OPINION

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Executive Compensation Disclosure and Performance among Listed Firms in Korea: Current Status and Implications

Starting with this year's semi-annual reports, companies are required to disclose items related to executive compensation in greater detail. One of the major revisions is that companies must disclose the total compensation and average compensation per person for directors and auditors, together with corporate performance indicators such as operating income and total shareholder return over the past three years. They must also provide more specific information on the criteria used to determine compensation for directors and auditors. This revision is intended to address the limitations of the previous disclosure regime, which did not sufficiently explain the criteria under which executive compensation was paid or how it was linked to corporate performance.

An analysis of business report data shows that, over the past decade, executive compensation at listed firms has increased faster than employee wages, and the share of executives receiving compensation of KRW 500 million or more has also increased. However, many companies did not provide specific criteria for determining compensation in their business reports. The analysis also found no consistent positive correlation between changes in executive compensation and changes in sales, operating income, or total shareholder return.

Therefore, this revision to the disclosure requirements may serve as an opportunity to enhance the transparency and explainability of executive compensation. However, to improve its effectiveness, it is necessary to encourage companies not to stop at formalistic disclosures, but instead to provide specific explanations of the performance indicators and evaluation criteria actually used in determining compensation.

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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Starting with this year's semi-annual reports, companies are required to disclose items related to executive compensation in greater detail.[1)] One of the key revisions to executive compensation disclosure is that companies must disclose the total amount of executive compensation and the average compensation per person, together with corporate performance indicators such as operating income and total shareholder return over the past three years. In addition, the criteria for determining compensation for directors and auditors must be disclosed in greater detail. Until now, executive compensation disclosure in Korea has provided a certain amount of information regarding the level of compensation. However, it has had limitations in showing, in a concrete and convincing manner, the criteria under which compensation was determined and, in particular, how it was linked to corporate performance.

This article examines the main characteristics and current status of executive compensation among listed firms in Korea, using business report disclosure data. It also reviews whether existing executive compensation disclosures have sufficiently explained the linkage between compensation and corporate performance. Based on this analysis, the article presents the implications of changes in the executive compensation disclosure system and issues to be considered going forward.

Trends and Current Status of Executive Compensation among Listed Firms

This analysis presents the main characteristics and current status of executive compensation among listed firms in Korea, using business report disclosure data.[2)] First, looking at the average trend over the past decade, the average compensation per executive increased more than the average wage per employee.[3)] Figure 1 shows that the gap between average executive compensation and average employee wages has widened for firms listed on both the KOSPI market and the KOSDAQ market. This gap becomes even more pronounced when focusing only on registered directors, excluding auditors, audit committee members, and outside directors.

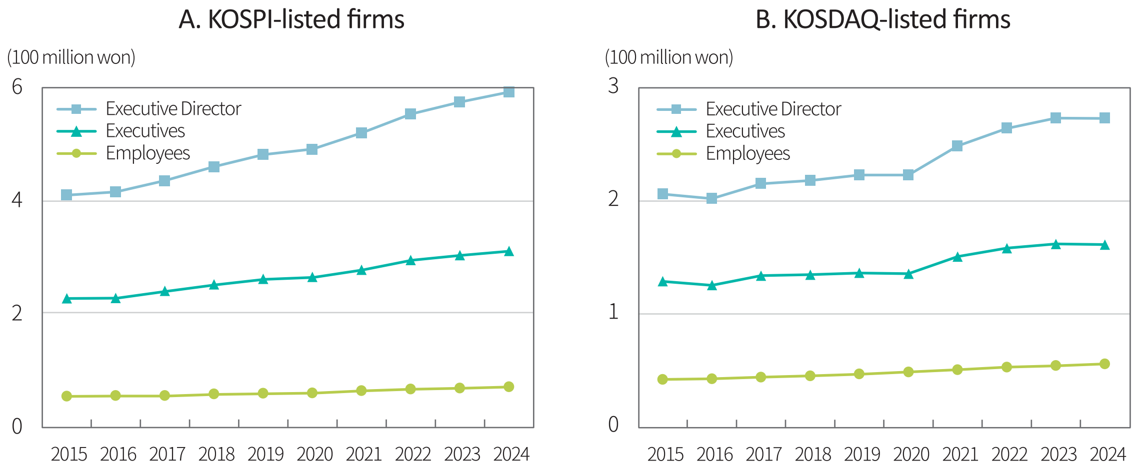
1) The revised corporate disclosure forms have been applied since May 1, 2026. Accordingly, companies with December fiscal year-ends must disclose the status of executive compensation in accordance with the revised forms starting with this year's semi-annual reports.

2) Executives refer to those disclosed under "Section 2. Compensation of Executives, etc." in "Chapter 9. Matters Concerning Executives and Employees, etc." of business reports.

3) Executive compensation and employee wages tend to have extremely large values in a small number of upper-tail observations. Therefore, to prevent the average from being excessively affected by a small number of extreme values, the analysis uses averages winsorized at the top 1% within each market sample.

In addition, the share of executives receiving compensation of KRW 500 million or more has also increased. Figure 2 shows that, among firms listed on both the KOSPI and KOSDAQ markets, the share of executives receiving compensation of KRW 500 million or more among all executives has increased. Figure 3 shows that the share of firms with at least one executive receiving compensation of KRW 500 million or more has also increased over the past decade. This indicates that executive compensation at listed firms has generally risen over the past ten years.

Figure 1. Average Compensation per Executive and Average Wage per Employee



Note: Executives consist of directors and auditors disclosed in business reports. In the figure above, registered directors refer to directors excluding outside directors and audit committee members.

Source: Business reports, "Status of Executives and Employees"

Figure 2. Share of Executives Receiving Compensation of KRW 500 Million or More

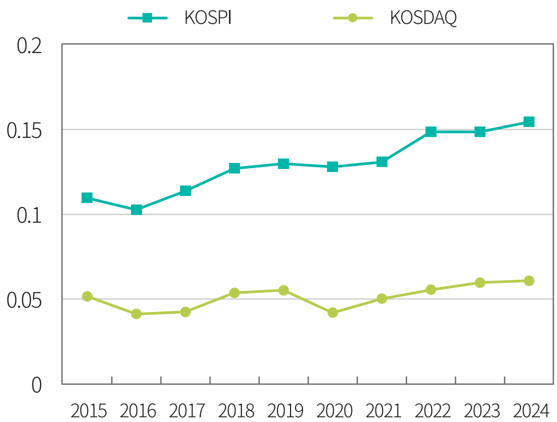
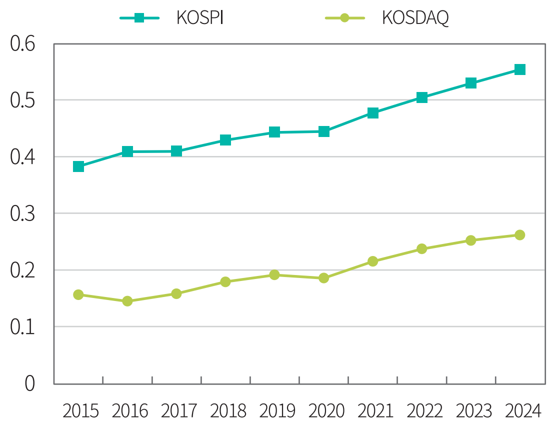


Figure 3. Share of Firms with Executives Receiving Compensation of KRW 500 Million or More



Note: Executives refer to directors and auditors disclosed in business reports.

Source: Business reports, "Status of Executives and Employees"

Linkage between Executive Compensation and Corporate Performance, and the Current State of Disclosure

However, compared with the increase in executive compensation, the disclosure explanations regarding the criteria behind this increase appear to be insufficient. Even before the revision, companies were required to disclose the criteria for determining compensation for individual executives who received KRW 500 million or more. However, in many cases, companies did not present specific calculation methods or performance indicators, but instead relied on formalistic phrases such as "in accordance with the executive compensation regulations." Indeed, an analysis of 2024 business reports shows that, among firms with executives receiving compensation of KRW 500 million or more, the share of firms that either provided only broad, generic wording without specific compensation criteria or did not provide any criteria at all was close to half among KOSPI-listed firms. Among KOSDAQ-listed firms, the share exceeded 65%.[4)]

Given these limitations in the disclosure of compensation criteria, an empirical analysis of the relationship between executive compensation and corporate performance also found no clear evidence that executive compensation is actually linked to performance. The analysis examined the relationship between the three-year change in average compensation for inside directors and changes in each performance indicator, focusing on sales, which firms most frequently cited as a criterion for determining executive compensation, as well as operating income and total shareholder return, or TSR, which will be required in future disclosures. The results show no consistent positive relationship between changes in inside director compensation and changes in corporate performance indicators.[5)]

Figure 4 shows the number of listed firms in which the average compensation per inside director increased among firms whose performance indicators declined between 2021 and 2024. Among listed firms whose sales declined over the three-year period, about 56%

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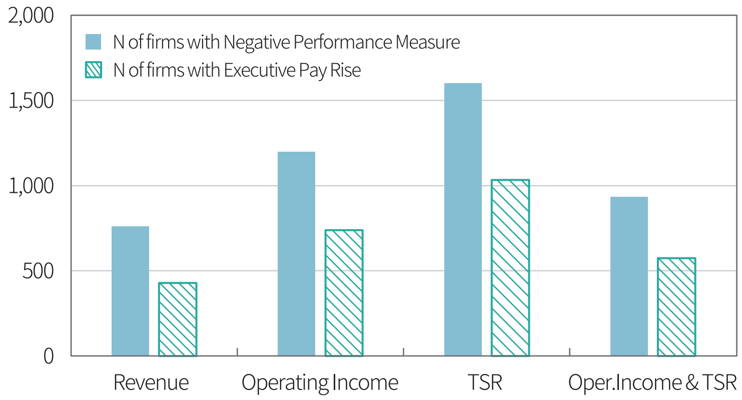
4) According to the analysis of 2024 business reports, among KOSPI-listed firms with executives receiving compensation of KRW 500 million or more, 216 out of 469 firms did not provide specific compensation criteria or did not disclose such criteria at all. Among KOSDAQ-listed firms, 297 out of 454 firms did not provide specific compensation criteria or did not disclose such criteria at all.

5) The analysis focuses on inside director compensation because executives differ in their roles and responsibilities, and inside directors are in positions that bear relatively greater responsibility for corporate performance. In this analysis, inside directors refer to registered directors excluding outside directors and audit committee members, according to the classification of executive types in business reports.

experienced an increase in average inside director compensation. Among firms whose operating income declined, the corresponding share was about 62%, while among firms whose total shareholder return declined, it was about 65%. In addition, even among listed firms whose operating income and total shareholder return both declined over the three-year period, about 61% saw an increase in average compensation for inside directors.

Figure 4. Number of Listed Firms with Increased Inside Director Compensation among Firms with Declines in Performance Indicators



Note: The number of firms with increased average inside director compensation refers to the number of firms whose average compensation increased among firms whose performance indicators declined. Changes in performance indicators and average compensation refer to changes over the three-year period from 2021 to 2024.

Source: FnGuide, author's calculations

The results are similar when using regression analysis, a more refined analytical method. In an analysis where the dependent variable is the change rate in average compensation per inside director and the explanatory variables include the change rates in sales, operating income, and total shareholder return, no statistically significant positive correlation is found.[6)] This suggests that it is difficult to conclude that executive compensation at listed firms is systematically linked to corporate performance. Of course, these results may be due to the fact that criteria other than corporate performance were used in determining compensation, or that the roles and contributions of executives are not immediately reflected in short-term

6) The analysis is based on a sample of listed firms from 2015 to 2024. Changes in the main variables are measured as three-year changes. The analysis controls for asset size, firm age, debt ratio, ownership share of the largest shareholder and related parties, outside director ratio, and industry and year fixed effects. Similar results are also found when firm fixed effects are additionally included. Similar results are also confirmed when changes in the main variables are measured on a one-year basis or when a two-way fixed effects analysis is conducted using the level values of the variables.

performance indicators. However, as discussed above, such criteria or explanations are also often not disclosed in detail.

Therefore, existing executive compensation disclosures alone make it difficult to sufficiently verify the rationality and explainability of compensation determination. To address these limitations, starting this year, companies must present a table showing the relationship between compensation for directors and auditors and corporate performance. They must also provide more specific information on the criteria for determining compensation for directors and auditors.[7)]

This means that executive compensation disclosure should move beyond simply disclosing the level of compensation and toward more fully explaining the basis for compensation determination and its linkage with performance.

Conclusion and Implications

Over the past decade, executive compensation at listed firms in Korea has increased faster than employee wages. However, explanations of why executive compensation increased, under what criteria it was determined, and to what extent it was linked to corporate performance have been insufficient. The compensation criteria disclosed in business reports have often remained broad or formalistic. In addition, the regression analysis does not find a clear positive correlation between executive compensation and major corporate performance indicators.

In this respect, the revision to executive compensation disclosure requirements that takes effect this year can be viewed as an institutional improvement aimed at addressing the limitations of the previous system. The requirement to present executive compensation together with corporate performance indicators, and to provide more specific disclosure of compensation criteria, is meaningful because it expands the information available to shareholders and stakeholders when assessing the appropriateness of executive compensation.

However, further efforts are needed for this institutional improvement to lead to the

7) In the United States, companies are required to provide Pay versus Performance disclosure, which presents executive compensation together with performance indicators such as TSR and net income. In the United Kingdom, companies are required to disclose total compensation by director, as well as CEO compensation and TSR trends. Germany also requires compensation reports to compare and disclose changes in executive compensation, corporate performance, and average employee compensation. Japan requires companies to disclose, in securities reports, the calculation method for performance-linked compensation, the performance indicators used, and the actual performance results.

provision of substantively useful information. First, companies should not merely enter the indicators presented in the disclosure form, such as operating income and total shareholder return, in a mechanical manner. They need to be encouraged to provide specific explanations of the performance indicators and evaluation criteria actually used in determining compensation. In particular, given the characteristics of each company's compensation system, various criteria beyond financial performance may be used, including long-term performance, non-financial performance, and risk management. Therefore, a disclosure framework should be established that allows companies to disclose such criteria in a flexible yet specific manner. In addition, to prevent disclosures from remaining at the level of formalistic wording, supervisory authorities need to continuously review disclosure practices and provide best-practice examples.

The core purpose of executive compensation disclosure is not simply to show how much was paid. More importantly, it is to explain why that amount was paid. For this disclosure revision to serve as an opportunity to enhance the transparency and accountability of executive compensation, follow-up management will be important to ensure that companies disclose the criteria for compensation determination and the structure of performance linkage in a more specific and convincing manner.