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# Stock Repurchase as a Strategic Response to the Changing Institutional Environment: The Case of Group-Affiliated Firms in Korea

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## Abstract

This paper presents an alternative view on the prevalence of stock repurchase and the changing institutional environment. We argue that the adoption of stock repurchase should be considered not only as a financial device to address information asymmetry and agency cost but also as a strategic device that powerful actors inside the firm use to mitigate outside pressure. The primary implication of this view is that, although the practice of stock repurchase is within the broad institutional rules prescribed to discipline firms toward practicing better corporate governance, the adoption and implementation of the plan itself does not prompt firms to make tangible changes in their governance structures. Drawing on the behavior of group-affiliated firms in Korea, we address two questions: (1) what determines the variation of strategic responses across firms that operate under similar institutional pressure? and (2) to what extent does the adoption of stock repurchase plan buffer firms from pressures for fundamental changes in their corporate governance? Our attempt to offer an alternative explanation for the motives underlying firms' decisions to buy back stock from an institutional angle deepens our understanding on the way by which organizations respond to changes in their specific institutional environments.

Key words: Stock Repurchase Plan, Corporate Governance Reform, Group-affiliated Firms, Institutional Environment

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# Ⅰ. Introduction

A practice of buying back company shares on the marketplace, the so–called stock repurchase, has become increasingly prevalent among major US corporations. Since 1997, the total amount of stock buybacks has exceeded the amount of cash dividends paid by US firms. The proportion of companies with stock repurchase increased to 41% in 2014 from 28% in 1980 while the proportion of dividend–paying companies decreased from 78% to 43% during the same period (Zeng, 2014). The extent of corporate stock buyback practice in the US is well illustrated by the above figures. However, the US is not the only place where interest in this financial activity has multiplied: stock repurchase has also intensified in Canada and several European countries. In addition, some East Asian countries including South Korea enacted laws and regulations permitting corporations to repurchase their own shares from the marketplace.

In parallel with this increasingly global phenomenon, academic researchers have also sought to account for the surge in stock repurchase behavior. And this research topic has usually belonged to the domain of financial economists. A large volume of research that attempts to examine the antecedents and consequences of share buyback programs has predominantly emerged from the field of financial economics. Particular attention has been paid to how the act of repurchasing a firm's own stock in the open market enables the firm to respond to financial and capital market issues, which ultimately influences firm value (e.g., Seol Won Sik, Kim Soo Jung, & Jang Ho Yoon, 2004; Ikenberry, Lakonishok, & Vermaelen, 1995; Masulis, 1980). Yet, relying primarily on the conventional financial theory in their analysis of this empirical phenomenon, the majority of these studies tend to ignore the context in which the adoption of stock repurchase has become prevalent.

In this paper, we aim to address this discrepancy by paying closer attention to the changing institutional environments in which firms adopt the practice of stock repurchase. We note that a purely financial view of the antecedents of stock repurchase based on conventional financial theory may not be sufficient to explain its increasing popularity among firms and offer an alternative perspective on the issue. Thus, we propose to view the adoption of stock repurchase not only as of the financial device that managers deploy to address information asymmetry and agency cost but also as strategic device that powerful actors inside the firm use to mitigate outside pressure. The underlying logic is that although stock repurchase is within the broad institutional rules prescribed to discipline firms toward better corporate governance, adopting the plan itself does not substantially change corporate governance practices.

The study presented here is concerned with the following two questions: (1) what determines the variation of strategic responses across corporations that operate under similar institutional pressures? And (2) to what extent does adopting a stock repurchase plan buffer firms from pressures for fundamental changes in their corporate governance? Drawing on the case of group–affiliated firms in Korea, we seek to tackle these two distinct but related questions and develop several propositions that can be tested in future research.

# Ⅱ. Literature Review on Stock Repurchase

From a financial economics perspective, buying back a firm's own shares in the open market is considered



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a viable financial policy alternative in lieu of or in addition to dividend payments (Cho Sang Min, 2019; Jagannathan, Stephens, & Weisbach, 2000; Lee Ik Kyu & Lee Han Soo, 2006; Yoon Seong Min, Kim Joung Hee & Lee Mi Jung, 2004). A sizeable body of research has examined financial market reactions to stock repurchasing activities and found positive market responses to stock repurchase announcements. Although empirical studies on the antecedents and performance consequences of stock repurchase show mixed findings concerning stock repurchase motives, two hypotheses figure most prominently in the financial economics literature.

Signaling thesis. This view suggests that, in general, managers repurchase stock when they have reasons to believe that their firm's share prices are undervalued (Choi Sung Sub & Lee Wang Bum, 2005; Jung Mookwon, 2005; Stephens & Weisbach, 1998). For example, Vermaelen(1981) found evidence that the firm's announcement to buyback its common stock on the open market sends a signal that its share prices are undervalued (Byun Jin Ho & Pyo Min Kyo, 2006; Kim Kyung Soon, Lee Jin Hwon & Kang You Jung, 2020). Similarly, Barth and Kasznik(1999) showed that firms with more intangible assets(as a proxy for information asymmetry and market undervaluation) tend to be more active in the stock repurchase. Brav et al.'s(2005) survey study revealed that managers believe that repurchase announcements channel to investors the information on the degree of their confidence about the future of their firm. Overall, the signaling thesis suggests that managers who are better positioned to assess the intrinsic value of their firm drive stock repurchase activity and help mitigate capital market imperfections.

Agency cost thesis. According to agency cost theory, firms may better align shareholders' and managers' interests by paying excess cash to shareholders. The reasoning follows Jensen's(1986) assertion that the principal–agent conflict occurs when a firm holds substantial free cash flow. Consequently, repurchase announcements send a positive signal to the financial market that, instead of wasting excess cash on managers' private benefits, it will be returned to investors. Findings by Grullon and Ikenberry(2000) corroborate the agency cost argument. They examined repurchase announcements by US firms from 1980 to 1994 and revealed that large, low–growth firms rich in cash more likely announced stock repurchase programs more frequently.

On the other hand, Jagannathan et al.(2000) found that firms uncertain about cash flows in the future showed a higher tendency to announce stock repurchase programs more frequently as a way to distribute excess cash and maintain flexibility. Although empirical findings on the agent cost thesis are somewhat mixed, this view is grounded on the assumption that stock repurchase programs aim to mitigate interest conflicts between agencies and shareholders and maximize shareholder value. Despite its popularity among firms, the practice of stock repurchase has rarely been studied in the management and organizational literature. There are only two exceptions to this: studies by Sanders and Carpenter(2003) and Westphal and Zajac(1998, 2001). Although both works share the assumption of the economic argument that in public corporations, the agency problem between owners and managers prevails, their ensuing theoretical focus is saliently different from that of financial economists.

Behavioral explanation. Sanders and Carpenter's(2003) study finds support for the prediction that top managers' financial incentives and the risks associated with high performance, respectively, and in combination, determine which firms adopt stock repurchase programs. Because of information asymmetry, Sanders and Carpenter(2003) maintained that maximization of the firm's long–term value is no guarantee that shareholders



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will be satisfied in the near term. From top executives' stance, failures to keep investors satisfied present significant hazards, including hostile takeovers or involuntary replacement. Based on a behavioral perspective, this dilemma has been associated with top managers' resorting to shareholder mollification strategy (Sanders & Carpenter, 2003). Strategic initiatives that tend to garner favorable stock market responses become tempting choices for these managers, even when they may be considered suboptimal strategies for firms to enhance sustainable competitive advantage. This kind of "strategic satisficing" (Choi Sung–Baig, 2019; Simon & March, 1976) behavior "enables top managers to mitigate perceived threats to their tenure and personal wealth, while stock repurchase program does nothing in and of itself to create long–term value" (Sanders & Carpenter, 2003).

Sociopolitical explanation. Westphal and Zajac(1998) suggest that firms may attempt to mitigate social uncertainty about interest conflicts between managers and shareholders by resorting to symbolic control mechanisms. The symbolic vs. substantive distinction is also consistent with the concept of organizational decoupling that seemingly shows compliance but conceals nonconformity (Elsbach & Sutton, 1992; Oliver, 1991). Based on this conception, Westphal and Zajac(1998, 2001) identified sociopolitical antecedents and interorganizational consequences of organizational decoupling, focusing on the extent of discrepancy between the adoption and implementation of stock repurchase plan across the US firms. They provided evidence that firms are more likely to decouple stock repurchase programs from actual practice when CEOs are relatively powerful against the board of directors.

In contrast, the reason that strong board influence tends to increase the likelihood that repurchase programs will be substantive rather than symbolic. Their evidence supports a sociopolitical argument that decoupling is more likely to occur when powerful actors in the organization have a political interest in avoiding institutional pressures for change. This also means that congruence between external constituents' interests and those of powerful actors in the organizations increases the likelihood of acquiescence to external pressures (Westphal & Zajac, 2001).

## Ⅲ. Alternative View on Stock Repurchase

Informed by the literature on the importance of agency and interest in institutionalization (e.g., Goodrick & Salanick, 1996), we offer an alternative view on the phenomenon of stock repurchase based on the premise that firms with certain organizational and structural characteristics are likely to avoid institutional pressures for change by strategically adopting stock repurchase plan. Our reasoning follows that although the practice of stock repurchase is in line with the institutional rule geared to disciplining firms to practice better corporate governance, the adoption and implementation of the plan itself does not prompt firms to make tangible changes in their governance structures.

Based on this reasoning, we first propose that the likelihood that an individual firm will carry out stock buyback activity is associated with its perceived threat from outside pressure, which is, in turn, a function of its level of insider ownership. That is, the higher the level of insider ownership of a firm, the higher its level of the perceived threat from outside pressure for reform. Thus, the higher the likelihood that stock repurchase will be used as a strategic option to buffer itself from the pressure. Second, drawing on the extant



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research on the role of interorganizational network on the spread of ideas and practices (e.g., Davis, 1991; Galaskiewicz & Burt, 1991; Haunschild, 1993), we suggest that an organization's immediate social structural context affect the likelihood that the organization adopts repurchase plan. Finally, we predict that the firms which adopt the repurchase program as a buffering device against outside pressures for further changes are less likely to implement other reform measures that require substantial modification in their existing governance practices and structures.

## 3.1 A Contest over Corporate Control

Owners have been treated in the field of financial economics as sharing the same goal of shareholder value maximization. In contrast, organization theorists, who do not assume the homogeneity of owners, have pursued the issue of corporate control by focusing more on who holds power over the corporation and what their interests are. The interest of organization theory with regard to a firm's power constellations includes the firm's ownership structure reflected in such indicators as the degree of control by managers (Bearle & Means, 1991), banks (Fiss & Zajac, 2004), and founding families (Zeitlin, 1974). In the field of organizational theory, different types of owners are assumed to pursue different goals, thus resulting in different outcomes in terms of the adoption of multi–divisional organizational structure (e.g., Palmer, Jennings, & Zhou, 1993) or hostile and diversifying acquisitions (e.g., Davis & Stout, 1992; Palmer & Barber, 2001).

For example, family owners are often considered to have a long–term perspective with the intention to turn over the firm to their descendants (Anderson & Reeb, 2003). From the perspective of the chaebol family owners, ownership decision boils down to two questions: how much inside ownership above the minimum needed to ensure control is desired? What will be an appropriate mix of direct and indirect ownership considering the firm's financial constraints and risk profile? Having a major concern over maintaining control of the firm, family owners tend to be opposed to decentralizing power (i.e., bringing in outside directors). Hence, if they are under increasing outside pressure to change their internal decision–making structures fundamentally, they may buffer internal routines from external pressure by strategically adopting a shareholder–friendly measure, thus enhancing flexibility (Meyer & Rowan, 1977).

To execute stock repurchase programs, firms are required to meet the stringent standards of liquidity, which makes repurchasing stock a compelling way for firms to exhibit their intention of maximizing shareholder value (Sanders & Carpenter, 2003; Westphal & Zajac, 2001). Yet, opting to repurchase a firm's own stock while espousing a shareholder orientation will not extend to changes in the firm's governance structure. Therefore, stock repurchase can grant the adopting firm a measure of organizational discretion against adverse institutional change. Thus, we expect that firms' likelihood to avoid institutional pressures for change using tactics such as adopting a stock repurchase plan is inversely proportional to their perceived threat to outside pressure, which is in turn determined by their internal ownership structure.

## 3.2 Strategic Responses to Institutional Pressure

It is well established in organization theory that firms buffer their internal structures and routines from



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external uncertainties by decoupling in responding to institutional pressures (Meyer & Rowan, 1977). The organizational decoupling thesis first introduced by Meyer and Rowan(1977) is in line with the research on organizational and managerial discretion over the actual implementation process of policies, plans, and programs. From an institutional theory perspective, decoupling works as a buffering mechanism through which organizations maintain legitimacy with important external constituents. Such a decoupling mechanism enables organizations to preserve internal routines that have evolved over time (Edelman, 1992; Pfeffer, 1981).

A line of research examined whether symbolic adoption of CEO incentive plan alleviates shareholder pressures for specific changes in board structure – i.e., increases in the ratio of outside to inside directors. The evidence showed that by formally adopting institutionally correct procedures indicative of CEO accountability, top managers might effectively preempt or forestall alternative board structure changes that are less easily decoupled from substantive arrangements (Westphal & Zajac, 1998). In effect, Westphal and Zajac(1998) argue that symbolic CEO incentive alignment may perpetuate the CEO's dominance over the board by appeasing shareholders through substitutes for other board structure changes that are thought to decrease CEO autonomy increase the board's monitoring capacity. To summarize, the symbolic management perspective suggests that mere adoption, but not implementation(decoupling), of governance structures that are in favor of shareholder interests may suffice shareholder demands for enhanced accountability. In contrast, top management maintains autonomy and control over the firm. This is in line with an interpretation that CEOs give in, but only symbolically, to external pressure for greater incentive alignment while minimizing the actual compensation risk in their pay packages.

In this paper, we stress that adopting a particular measure may help powerful actors within the organization alleviate external pressure for other changes that would otherwise threaten their control and autonomy. In other words, taking a particular course of action over others reflects the effort of incumbent actors to preserve the status quo. The consequence of organizational adoption of a certain practice can help relieve the tension created between the external pressure to change and the desire of internal members to avoid disruption to their organization's existing structures. Thus, we argue that by announcing a stock repurchase plan, firms can preserve strategic discretion since the actual execution of repurchase plans is nearly invisible and highly discretionary. Adopting a stock repurchase plan can relieve pressures that firms face from shareholder groups to enact other governance reforms. By using symbolic action to reduce the social uncertainty regarding the divergence of managerial and shareholder interests, such symbolic action can substitute for other governance mechanisms.

## Ⅳ. Stock Repurchase in Korea

There are two main reasons why Korea offers an interesting setting to address our research questions. First, we note that the increasing pressures for governance reform on Korean group–affiliated firms can lead to the more frequent adoption of stock repurchase programs by the firms. Considering that the adoption and implementation of a stock repurchase plan, while signaling the focal firm's shareholder–friendly orientation, does not require the firm to undergo governance reform, the firm's decision to espouse a stock repurchase plan can be conceptualized as a measure of strategic response toward adverse change in its institutional



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environment. Despite the intensity of pressures from regulators and the international capital market for governance reform on firms in Korea, especially those belonging to business groups, we have witnessed only slow compliance on the part of these companies, occasionally accompanied by severe resistance. At the same time, these firms have shown an increasing tendency to make use of stock repurchase as an alternative device to address the problem of governance reform pressures.

Thus, we believe that we may better understand the stock repurchase activity by considering the institutional change in terms of corporate governance. The Korean case is appropriate to address our questions because it enables us to demonstrate different organizational responses to similar institutional pressure within a given national context and explore the antecedents and consequences of a proactive behavior of firms within a controlled setting.

## 4.1 Agency Problem and Corporate Governance Reform in Korea

The core insight of agency theory is that owners and managers have divergent interests and that corporations' modern structure embodies efforts to deal with this inherent conflict (Fama, 1980; Fama & Jensen, 1983). While the nature of agency problems and subsequent control mechanisms in the Anglo–Saxon countries have been widely surveyed (Walsh & Seward, 1990), agency problems in those countries with different ownership structures and governance systems remain less explored.

In Korea, business groups are the dominant form of corporate governance (Granovetter, 1995). In general, business groups are largely centered around wealthy families who often enjoy control through hierarchical chains of ownership and management participation (Chang, 2003). These so–called chaebols control their affiliates' legally independent companies through direct equity stakes and pyramids. In this light, the pyramid structure of cross–ownership among affiliates can be viewed as an explicit substitute for direct ownership to strengthen family owners' control over the firm strategically.

The net result of this institutionalized practice is reduced accountability and increased investment risk exposure of controlling shareholders (Jang & Kim, 2002). Another consequence is that controlling shareholders of chaebols would have little incentive to maximize the share value of affiliate companies but instead focus more of their attention on empire–building activities. This situation deviates from the agency problem that typically occurs between owners and managers in large US corporations. The greatest source of agency cost originates from the interest conflicts between majority and minority shareholders. It has been shown that controlling family owners can expropriate value from minority shareholders (Dharwadkar, George, & Brandes, 2000; Shin Min Sik & Kim Soo Eun, 2010) through such devices as tunneling (Bertrand, Mehta, & Mullainathan, 2002) – transferring assets or profits out of firms for the benefit of the majority shareholder to privately–owned firms or the ones in which it has substantial cash flow rights. For instance, Chang(2003) econometrically demonstrated that firm performance influences, not vice versa, ownership structure in the case of Korean business groups. Chang's(2003) findings implicate expropriation by controlling owners.

La Porta, Lopez–de–Silanes and Shleifer(1999) challenged the conventional agency theory with their findings that controlling shareholders are present in most countries, and many of whom are often managers. Accordingly, it can be suggested that the belief of a positive association between concentrated ownership



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and firm performance may apply only to countries with efficient capital markets and well–developed governance mechanisms (Chang, 2003). In Korea, the consensus has grown that poor corporate governance was a critical culprit for the financial crisis that had struck the country in late 1997. Recognizing the absence of adequate governance mechanisms among Korean corporations that would ensure managerial accountability to shareholders, the introduction of outside directors and cumulative voting for the election of directors have gained currency as legitimate improvements in corporate governance. These measures have been seen as governance mechanisms for increasing organizational attention to shareholders' interests and have been vehemently advocated by active investors led by a few influential civic organizations (Jang & Kim, 2002; Zhao, Hong Jongnam and Jeong Kangone, 2019).

Proponents for such reforms have pointed to the empirical literature in financial economics that generally shows positive stock market reactions to adopting new governance mechanisms (e.g., Klapper & Love, 2011). Accordingly, it has been increasingly perceived that a firm can increase its market value by upgrading its corporate governance practices (e.g., Black, Love, & Rachinsky, 2006). Although corporate leaders gradually realize the importance of corporate governance, they remain reluctant participants to embrace the prescribed reforms fully.

Korean corporate law follows the precepts of Japan and consequently the US. Korean corporations are by design governed by a board of directors that is both unitary and elected solely by shareholders. Until the outside director system was introduced in 1998, directors and officers' role was not separated, and executive officers served concurrently as directors. On its face, Korea has been following the corporate governance practices of other countries with common law traditions (Coffee, 2001; Hansmann & Kraakman, 2001). Yet with the onset of the financial crisis, the governance system in Korea was criticized as a failure, leading to a string of much needed legal reform.

The reforms have focused on enhancing shareholder rights and resurrecting almost malfunctioning board of directors. In 1998, Korea began to mandate the listed companies to appoint outside directors. The current measure requires the listed companies to appoint outside directors at least one–quarter of the board. Large companies with over 2 trillion won in assets have to select at least half their board from outside. In terms of more direct shareholder protections, the shareholder ownership requirement to bring various legal actions has fallen dramatically. The minimum shareholding requirement to obtain a derivative action has declined precipitously from 5% to 0.01% by May 1998. The shareholder can also make shareholder proposals at the annual meetings; innovations such as cumulative voting are not possible in the election of directors. Starting from 2000, Shareholders can even submit their votes in advance through written ballots. Finally, institutional investors are no longer limited to shadow voting of their customer accounts. However, in the past, annual shareholders' meeting in Korea was almost perfunctory, scripted affairs that often lasted less than an hour. Shareholders rarely participated, management's decisions were always approved without serious questions, and directors or auditors were elected and reelected automatically and unanimously.

## 4.2 Stock Repurchase in Korea

Prior to 1994, the securities exchange law(SEL) has legally prohibited firms from repurchasing their own



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shares. The regulation changed in 1994 when firms were allowed to execute stock repurchase programs within a 5% limit, which was extended to 100% in 1998. Open market stock buy–backs have been allowed on the KOSDAQ since 1999 as well. Firms are allowed to repurchase stock up to the amount available for dividend payments. Prior to the execution of stock repurchase programs, firms are required to report to and obtain approval from the board of directors regarding the purpose of stock repurchase, the amount, and the method to be used. Once they announced repurchase plans to the financial supervisory service(FSS), they are required by the SEL to complete the whole process of stock repurchase within three months.

Under the law, firms are required to hold the repurchased shares at least for six months. In addition, firms are prohibited from repurchasing shares again during the three months since the disposal. In order to dispose of the repurchased stocks, firms should go through the board approval process similar to that of stock repurchases. After the approval from the board of directors, firms should report to the FSS, which oversees whether (1) the company has submitted the stock repurchase or disposal statement, or stock repurchase of disposal outcome statement, (2) the statement contains any false or missing items, or (3) the company or any parties associated is accused of violating any relevant regulations.

Most firms in Korea have been found to abide by the law and regulations and execute stock repurchase programs as announced(no adoption and implementation gap in the sense of Westphal and Zajac's argument). Unlike Korean regulations, firms in the U.S. must not disclose specific information about stock repurchase plans, such as timing or price and number of shares. Only quarterly dollar amounts are publicly available ex–post. According to Stephens and Weisbach(1998), firms' actual share reacquisitions tend to be small compared to their announced intentions. This implies that the announcement of stock repurchase, in effect, is merely a way to raise the firm's stock price.

From an institutional perspective, the announcement of stock repurchase plans suffices firms' intention to signal their shareholder–friendly initiative in capital markets (Westphal & Zajac, 2001). The dramatic growth in stock buy–back programs in Korea that has historically eschewed such programs – Korean corporate law formally prohibited stock repurchase until 1994 – came along with the country's emphasis on and institutional change toward maximization of shareholder value. Given the Korean regulatory environment, which requires firms to meet the strict liquidity standards to execute stock repurchase, announcing and executing stock repurchase send a potent signal to the capital market of their commitment to maximizing shareholder value (Sanders & Carpenter, 2003; Westphal & Zajac, 2001).

Yet, as reasoned in the previous part, opting to buy–back a firm's own stock while espousing a shareholder orientation will not extend to changes in the firm's governance structure. Therefore, adopting a stock repurchase plan can be conceptualized as a measure of organizational discretion against adverse institutional change. Hence, we can formulate the following proposition:

〈Proposition 1〉 The greater a firm's inside ownership, the less likely the firm will adopt a stock repurchase program.

Records show that since the late 1990s, foreign shareholders have combined to own an increasingly dominant stake in the Korean stock market. In contrast, the ownership of controlling shareholders, on the other



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hand, has steadily declined. Ownership by foreign institutional investors may foster firms' orientation toward shareholder value maximization, as these investors have driven the shareholder value movement. Due to these institutional investors' typically large equity stakes, they become both financially and psychologically committed, making it difficult for them to exit. Research has demonstrated early 1990s cases where activist shareholders formed a powerful coalition and influenced hostile takeover and executive compensation plans (Davis & Thompson, 1994).

Hence, we expect the greater a firm's stake held by foreign investors, the greater the perceived need to conform to a shareholder value orientation. Since organizations with greater resources have more discretion in choosing among several measures, organizations are more likely to choose the one to their advantage. Hence, we can formulate the following proposition:

〈Proposition 2〉 The greater the portion of a firm's ownership held by foreign investors, the more likely the firm will adopt a stock repurchase program.

Interlocking directorships are considered the building block of structure in the American corporate network. Of many forms intercorporate networks can take on, business groups are the ones that have been in existence (Choi Byunghum, 2019; Granovetter, 1995) the pre–war zaibatsu and post–war keiretsu in Japan (Gerlach, 1999). Gerlach used the technique of social network analysis in investigating the structure of business groups in Asian societies. It is mostly the prevailing power structure around which economic activities are organized in the society (Hamilton & Biggart, 1988). Notably, in Asian societies, business groups' structure tends to exhibit instrasocietal isomorphism and intersocietal variation (Orru, Hamilton, & Suzuki, 1989).

From a social network theory perspective, organizations strategically embed themselves in a more favorable environment. The lack of market mechanisms is combined with a strong tendency to foster family control. The isomorphic forms of equity structures, common to the chaebol, show patterns of a nested hierarchy. In each nested hierarchy, the founder's family settles at the position to exercise control over subsidiaries as well as their inter–relations. This private ownership of a network in the chaebols enables strategic actions even further thanks to the ease of coordination without problems of collective action. The element of coercive isomorphic pressure arose in the late 1990s when the state decided to regulate the chaebol by introducing regulation on equity cross–holdings. The result of block model analyses of equity holding matrices of the chaebol exhibits the isomorphic structure of equity networks. The higher the structural equivalence between affiliates among business groups, the greater the likelihood that the given affiliate will adopt a stock repurchase plan.

## Ⅴ. Conclusion

The growing internationalization of financial markets places increasing pressures on firms to conform to U.S. governance principles. A body of research has emerged that views the diffusion of a shareholder–centered governance model as driven by growing competitive pressures in international capital markets. The argument is that corporations with a governance approach with a shareholder orientation may acquire capital



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at a lower cost, a competitive advantage over those non–adopting firms.

We expect that the current study makes several contributions. First, this paper extends the corporate governance literature by identifying such entrenchment mechanisms as stock repurchasing through which firms perpetuate their existing governance structures. Second, we add to the prior literature on corporate control by exploring different dimensions of intraorganizational power relationships than the one between the CEO and the board of directors within the particularities of emerging economies. The focus on an internal power structure specific to emerging economies helps shed light on how actors across different institutional contexts attempt to entrench themselves within the existing structures. Finally, our attempt to offer an alternative explanation for the motives underlying firms' decisions to buy back stock from an institutional angle complements traditional explanations offered by financial–economic theorists and agency theorists.

Deepening our understanding of how organizations respond to changes in their specific institutional environments has theoretical and practical importance. Based on this insight, we can recognize the theoretical underpinnings of the persistence of indigenous governance models, albeit with the rhetoric of the convergence to an Anglo–Saxon model. In addition, recognizing the extent of inertial and cosmetic behavior on the part of entrenched organizations may well inform policymakers of the level of difficulty involved in bringing about significant institutional changes and possible mechanisms to institutionalize a specific practice across an organizational field.

While we have presented a new perspective on stock repurchase by deriving from combined insights from the literature on institutional scholarship, this paper has many limitations. In this study, we have only focused on the role of two groups of owners: internal shareholders and foreign shareholders. However, not all internal shareholders have converging interests. Accordingly, it would be interesting to examine how internal owners' differences might affect the likelihood of stock repurchase and its use as a strategic response against external pressure in future studies. Plus, there are also many other variables left unattended in our theoretical exposition. In empirical studies, these variables that could shape the likelihood of announcing and implementing stock purchases should be controlled for, including the power of labor union, executive stock options, retained earnings, free cash flow, degree of conservatism in accounting, and stock price volatility.

Most importantly, our work comes short of presenting any strong empirical evidence of the argument presented, relying on only anecdotal and preliminary evidence. Researchers interested in corporate governance can put this idea to test using a longitudinal sample of business group–affiliated companies in Korea. Prior studies suggest that stock buyback tends to be announced and implemented to address information asymmetry and agent costs. Beyond those motivations, researchers can also assess whether companies leverage stock repurchase to fend off external control. Further, future studies can also evaluate the extent to which stock buyback does function as a buffer against external forces as expected, especially during changing, turbulent external environments.



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# 제도적 환경 변화에 대한 전략적 대응으로서의 자사주 매입: 한국의 기업집단(재벌)을 중심으로

현은정* · 이승윤**

**요약**

본 연구는 제도적 환경의 변화 속에 자사주 매입이 활성화되어 온 현상에 대해 기존 관점과는 차별화된 제도화 이론 접근법을 제시한다. 즉, 자사주 매입은 정보 비대칭성과 대리인 비용 문제를 해소하기 위한 재무적 도구일 뿐만 아니라 기업 내부의 권력자가 외부로부터 오는 압력을 완화시키기 위한 전략적 도구가 될 수 있는 것이다. 기업 지배구조 개선을 위한 포괄적인 제도적 규칙으로서 자사주 매입이 행해지지만, 자사주 매입제도의 도입과 실행이 지배구조에 실질적인 변화를 가져오는 데는 한계가 있음을 본 연구의 이론적 논의를 통해 제안하였다. 한국의 기업집단(재벌) 문헌을 바탕으로 본 연구는 (1) 유사한 제도적 압력에 처해 있는 기업들의 다양한 전략적 반응을 결정짓는 요인이 무엇인지, 그리고 (2) 기업 지배구조를 근본적으로 개선하도록 압력을 받는 기업들에 있어 자사주 매입을 통한 외부압력에 대한 완충 효과가 어느 정도인지를 알아보았다. 기업의 자사주 매입 결정 동기에 대한 제도적 관점에서의 접근을 통해, 제도적 환경 변화 하에 기업의 전략적 반응에 대한 이론적, 실무적 시사점을 제공하였다.

주제어 : 자사주 매입, 기업 지배구조 개선, 기업집단(재벌), 제도적 환경

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