

Business

**Column** by [Morten Bennedsen](#), [Brian Henry](#)

# Samsung's Lee family succession crisis shows the importance of long-term planning

Family-run businesses throughout Asia have a lot to learn from the tumultuous events surrounding the recent conviction of Lee Jae-yong

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In 1938, a young man who had just lost his father used the inheritance money from his landowning family to set up a trucking company to ship fish, vegetables and fruit on the Korean peninsula and even across the sea to Manchuria and Beijing.

Rather than naming the company with his own surname, Lee, a common one in Korea, Lee Byung-chull called the enterprise Samsung, meaning three stars. It turned out to be a lucky omen, at least for the firm's first two generations of leaders. The third "star", Lee Jae-yong, Samsung's 49-year-old de facto leader, had just started to shine when the dimmer switch started to erode his lustre. But light could still emerge from the young man.

Family-run businesses in China and throughout Asia have a lot to learn from the tumultuous events surrounding the recent conviction of the third generation leader of the Lee family. On August 25 August, a South Korean court sentenced Lee to five years in prison for bribing the country's former president. Following an exhaustive trial, a panel of three judges had found him guilty of embezzling Samsung funds, hiding assets overseas, concealing profit derived from criminal acts, and perjury. Prosecutors had sought a 12-year prison term, but the judges gave him the mandatory minimum sentence. The verdict is not yet final, since Lee Jae-yong's lawyers have appealed against the decision. He will remain in a Seoul prison, until the South Korean high courts make a final ruling, which is expected in January next year.



The strange turn of events may not appear relevant to many family business leaders outside South Korea, since it is the only country in the world where economic power is concentrated in the hands of family-run conglomerates called Chaebol. But in reality, the succession crisis experienced by the Lee family may have some enriching lessons for other family businesses.

In early May 2014, just three years before his trial and conviction, Lee received the devastating news that his father Lee Kun-hee had suffered a massive heart attack, rendering him totally incapacitated. Along with his mother and two sisters, he rushed to his bedside. But the stricken man was incapable of uttering any words of advice. Since then the charismatic second-generation leader of Samsung has been kept alive in the Samsung Medical Centre in Seoul, a hospital that the family built and owns. It was an enormous loss for the young heir, who since birth had looked up to this giant of an industrial leader who transformed Samsung into a global powerhouse during his 50-year tenure.

His only son was suddenly forced to step into his shoes, a move that the naturally reserved heir had only just begun to prepare for. Unfortunately, he had no choice. Korea's largest company, Samsung generates about 20 per cent of revenues for the entire country. He could not just walk away from the empire that his father and grandfather had created, leaving Samsung and its hundreds of thousands of employees leaderless.

Lee and his predecessors had contributed many positive virtues to the family business: their loyalty to stakeholders, the determination to survive by sticking to innovative products, the ability to favour a long-term approach over short-termism, and always putting the future squarely into the hands of the next generation. All of these assets had grown stronger under the leadership of the second-generation leader Lee Kun-hee. The younger Lee rightly saw his future ownership and control of Samsung as an invincible force to be reckoned with. However what was missing from the equation was a long-term plan and it was this oversight that began to weigh heavily on the heir and overshadow all the positive virtues contributed by the Lee family members to the business.

In all fairness to Lee Kun-hee, he had started the process of cultivating a successor a few years before he suffered a heart attack. Given his extraordinary leadership abilities, he probably assumed that he did not need the 20 or 30 years of planning that is often required for even medium-sized family businesses to survive a succession.

In any event, the younger Lee perhaps grew too impatient with the turn of events as his father's condition showed no signs of improving. He knew he had to do something but under the circumstances he or his advisers apparently started making ad hoc decisions. In order to tighten Lee's grip on the company, the idea of merging Cheil Industries with Samsung C&T emerged a year after his father's heart attack. Lee would gain the control he needed to ensure his succession, since C&T owned a large bloc of shares in Samsung Electronics, the crown jewel in the empire. But it was this deal that eventually landed him behind bars because illicit means were used to get the merger approved by the majority shareholder of C&T, the Korean state pension fund.



Many shareholders opposed the merger since the two affiliates had nothing in common with each other, nullifying any strategic imperative or economic

rationale for the tie-up. Furthermore, the price Lee put on the table undervalued the two companies, which infuriated an astute hedge fund manager named Paul Elliott Singer, the founder of Elliott Management, one of the oldest hedge funds on Wall Street. Singer had acquired a 7.1 per cent stake in C&T just before the merger was announced and begged anyone who would listen to him to consider the folly of the deal. To this, Samsung published anti-Semitic cartoons of Elliott in an attempt to damage his reputation, a move that it later apologised for.

Once the merger went through, the Lee family owned about 5 per cent of the total Samsung stock, but controlled the Chaebol through a complex network of ownership. Meanwhile, Lee's absence has not held back the share price of Samsung Electronics, which has surged 34 per cent since his detention in late February. Samsung Electronics, which contributes about three quarters of the group's total revenues, is run by three top-flight CEOs who each head up its major business segments, smartphones, consumer electronics and microchips. If anything, Samsung's merger and acquisition activities may slow down a bit, since the non-family CEOs would lack the authority to make large-scale investments.

Lee will be released from prison at some point in the not too distant future, but the time spent behind bars could actually serve to mature him and give him a new lease of life once on the outside. Meanwhile his mother and two sisters have visited him in prison, an implicit acknowledgement of his role as the de facto leader.

His plight, however, brings into sharp focus the need for family-run businesses to pay far more attention to long-term planning or else run the risk of a Lee-type succession.

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