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BUSINESS

Power Struggle at Korean Firm Lotte Shows Perils of Succession

Struggle among father, sons is latest succession fight at Asian business groups

Lotte Group founder Shin Kyuk-ho, in wheelchair, in Seoul last month. The family struggle over corporate succession at the conglomerate has transfixed South Korea. PHOTO: YONHAP/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Alastair Gale

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SEOUL—The Shin family controls South Korea's biggest retail chain, sells billions of dollars worth of drinks and candies, runs two baseball teams and owns the Krispy Kreme and TGI Fridays franchises.

But like many of the family-controlled conglomerates that are some of Asia's biggest and most influential businesses, all isn't well in the Shin dynasty.

The drama started in January, when Korean-Japanese snacks-to-supermarkets conglomerate Lotte Group kicked out the older son of its 92-year-old founder and chairman, Shin Kyuk-ho. Outsiders assumed the nonagenarian leader was preparing to hand the reins of the business to his younger son.

But on July 27, the older son, Dong-joo, 61, made a surprise comeback, trundling his father by wheelchair into a board meeting of Lotte's holding company. There Mr. Shin declared he was firing all the holding company's six directors, including his younger son and Lotte chief executive, Dong-bin, 60.

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The ensuing pandemonium in the C-suite has transfixed the country and presented an object lesson in the perils of companies controlled by families. The day after the attempted coup, Dong-bin staged his own counter-coup, rallying Lotte's directors to strip his father of the chairman title and arguing that his brother had tricked his father into trying to sack the board. The Korean arm of the business is supporting Dong-bin, saying in a written statement that his older brother took advantage of his father's "judgment problems."

The older son has hit back in media interviews, saying that his father is of sound mind. On Sunday, a frail-looking Mr. Shin appeared on television to read out a statement claiming his younger son had "no authority" over the company, and accusing him of withholding information on the business. "I couldn't understand or forgive him for trying to exclude me," Mr. Shin said.

The Lotte clash is the latest example of the family-succession battles roiling many of the corporations that grew into regional and global giants as the region rebounded following the end of World War II.

Although succession issues are thorny the world over, Asia has a particularly large number of family-controlled companies. Around three-fourths of the world's big, family-owned companies—those with market capitalizations of at least $1 billion and family shareholdings of 20% or more—are based in Asia, compared with 6% in North America, according to a recent study by Credit Suisse.

Businesses formed around family units helped provide trust amid high levels of corruption and a weak rule of law in some Asian countries, says Joseph Fan, a finance professor at the Chinese University of Hong Kong who has written a book about family-run businesses.

Cultural traditions that revere elders, combined with a lack of clear mechanisms to replace management, mean many Asian business leaders remain in power well into their 80s or 90s. That includes the region's richest man, Hong Kong tycoon Li Ka-shing, 87; the CEO of Japanese car maker Suzuki Motor Corp. , Osamu Suzuki, 85; and Hong Kong-Macanese casino magnate Stanley Ho, 93.

The fights over control exact a toll: A study of around 200 family-run companies in Hong Kong, Singapore and Taiwan by Mr. Fan found that they lost 60% of their value on average during the years around the transfer of power.

Succession feuds have been particularly frequent and damaging in South Korea, where a handful of families have effective control over some of the region's biggest corporate empires.

Of the country's 40 big family-controlled conglomerates, 18 have had succession disputes, according to Chaebul.com, a website that monitors the businesses. One of the highest-profile battles splintered the Hyundai Group into three parts in the early 2000s, as sons of the founder sparred for control.

The head of the Samsung Group, Lee Kun-hee, 73, has fended off lawsuits in recent years from siblings seeking larger stakes in South Korea's biggest conglomerate.

> "In Korea, big companies are monarchies and the chairmanship is considered the crown," said Lee Ji-soo, an attorney at the Law & Business Research Center in

Seoul.

The Lotte Group, with annual revenue of about $70 billion, is Korea's fifth-biggest conglomerate and the last significant family-run business to remain in the hands of its founder.

Mr. Shin was born in South Korea but moved to Tokyo as a student. He founded Lotte there in 1948 as a maker of chewing gum—it still has 55% of Japan's gum market—only expanding back into his home country in 1967. He is known as a strong, top-down leader who demands final say on group decisions, according to people who have done business with the company.

The group remains an odd Korean-Japanese hybrid—a source of ambivalence in Korea, which is still smarting from a 35-year colonization by Japan through 1945.

About 80% of Lotte's revenue now comes from South Korea, where it is also building the country's biggest skyscraper, a 123-floor tower due to be completed in Seoul next year.

But Lotte's holding company is still based in Japan, where Mr. Shin's sons were born, spend much of their time and are known by Japanese names.

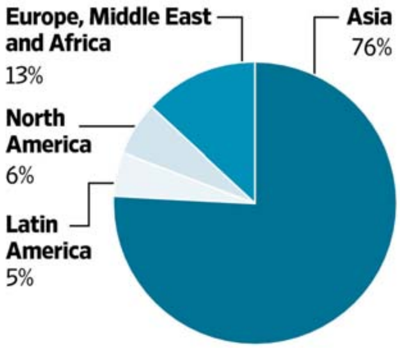
Until recently, management of the two parts of the group was split between Mr. Shin's sons, with Dong-bin, the younger, overseeing Korea and international operations, while Dong-joo focused on Japan. That changed in January when Dong-joo was fired, in what most observers assumed was an attempt to unify the group under a strategy known internally as "One Lotte, One Leader."

Dong-bin's representatives say Dong-joo was ousted because he hid investments that went sour in Japan from his father, a claim Dong-joo denies. Dong-joo says his father tried to fire Dong-bin because the younger son was negligent in reporting back on the performance of Lotte's businesses in Korea and China, something Dong-bin's representatives deny.

Lotte is expected in the next few days to set a date for a shareholder meeting to vote on the holding-company board's decision to depose Shin Kyuk-ho, the father.

Family Ties

Percentage of family-owned businesses by region, defined as companies with a family stake of at least 20%.



Note: Survey limited to 920 companies with at least $1 billion in market capitalization, July 2015.
Source: Credit Suisse
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"We were afraid of this [feud] happening," Hwang Gak-kyu, president of policy coordination at the conglomerate, told The Wall Street Journal.

The company's complicated shareholding structure makes it difficult to determine who holds the upper hand, with the father appearing to control the largest block of shares via a small packaging company, and the brothers owning roughly equal direct stakes.

Ahead of the shareholder meeting, each son is wooing supporters. On Tuesday, Dong-bin visited the construction site of the skyscraper with the heads of 37 Lotte affiliates, who pledged to back him.

Public reaction to the feud has been caustic, with national daily Hankyoreh describing the frequent battles for control of the country's conglomerates as a "vestige of feudal society in a cutting-edge 21st century era."

Meanwhile, the older son has promised to restore his father as chairman, keeping control of Lotte in the hands of Mr. Shin as he heads into his 93rd birthday in October.

—Min Sun Lee in Seoul and Alexander Martin in Tokyo contributed to this article.

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