

Samsung: Third Generation Chaebol Faces Unexpected Challenges

Part B: Succession

Family control

As of June, 2016
(Stake held in June, 2015)



| | Lee Kun-hee | Lee Jae-yong | Lee Boo-jin | Lee Seo-hyun |
|-----------------------|--------------|--------------|-------------|--------------|
| Samsung Electronics | 3.44% (3.88) | 0.58% (0.57) | - | - |
| Samsung C&T | 2.86 | 17.23 | - | - |
| Samsung SDS | 0.01 | 9.2 (11.25) | 5.51 | 5.51 |
| Samsung Life | 20.76 | 0.06 | 3.9 | 3.9 |
| Samsung Fire & Marine | - | 0.09 | - | - |
| Samsung Engineering | - | 0 (1.54) | - | - |

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Health Issues of Samsung Chairman Cloud Succession Planning

On 10 May 2014, Lee Kun-hee, the second-generation chairman of the Samsung Group, was rushed to an emergency room of a hospital near his home because of acute shortness of breath.¹ At the clinic he received cardiopulmonary resuscitation (CPR) for heart-attack symptoms. In fact, he had suffered a myocardial infarction (heart attack).²

Illustrating the urgency of his condition, Lee Kun-hee was moved from his local hospital to the Samsung Medical Centre in Seoul, where he continues to convalesce to this day. Age 72 at the time of the heart attack, the chairman had been battling health issues for the previous 20 years. He underwent lung cancer surgery in the United States in the late 1990s, and concerns over his health have dogged him regularly since then. He has often spent winters abroad in countries with warm winter climates in order to stay healthy. Ironically, he was in the United States for three months before returning to Korea in April 2014, a few weeks before his heart attack.

He suffered from other illnesses as well. In August 2016, a bout with pneumonia symptoms sent him to the Samsung Medical Centre for 10 days. In March 2009, bronchitis required four days of medical treatment, and in January 2008 a nasty flu put him in hospital for over a week.

Five months after the heart attack, Lee Kun-hee could sit up in a wheelchair with some assistance but still had not recovered most of his cognitive abilities.³ While he could move his hands when he made eye contact, he was unable to communicate.⁴ By mid-2017, he had still not shown any signs of recovery, his condition having neither improved nor deteriorated.⁵

Faced with his father's debilitating illness, his only son Lee Jae-yong, age 49, became the de facto leader of Samsung. 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 father's 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% of revenues for the entire country. He could not just walk away from the empire that his father and grandfather had created and leave Samsung and the hundreds of thousands of employees leaderless.

The Challenges Ahead

With Lee Kun-hee in hospital and Lee Jae-yong in jail (at least for the time being), the family must address a number of challenges: 1) how the family can keep control of Samsung; 2) how

¹ <http://www.businesskorea.co.kr/english/news/industry/4603-chairman-health-risk-reorganization-samsung-group-likely-accelerate-chairman%E2%80%99s>, accessed 19 July 2017

² <https://www.forbes.com/profile/lee-kun-hee/>, accessed 4 May 2017

³ *Samsung Chief Marks 75th Birthday in Hospital*, Chosun Ilbo, 12 January 2016

⁴ *Samsung chairman able to sit up in a wheelchair*, Korea JoonAng Daily, 1 October 2014

⁵ *Bedridden Samsung head shows no signs of recovery*, Yonhap English News, 1 May 2017

the de facto leader can concentrate his own power through ownership; and 3) how the role of the family and its control over Samsung will evolve in the future.

The Lee family would not be alone in facing these questions. Family firms worldwide have always struggled to design long-term plans in order to ensure the sustainability of their firms for decades to come. One of the biggest challenges facing owner-managers in family firms is allocating enough time to develop a plan, even though research shows that the lack of long-term planning can often lead to unexpected costs to the family and the firm. Indeed many owner-managers have made the mistake of postponing key decisions – or at least have failed to inform family members and board directors of their chosen decisions – until their health deteriorates. If procrastinators have a sudden heart attack, as happened to Lee Kun-hee, this will put the family in a very challenging position.

In a comprehensive study of more than 5,000 family companies worldwide, researchers found that the unexpected death of a CEO could reduce performance by up to 30% and the death of a spouse or child by 10%. Even the hospitalisation of a family owner has been shown to have a profound negative effect on firm performance.⁶

Another study looked at 217 publicly traded family firms in three Chinese markets, Hong Kong, Singapore, and Taiwan. In these firms, the ownership and management of the firms were mainly transferred to the next generation of family members. It was discovered that these successions, often spanning periods of 10-to-14 years before and after succession, were associated with an average loss in shareholder value of nearly 60%.⁷

However in a recent study of 5,300 private firms in Denmark, external managers significantly outperformed family heirs.⁸ Another research study comparing the returns of America's 500 largest firms in the three years before and after succession found that returns of firms with non-family CEOs were about two percentage points higher than of those with relatives in the top job.⁹

In general, research shows that two out of every five owner-managers who think they will exit their family firms within two years have not carried out any long-term planning. And yet these same founders who have made no plans for the future are still as vulnerable to shocks from unexpected events such as hospitalization or sudden death as those owner-managers who have actually made contingency plans for such events.

In sum, founders need to communicate their long-term plans with their family members and board members. This will go a long way to ensure that succession transitions are smooth and well-planned.

Lee Kun-hee Begins Succession Planning

⁶ *The downsides, All too human: How families can cause trouble for their firms*, The Economist, 16 April 2015

⁷ *The family business map: Framework, selective survey, and evidence from Chinese family firm succession*, by Morten Bennedsen, Joseph P.H. Fan, Ming Jian, Yin-Hua Yeh, Journal of Corporate Finance 33 (2015) 212-226

⁸ Ibid.

⁹ *The downsides, All too human: How families can cause trouble for their firms*, The Economist, 16 April 2015

After his first surgery to remove the lung cancer in the late 1990s, Lee Kun-hee began the succession planning process. He promoted his two daughters to top positions in the Samsung Group and set his only son on a path to succession.¹⁰ While his heart attack removed him from the succession planning process, it did not do anything to diminish his stake in the Group. By July 2017, the value of his 3.54% stake in Samsung Electronics was 18.4 trillion won. According to Forbes, he had an estimated net worth of \$19.8 billion.¹¹

Since the heart attack, Hong Ra-hee, has kept constant vigil at her husband's bedside in hospital, hoping that one day he will recover. The richest woman in the country¹² with assets approaching three trillion won, Hong Ra-hee derives most of her wealth from her 0.77% stake in Samsung Electronics. Born in 1945, Hong Ra-hee came from a well-connected family of politicians and entrepreneurs. Her father was Hong Jin-ki, the former chairman of Joongang Ilbo and the 9th Minister of Justice and 21st Secretary of Interior. She had five younger siblings: Hong Seok-hyun was the chairman of Korea's top daily newspaper, Joongang Ilbo, (his son now runs it); Hong Suk-jo was the chairman of the country's biggest convenience-store chain, BGF Retail; Hong Seok-joon was the chairman of Bokwang Investment; Hong Seok-kyu was the CEO of Bokwang Group; and Hong Ra-young was the Senior Deputy Director of the Leeum Samsung Museum of Art (the latter is expected to replace Hong Ra-hee following her resignation as president).¹³

Given her sizeable ownership stake in Samsung Electronics, Hong Ra-hee would be expected to wield significant influence in key decisions around the succession planning process. However Hong Ra-hee is probably more at ease in a museum than in the boardroom. An arts graduate of Seoul National University,¹⁴ Hong Ra-hee resigned from her positions as the director of the Leeum Samsung Museum of Art and the Ho-Am Art Museum, citing personal reasons in March 2017 at age 72.¹⁵ Both museums contained collections from her father-in-law, Samsung founder Lee Byung-Chull. Her retirement has sent shock waves throughout the Korean art community, since she was considered a "super art collector with the discerning eyes and financial capabilities to purchase valuable art works."

Next Generation of Lee Family Take Leading Roles

Lee Kun-Hee and his wife had four children, Lee Jae-yong, Lee Boo-Jin, Lee Seo-Hyun and Lee Yoon-hyung (the latter committed suicide in her New York apartment in 2005).¹⁶ Lee Jae-yong is his father's only son and thus the de facto heir of Samsung. He has a 0.6% stake in Samsung Electronics worth 8.2 trillion won.¹⁷ But part from publicly available financial data, little is known of him outside the company, except that he likes golf and horseback riding. In early 2009, he divorced his wife Lim Se-Ryeong, managing director of the Daesang

¹⁰ <http://www.reuters.com/article/us-samsung-elec-lee-idUSBREA4A01E20140511>, accessed 4 May 2017

¹¹ <https://www.forbes.com/profile/lee-kun-hee/>, accessed 19 July 2017

¹² *SK kin invest in hallyu building*, The Korea Herald, 23 December 2014

¹³ *Samsung's first lady steps down from public posts*, by Lee Se-jin and Yim Ji-min, The Korea Herald, 17 March 2017

¹⁴ *Samsung Under A Spotlight*, by Donald Kirk, Forbes Asia, 16 May 2017

¹⁵ *Samsung's first lady steps down from public posts*, The Korea Herald, 17 March 2017

¹⁶ https://en.wikipedia.org/wiki/Lee_Yoon-hyung, accessed 26 May 2017

¹⁷ *Lee Kun-hee's assets rise to record high amid Samsung Electronics strong performance*, Yonhap English News, 14 July 2017

Group and the eldest daughter of the group's honorary chairman Lim Chang Wook. Married for 11 years, they had two children.

Lee Jae-yong earned a degree in East Asian History from Seoul National University and an MBA from Keio University in Japan.¹⁸ He has also attended Harvard Business School for about five years, although he did not receive a degree.¹⁹ He joined Samsung Electronics in 1991, became president in 2009 and was named vice chairman in 2013.²⁰

Lee Boo-Jin, age 46, has an estimated net worth of \$1.95 billion.²¹ She is the president of Hotel Shilla, one of Seoul's top lodging and conference centres, and shareholder in Samsung C&T before it was acquired by Cheil Industries.²² Since her appointment as CEO of Hotel Shilla in 2011, she successfully launched the second largest duty free chain in Korea. Her reach and business acumen have led her to accept an appointment as outside director in January 2015 at the CITIC Group Corp., China's largest state-run investment firm.²³ With a Bachelor of Arts and Science from Yonsei University, the oldest university in Korea, Lee Boo-jin has been nicknamed by the press as "Little Lee Kun-hee", reflective of the leadership and management skills of her father.

Her personal life had been clouded by a high-profile divorce suit until it was resolved in her favour in July 2017.²⁴ Granting the divorce, the Seoul Family Court ordered her to pay her ex-husband 8.6 billion won even though he had asked the court for more than a trillion won or half of his wife's fortune.²⁵ Married for 15 years, they have a 10-year-old son who will remain in the custody of his mother; her ex-husband has been given the right to visit his son once a month.²⁶

Lee Seo-hyun, age 44, has an estimated net worth of \$1.51 billion, making her the 18th richest person in South Korea. She is married to Kim Jae-yeol, son of the former chairman of the Korean daily Dong-A Ilbo and was the president of Samsung Engineering from 2011 to 2014. Having joined Cheil as a manager in 2002, Lee Seo-hyun became its president in December 2015 just after it was acquired by C&T.²⁷ A graduate of the Parsons School of Design in New York, she has been dubbed "one of the 10 most beautiful female billionaires in the world" by the South Korean press.²⁸ Despite her good looks, Lee Seo-hyun has faced challenges in the domestic fashion market amid intense competition from fast-growing brands like Uniqlo and

¹⁸ <https://www.reuters.com/article/us-samsung-lee-newsmaker-idUSBRE8B40A220121205>, accessed 19 July 2017

¹⁹ [https://en.wikipedia.org/wiki/Lee_Jae-yong_\(businessman\)](https://en.wikipedia.org/wiki/Lee_Jae-yong_(businessman)), accessed 19 July 2017

²⁰ <https://www.forbes.com/profile/jay-y-lee/>, accessed 3 May 2017

²¹ <https://www.forbes.com/profile/lee-boo-jin/>, accessed 19 July 2017

²² *Samsung speeds up realignment*, by Kim Yoo-chul, Korea Times, 3 April 2014

²³ <http://www.bloomberg.com/research/stocks/people/person.asp?personId=65296048&capId=877097&previousCapId=877097&previousTitle=CITIC%20LTD>, accessed 3 May 2017

²⁴ *Samsung Heiress Ordered to Pay W8.6 Billion in Alimony*, Chosun Ilbo, 21 July 2017

²⁵ <https://www.forbes.com/profile/lee-boo-jin/>, accessed 3 May 2017

²⁶ *Former husband of Samsung heiress Lee Boo Jin seeks record \$1.4 billion divorce settlement*, The Straits Times, 9 July 2016

²⁷ <https://www.forbes.com/profile/lee-seo-hyun/>, accessed 3 May 2017

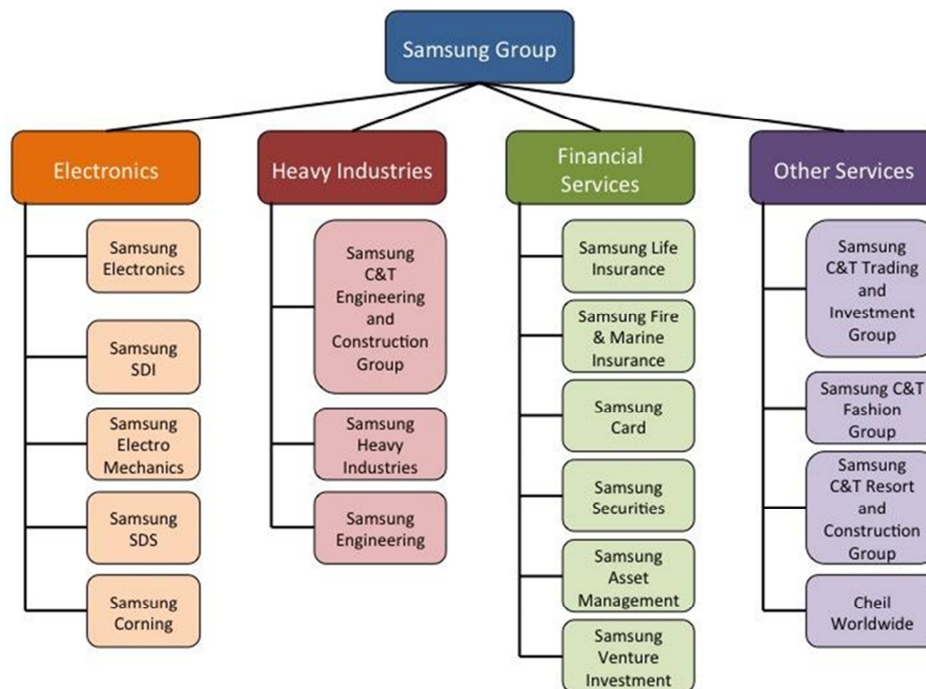
²⁸ *Hot Like Its Smartphones? Samsung heiress Lee Seo-hyun named among world's top 10 'prettiest' billionaires*, by Margi Murphy, The Scottish Sun, 10 May 2017

H&M.²⁹ To expand, she has developed a distribution alliance with Tmall Global, a shopping mall run by China’s largest e-commerce giant Alibaba Group.³⁰

Recently, Lee Seo-hyun has tried to give her fashion brand a face lift. In 2014, she launched the Heartist House, whose motto is “turning shopping into giving”. Heartist House gathers donations from private-label clothing houses and sells them at discounted prices, with the proceeds going to charity. It also displays the work of young fashion designers and collaborates with them to turn unused fabrics and materials into goods like bookmarks and card holders. C&T donates several hundred million won to charity each year, according to the company’s public relations manager.³¹

Inheritance Taxes in Korea Are Higher for the Rich

Figure 1: Samsung Group Divisions and Units



According to Korean civil law, if Lee Kun-hee dies before his wife, she would inherit his assets but be subject to a 50% inheritance tax minus a number of small deductions such as the funeral expenses.³² If she were to die within 10 years of paying the inheritance

tax, her surviving children, who would inherit her assets equally, would be credited for her tax payment on a progressive scale. For example, if she were to die within one year of paying the inheritance tax, the surviving children would be credited with 100% of her inheritance tax, but on the other hand if she were to die in the 10th year following payment, her surviving children would be credited with only 10% of her inheritance tax. After that, no more credits apply.

²⁹ *Samsung heir seeking to consolidate power*, by Chang May Choon, The Straits Times (Singapore), 16 October 2016

³⁰ *Daughters run the show in S. Korea’s fashion groups*, My Paper, 1 July 2016

³¹ *Social projects catch on in South Korea*, by Chang May Choon, The Straits Times (Singapore), 25 February 2017

³² The section on inheritance taxes is based on a 2010 English-language version of Korean Taxation, Ministry of Strategy and Finance, Korea at www.nts.go.kr/eng/data/koreantaxation2010.pdf, pp 150-158

In short, Korea operates a progressive tax system to calculate inheritance taxes. Individuals or companies that acquire property via a bequest or inheritance of not more than 100 million won would only pay 10%, but individuals or companies inheriting three billion won or more would pay Korea's top-level inheritance tax rate of 50%. This is obviously the case with the Lee family. A 10% credit is granted to those taxpayers that submit their tax returns on time.³³ If a property is inherited, or received as a gift, a tax return must be filed within six months of the last day of the month when the inheritance or gift was received.³⁴

Japan also has the same top-level tax rate on inheritance at 50%. Other countries in the region treat their estate tax differently. To avoid burdening heirs, Taiwan has adopted in 2009 a uniform inheritance tax rate of 10%, regardless the value of the taxable estate,³⁵ while Hong Kong and Singapore have abolished estate taxes altogether.³⁶

Designing a Complex Ownership Structure

The Lee family has adopted a complex ownership structure in order to maintain control over the Samsung Group, a network of companies engaged in electronics, heavy industries, financial services and other services. In 2014, The key companies in Samsung's complex ownership structure were Samsung Electronics, Samsung Everland, Samsung C&T and Samsung Life (see chart on the composition of the Group³⁷).

- **Samsung Electronics** is the group's flagship company, world-famous for high-technology products.
- **Cheil Industries** (formerly called **Samsung Everland**) gathers the Group's activities in textile manufacturing, food and beverages, theme parks and construction businesses. (In 2014, Samsung Everland changed its name to Cheil Industries after acquiring the latter's fashion business in December 2013). Cheil became Samsung's de facto holding company as it owned both Samsung Electronics and Samsung Life.
- **Samsung C&T** is active in engineering and construction, trading and investment. (C&T was acquired by Cheil in 2015).
- **Samsung Life** is South Korea's largest insurance company.

In 1994, Lee Kun-hee gave his son six billion won so that he could build up stakes in several strategic Samsung affiliates.³⁸ Since his father's heart attack, Lee Jae-yong has sought to control the Group by making changes in an already a complex ownership structure.

³³ *Samsung chairman's wife emerges as key person in succession scenario*, by Cho Chung-un, The Korea Herald, 22 March 2017

³⁴ <https://www.angloinfo.com/how-to/south-korea/money/south-korean-taxes/inheritance-gift-tax>, accessed 20 July 2017

³⁵ *Formosa Plastics Group: Business Continuity Forever*, by Li Jin, Joseph P.H. Fan and Winnie S. C. Leung, Harvard Business School, Case Ref. 9-210-026, 17 December 2010, p. 7

³⁶ <http://taxsummaries.pwc.com/ID/Taiwan-Individual-Other-taxes>, accessed 19 June 2017

³⁷ *Succession at Samsung*, by Chiang Qi Long, Geng Yan, Laurence Cecile D. Vanhove, Maria Nina Sofia Skotchko, Muhammad Firdaus Bin Jamel. From a student report for a course in Family Business & Wealth Management, NUS Business School, Fall Semester 2016

³⁸ https://www.forbes.com/2007/11/13/samsung-corruption-investigation-face-markets-cx_jc_1113autofacescan01.html, accessed 4 May 2017

Moving Pieces around a Chess Board

In 2013, the Lee family, including father, son and two daughters, came to own a 46.04% ownership stake in Cheil Industries (formerly Samsung Everland),³⁹ making it the de facto family holding company of Samsung.⁴⁰ Everland had maintained an interlocked ownership and used the leading subsidiaries in the chart to dominate the Group. These leading companies shared ownership and controlled multiple sub-subsidiaries in many economic sectors. This interlocked ownership structure between Everland and the core holding companies allowed the Lee family to control the 80 affiliates either directly or indirectly through layered structures.

At the top of the Group was Chairman Lee Kun-hee, who until his heart attack governed Samsung with an iron hand. However, his relations with his family and employees conformed to Confucian notions of respect for hierarchical relationships and submission to authority. Lee family members were rewarded for their submission to the Chairman by being selected for top executive positions in the Group. Executives who were not members of the Lee family could be chosen for executive positions in the subsidiaries, although the family held the right to appoint or dismiss any executives who are in management positions.

Within the complex ownership structure, the 80 affiliates of the Group might seem to have technical autonomy from the Group, but they are actually directed by the Group through the structural planning office.⁴¹ This office or control tower was nominally run by the Chairman, but he appointed a director as his second-in-command. The Chairman, his deputy, and the entire office were responsible for the following:

1. Human resources management;
2. Finance and accounting, including a tight accounting over the Lee family's assets;
3. Account auditing as a supervisory tool for internal deals related to Samsung;
4. Marketing and communication;
5. Business intelligence and network management;
6. Corporate law.

Lee Jae-yong Plans Succession

In December 2013, six months before the Lee Kun-hee's heart attack, a series of internal mergers and acquisitions were made to the Samsung Group (see Figure 2: Ownership Structure of Samsung in 2013⁴²). The pace of these M&A activities increased after the Chairman's heart attack, which culminated in the merger between C&T and Cheil. This acquisition was designed to strengthen Lee Jae-yong's ownership of the Group.

³⁹ *Samsung, Media Empire and Family: A power web*, by Chunhyo Kim, Routledge, 2016, p. 85

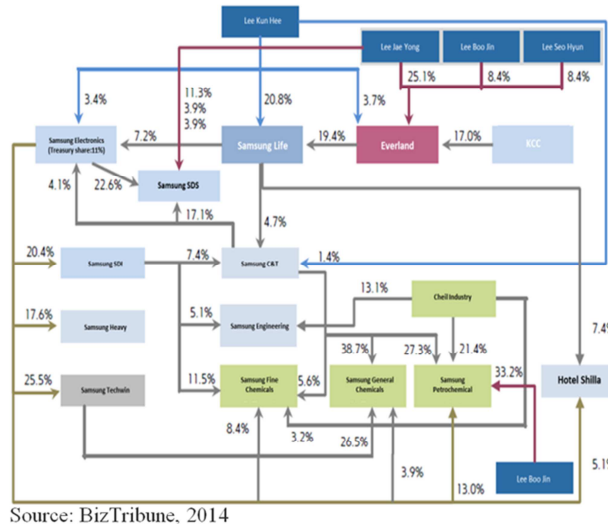
⁴⁰ This section is mainly derived from *Changes in Organizational Structure and Intra-Group Holdings of Samsung Group Since 2013*, by Tae Jun Yoon, PhD Student at Seoul National University, 6 October 2016

⁴¹ *Samsung, Media Empire and Family: A power web*, by Chunhyo Kim, Routledge, 2016, p. 6

⁴² *Samsung Case*, by Alexander Kho, Farid Rejeb, Marco Bizzarri, Yoonjung Jang, Yunshi Yu, Report prepared for a course in Family Business & Wealth Management, NUS Business School, Fall Semester 2016, p. 4

Figure 2

Ownership structure in 2013, one year before Lee Kun-hee's heart attack



Source: BizTribune, 2014

Ownership structure of Family as at July 2013

| | | | | | |
|------------------|--------------|--------|-----------------|-------------|--------|
| Samsung Everland | Lee Kun Hee | 3.70% | Samsung Life | Lee Kun Hee | 20.80% |
| | Lee Jae Yong | 25.10% | | | |
| | Lee Boo Jin | 8.40% | | | |
| | Lee Seo Hyun | 8.40% | | | |
| Total stake (%) | | 45.60% | Total stake (%) | | 20.80% |

| | | | | | |
|---------------------|--------------|-------|-----------------|-------------|-------|
| Samsung Electronics | Lee Kun Hee | 3.40% | Samsung C&T | Lee Kun Hee | 1.40% |
| | Lee Jae Yong | 0.60% | | | |
| | Hong Ra Hee | 0.70% | | | |
| Total stake (%) | | 4.70% | Total stake (%) | | 1.40% |

Source: HI Investment & Securities, 2013

In a reorganization beginning in 2013, Lee Jae-yong merged Samsung SDS, an information and communication technology service firm, with Samsung SNS, a network service and solution provider. The merger brought a change to the proportions of shares held by Lee Jae-yong. Following the merger, Lee Jae-yong held an 11.26% stake in new firm, up from 8.81%, making him the third-largest shareholder of Samsung SDS. In December 2013, Lee Jae-yong merged Samsung Everland into Cheil Industries. As a result of the 2013 merger, the Lee family owned the largest stake in Cheil. Almost all of the pieces were in place, except for the crown jewel, Samsung Electronics.

In the year following his father's heart attack in May 2014, Lee Jae-yong accelerated the succession planning process in order to gain control over Samsung Electronics. To solidify his grip over the company that generated 70% of the Group's revenues, Lee Jae-yong initiated a \$9.3 billion acquisition of C&T by Cheil (formerly Everland) in July 2015. In fact, C&T already owned a significant stake in Samsung Electronics and therefore by transferring ownership of C&T to Cheil, in which the Lee family held the largest stake, the de facto heir stood to gain control over Samsung Electronics. Furthermore the deal was allegedly done on terms favourable to the Lee family. Under the terms of the all-stock merger, the boards of both companies approved a ratio that gave 0.35 shares of Cheil stock for every share owned by a current holder of C&T.⁴³

Controversial Merger

From a product point of view, the two businesses Cheil and C&T seemed to have little in common. Cheil had always operated in the fashion industry, although following the 2013 Everland merger it gathered together units engage in food and beverages, and theme parks. A construction company, C&T had been active in engineering and building, trading and investment. In defence of its acquisition by Cheil, C&T said that the tie-up would transform

⁴³ <http://observer.com/2015/07/spat-between-samsung-and-nyc-hedge-fund-takes-nasty-detour-into-jew-baiting/>, accessed 27 September 2017

its businesses into global champions in the following sectors: food and beverage, clothing, housing, leisure and biotech.

With the acquisition of C&T by Cheil, Lee Jae-yong increased his shareholding in Samsung Electronics from less than 1% to 11.3%, and in so doing was able to complete a significant portion of his succession plan.⁴⁴ In the end, Cheil was transformed into the de facto holding company, whereby the Lee family exerted control over the 80 affiliates in the Group.⁴⁵

An American Hedge Fund Owner Takes Samsung to Task

The lack of synergies between C&T and Cheil was one thing, but the surprisingly low valuation of C&T was another. The two companies would have probably merged without too much controversy if it were not for an American hedge fund owner who had acquired a 7.12% stake in C&T before the merger. A billionaire activist investor named Paul Elliott Singer, the founder of a hedge fund called Elliot Management, turned out to be the mouse that roared.

Singer publicly opposed the merger on the grounds that it dramatically undervalued Samsung C&T in order to hand a bargain to Cheil shareholders including the Lee family who held the largest stake. A seasoned investor with 40 years of experience on Wall Street, Singer launched a bitterly contested campaign in the Korean press to stop the merger. In a statement opposing it, Singer said, “The merger proposal as presented by Samsung C&T’s management carries with it very limited evidence of the claimed synergies and benefits.”⁴⁶ In response, Samsung published anti-Semitic cartoons⁴⁷ on its website, but pulled those following complaints by Singer and others.⁴⁸ Samsung then issued a statement condemning anti-Semitism.

According to the principles of fiduciary duty, publically traded firms in Korea are designed to work in the interest of all stakeholders including minority investors.⁴⁹ But when Singer demanded an injunction to halt the merger precisely because his interests were being violated, the Seoul courts swiftly shot it down. On 17 July 2015, shareholders of C&T approved its takeover by Cheil. A month after the acquisition, Singer sold the majority of his shares in Samsung C&T for about \$5 per share less than he originally paid for them.⁵⁰

Conclusion

⁴⁴ *Succession at Samsung: The Lee Family*, by Chua Bee Hwee, Park Ji Yeon, Poon Jun Boon, Sean Ling Wei Tsi, Tan Fang Jie, Report prepared for a course in Family Business & Wealth Management, NUS Business School, Fall Semester 2016, p. 8

⁴⁵ *Case 1: Succession at Samsung (Korea)*, by Wendy Lai Shi Lin, Wong Hui Yi Amanda, Shaun Lum Yu Xuan, Chin Saw Yi Janelle, and Chen Jian Yi, Report prepared for a course in Family Business & Wealth Management, NUS Business School, Fall Semester 2016, p.2

⁴⁶ As cited in *Succession Planning at Samsung: The Merger Formula of Cheil Industries and Samsung C&T*, by Gwen Yu and Tim Gray, Harvard Business Case, 9 December 2016, Ref: 9-117-036, p. 2

⁴⁷ *Samsung empire has heir of mystery as controversial merger stirs anger in South Korea*, by Andrew Salmon, South China Morning Post, 19 July 2015

⁴⁸ <http://observer.com/2015/07/spat-between-samsung-and-nyc-hedge-fund-takes-nasty-detour-into-jew-baiting/>, accessed 21 July 2017

⁴⁹ *Succession Planning at Samsung: The Merger Formula of Cheil Industries and Samsung C&T*, by Gwen Yu and Tim Gray, Harvard Business Case, 9 December 2016, Ref: 9-117-036

⁵⁰ *Elliott v Samsung: Activists turn up the heat in Asia; For activist hedge funds, a fight in Asia doesn’t get much bigger than taking on Samsung’s founders, the Lee family*, by Brett Cole, Financial News, 10 August 2015

Soon after the merger which needed a two-thirds majority to go ahead, it came to light that the Korean National Pension Service (KPS) had voted in favour of the deal. The largest shareholder of C&T, KPS owned 10% of the construction firm before the announcement of the merger and increased its stake after the announcement was made.

At the trial of Lee Jae-yong, the prosecution made the case that he had offered bribes to the former president of South Korea in exchange for her help in putting pressure on KPS to vote for the merger, this paving the way for his control over Samsung Electronics. Although convicted on these grounds by a lower court and sentenced to five years in prison, Lee Jae-yong has appealed the lower court's ruling. The appellate court, which has four months from the August 2017 trial to make a ruling, is expected to deliver its verdict in January 2018. This verdict is also expected to result in an appeal to the Supreme Court, which will only examine the manner in which the law has been interpreted. .

In Part C of the Samsung case, the events leading up to the ill-gotten merger, the trial, conviction, sentence and the appeal will be examined.

Questions for Discussion

1. How did the Lee family maintain control over Samsung with a relatively small amount of shares?
2. Do you think the Lee family will continue to lead and control Samsung in the future? If so, what will be the future role of the family in the ownership and leadership of Samsung?
3. Do you think the heir's succession plans could have gone forward without the C&T / Cheil merger?
4. Why did Elliot Management oppose the merger?
5. Why do you think succession planning is so important for family-run firms?

(End of Part B. Go to Part C)