500 grew 186%. The author attributes this poor performance to weak corporate governance, particularly the dominance of family-controlled conglomerates (*chaebols*) that prioritize the interests of founding families over those of minority shareholders. An analysis of successful reforms in Japan, Taiwan, and the United States shows that the Korea discount could be successfully resolved by strengthening corporate disclosure requirements, resolving conflicts of interest among institutional investors, and making South Korea's voluntary stewardship code more enforceable to encourage active shareholder engagement and improve market valuations.

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Unlocking Korean Market Value

Institutional Investor–Driven Governance Reform and the Resolution of the Korea Discount

South Korea's (hereafter "Korea") stock market has long grappled with significant undervaluation, a phenomenon widely known as the "Korea discount." Despite achieving quantitative growth, ranking 13th globally in market capitalization and 7th in the number of listed companies as of 2023 (FSC 2024), its qualitative indicators, such as the price-to-book ratio (PBR), price-to-earnings ratio (PER), and return on equity (ROE), consistently lag behind those of other developed markets. This qualitative gap is evident in the KOSPI's modest 25.3% growth over the past decade, which significantly lags behind the S&P 500's 185.7%, the Nikkei 225's 128.3%, and Taiwan's TAIEX, which also experienced an impressive increase of approximately 147.5% during the same period.[1] Furthermore, roughly 69% of KOSPI-listed companies trade with a PBR below 1, indicating pervasive undervaluation.[2]

This persistent undervaluation stems from a complex interplay of factors, including weak corporate governance, insufficient shareholder return policies, Korea's *chaebol*-centric economic structure, and geopolitical risks. The opacity inherent in the governance of chaebols, in particular, has long been criticized as a factor hindering the market's long-term development. The widening performance gap between the KOSPI and leading global indices underscores the urgent necessity for comprehensive improvement.

1 Based on Bloomberg and KRX closing prices as of the end of 2014 and the end of 2024.

2 Korea Exchange (KRX), accessed April 17, 2025, http://data.krx.co.kr/contents/MDC/MDI/mdiLoader/index.cmd?menuId=MDC0201010107.

I LITERATURE REVIEW AND RESEARCH OBJECTIVES

The principle that sound corporate governance significantly influences a firm's market value is well-established in financial economics (Jensen and Meckling 1976; Shleifer and Vishny 1997; Claessens, Djankov, and Lang 2000). Numerous studies attribute the Korea discount to the nation's closed corporate governance structures, characterized by concentrated ownership, low dividend payouts, and opaque management (Park and Baek 2001; Chattopadhyay et al. 2021). These empirical findings highlight how weak governance and insufficient shareholder returns exacerbate investor skepticism and depress corporate valuations. However, a significant portion of this existing literature primarily focuses on diagnosing the problem; it often proposes broad governmental reforms or anticipates gradual corporate self-correction. Nevertheless, despite decades of reform efforts, there have still been no fundamental structural changes in the market (Kim et al. 2022).

While the global importance of institutional investors in driving corporate governance reform is well-established (Coffee 1991; Gillan and Starks 2007), and the potential of shareholder activism and stewardship codes to enhance firm value is recognized (Aguilera and Jackson 2003; Davis et al. 2012), research on their practical effectiveness in Korea reveals critical limitations. Studies examining the Korean context, even after the 2018 introduction of the Korean stewardship code, often highlight the limited effectiveness of domestic institutional investors (Kim et al. 2020; Kang and Chun 2022). Critics frequently identify issues such as ambiguous fiduciary duties, weak enforcement, and a prevalence of formalistic compliance, yet concrete solutions for institutional investor–driven reform remain underexplored (Hwang 2025b).

This study fills this critical gap by arguing that institutional investors can be a crucial, yet underutilized, catalyst for resolving the Korea discount. Moving beyond broad diagnosis, we propose specific, actionable, and institutionally grounded solutions to empower Korean institutional investors. To achieve this, we draw detailed comparative lessons from the United States, Japan, and Taiwan. These nations offer highly relevant insights into effective corporate governance, active institutional investor participation, and successful market re-ratings, providing a proactive, investor-centric approach to address Korea's unique challenges.

This study aims to address three key questions: What are the primary characteristics and underlying challenges of corporate governance in South Korea, particularly in relation to the Korea discount? What are the key features of corporate governance systems and stewardship codes in the United States, Japan, and Taiwan, and what implications can be drawn for Korea? What institutional measures, including the activation of the stewardship code, can be proposed to improve corporate governance and mitigate the Korea discount?

We have two primary objectives: first, to understand the structural factors contributing to the undervaluation of Korean equities, with a particular focus on corporate governance; and second, to propose practical and policy-relevant recommendations for improvement, drawing insights from a comparative analysis of corporate governance systems and the role of institutional investors in the United States, Japan, and Taiwan.

To achieve these objectives, this research will:

- Examine the key characteristics of Korean corporate governance, including the influence of chaebols and the mechanisms in place to protect the rights of minority shareholders
- Investigate the current landscape of institutional investor activities in the Korean market and their impact on corporate governance and corporate value
- Conduct an in-depth comparative analysis of the legal and regulatory environments, corporate governance frameworks, and the implementation of stewardship codes in Korea, the United States, Japan, and Taiwan
- Analyze how the U.S. regulatory environment and government-led reforms in Japan and Taiwan have influenced institutional investor behavior and corporate governance practices, to derive applicable implications for Korea
- Propose institutional reforms and strategies for effectively activating the stewardship code in Korea, ultimately aiming to enhance corporate value and resolve the Korea discount by promoting active shareholder participation

The scope of this study encompasses the legal and regulatory frameworks, the roles and responsibilities of key stakeholders (including institutional investors), and shareholder protection mechanisms within the three comparative countries and Korea. The comparative analysis will specifically focus on identifying the best practices and policy lessons that can be adapted to the unique characteristics of the Korean market.

II THEORETICAL BACKGROUND

Corporate governance refers to the system by which a company is directed and controlled. This system defines the relationships among various stakeholders, including the board of directors, shareholders, and management, and provides a framework for setting corporate objectives, overseeing management, and evaluating performance. Effective corporate governance is crucial for ensuring a company's transparency, accountability, and fairness, ultimately playing a significant role in maximizing corporate value. Key principles of corporate governance emphasize accountability, transparency, fairness, and the protection of the rights of shareholders and other stakeholders.

Sound corporate governance is essential for building investor confidence, improving access to capital markets, promoting ethical management, and effectively mitigating potential risks. Furthermore, it contributes to the company's sustainable long-term growth and development while strengthening its fulfillment of social responsibilities. Numerous studies have demonstrated that companies with strong corporate governance tend to exhibit superior financial performance and receive higher corporate valuations (Shleifer and Vishny 1997; Denis and McConnell 2003; see also Bhagat et al. 2008) Therefore, effective corporate governance is a core element for the healthy growth and development of a company and an important consideration for individual or institutional investors. The consistent definition of the concept of corporate governance and the widespread emphasis on its importance across various sources indicate that it is a fundamental aspect of corporate management. Ensuring transparency and accountability provides significant implications for resolving the undervaluation problem in the Korean market.

Institutional Investors and the Necessity of Shareholder Engagement

Institutional investors are organizations that pool funds from numerous individual investors to invest in a variety of financial instruments such as stocks and bonds. Managing substantial capital, they wield considerable influence in the stock market. Beyond simply pursuing investment returns, institutional investors have a responsibility to monitor the management activities of their investee companies and to actively engage in shareholder activities aimed at enhancing corporate value. This is because they bear a fiduciary duty, obligating them to prioritize the interests of their clients or beneficiaries.

Institutional investors can play a crucial role in improving corporate governance by strengthening the accountability of the board of directors, promoting ethical management practices, participating in shareholder meetings, and exercising their voting rights. Furthermore, through investments oriented toward the long-term sustainable growth and value creation of companies, they can contribute to enhancing market efficiency. Active shareholder engagement by institutional investors serves as an important mechanism for mitigating conflicts of interest between management and shareholders, increasing corporate transparency, and ultimately enhancing corporate value. Considering the significant influence and fiduciary duties of institutional investors, their active participation as shareholders is essential for sound market development and enhancing corporate value.

Domestic and International Stewardship Codes

A stewardship code is a set of voluntary principles outlining how institutional investors should effectively fulfill their responsibilities as stewards in managing and overseeing capital, that is, their fiduciary role. The core objective of a stewardship code is to generate long-term benefits for clients and beneficiaries through responsible capital allocation, management, and oversight by institutional investors, thereby providing sustainable benefits to the economy, environment, and society. Most stewardship codes include key principles that address the disclosure of institutional investors' stewardship policies, the management of conflicts of interest, active engagement with investee companies, the exercise of voting rights, and the reporting of outcomes.

The United Kingdom was the first country to introduce a stewardship code in 2010, and the code has since evolved to emphasize the integration of environmental, social, and governance (ESG) factors, as well as performance-based reporting. Japan and Taiwan introduced their stewardship codes in 2014 and 2016, respectively, aiming to encourage active shareholder engagement by institutional investors and enhance corporate value and governance. While the United States does not have an explicit stewardship code, institutional investors engage in stewardship activities through their own guidelines and proxy voting policies. South Korea introduced its stewardship code in 2016, but its effectiveness is largely considered to be limited (FSS 2024). Comparing Korea's domestic code with international best practices can help to identify areas for improvement.

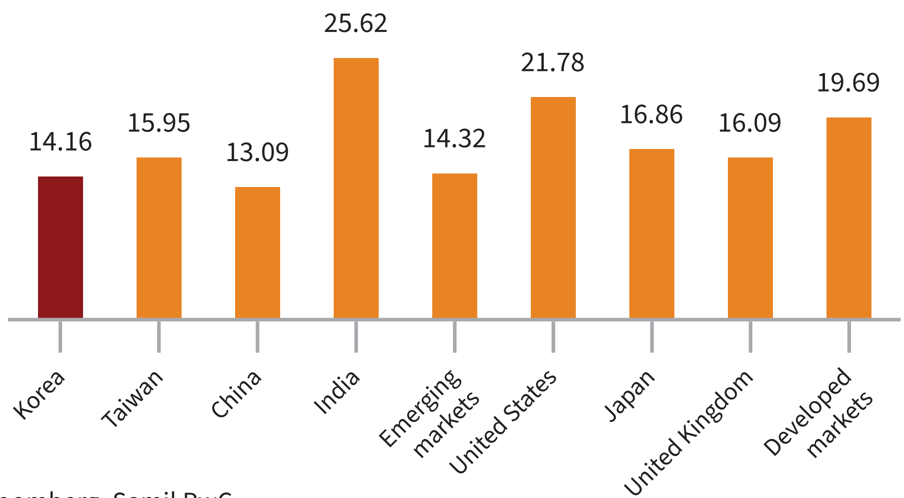
III THE KOREA DISCOUNT AND CLOSED CORPORATE GOVERNANCE

The chronic undervaluation of the Korean stock market, often referred to as the "Korea discount," is evident through various indicators. The PER, a metric reflecting the market's assessment of a company's profitability, shows that the Korean stock market exhibits a low level similar to that of Russia or Turkey. Despite the influence of foreign investors, who hold one of the highest proportions of Korean stocks among all Asian markets, this low PER suggests that the Korean stock market and its listed companies are not receiving proper valuation (see figure 1).

The PBR has also remained low for an extended period, implying that stock prices in the Korean capital market are hovering around the liquidation value of companies.[3] PBR is calculated by dividing the current stock price by the company's net assets (total assets minus total liabilities), indicating how much the stock price is valued relative to the company's net assets. From 2012 to 2021, the PBR of domestic listed companies was only half that of developed countries, ranking 41st out of 45 analyzed countries, indicating that Korean companies are severely undervalued (see figure 2) (Kim and Kang 2023). Despite government efforts to boost stock prices and the abolition of the financial investment tax, the Korean stock market remains sluggish, with the return on Korean stock investment ranking among the lowest in the OECD over the period 2014–24 (see table 1 and figure 3). According to Morgan Stanley Capital International, the annualized return of the MSCI Korea Index over the decade ending March 2025 was 1.68%. This significantly underperformed not only the annualized return of the All Country World Index Investable Market Index (MSCI ACWI IMI) at 8.55%, which includes developed markets, but also the MSCI Emerging Markets Index return of 3.71% (MCSI 2025).

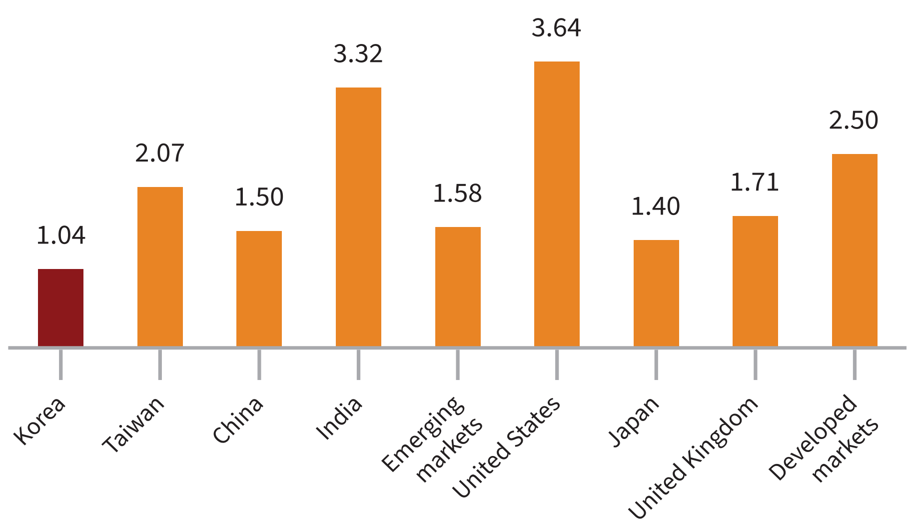
3 Based on data from Kim et al. 2024, which calculated the 10-year average for major countries up to the end of 2023.

FIGURE 1 Comparison of PER of listed companies in major countries (10-year average)



Source: Bloomberg, Samil PwC.

FIGURE 2 Comparison of PBR of major listed companies (10-year average)



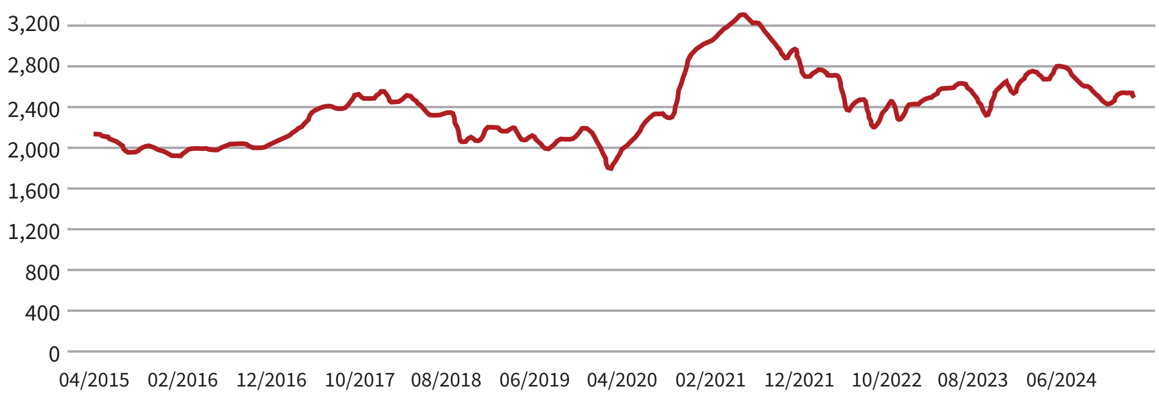
Source: Bloomberg, Samil PwC.

TABLE 1 Index performance trends in major countries

	S&P 500	Nikkei 225	KOSPI
December 2014	2058.90	17450.77	1915.59
December 2024	5881.63	38894.54	2399.49
Growth Rate / (Annual Average)	185.67% (11.04%)	128.63% (8.61%)	25.26% (2.28%)

Source: Bloomberg.

FIGURE 3 KOSPI performance: Ten years of stagnation



Source: Korea Exchange (KRX)

As of April 2024, the market capitalization of the Korean stock market was USD 1.8766 trillion, based on data from the World Federation of Exchanges. Its share of the global capital market was only 1.64%, ranking 16th among exchanges. The market capitalization is only one-twenty-fifth of the United States (USD 51.6933 trillion) and one-third of Japan (USD 6.3 trillion), with the gap widening. Over the past decade, leading up to the end of 2023, the S&P 500 and Nikkei 225 indices grew by 179.4% and 155.5%, respectively, while the KOSPI saw a growth of only 35.0%. This growth rate is lower than that of emerging markets such as India (255.4%), Brazil (167.3%), Taiwan (117.7%), and even China (36.4%) (Kim 2024). The yield gap between the representative indices of the U.S. and Korean stock markets widened to its largest level in 24 years as of the end of 2024 (Bae 2024).

Critics have noted that the development speed of the Korean stock market is not only sluggish compared to its economic size but also fails to keep pace with the country's economic growth rate, including gross domestic product (GDP). South Korea's market capitalization-to-GDP ratio at the end of last year was only 90.4%. In contrast, the United States, where the stock market is highly developed, has a market capitalization-to-GDP ratio of more than double (213.0%). Driven by the booming semiconductor market, Taiwan's stock market soared, pushing this figure to 289.2%. Japan also has a relatively well-developed stock market, with a market capitalization-to-GDP ratio of 163.5%.[4] South Korea's market capitalization-to-GDP ratio has been shrinking again, from 114.9% in 2020 and 119.3% in 2021 to 106.3% in 2023.

4 Data from CEIC for Korea and Japan, and Voronoi for the United States.

Characteristics of Closed Corporate Governance in Korea

The Korea discount, the chronic undervaluation of the Korean stock market, stems from various factors. Among these, the chaebol-centric governance structure (as opposed to shareholder-centric, which adequately considers the interests of minority shareholders) is frequently cited as a primary cause.

A defining characteristic of the South Korean economy and its corporate governance landscape is the significant influence wielded by chaebols, which are large, family-controlled conglomerates. These chaebols are typically highly diversified industrial groups, often engaged in numerous business sectors, and are owned and controlled by their founding families. Prominent examples of these powerful conglomerates include household names such as Samsung, Hyundai, SK Group, and LG Group. The economic impact of these chaebols on South Korea is immense; they collectively account for a substantial portion of the nation's GDP and are major drivers of its exports, playing a critical role in the country's overall economic health and direction. A key feature that distinguishes chaebols from similar large business groupings in other major economies, such as Japan's *keiretsu*, is the persistent strong family control within them. Unlike keiretsu, which have largely transitioned to management by professional executives, chaebols remain significantly influenced by their founding families, a characteristic that has profound implications for their corporate governance practices and the priorities that guide their decision-making (Moskalev and Park 2010).

The ownership structures within chaebols are often unique and can be quite complex, frequently involving intricate webs of cross-holdings among affiliated companies. This complexity, coupled with a governance model heavily influenced by the controlling families, which has been termed "controlling shareholder-managerialism," can lead to situations where the interests of these families may be prioritized over those of other stakeholders, particularly minority shareholders. The insufficient regulation of these often-opaque ownership arrangements and related-party transactions further exacerbates the potential for conflicts of interest and a lack of accountability to outside investors.

According to the Fair Trade Commission's 2024 survey, the internal ownership ratio of listed companies (343) belonging to 78 large business groups with a controlling owner reached

43.0%.[5] This degree of internal ownership ratio essentially allows chaebol families to make decisions at will. Even when the scope is broadened to include all 2,407 listed companies,[6] the average largest shareholder still holds 29.21% of the shares, and related parties hold 10.46% (FTC 2024). Given the limited number of listed companies where external shareholders hold 5% or more of the shares, it is structurally difficult for external shareholders to effectively monitor and check domestic listed companies.

Potential Negative Impacts of Corporate Governance on External Shareholders

A chaebol-centric governance structure is more likely to prioritize the interests of the controlling family over the company's long-term value, which increases market uncertainty and diminishes investment appeal. Consequently, this can lead to outcomes that conflict with the interests of minority shareholders (La Porta et al. 2002; Fauver et al. 2017; *et alia*).

Tunneling Risk: The risk of "tunneling," where controlling shareholders misappropriate corporate resources for personal gain or the benefit of related companies, is a significant deterrent to long-term investment and active engagement by institutional investors. This consequently undermines trust in management and market fairness. In South Korea, tunneling issues related to controlling families have been persistent, including the SeAH Group case that surfaced in 2023, where a subsidiary unfairly supported a private company owned by the founding family by selling materials at low prices.[7] There has been a steady increase in cases of unfair internal transactions to support controlling families, as well as controlling families wielding influence in key affiliates without being registered as executive directors, thereby evading responsible management (FTC 2024). The proportion of internal transactions between affiliates has been found to have a positive correlation with the controlling family's stake. A significant number of controlling family members work as unregistered or unofficial executives at their companies, which allows them to circumvent regulations on the expropriation of private benefits; they have authority, but do not have to assume responsibility. Furthermore, in boards dominated by the controlling family's influence, the rate of

5 These 78 business groups are conglomerates with total assets of KRW 5 trillion or more, making them subject to public disclosure.

6 As of the end of 2023, there were 804 on the KOSPI and 1,603 on the KOSDAQ.

7 In September 2023, the Korea Fair Trade Commission filed a complaint with the prosecutor's office against a subsidiary of the SeAH Group, SeAH Changwon, for selling stainless steel pipes at unfairly low prices to SeAH CTC.

agenda items passing as originally proposed is very high, making it difficult for the board to effectively monitor and check management. The merger announced in July 2024 between SK Innovation and the unlisted company SK E&S also sparked considerable controversy due to its unfavorable structure for general shareholders. Because the merger was taking place when SK Innovation's stock price was at a three-year low, the merger ratio was calculated favorably for SK E&S.[8] Ultimately, SK Inc.'s stake in the merged entity significantly increased after the merger, strengthening the owner family's control over the group.

Passive Shareholder Return Policy: The closed corporate governance structure is considered to have significantly influenced the low "shareholder return ratio," a chronic problem in the Korean stock market. The shareholder return ratio is the proportion of net profit that a company allocates to dividends and share buybacks; a higher ratio indicates that a greater portion of the company's profits is distributed to shareholders. According to Bloomberg, the average dividend payout ratio of Korean companies from the end of 2013 to the end of 2023 was 26.0%, significantly lagging behind the United States (42.4%) and Japan (36.0%). Taiwan's dividend payout ratio stood at 55%, more than double that of Korea. While the average shareholder return ratio over 2013 to 2022 reached 92% in the United States, it remained at only 29% in Korea. A Bank of Korea comparison of listed companies in 16 major countries also showed that Korea's dividend payout and shareholder return ratios were among the lowest (Kim and Son 2025). Low dividend payout ratios reduce the attractiveness of long-term investment for institutional investors; they also reduce the incentive for long-term holding by institutional investors who require a stable income stream, which can lead such investors to favor capital gains strategies through frequent trading.

Information Asymmetry Problem: Compared to company insiders or controlling families, institutional investors have less access to crucial information regarding a company's financial soundness, strategic direction, and potential risks. This information gap makes long-term fundamental analysis difficult and may encourage institutional investors to rely more on market signals and short-term trading strategies.

Concerns about Conflicts of Interest with Controlling Shareholders: Institutional investors are concerned about the potential for conflicts of interest with controlling shareholders, who may prioritize family interests or pursue unfair internal transactions. This concern can

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8 The proxy advisor Sustinvest recommended voting against the merger, stating that "the board of directors of SK Innovation did not faithfully consider 'the proportionate interests of shareholders.'"

limit institutional investors' perceived influence on decision-making, making them hesitant to engage in costly and time-consuming active corporate governance involvement activities.

Disincentives for Active Engagement: Due to information asymmetry and the controlling shareholder-centric structure, institutional investors may perceive the costs of active engagement as high and the benefits as limited. This can lead institutional investors to view short-term trading as their primary means of generating returns, neglecting efforts to enhance long-term shareholder value.

Concerns about Negative Reputation: Institutional investors may worry about negative repercussions or strained relationships with company management if they take a critical stance against corporate management. Maintaining positive relationships may be considered necessary for future information access and cooperation.

IV CORPORATE GOVERNANCE AND INSTITUTIONAL INVESTOR ROLES IN THE UNITED STATES, JAPAN, AND TAIWAN

To identify institutional improvements aimed at resolving the undervaluation of the Korean stock market and activating the role of institutional investors, a comparative analysis of countries that have faced similar challenges or successfully implemented reforms is essential. This study examines the cases of Japan and Taiwan, which share limitations similar to those of South Korea but have recently achieved successful market rebounds, as well as the United States, widely regarded as the archetypal model of shareholder-centric governance.

Japan, like South Korea, historically grappled with issues of concentrated ownership and weak external oversight. However, over the past decade it has successfully transformed its market through proactive reforms, including vigorous pursuit of corporate governance reforms and the adoption of a stewardship code under "Abenomics." These efforts fostered a virtuous cycle of active institutional investor engagement, foreign investment, and market revitalization, offering direct insights for Korea.

Taiwan shares several limitations with South Korea, including an export-oriented industrial structure and reliance on specific industries. Yet, unlike South Korea, Taiwan has achieved high valuations, with its TAIEX boasting PBRs roughly twice as high as Korea's KOSPI and a significantly widened market capitalization gap. This success is attributed to long-term efforts in creating a market that is foreign-investor–friendly, alongside improvements in corporate governance and a favorable infrastructure for institutional investors.

The United States stands as the quintessential model of shareholder-centric governance, where institutional investors play a very active role. Its robust legal and institutional frameworks, high information transparency, and vibrant shareholder activism offer significant implications. This study examines recent institutional changes and market infrastructure that support the exercise of institutional investors' voting rights, including the role of proxy advisors.

Japan

The Japanese government has steadily promoted corporate governance reform since 2013 as a key pillar of its growth strategy, the "third arrow" of Abenomics, aimed at resolving long-term deflation and corporate inefficiency. In 2014, it introduced a stewardship code to encourage active shareholder engagement by institutional investors, followed by a corporate governance code in 2015, which aimed to enhance the governance of listed companies. Through these codes, various efforts have been made to strengthen governance, including the mandatory appointment of independent directors, setting targets for female director participation, and reducing cross-shareholdings.

Notably, the Tokyo Stock Exchange (TSE) reorganized its market into Prime, Standard, and Growth segments in 2022, strengthening governance requirements for each market and actively promoting further reforms, such as requiring companies with a PBR below 1 or an ROE below 8% to submit capital efficiency improvement plans. While evaluations of Abenomics' effects have been mixed, the prevailing analysis suggests that overall, there have been positive changes, including improved profitability and strengthened shareholder return policies among Japanese companies.[9]

Introduction and Revision of the Stewardship Code: Introduced in 2014, Japan's stewardship code aims to encourage institutional investors to faithfully fulfill their fiduciary responsibilities and actively engage in shareholder activities, promoting sustainable growth and enhancing the corporate value of their investee companies. It was revised in 2017 to further emphasize the engagement responsibilities of institutional investors. The Japanese government has encouraged institutional investors to actively exercise their voting rights and engage in dialogue with investee companies to improve their governance and enhance corporate value. It specifically presented factors that should be considered when exercising voting rights and mandated the transparent disclosure of voting results, along with the reasons for them. Furthermore, it strengthened the disclosure obligations for institutional investors regarding their implementation of the stewardship code.

Introduction and Revision of the Corporate Governance Code: Introduced in 2015, Japan's corporate governance code provides principles for listed companies to establish a system that enables transparent, fair, swift, and bold decision-making, while respecting the perspectives of various stakeholders, including shareholders. This code was revised in 2018 and 2021 to incorporate sustainability and ESG-related content, such as strengthening board independence, increasing the proportion of female directors, and enhancing the disclosure of climate change-related information. In particular, the 2021 revision mandated that Prime

9 According to MSCI, expanding profitability, which has doubled since 2013, was the largest contributor to the Japanese equity-market returns, followed by dividends and revenue growth (Nishimura et al. 2022).

Market–listed companies appoint at least one-third (and preferably a majority) of their board as independent outside directors (JPX 2021).

TSE Market Restructuring and Encouraging Low-PBR Companies to Improve: In its 2022 market restructuring, the TSE urged listed companies to be mindful of their cost of capital and stock price, enhance dialogue with shareholders, and actively disclose related information. In particular, it implemented proactive stock price boosting policies, such as requiring companies with a PBR below 1 to submit improvement plans. It encouraged companies to explore ways to enhance corporate value through constructive dialogue with investors and to disclose the results of these discussions.

Encouraging the Dissolution of Cross-Shareholdings: The government aimed to enhance capital efficiency and increase shareholder benefits by encouraging the gradual dissolution of cross-shareholdings, a past characteristic of Japanese companies. It required companies to disclose detailed information on the status, purpose, and economic effects of their cross-shareholdings to increase transparency and enable shareholders to evaluate companies' cross-holding policies and use this information in their decision-making.

Institutional Investors and Corporate Change

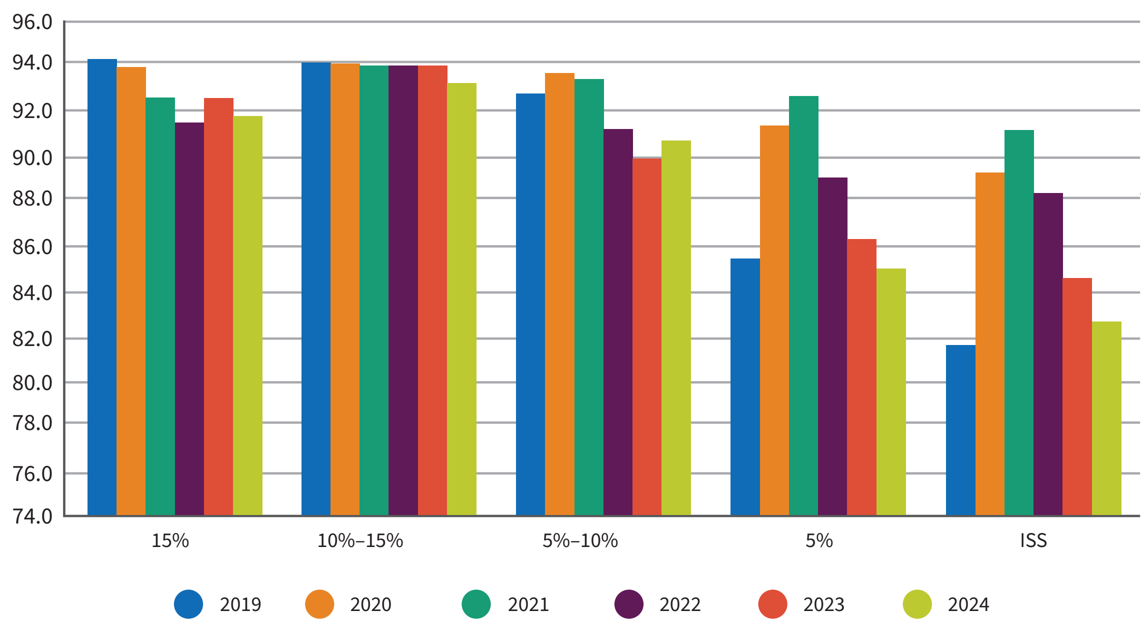
Japanese institutional investors are increasingly adopting a more proactive approach to engaging with companies and exercising their voting rights to promote better governance. The stewardship code has played a role in encouraging them to engage in "purposeful dialogue" with their investee companies, aiming to improve corporate value and promote sustainable growth. Since 2021, Japan has seen more public activist campaigns than any other country, except the United States (Legewie 2024). Shareholder support for CEOs with low ROE has also significantly declined, as shown in figure 4 (JP Morgan 2025).

Pressure from the government and institutional investors is prompting Japanese companies to shift away from their traditional business models and enhance capital efficiency. In 2024, major non-life insurance companies (MS&AD, Sompo Japan, and Tokio Marine) announced their decision to terminate all cross-shareholdings within six years. This move is expected to free up capital for shareholder-friendly activities, such as share buybacks.

Industrial equipment company THK announced in November 2024 its plan to buy back up to 20 million shares (totaling JPY 40 billion) on the TSE, aiming to enhance capital efficiency and improve shareholder returns. The company explained that this would help them achieve an ROE of 10% or higher. In December, semiconductor company JSR was acquired by a consortium led by the private equity firm Japan Industrial Partners. This bold decision, backed by private equity funds, was made to pursue long-term growth and innovation.

As of the end of March 2024, according to KPMG's corporate governance report survey, 1,095 out of 1,650 companies in the Prime Market had adopted a commitment to reduce cross-shareholdings. According to the Japan Financial Services Agency, the ratio of dual listings (where listed companies hold stakes in their listed subsidiaries) decreased from 9.7% in 2014 to 6.6% in 2023.

FIGURE 4 Votes for management by RoE range of company, 2019–2024



Note: Indicates investors' voting with management on proposals.

Source: Daiwa Management, as of December 31, 2024.

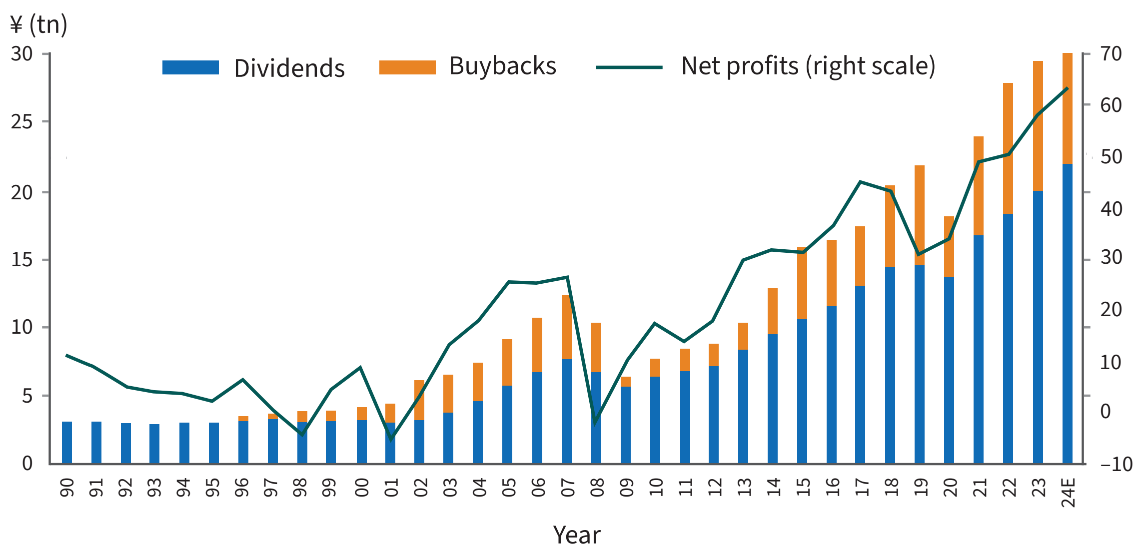
Resurgence of the Japanese Stock Market

Japan's corporate governance reforms have significantly contributed to the rise in corporate values and stock price recovery by strengthening shareholder-centric management and encouraging companies to actively work to enhance shareholder value. Corporate governance reforms and the accompanying rise in the number of shareholder return policies by Japanese companies, such as share buybacks and dividends, have led to both corporate and stock price appreciation. The PBR and ROE of the TOPIX 100 index have shown a steady upward trend since the introduction of Abenomics, and the large increase in share buybacks by Japanese-listed companies after the TSE's demand for PBR improvement in 2023 also drove stock price increases (Hang Seng Investment 2024). Since the implementation of Abenomics, the annualized net profit growth rate and total shareholder return of the TOPIX have experienced substantial increases. Moreover, the rise in the proportion of companies whose board members consist of more than one-third external directors is worth noting (Inoue 2024).

Improvements in corporate governance and the strengthening of shareholder return policies have increased foreign investors' interest and investment in the Japanese stock market, positively impacting overall investor sentiment. Foreign investors' net purchases of Japanese stocks have increased significantly since 2022, and Warren Buffett's increased investment in Japanese companies has further boosted investor sentiment.

Entering 2025, the Japanese stock market remains on a positive trend, buoyed by optimism surrounding AI investments and increased share buybacks by companies (see figure 5). Critics have evaluated that efforts to improve corporate governance have successfully revitalized the stagnant Japanese stock market and restored the confidence of both domestic and international investors (Inoue 2024). The MSCI Japan index, which comprises companies with strong governance structures, has also outperformed the overall returns of the Japanese market.

FIGURE 5 Increasing share buybacks and dividends by Japanese companies



Note: FY 2021–22 are estimates. Based on Nomura Research and Janus Henderson Investors analysis as of May 31, 2024. The right-hand axis is for net profits.

Source: Inoue and McManus 2024.

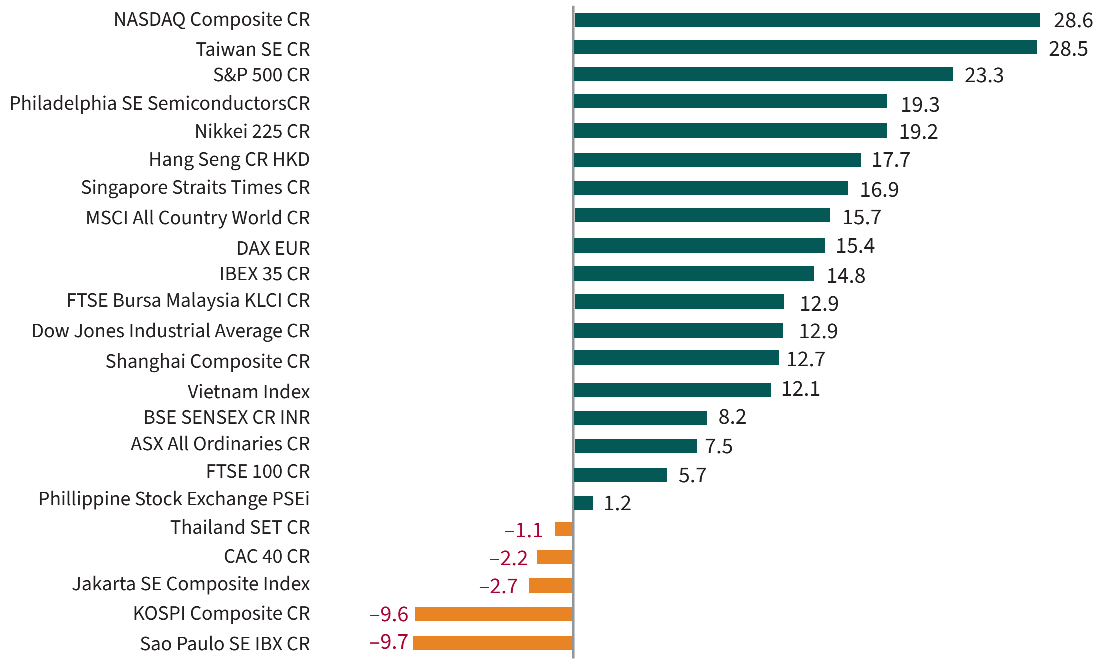
Taiwan

Taiwan shares similar challenges with South Korea, including geopolitical risks linked to China, a closed corporate structure often centered on family businesses, and an export-oriented economy heavily reliant on the semiconductor industry. Despite these commonalities, the Taiwanese stock market has experienced relatively faster growth and higher valuations compared to South Korea in recent years.

The Taiwan Weighted Index (TAIEX) rose from an average of 8,959.35 points in 2015 to 16,386.23 points in 2023. In 2024, it surpassed 20,000 points for the first time in history, recording an impressive annual growth rate of 28.47%, which marked the second-highest performance among major global stock markets after the Nasdaq (see figure 6). The TAIEX Total Return Index has increased by over 2.6 times in the past decade, recording an average return of 18% over the last five years. The impressive upward trend continued into 2025, driven by growing expectations for the AI industry.

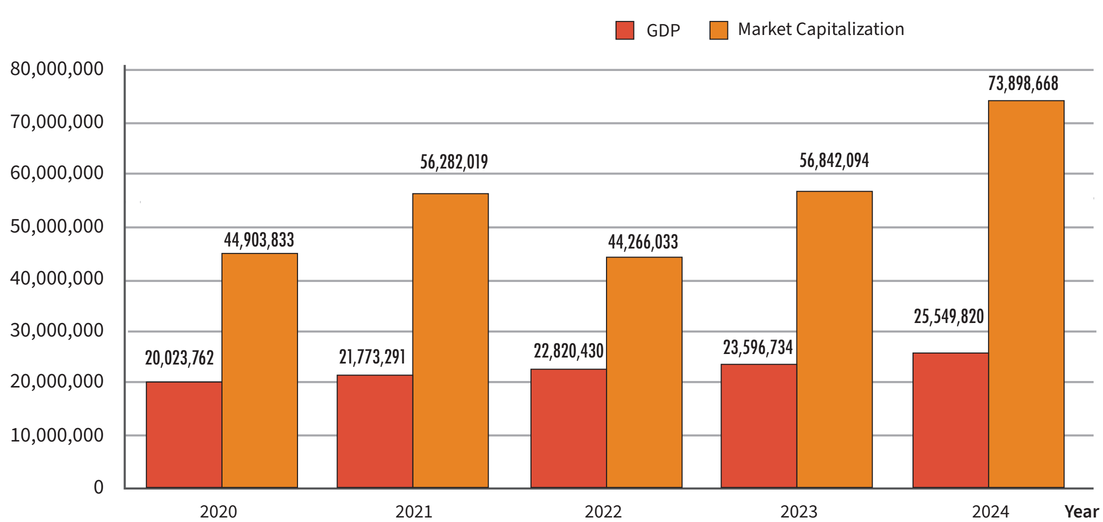
Market capitalization has also significantly expanded. As of the end of 2024, the market capitalization of listed shares reached NT$74 trillion, a substantial increase from NT$24.50 trillion in 2015 (Lin 2025). This expansion in market capitalization has led to an enhanced international standing, with Taiwan's stock market ranking rising from 17th globally to 12th by the end of 2024. Additionally, as of December 2024, Taiwan's market capitalization accounted for 289.2% of its nominal GDP, marking a record high and a significant increase from 240.9% in the previous year (see figure 7) (SFB 2023).

FIGURE 6 Taiwan's outperforming market: A global benchmark comparison



Source: LSEG Lipper, as of 12/31/2024.

FIGURE 7 GDP and capitalization for stock, 2020–24



Source: TWSE.

The overall valuation of the Taiwanese stock market has also significantly improved over the past decade. The average PER increased from approximately 15 times to over 20 times, and the PBR grew from 1.74 times to 2.49 times. As of February 2025, the PER for all listed stocks reached 21.8 (CEIC n.d.). This concurrent rise in PER and PBR, along with increases in market capitalization and trading volume, suggests a fundamental re-evaluation of the Taiwanese market. It indicates increased confidence in corporate earnings potential and asset values, leading to a higher assessment of the intrinsic value of Taiwanese stocks.

The MSCI Taiwan Index also demonstrated robust performance, recording high annual returns of 16.81% in 2020 and 18.71% in 2021. According to Morningstar data, the growth rate of returns accelerated from 30.03% in 2023 to 40.22% in 2024.

Government Support

The recent boom in the Taiwanese stock market is closely linked to the growth of the semiconductor industry, fueled by the government's comprehensive support and surging demand from the AI sector. However, distinct capital market reform and development initiatives have also played a crucial role. Two frameworks/roadmaps from the Financial Supervisory Commission (FSC), the "Capital Market Roadmap" (which includes stewardship) and "Corporate Governance 3.0," have driven comprehensive reforms aimed at enhancing market transparency, efficiency, and internationalization. These efforts have been complemented by Taiwanese companies' improvements in shareholder return policies and governance, as well as the presence of uniquely globally competitive companies like TSMC, which have garnered positive investor evaluations.

Establishing Infrastructure Favorable to Exercising Shareholder Rights

Taiwan has built a strong institutional foundation to facilitate substantial participation by institutional investors in corporate decision-making processes, while also fostering a system that encourages their involvement. The most notable change is the full mandating of an **e-voting system for shareholder meetings of listed companies**. Taiwan gradually mandated the adoption of e-voting systems, starting in 2012, and achieved 100% adoption by all listed companies by 2018. According to Taiwan Stock Exchange (TWSE) data, the e-voting exercise rate accounted for over 60% of total voting rights in 2023 (TDCC 2023). By providing a physical and technological environment that allows institutional investors to actively voice their opinions and vote on a greater number of corporate agenda items, Taiwan has maximized the efficiency and accessibility of exercising voting rights.

Emphasis has also been placed on activating the role of **independent proxy advisory firms**. These advisory firms provide professional and independent analytical reports on corporate governance, key management agenda items, and director nominations, offering practical recommendations to institutional investors on voting directions. The utilization of advisory firms compensates for institutional investors' lack of specialized expertise, enabling more rational and information-based voting. The Taiwan FSC supervises and manages these advisory firms to ensure their fair and transparent operation, encouraging their recommendations to contribute positively to the responsible exercise of shareholder rights by institutional investors.

Promoting Corporate Governance Evaluation and Transparent Disclosure

Taiwan has established a robust market mechanism that supports institutional investors' rational investment decisions and encourages companies' voluntary efforts to improve corporate governance by systematically evaluating corporate governance levels and transparently disclosing the results to the market. The **Corporate Governance Evaluation System**, spearheaded by the TWSE, objectively assesses the governance level of listed companies annually based on over 100 indicators, including board composition and operation, shareholder rights protection, transparency in information disclosure, and corporate social responsibility. The evaluation results are publicly disclosed annually on the TWSE website; notably, companies are ranked into tiers (e.g., top 5%, top 6–20%, top 21–35%), fostering inter-company competition (TWSE n.d.).

Based on these governance evaluation results, Taiwan developed the TWSE Corporate Governance Index and promoted various exchange-traded funds (ETFs) that track this index. As of May 2024, over 10 ETFs tracking the Corporate Governance Index are listed on the Taiwanese stock market, with their total assets amounting to billions of NT dollars (MacroMicro n.d.). This system provides a positive signal that institutional investors can expect higher long-term returns by investing in companies with excellent governance. It is praised as an efficient systemic feature that, rather than merely relying on regulatory mandates, encourages companies to improve their governance based on market principles.

Continuous Improvement of the Stewardship Code

Taiwan has focused on enhancing the effectiveness of its stewardship code since its initial introduction in 2016. To overcome the limitations of "comply or explain,"[10] efforts are underway to improve the quality of disclosure, specify requirements, establish external moni-

10 The stewardship code is opt-in; there are no penalties for non-compliance. ESG disclosures, for example, are comply or explain, meaning that a company could disclose ESG data or explain why they are *not* disclosing such data.

toring and evaluation systems, expand the scope of stewardship activities, and encourage leading institutions to set positive examples.

Taiwan has strengthened the obligation for institutional investors to be transparent and disclose their stewardship activities, including content and performance. The Taiwan FSC annually supervises compliance with the stewardship code, actively encouraging genuine participation. Major public pension funds exemplify this by detailing their voting and engagement activities, promoting market-wide stewardship. This robust disclosure framework acts as a core systemic feature, compelling institutional investors to move beyond mere compliance toward substantial governance improvements through constructive engagement (SFB 2020).

Review and Feedback on Stewardship Code Implementation Reports: The Taiwan FSC and Securities and Futures Bureau (SFB) continuously review and provide feedback on the annual implementation reports submitted by institutional investors who have signed the stewardship code. In this process, they request additional explanations or recommend improvements for insufficient or ambiguous explanations, thereby giving practical meaning to the explanation portion of “comply or explain” and guiding institutional investors toward more responsible activities. This objective external review and feedback make the content of any explanation more credible and indirectly pressure institutional investors to engage in substantive activities beyond mere formal explanations.

Early versions of the stewardship code primarily focused on the exercise of voting rights for listed shares, leading to criticism that it did not fully cover the scope of institutional investors’ fiduciary duties. Since 2023, the Taiwan FSC has recommended expanding the scope of application of the stewardship code to include various asset classes beyond listed shares, such as unlisted equities and bonds. The aim is to ensure institutional investors consistently fulfill their fiduciary duties across all diversified investment portfolios, reducing blind spots in responsibility. Furthermore, the definition of stewardship is being expanded beyond the mere exercise of voting rights to explicitly include the consideration of ESG factors from the investment decision-making stage (TWSE 2023). This encourages institutional investors to actively evaluate governance and ESG factors, which influence a company’s long-term value, from the initial stages of selecting investment companies and constructing portfolios, thereby broadening the scope of stewardship activities and enabling them to exert a more substantial impact.

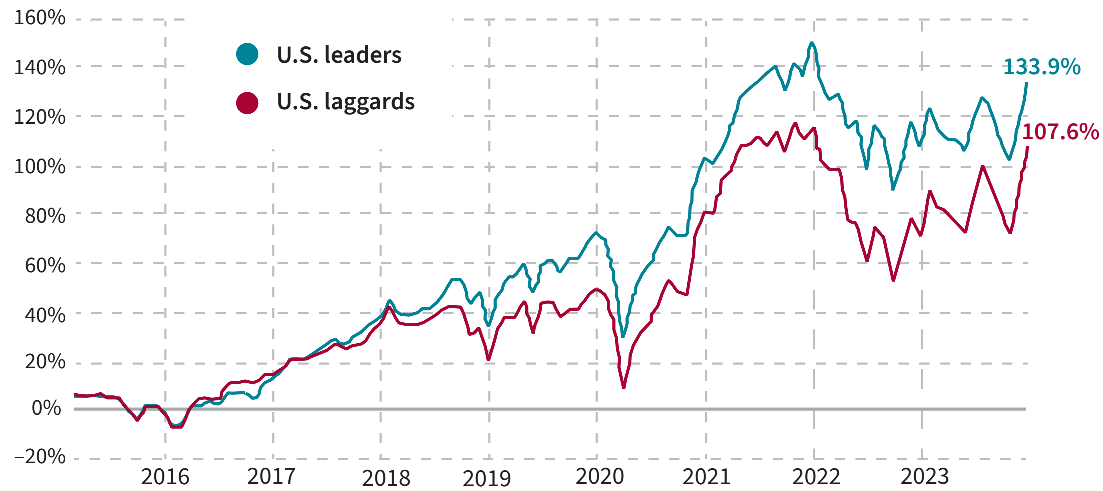
United States

The U.S. stock market operates on a robust shareholder-centric governance model, prioritizing shareholder value maximization through the separation of ownership and management. A core characteristic is its board-centered management system, where independent outside directors play a crucial role in objectively monitoring and protecting shareholder interests. This is powerfully reinforced by a mechanism for enforcing corporate governance through shareholder lawsuits, which actively pressure executives toward responsible management (Gregory et al. n.d.).

Central to this model is the active engagement of institutional investors and vibrant shareholder activism. Shareholders regularly influence corporate management through voting rights, direct board communication, and shareholder proposals, with recent innovations such as universal proxy cards making activism more accessible. This active participation has a significant impact on corporate strategy and leadership, driving transparency and accountability. Institutional investors actively engage in various governance issues, including ESG and executive compensation, and their involvement has a profound influence on voting decisions (Moote and Vasantham 2025).

Strong shareholder-centric corporate governance directly links to enhanced long-term corporate value growth and market revitalization. A transparent and accountable management environment builds investor trust, leading to increased investment and overall corporate growth. U.S. companies with sound governance benefit from easier capital attraction, rising stock prices, and improved reputation. For instance, top-performing U.S. companies in corporate governance within the MSCI World Index consistently outperform lower-ranked counterparts, showing significant cumulative return differentials (see figure 8) (Wang et al. 2024). Furthermore, shareholder activism has been shown to lead to strategic and operational improvements, enhancing financial performance and shareholder value (Burch et al. 2025).

FIGURE 8 Returns, governance leaders vs. laggards, 2016–23

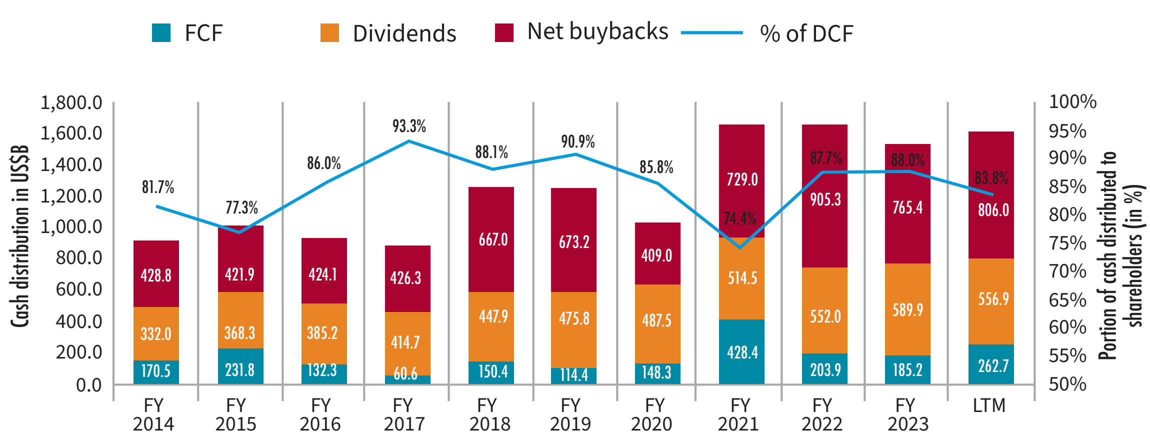


Note: Leaders vs. laggards is based on MSCI's ESG ratings.

Source: Wang et al. 2024.

U.S. companies are characterized by active shareholder returns through substantial dividends and share buybacks. External investors actively intervene, demanding changes like share buybacks or increased dividends from companies with excessive cash holdings or low profitability. Over the past decade, the average dividend payout ratio for S&P 500 companies has been notably higher than that of South Korea (26.0%) and Japan (36.0%). S&P 500 companies have consistently returned a significant portion of their free cash flow to investors through dividends and buybacks over the past decade (2014–24), as figure 9 shows (Bagri and Tambaeva 2025).

FIGURE 9 US market dividends trend



Note: DCF= discretionary cash flow.

Source: S&P Global.

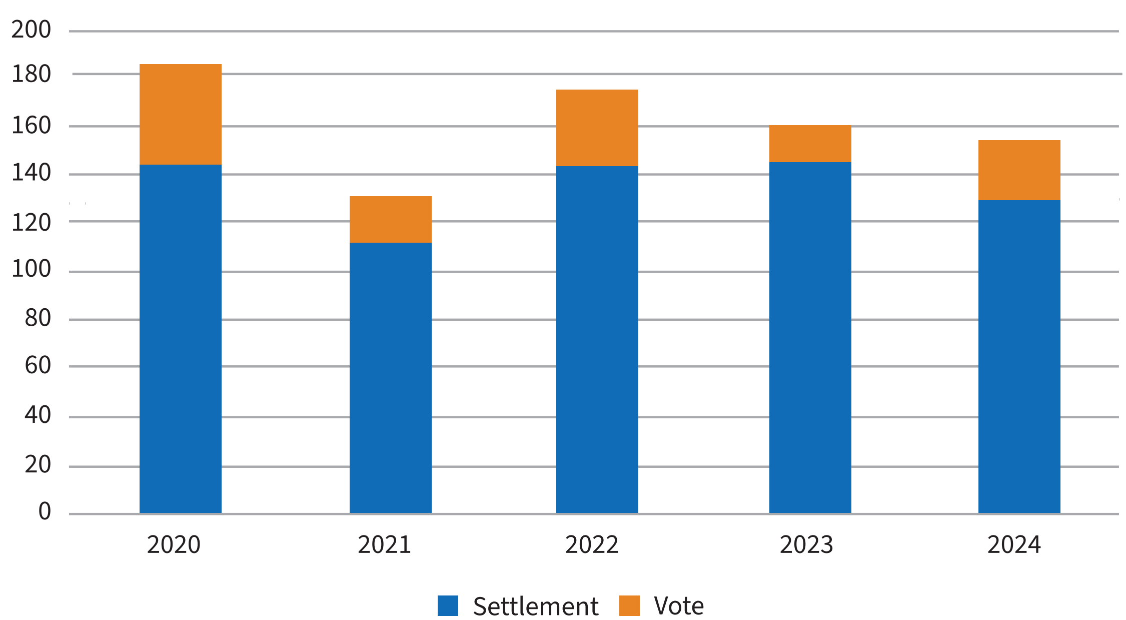
Institutional Background and Recent Trends

The United States has established a relatively mature corporate governance framework, having navigated various financial scandals and responded to investor demands. The acquisition of activist-controlled board seats, as shown in Figure 10, is one indication of this responsiveness. Legislation, in particular the Sarbanes-Oxley Act of 2002, triggered significant reforms, strengthening corporate responsibility and investor protection. This act is regarded as a crucial advancement, enhancing the independence of audit committees and management accountability for financial reporting.

The United States encourages active shareholder engagement by institutional investors through pension laws, strong shareholder activism, SEC regulations, and a developed capital market and legal environment. The Investor Stewardship Group, comprising major global asset management firms, announced six stewardship principles in January 2017, which took effect on January 1, 2018.

Recently, investors have been increasingly considering companies' ESG management performance as a crucial investment factor (Smith 2023). For example, the investment firm Engine No. 1 successfully appointed directors to Exxon's board in 2021 to push for reduced carbon emissions, demonstrating how investor pressure can drive ESG concerns.

FIGURE 10 Number of board seats gained by activists in the United States, 2020–24



Source: Burch et al. 2025.

V RESOLVING THE KOREA DISCOUNT

The South Korean government has taken steps to address the persistent Korea discount by introducing the stewardship code and also by launching the Korea Value-Up Program. This initiative, announced in February 2024, aims to tackle the chronic undervaluation of the stock market. Its core objectives are to support listed companies' voluntary efforts to enhance corporate value, incentivize market evaluation and investment in companies with excellent corporate value, and establish a sustainable support system for these goals (FSC 2024). Below, we examine the key features of the Korea Value-Up Program and identify its limitations to inform future effective pathways for addressing the Korea discount.

Supporting Listed Companies' Voluntary Efforts to Enhance Corporate Value

The program provides detailed guidelines for companies to establish and disclose mid- to long-term plans for enhancing corporate value. The guideline's six sections—company overview, status diagnosis, target setting, plan establishment, implementation evaluation, and communication—are designed to enhance market participants' understanding and comparability. In particular, they emphasize the responsible role of the board of directors and aim to establish autonomous plans tailored to each company's unique characteristics.

Listed companies can **voluntarily establish and disclose their corporate value enhancement plans** through the Korea Investors' Network of Disclosure (KIND) website. However, if companies fail to meet their planned goals, there are clauses that allow exemptions for disclosures that were not entirely transparent, to alleviate excessive burdens on companies.

The program features several elements designed to encourage investment in companies with excellent corporate value. A new index, the **Korea Value-Up Index**, is being developed, composed of companies with outstanding corporate value enhancement. **Exchange-traded funds (ETFs) based on this index** will be launched to increase accessibility for general investors and to support institutional investors, such as pension funds, in their investment decisions.

The market and industry will **compare and publicize key investment indicators**, such as PBR, PER, and ROE, to enhance investment convenience. Excellent corporate value-up companies will be **selected annually and awarded with incentives**, such as tax support measures, including preferential treatment for exemplary taxpayers and preferential preliminary review for R&D tax credits. Additionally, incentives such as exchange fee exemptions will be offered.

The Value-Up program includes some support system measures. An **integrated corporate value-up website** will comprehensively provide the disclosure status of corporate value enhancement plans, related statistics, and corporate analysis information on the Korea Exchange, enhancing information accessibility. The program will provide **support for joint investor relations events involving domestic and international investors**, as well as overseas roadshows, to help companies attract investors. Disclosure education and customized consulting will be offered to listed companies to strengthen their capabilities in establishing and implementing value-up plans.

The program will **encourage active shareholder engagement by institutional investors**, and efforts to support value-up will be made through revisions to the stewardship code guidelines.

Limitations of the Korea Value-Up Program

The core of the program is based on companies voluntarily participating and disclosing their plans. The concern is that a **lack of mandatory enforcement** may lead to passive participation or perfunctory disclosures by companies. In contrast, Japan's TSE exerts more active pressure on companies with a PBR below 1, including demanding improvement plans and publicly naming such companies. In the United States, regulations on corporate governance and shareholder protection are strong, and market monitoring functions are also active. The program also lacks specificity. While Japan clearly defines corporate value as "profit-generating ability" and provides direction, the concept of value-up in Korea is criticized for being ambiguous (Choi 2024). Taiwan, while operating similar voluntary governance codes, leverages its Corporate Governance Evaluation System to incentivize improvement and transparently disclose compliance levels, fostering market-driven competition rather than relying solely on mandates.

It is noted that the Korea Value-Up Program **lacks substantial incentives**, such as tax benefits, that would actively encourage companies to participate.[11] The United States has rela-

11 On the day the program was announced (February 26), the stock prices of companies expected to benefit plummeted. Hanwha Life Insurance fell by 9.6%, Hana Financial Group by 5.94%, and Heungkuk Fire & Marine Insurance by 11.93%, respectively, indicating the market's lack of confidence in the program.

tively straightforward tax systems for share buybacks and dividends, and also provides tax benefits for long-term investments. Japan is encouraging long-term investment by individual investors through measures such as expanding the Nippon Individual Savings Account (NISA).

The Korea Value-Up Plan has been criticized for **lacking direct regulations or inducements to improve corporate governance**. Although South Korea has a code of best practices for corporate governance, it is operated by private institutions; it lacks legally binding force and merely encourages voluntary adoption and compliance. As discussed above, the Korea Exchange's mandatory disclosure of corporate governance reports works on a "comply or explain" basis. By contrast, in Japan, the TSE is a powerful entity that applies direct sanctions or provides clear guidelines regarding compliance with the corporate governance code in connection with listing regulations. Taiwan's Corporate Governance Evaluation System directly links governance levels to market visibility and investment products, thereby fostering governance improvement based on market principles. The United States has well-established institutional mechanisms for improving corporate governance, such as a strong shareholder derivative lawsuit system and the mandatory establishment of an independent board of directors.

The Value-Up Plan has been criticized for **lacking a consistent, long-term vision for sustainable corporate value enhancement**. Concerns have been raised that political volatility, such as presidential impeachment and regime change, could weaken its momentum. In contrast, Japan has consistently promoted policies to enhance corporate value for over a decade since the introduction of Abenomics, and the United States has also developed a market system and fostered a business environment from a long-term perspective.

Korea's Stewardship Code: Status and Impact

A stewardship code is a set of voluntary principles that encourage institutional investors to actively monitor the management activities of their investee companies with a sense of ownership and to strive for the enhancement of corporate value through various means, such as exercising voting rights and engaging in dialogue with management when necessary. South Korea introduced its stewardship code in 2016 to encourage active shareholder engagement by institutional investors (Hwang 2025a).

The code lists seven key principles crucial to the fulfillment of fiduciary duties by institutional investors. Institutional investors should comply with each of these principles; in the unusual circumstances that they are unable to comply, they should disclose the reasons in detail. These principles encompass the establishment and disclosure of fiduciary duty policies and conflict-of-interest prevention policies, the continuous monitoring of investee companies, the establishment of internal guidelines for fulfilling responsibilities, the establishment and disclosure of voting policies and voting records, reporting on the fulfillment of their duties, and securing relevant capabilities and expertise.

The code is aimed at domestic and international institutional investors (pension funds, insurance companies, asset management companies, etc.) holding shares in Korean-listed companies, as well as investment advisory firms and proxy advisory firms that have announced their participation. As of March 2025, 242 institutional investors are participating in the Korean stewardship code, and 51 additional institutions plan to participate (see figure 11) (KCGS n.d.).

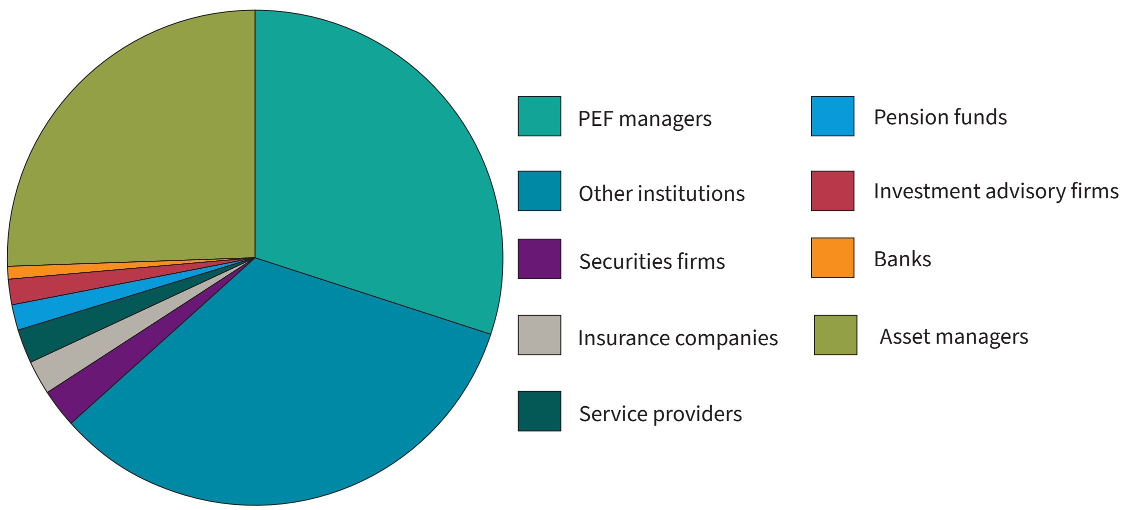
Since the introduction of the stewardship code, the voting rights exercise ratio and shareholder activism of institutional investors have increased in South Korea. However, many critics claim that substantive implementation remains insufficient. Phenomena still being observed include institutional investors exhibiting passive shareholder engagement or failing to properly exercise their rights due to conflicts of interest with companies (see table 2). A review by the Financial Supervisory Service of the voting records of 274 asset management companies' funds disclosed to the exchange for the first quarter of the 2024 shareholder meetings revealed that 96.7% (265 companies) did not specifically state the reasons for exercising or not exercising voting rights on individual agenda items. Although internal guidelines related to voting rights exercise should be disclosed, only 121 out of 274 companies (44.2%) disclosed basic policies at the level of listing regulations.

The impact of the code is still limited. According to CEO Score, a corporate data research firm, the National Pension Service exercised dissenting votes on a total of 523 agenda items last year. While the proportion of dissenting votes increased through 2022 after the 2018 introduction of the stewardship code (which encourages active voting by institutional investors), it has since declined again (CEO Score 2025). In 2024, the disapproval rate of agenda items against which the National Pension Service voted was only 4.0% (21 cases), indicating that its influence also remains limited.[12]

12 The proportion of dissenting votes was 11.2% (503 cases) in 2020, 11.4% (484 cases) in 2021, 15.3% (665 cases) in 2022, 13.8% (560 cases) in 2023, and 13.0% in 2024.

These poor results can be attributed to a combination of various factors, including the limitation that the stewardship code is a voluntary regulation without legal binding force, as well as institutional investors' lack of expertise, insufficient sense of responsibility, and a closed communication environment with companies, where information is only selectively exchanged or the flow of information is one-sided.

FIGURE 11 Participation in the Korean stewardship code



Source: Hwang 2025a.

TABLE 2 Reasons for not exercising voting rights, Korea Exchange, 2024 Q1

	Inadequate disclosure by type						Proper recording	Total
	A	B	C	D	E	F		
Number*	87	71	30	34	75	2	8	274
%	31.8	25.9	10.9	12.4	27.4	0.7	2.9	100

Note: Multiple selections are possible per item. A= insignificant impact on general shareholders' meeting; B= no infringement of shareholder rights; C= no special matters; D= others; E= not recorded; *number of asset management companies.

Source: FSS 2024.

Key Strategic Directions for Korean Stock Market Development

Resolving the structural undervaluation of the Korean stock market and activating the proactive role of institutional investors demands comprehensive and in-depth institutional reforms that extend beyond short-term stimulus measures. Analyzing the experiences of Japan, Taiwan, and the United States, which have either overcome similar corporate governance challenges or established advanced market ecosystems, reveals three key areas for improvement.

Strengthening Disclosure of Treasury Stock Utilization and PBR Improvement Plans

Transparent corporate management and market trust are fundamental, and robust information disclosure is essential for investors to make informed decisions, to reduce uncertainty, and ultimately to enhance corporate value. Korea continues to face criticism for insufficient disclosure, particularly concerning treasury stock utilization[13] and executive compensation decisions, which directly impact shareholder value.

In contrast, Japan's recent efforts, led by the TSE, include actively encouraging companies to disclose plans for improving PBR and transparent capital efficiency/shareholder return policies. This fosters a proactive approach to value enhancement through disclosure. Taiwan has consistently strengthened its corporate governance evaluation and disclosure systems, notably promoting transparent shareholder return policies through the cancellation of treasury stock.

The United States maximizes corporate information transparency through the SEC's stringent legal disclosure obligations and the binding nature of its "say-on-pay" system for executive compensation. This provides investors with a clear basis for evaluating and overseeing management decisions.

PROPOSED IMPROVEMENTS IN THE AREA OF DISCLOSURE:

1. Require companies to clearly disclose their plans for treasury stock cancellation upon acquisition. To ensure treasury shares serve as a tool for enhancing shareholder value, rather than as a means of management defense, disclosure across their entire lifecy-

13 Treasury stock utilization is a significant corporate governance issue, as the lack of transparency in how a company uses its repurchased shares can dilute the value for existing shareholders.

cle, from acquisition to disposal, must be reinforced, including mandatory cancellation within a specific timeframe.

2. Require companies to establish concrete targets and roadmaps for improving key valuation metrics, such as PBR and ROE, and to periodically disclose their progress and execution details. This would mirror Japan's push for PBRs over 1.0 and stimulate voluntary company efforts to enhance value.

3. Introduce a say-on-pay policy for executive compensation and ensure it is binding. This will make executive compensation decisions transparent and strengthen shareholder oversight. The policy must be given legal force to ensure that the shareholder vote at the general meeting holds actual binding force on the board, beyond a mere advisory role. This will link corporate compensation policies to shareholder value.

Fundamentally Resolving Conflicts of Interest for Institutional Investors

For institutional investors to genuinely fulfill their fiduciary duties and act as market guardians, their decision-making independence must be guaranteed, and potential conflicts of interest must be effectively managed. Concerns have persistently been raised in Korea that some institutional investors, particularly those affiliated with financial holding companies, face constraints on independent voting due to their parent companies' influence.

The United States addresses the issue by legally defining fiduciary duties for trustees (e.g., those of pension funds) in an extremely strict manner and employing robust regulations on independent directors and related-party transactions to minimize conflicts. Its well-developed transparency regulations for proxy advisors also contribute to the management of conflicts of interest.

Japan's stewardship code explicitly mandates that institutional investors establish and disclose management plans for dealing with conflicts of interest, and encourages the unwinding of cross-shareholdings, thereby addressing complex relationships that could lead to conflicts. The Taiwanese government has actively supported strengthening the role of independent directors and establishing internal control systems within companies, bolstering efforts to prevent conflicts of interest even within Taiwan's family-dominated corporate structures.

PROPOSED IMPROVEMENTS FOR MANAGING CONFLICTS OF INTEREST:

1. Mandate the establishment of independent proxy voting committees within institutional investors, especially those affiliated with financial holding companies. These committees should include external experts. The goal is to insulate the committees from parental or affiliate influence, ensuring decisions prioritize the interests of clients and beneficiaries.

2. Reinforce "Chinese wall"[14] regulations and strengthen regulatory oversight. Rules on information exchange and personnel rotation between financial holding companies and their asset management subsidiaries must become more stringent. Current regulations primarily restrict the exchange of undisclosed material information; their scope should be expanded to prohibit, in principle, all forms of information exchange that could influence major decisions, such as voting rights exercises. Systems should be mandated to meticulously record the type, purpose, and access of information, enabling financial authorities to continuously monitor compliance. Restricting concurrent appointments and rotational assignments of executives and employees between financial holding companies and their asset management subsidiaries should also be considered.

3. Strengthen regulations relating to proxy advisors and their accountability. Regulations must clearly define and mitigate potential conflicts of interest for proxy advisors, particularly when these advisors also provide consulting services to the companies they advise on. It is crucial to mandate transparent disclosure of their recommendation methodologies and criteria. Furthermore, strengthening the legal liability of proxy advisors for the accuracy and fairness of the information they provide is necessary.

Enhancing the Enforceability and Effectiveness of the Stewardship Code

The current principle-based approach of the Korean stewardship code risks leading to mere formal compliance, raising concerns that many institutions are not genuinely engaging with the code's substance. Providing stronger enforceability is crucial to induce substantial shareholder involvement.

14 The term refers to establishing barriers to the sharing of information to prevent conflicts of interest or the sharing of confidential information. Comparable terms include "information barrier" or "ethical wall."

Although the United States does not rely on a direct stewardship code, active institutional investor engagement is effectively mandated through robust fiduciary duty laws (e.g., the Employee Retirement Income Security Act, or ERISA) and a vibrant shareholder activism market. The legal risk of failing to fulfill fiduciary duties serves as a powerful motivator for active corporate governance involvement.

While Japan's stewardship code does adopt a "comply or explain" policy, it is supported by proactive oversight from the Financial Services Agency and the TSE. They provide extensive guidelines and link the code to the corporate governance code, thereby compelling institutional investors to avoid mere formalism. Explanations deemed inadequate can lead to market criticism and regulatory scrutiny.

Taiwan operates similar voluntary governance codes but utilizes a Corporate Governance Evaluation System to identify and incentivize companies that are well-governed. This system transparently discloses compliance levels through a Corporate Governance Evaluation Index, fostering market-driven competition and pressure for improvement.

PROPOSED IMPROVEMENTS FOR KOREA'S STEWARDSHIP CODE:

1. Elevate how the "comply or explain" principle is enforced and introduce penalties. In particular, the standard for what is required in an "explanation" must be significantly raised, clear criteria for insufficient or unreasonable explanations must be established, and corresponding penalties for not meeting the criteria must be created. These could include formal warnings, downgrades in evaluation ratings, exclusion from certain incentives, or even minor financial penalties (e.g., restrictions on public fund sales channels), depending on the type of institution.

2. Require institutional investors to disclose not only their voting results but also detailed reasons for their votes in a standardized format. Furthermore, they must be obligated to transparently disclose the specifics of their shareholder engagement activities, including the content of their dialogues, key issues discussed, and outcomes. This would enhance market and beneficiary oversight.

3. Clarify the scope of fiduciary duty and provide specific guidelines. The stewardship code's explicit definition of fiduciary duty should emphasize maximization of long-term returns and the protection of proportional interests of all shareholders. This clarification would indirectly pressure institutional investors. Moreover, concrete guidelines for exer-

cising voting rights and engaging in shareholder activities should be provided. It is also crucial to explicitly clarify the obligation to consider ESG factors and establish evaluation criteria to guide institutional investors beyond purely financial metrics.

VI CONCLUSION

This study aimed to identify measures for the long-term development of the Korean stock market by analyzing its persistent undervaluation, the Korea discount, which we attribute to its entrenched closed corporate governance structure. Through empirical analysis, we confirmed the severity of this issue, revealing how concentrated ownership, low dividend payouts, and opaque management hinder minority shareholder rights and broader market growth. This comprehensive analysis highlights that while institutional investors have significant potential to drive corporate governance improvements, their full impact is often hindered by existing structural constraints and a culture of passive engagement.

Our comparative examination of the United States, Japan, and Taiwan provided critical insights. The United States exemplifies a robust shareholder-centric model, driven by strong legal frameworks and active engagement from institutional investors. Japan offers a compelling case of successful market revitalization through government-led governance reforms and the rigorous implementation of its stewardship code, directly addressing past similarities with Korea's closed governance issues. Taiwan, despite sharing structural similarities with Korea, has demonstrated superior market valuation and growth, suggesting effective underlying mechanisms for attracting and retaining capital. These diverse experiences collectively highlight the pivotal role of transparent governance, independent market participants, and effective regulatory frameworks in fostering a healthy capital market.

Drawing upon these analyses, this study proposes three core strategic directions to fundamentally address the Korea discount and activate the role of institutional investors in enhancing corporate governance. These directions are not merely incremental adjustments but represent a concerted push toward a more advanced and trusted market environment.

First, establishing a transparent and trustworthy information disclosure system is paramount. As evidenced by the United States, Japan, and Taiwan, robust and comprehensive disclosure directly mitigates market uncertainty and investor distrust. Enhancing the quality and scope of corporate disclosures—especially regarding treasury stock utilization with clear cancellation plans and executive compensation via binding say-on-pay—is essential for promoting fair valuation and accountability.

Second, resolving conflicts of interest among institutional investors is crucial. The persistent concern over the influence of financial holding companies on their asset management subsidiaries in Korea undermines investor confidence and active stewardship. Learning from the strict fiduciary duties and regulatory oversight in the United States, Japan's emphasis on conflict management, and Taiwan's strengthening of independent oversight, Korea must implement mandated independent voting committees and fortified "Chinese wall" regulations within financial conglomerates. This includes rigorous regulatory scrutiny to ensure institutional investors act solely in the best interests of their beneficiaries.

Finally, strengthening the enforceability and effectiveness of the stewardship code is indispensable. The "comply or explain" principle in Korea often falls short, leading to mere formal compliance. The U.S. market-driven enforcement of fiduciary duties, combined with Japan's rigorous application of its stewardship code through active regulatory oversight, demonstrates that clear expectations and consequences are necessary. Korea must elevate the "comply or explain" principle by introducing clear penalties for insufficient explanations, mandating detailed and standardized disclosure of voting rationales and engagement activities, and explicitly clarifying the scope of fiduciary duty to encompass long-term returns and the proportional interests of all shareholders.

Policy and Practical Implications

Overcoming the Korea discount requires a fundamental shift toward improved corporate governance quality, active institutional investor engagement, and consistent government support, moving beyond superficial, short-term measures. Policymakers should prioritize regulations and incentives that promote long-term improvements in corporate governance. To ensure the Korea Value-Up Program has its intended impact, clear objectives, evaluation metrics, and strong incentives for corporate participation are paramount. Furthermore, continuous institutional reforms are needed to enhance the effectiveness of the stewardship code and strengthen the legal framework for shareholder rights.

Corporate executives must prioritize building transparent and trustworthy governance structures through open communication with all stakeholders, particularly shareholders, and focus on the sustainable creation of long-term value, emphasizing management that considers ESG factors. Institutional investors, in alignment with the stewardship code, should actively monitor investee companies and engage in constructive dialogue, exercising their voting rights responsibly to enhance corporate value.

Ultimately, overcoming the Korea discount demands a concerted effort from the government, corporations, and institutional investors. The insights and recommendations presented in this study are expected to make a significant contribution to the healthy development of the Korean stock market and the restoration of investor confidence.

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Stanford

Walter H. Shorenstein
Asia-Pacific Research Center
Freeman Spogli Institute

Shorenstein Asia-Pacific Research Center
616 Jane Stanford Way E301
Stanford, CA 94305-6055
650.723.9741 | **aparc.stanford.edu**