Analysis Of Family Business Group Succession: Comparative Case Study On Six Korean Chaebols

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ABSTRACT

A chaebol is a Korean business group with a unique organizational structure in which both ownership and control rights held by a family. As their production accounts for nearly fifty percent of Korea's GDP and their power in the labor market, it is important to analyze the succession of chaebols, which is closely related to the sustainability of the business. This paper analyzes the six Korean chaebols' successions to increase our understanding of the processes and outcomes of the family succession. Specifically, we employ the three-circle model, i.e., the ownership, family, and business system, to conduct a comparative case study. Our analysis suggests that succession that involves a large size of succession concentrated to only one successor and restructuring of business portfolio experiences higher post-performance. Also, the level of conflicts in the succession process was not found to have an effect on performance. Overall, our findings imply that the succession is a period available to the company to set a right course of actions for improving competitiveness.

Keywords: Succession; Family Business; Conglomerate; Chaebol

1. INTRODUCTION

Companies owned and operated by families are arguably the most commonly observed form of the company structure. One of the unique characteristics of the family business is that it tends to experience succession to next generations. The succession process plays an important role in the firm's life cycle. While the mature and established firm can enjoy market power and stable management system, such stability also works as a double-edged sword that firms tend to develop and sustain competencies when they are in the competitive and risky environment. Hence, family firms' succession process may act as a stimulant that pushes firms to achieve sustainability of the business by drastically changing the existing processes and escape from the organizational inertia.

One of the distinguished forms of family business is *chaebols* in South Korea. A chaebol, a group of large conglomerates in South Korea, is a type of family businesses that contribute to the economic development of the nation in many ways, such as wealth creation, employment, and competitiveness. The South Korean economy has achieved astonishing growth since the 1960s, coming out of the devastation caused by 36 years of colonial rule by Japan and three years of the Korean War that left nothing behind on the Korean Peninsula. In the process, the few resources that were available, including government support at the time, had to be channeled into a few companies to speed up growth. This has given chaebol companies easy access to the market and financing and in turn has enabled the government to achieve what is known as the miracle of the Han River. While chaebols also suffered from the Asian financial crisis in 1997 and went through the major reform, the South Korean economy still depends heavily on chaebols. The total sales volume of six chaebols made up 40.91 percent of national sales in 2017. Chaebols have managed to complete family succession for several generations. As shown in Table 1, they are mostly experiencing their second succession to the 3rd generation. Even though succession provides benefits in terms of long-term growth for a company, there has not been enough discussion on process or types of succession that hinder the efficient transition to management of the next family generation. As succession is an important event for chaebols, and given their economic importance for South Korea, it is crucial to explore the issues related to chaebol family successions.

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Table 1. List of Chaebols in South Korea

Rank	Enterprise Group	Same Person	Owner-family	Status of Succession
1	Samsung	Lee Kun-hee	Lee Family	2nd-3rd generation
2	Hyundai Motors	Chung Mong-koo	Chung Family	2nd-3rd generation
3	SK	Chey Tae-Won	Chey Family	2nd generation
4	LG	Koo Bon-moo	Koo & Huh Family	3rd-4th generation
5	Lotte	Shin Dong-bin	Shin Family	2nd generation
6	GS	Huh Chang-Soo	Koo & Huh Families	3rd-4th generation
7	Hanwha	Kim Seung-Youn	Kim Family	2nd-3rd generation
8	Hyundai Heavy Industries	Chung Mong-Joon	Chung Family	2nd-3rd generation
9	Hanjin	Cho Yang-ho	Cho Family	2nd-3rd generation

Source: Korea Fair Trade Commission (2017)

The main focus of the research is the succession of chaebols and post-succession firm performance. We attempt to identify the characteristics of chaebol family successions by analyzing the family succession history of chaebols. By comparing how each chaebol's succession process evolved, we can identify both common and different characteristics of family business groups' successions. Also, our research aims to find whether the succession process should be smooth to be successful, and if this is not the case, examines the factors that impact a successful succession. Most scholars agree with the following definition of successful succession: successful succession is the momentum that makes an enterprise to continue their successful businesses and provide a satisfactory procedure for the parties related to the succession (Morris, Williams, Allen & Avila, 1997; Cabrera-Suarez, Saá-Pérez & García-Almeida, 2001; Sharma, Chrisman, Pablo & Chua, 2001). In South Korea, there have been many cases of troubled successions, such as brothers fighting over succession rights. While a troubled succession is often regarded in South Korea as an unsuccessful one, it is not necessarily the case. To date, no chaebols have been free of disputes related to succession, even when management rights have been successfully transferred.

While chaebols contribute significantly to the South Korean economy, there have not been enough studies on chaebol succession that analyze the types of succession using theoretical analysis. In analyzing the important factors that affect succession style, survivability of enterprises, and related parties' satisfaction, this study adopts the three-circle model to examine how chaebols differ in their succession processes and outcomes. The three-circle model is a model established by Tagiuri and Davis (1982) that explains the organizational structure of family businesses based on three constructs that have intertwined impact: family system, ownership system, and the business system. Six chaebols were selected from a list of large business groups designated by the Fair Trade Commission of South Korea in 2017: Samsung Group, Hyundai Group, LG Group, Lotte Group, Hanwha Group, and Hanjin Group. While nine chaebols are introduced in Table 1, we only select six chaebols to analyze cases with similar structure. SK Group is excluded because the succession happened between brothers instead of father and son. Also, GS Group and Hyundai Heavy Industries are excluded as they were sister companies of LG Group and Hyundai Group, respectively. The research focuses on issues regarding the succession of these chaebols from company founding to 2017.

The remainder of the paper is organized as follows. First, we provide a literature review on family succession issues relevant for chaebols. Second, the theoretical underpinning of the analysis is explained. Third, case studies for six chaebols are presented. Based on the case analysis, we provide findings. Lastly, we conclude with the major implications of the findings. Also, the limitation of the research with the possible direction for future research is presented.

2. RESEARCH SETTING

2.1 Prior Research on Succession in Chaebols

The first scholastic approach to succession in chaebols is Shin (1984)'s thesis on succession in the Confucius tradition of a chaebol company to the eldest son in South Korea in 1984. In the 1990s, more studies focused on the expansion of chaebols after succession and categorization of chaebol succession (Cho & Lee, 1993). This is mainly because scholars began observing more succession cases. In the 2000s, there has been research applying overseas research findings of ownership and management combinations to studies of the succession of chaebols (Tashakori, 1977). Some

studies asserted the need for a professional management system in chaebol companies (Ha, 2007). They reflected the antagonistic public opinion of second and third generation chaebol family members.

Most studies on a succession of Korean chaebols focus on the categorization of chaebol succession and changes after succession, utilizing many previous studies conducted by foreign scholars. However, it is not appropriate to borrow a research framework used to study succession of family businesses in other countries to study succession of Korean chaebols, mainly because ownership and management in chaebol companies are a united concept rather than separated as in many other countries. Korean chaebol companies are large global conglomerates, but at the same time, they are family businesses. Some recent studies have discovered the merits of the family business, inspired by successful Korean chaebols.

2.2 Theoretical Framework

The three-circle model was developed as a framework for the study of the family business by Tagiuri and Davis in 1982. The three-circle model studies interrelationships among family, business, and ownership. It is useful to explain chaebol succession and performance change using the three circles of family, business, and ownership, as well as their intersections, which is presented in Figure 1. The heir of a chaebol becomes a member of intersection 7 in Figure 1. In other words, succession is influenced by various factors from three different areas: ownership, business, and family.

By reviewing the succession processes of chaebol companies in South Korea, this paper revealed that the succession process proceeds as Figure 2 illustrates. It begins with the appointment of an heir, which is followed by the succession of management and succession of shares. When an heir from the family completes the succession process, he or she becomes a majority shareholder and controls the management of the company.

Figure 1. Succession process in the three-circle model

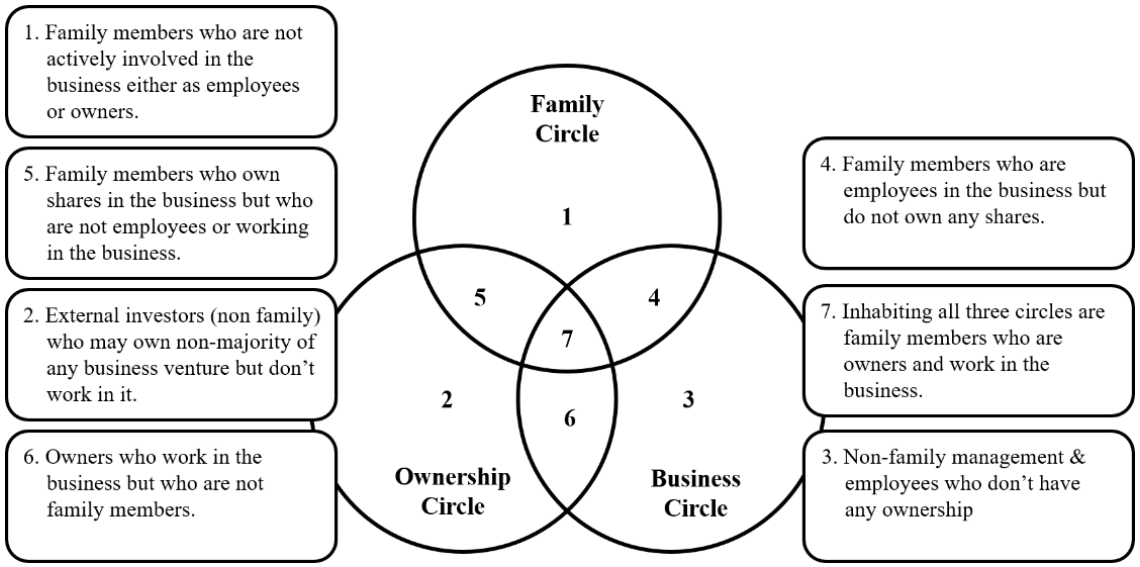
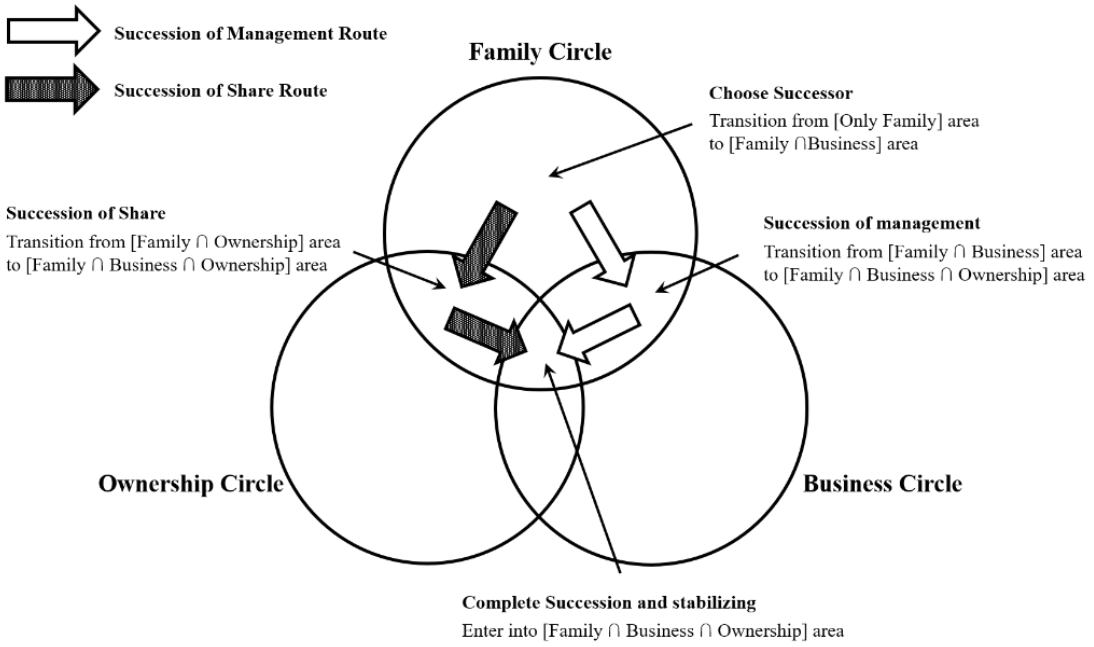


Figure 2. Succession process in the three-circle model



According to previous research, the main factors in the ownership circle are legitimacy and control rights (Handler, 1989; Morris et al. 1997; Venter, Boshoff & Maas, 2005; Kang & Han, 2005). Factors in the business circle are succession size and business portfolio (Cho & Lee, 1993; Morris et al. 1997; Cho, 2012), and factors in the family circle are horizontal and vertical relationships (Lansberg, 1988; Lee, 2009). Table 2 shows the detailed information on the six factors that consist three circles. We attempt to analyze the characteristics of chaebols' successions based on the six factors. Among the six factors, vertical relationship and horizontal relationship are further categorized into different status as provided in Table 3.

Table 2. Meanings of Six Factors

Factors	Meanings
Ownership	
Legitimacy	Appropriateness of successor, like whether he or she is the first child, whether he or she studied at good educational institutions, whether he or she had good job experiences.
Control Rights	Number and percentage of shares including shares entrusted to other people.
Family	
Vertical Relationship	The relationship between predecessors and successors. There are three types of vertical relationship: wavering, conservative, and rebellious.
Horizontal Relationship	The relationship among succession candidates. There are three types of horizontal relationship: competitive, cooperative, and antagonistic.
Business	
Succession Size	The rate of succeeded assets to second-generation owners to whole succeeded assets. It is called here concentrated when the rate is high, and equal when it is low.
Business Portfolio	Two types of business portfolio: infrastructure business and a non-infrastructure business.

Table 3. Status of Family Relationship

Status	Description/Specificity
Vertical Relationship	
Wavering	An heir is already decided, and a successor is to take ownership after the required training period.
Conservative	The founder does not disclose a concrete plan of succession and probable candidates undergo management training.
Rebellious	The present owner has to step down suddenly, such as because of an illness or an accident.
Horizontal Relationship	
Competitive	The founder purposely creates a competitive atmosphere among succession candidates.
Cooperative	Siblings have amicable attitudes for successor and succession aspects.
Antagonistic	Disputes occur frequently, and the successor cannot suppress the opposition.

2.2.1. Ownership Factors: Legitimacy and Control Rights

Legitimacy includes both the qualifications and status of the first son, while control rights refer to the majority shareholder's influence on the company's management. Chaebol companies are usually controlled by majority shareholders who are family leaders, and generally speaking, family companies are owned and managed by family members succession after succession. For this to succeed, a family company needs a next generation owner candidate who is equipped with both capability and will (Mayer, Davis & Schoorman, 1995), as the qualifications of the heir are most important for a successful succession. The candidate should be trustworthy, and whether the heir is the first son is also very important. Communication and harmony between the leader of one generation and that of the next are vital (Dyck, Mauws, Starke & Mischke, 2002).

The majority shareholder in South Korea means the person who controls the company in the real sense, not in the nominal sense of who holds the most shares. When a majority shareholder only holds 3 percent of the shares of a chaebol company and an equity fund holds 10 percent, the 3 percent shareholder still controls the company. In many other countries, who holds the most shares is important while in South Korea, it is more important who has control. Sometimes shares owned by other family members strengthen the control rights (Kang & Han, 2005). Some have criticized the lack of separation between ownership and management in many listed companies in South Korea, but this is not a valid criticism. The Kia Group is a good example.

The Kia Group was the second largest car manufacturing company in South Korea but collapsed in 1997 during the Asian financial crisis. It is now owned by the Hyundai Car Group. There are two main reasons the company went bankrupt. The first reason is the financial problems that were caused by reckless mergers and acquisitions (M&As). However, the second one is the strange ownership structure of the company. Unlike other chaebol companies in South Korea, the Kia Group was well known for the separation of its ownership and management. The CEO, Mr. Seonhong Kim, only owned 1% of the company's total shares. Because of this weak ownership condition, Mr. Kim could not properly defend M&A attacks by companies like the Samsung Group, and this situation resulted in the group's financial crisis. Paradoxically, the exemplary ownership-management separation of the Kia Group resulted in a financial crisis and ownership change.

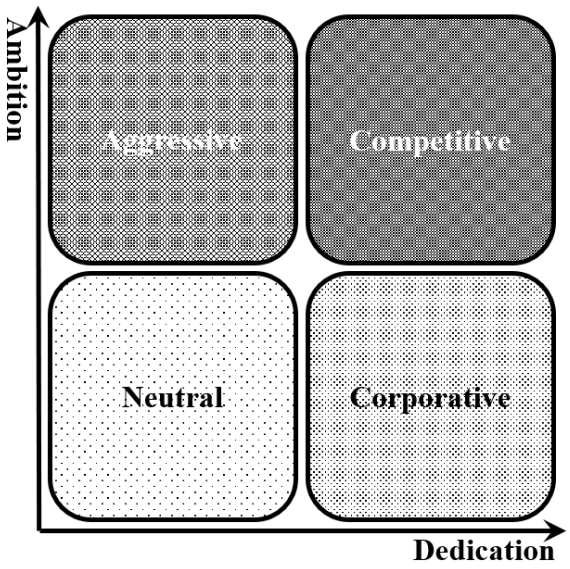
To measure the control rights of chaebol companies, one should carefully examine the ownership structure. When a chaebol is controlled by a holding company, it is easy to identify its ownership structure. It is much more complicated to do this in the case of a chaebol with a complex ownership structure. The best approach is to start with the chaebol group's main company by investigating the shares owned by family members other than the majority shareholder. Some shares may not be legally owned by the family but should be counted, which is not easy. Great effort was made in this study to gather all information about ownership structures, including illegally owned shares.

2.2.2. Family Factors: Vertical Relationship and Horizontal Relationship

The relationship between the two generations, that is, father and son, is very important in the process of succession. This relationship might ease tension or aggravate it (Ibrahim & Ellis, 1994). This is considered an example of a vertical relationship in this study. Three different types of vertical relationships are possible as far as succession is involved: wavering, conservative, and rebellious. When an heir is already decided and he or she is to take ownership after the required training period, it is classified in this study as the wavering type. Sometimes, fathers do not disclose a concrete plan of succession and probable candidates undergo management training; this is referred to in this study as the conservative type. There are also cases when the present owner and CEO of a chaebol has to step down suddenly, such as because of illness or an accident. In this case, the preparation for succession is insufficient, and is described as the rebellious type in this research.

Horizontal relationships describe the relationships among brothers and sisters, assuming one of them will be the heir in the future. There are two types of horizontal relationships: friendly or antagonistic. Many factors influence the horizontal relationships among succession candidates of chaebols. Normally when succession is considered, the behavior patterns of the succession candidates are important. The more behavior patterns lean toward the ambition side, the more antagonistic the horizontal relationship becomes. In this situation, conflict control is needed to achieve a smooth succession. If succession is not simply about the predecessors' properties and cash, but about management control rights of small and medium size corporations, the dedication factor is involved. The ambition - dedication diagram in Figure 3 is useful for studying the patterns. There are four types of dedication as illustrated in Figure 3, depending on the level of dedication. When the level of ambition is high, there are two types, aggressive and competitive. Aggressive-type candidates crave money and fame. In this case, predecessors should protect the succession process from conflicts among candidates; in some cases, the designated heir might need protection. When candidates tend to be more competitive, it is best to let the process proceed without intervention; the most competitive candidate will be revealed.

Figure 3. Ambition-Dedication Diagram



In the case of chaebols, more factors are involved, including propaganda by factions. The pressure level is simply higher even though the horizontal relationships are decided by the same factors as in succession in an ordinary family company or small and medium size companies. When the succession plan is not made public, candidates and their aid groups feel their future is uncertain. From time to time, candidates attempt to remove the uncertainties on their own;

these attempts usually lead to large disputes. The friendly type of horizontal relationship can be divided into cooperative and competitive types. Here, competitive refers to competition in a good sense. To summarize, there are three different types of horizontal relationships: cooperative, competitive, and antagonistic.

2.2.3. Business Factors: Succession Size and Business Portfolio

Succession may be total or partial. One heir might take control of the whole group or brothers and sisters may share and take certain group companies. A total succession of a chaebol as one body is referred to as large in size. On the other hand, a partial succession of chaebol companies is called a small succession in this research. The succession size is related to the level of conflict among brothers and sisters on succession and is a factor that explains the satisfaction level of parties related to the succession.

The business portfolio often changes as ownership changes. According to research on the relationship between the lifecycles of a company and its main business (Kim, 2017), chaebols' businesses cycle through start-up, growth, stabilization, and decay. When ownership changes, a chaebol company has an opportunity to change its main business and escape from the decaying phase of the business. It can be assumed that a successful succession will be accompanied by a change in the business portfolio. The changes can be diverse, from a change in management style to entering a new market. This paper examines how the business portfolios of six chaebols change after succession.

2.3 Data Selection

Six chaebol cases are carefully selected from the list designated by the Fair-Trade Commission of South Korea. Every April 1 since 1987, the Korea Fair Trade Commission has designated large business groups with at least 5 trillion Korean Won (KRW) in total assets in domestic affiliates belonging to the same business group as business groups subject to the limitations on mutual investments. On April 18th, 2017, an amendment was made to the law governing the designation of chaebols as follows:

A company with a minimum of KRW 5 trillion in total assets shall be subject to publication. Companies in this category are subject to the limitations listed below:

Resolution of the board of directors on large-scale intra-group transactions and public disclosure

Publication of important matters by unlisted companies, etc.,

Publication of current status, etc. of the enterprise group.

The list was made public in 2017, and the six chaebols chosen for the study are among the ten largest chaebols. Chaebols established in the 1940s and 1950s were selected because their company history should be long enough to allow the study of succession from one generation to another. Hanjin Group was not included in the ten largest chaebols in 2017, although it was one of the ten largest chaebols in 2015. It was chosen for the study to discover how its size declined so rapidly. SK was excluded, because the first succession was made between the founder's brothers. An objective and unbiased selection of cases are imperative in case studies. Miles and Huberman (1994) suggest four approaches: 1) homogenous cases; 2) disparate cases; 3) cases with theoretical importance; and 4) comparable cases. The cases selected are Samsung Group, Hyundai Group, LG Group, Lotte Group, Hanwha Group, and Hanjin Group. These six cases are considered to fulfill the above rules.

3. COMPARATIVE CASE ANALYSIS

3.1 History of Six Chaebols' Successions

In this section, we explain the characteristics of each chaebol's succession and provide our analysis based on six factors.

3.1.1. Samsung Group

Samsung is now the largest chaebol in South Korea. After Lee Byung-chul, the founder, succeeded Samsung Group to his third son, Lee Kun-hee, Samsung grew to be a global leader, especially in the semiconductor and mobile phone industries. Chairman Lee Kun-hee carried forward innovative management policies, declaring his New Management plan and vigorously inviting global professionals to accept significant posts. His efforts turned Samsung Electronics from a household appliance company to a top smartphone company. In the area of semi-conductors, Samsung is now a worldwide leader. Samsung Electronics announced that profit in the first quarter of 2018 reached 150 billion USD.

Many changes have been made since Lee Kun-hee took office as Chairman. Lee Kun-hee, the second-generation owner of Samsung, was born as the third son of Chairman Lee Byung-chul. He graduated from a high school in Seoul and got his B.A. degree at Waseda University in Tokyo. He studied at George Washington University, and started his career at Dong Yang Broadcasting, a TV network owned by Samsung, as a director. Earlier, Chairman Lee Byung-chul selected his first son, Lee Maeng-hee, as his heir. This was primarily because Lee Maeng-hee was his eldest son. Lee Maeng-hee worked as Chairman for his father, Lee Byung-chul, from 1966 to 1968 when Samsung was indicted for criminal activity. He did not prove his capability then, and Chairman Lee Byung-chul gave him little praise. Lee Maeng-hee, although the eldest son of the family, could not come back as a candidate for a successor.

Lee Byung-chul succeeded most of his assets to Lee Kun-hee; no significant assets or companies were succeeded to other brothers and sisters. Lee Byung-chul's assets were endowed to foundations in Lee Kun-hee's favor. Lee Kun-hee acquired shares of the Samsung Group's affiliated companies but did not own enough shares of the main companies. For example, in 1989, two years after he took ownership of Samsung Group, he only owned 3.3% of Samsung Electronics, 4.6% of Samsung C&T, and 10% of Samsung Life Insurance. Later in 2008, it was revealed that Lee Kun-hee controlled shares under others' names, which, while not a legal practice, was common in the 1980s. At any rate, Lee Kun-hee's control of the Samsung Group was very strong. The vertical relationship between Lee Byung-chul and Lee Kun-hee can be described as the wavering type. Since Lee Kun-hee became Vice Chairman of Samsung Group in 1979, he has had thorough managerial training.

Even though Lee Kun-hee was the third son of the family, he did not have problems regarding succession with his two elder brothers, because his two brothers were excluded by their father at an early phase, who announced Lee Kun-hee as his heir when he was still Chairman of the Samsung Group. After the announcement, Lee Kun-hee did not have any noticeable disputes with his brothers about the succession. He had two elder brothers, two elder sisters, one half-brother, and one half-sister. Among the three types of horizontal relationships, Lee Kun-hee's case may be defined as cooperative. However, Chairman Lee Byung-chul let his second son and daughters take part in Group CEO meetings, as he did not want his third son take the succession for granted. Lee Kun-hee did his best to get his father's recognition until his inauguration to the chairmanship. In this sense, Samsung's horizontal relationships were slightly competitive. In Korea, the Confucian tradition of primogeniture was very strong in the 1979s and 1980s. Although he had his father's support, Lee Kun-hee had to work hard to prove his capability and overcome his legitimacy problem.

Chairman Lee Byung-chul had his heir undergo rigorous managerial training. Lee Byung-chul thought the Samsung Group would need global standard professionals and that the owner/CEO should undergo the proper training to lead professionals. It was a turning point for transforming the combined ownership/management system into a separate ownership/management system. The research finds that Lee Kun-hee did receive most of his father's estate. His two sisters got a paper company and hospital, and a department store. A food company and an insurance company were succeeded to his nephew, his eldest brother's first-born son, Lee Jae Hyun. These companies are all independent from the Samsung Group. In Lee Kun-hee's case, the succession size was high.

The Samsung Group is globally well known for Samsung Electronics and especially for its smartphone and semi-conductor businesses. When Lee Kun-hee became the Chairman, the smartphone and semi-conductor businesses were not mature and substantial investment was needed. There was a tremendous risk. New Chairman Lee Kun-hee needed large scale funding and professional manpower to move these businesses forward. Under his father, Chairman Lee Byung-chul, Samsung was famous for its management skills. Under the new leader, Lee Kun-hee, Samsung was required to be more innovative and globally competitive. Lee Kun-hee vigorously invited global talents and the

strategy worked. Table 4 illustrates the summary of our analysis on Samsung Group's succession based on the three-circle model with six factors.

Table 4. Samsung Group's Succession

Successor Succession Period	Lee Kun-hee 1962-1987
Ownership	
Legitimacy	High level of legitimacy because of other candidates' drop-out though being the third son
Control Rights	Strong control rights obtaining shares of Samsung Electronics, Samsung C&T, and Samsung Insurance in the succession period.
Family	
Vertical Relationship	Wavering type (parent owner allows the successor candidate to be trained, allowing the successor to succeed when the proper time comes.)
Horizontal Relationship	Not specific disputes after competitors' early drop-out. The predecessor himself distributed sister companies to other sons and daughters. Competitive horizontal relationship type.
Business	
Succession Size	Concentrated (Main companies of the group were succeeded to the successor. Other sister companies were excluded from the Samsung Group.)
Business Portfolio	The first generation focused on electronic goods and the second focused on semi-conductor business. Both areas of business require heavy investment for R&D and market preference.

3.1.2. Hyundai Group

For 24 years from 1977 to 2000, the Hyundai Group was the largest business group in South Korea in terms of total assets owned. After the 1997 Asian financial crisis and succession over two generations, it decreased in size. Hyundai Group is one of the key representative chaebols in Korea that grew successfully by focusing on key industries, including construction, engineering, and heavy industry. Due to the characteristics of their industries, the owners have been focusing on the relationship between the government and large-scale buyers. The owner has a strong decision-making power that allows him to create solid relationships with important parties. So that affiliated firms would strictly follow such decisions, Hyundai included family members in management.

As a result, Hyundai tends to have more family participation compared to other chaebols, and less room for professional CEOs. The powerful founder is expected to adopt a conservative vertical relationship that integrates the whole group and thus resolve the conflict among family members regarding the succession. However, if there is an unexpected event that lowers the predecessor's power, the conflict between family members and their supporting retainer group could reappear. Hyundai has already experienced that through its "Revolt of the Prince."

The Hyundai Group was larger than Samsung until the 1990s. Founder Chung Ju-yung had many sons and daughters and the Group's companies were separately succeeded to his children. The main part of the Hyundai Group was inherited by the fifth son, Chung Mong-hun. Unfortunately, Chung Mong-hun committed suicide and his companies did not perform well. Hyundai Motors Group performed better, and was succeeded to the second born son, Chung Mong-koo (the firstborn son died before the founder). This study examines Chung Mong-koo's Hyundai Motors Group rather than Chung Mong-hun's Hyundai Group. Hyundai Motors is a very different business compared to the founder's main business of engineering and construction. The business portfolio unexpectedly changed as a result of the Hyundai Group's succession.

Chung Mong-koo studied at Hanyang University in Seoul and got his B.A. in industrial management. He began his career at Hyundai Engineering and Construction and became CEO of Hyundai Motors Service in 1974. It is not easy to understand why the founder Chung Ju-yung selected his fifth son as the main heir. As Chung Mong-koo was not selected as the main heir, even though he was the second born son, his legitimacy level was not high. The founder had many children and thought he would divide and succeed his group of companies to his children. It is estimated that the founder thought his fifth son, Chung Mong-hun, was better at management, so he inherited the main companies of the Hyundai Group, including Hyundai Engineering and Construction, Hyundai Asan, and other companies. As

Hyundai Motors was large and treasured by the founder, he gave it to his second born son, Chung Mong-koo, even though the founder thought his second born son was not talented enough for big business.

Chung Mong-koo's control rights of Hyundai Motors were weak when he inherited the company. He had enough shares, but he did not get the Hyundai Group's support or financial assistance, as the Hyundai Group was in the hands of his younger brother. His attempt to fix this problem was known as the "Revolt of the Prince." He believed Hyundai Motors was not enough to satisfy his ambition and attempted to acquire Hyundai Securities, which was owned by Chairman Chung Mong-hun; this attempt failed. He could not acquire a financial arm for Hyundai Motors. His only focus was on Hyundai Motors and he attempted to expand his business to overseas markets.

Founder Chung Ju-yung was actively involved in the management of the Hyundai Group until he suddenly became ill in 2000. He did not announce at that time who would be his heir. Based on the previous discussion, the vertical relationship in the case of the Hyundai Group is the conservative type. Its horizontal relationship is considered the antagonistic type. Even after the heir was decided and succession was completed, the two brothers fought for ownership of a financial arm for the Hyundai Group. Table 5 provides the summary of our analysis on Hyundai Motor's Succession based on the three-circle model with six factors.

Table 5. Hyundai Motor's Succession

Successor **Succession Period**	**Chung Mong-koo** **1967-2000**
Ownership	
Legitimacy	Primogeniture was not applied.
Control Rights	The shares of companies in different businesses were divided to brothers.
Family	
Vertical Relationship	The predecessor wished to distribute different businesses of the group to his sons, and as a result, the vertical relationship turned out to be conservative.
Horizontal Relationship	As the succession plan was not certain until the late stage and non-family executives of the group, an antagonistic horizontal relationship was established.
Business	
Succession Size	The companies belonged to the group were equally succeeded successor to sons.
Business Portfolio	The first generation focused on construction, shipbuilding, which requires a good network, and the second generation changed main businesses to the areas where customers' choice is important.

The Hyundai Group's succession was low in size. The second son, Chung Mong-koo inherited Hyundai Motors, the third son, Chung Mong-kun inherited the Hyundai Department Store, the fourth son, Chung Mong-woo inherited Hyundai Aluminum, the sixth son, Chung Mong-joon inherited Hyundai Heavy Industries, and the seventh son, Chung Mong-yoon inherited Hyundai Marine and Fire Insurance. The mainstream Hyundai Group was inherited by the fifth son, Chung Mong-hun. Among the family members that actively participate in management, there is no member with a significant succession size. The fifth son, Chung Mong-hun, became the successor, and conflict between Chung Mong-koo and Chung Mong-hun arose due to the successor's low control rights. This is an example of the relationship between control rights and horizontal relationships. Hyundai's disputes within the second generation are largely due to dispersed control rights. To amend the situation, affiliated firms in the group were carved out. President Chung Mong-koo decided to reduce the number of contesting family members instead of increasing the succession size.

3.1.3. LG Group

The LG Group leads the plastic and electronics industry in South Korea, and this consumer oriented business was the main industry during the early years of South Korea's economic development after the disastrous Korean War. The focus subsequently moved to more complex industries such as heavy chemicals, electronics, services, and others. The LG Group started when the founder Koo In-Hwoi and Heo Man-Jung set up Lak Hui Chemical Industrial Corporation

(now LG Chemicals) in 1947. After the founder's death in 1969, the eldest son of the two families, Koo Cha-kyung, took control of the group and expanded the business into finance, advertisement, communications, and others. After Koo Cha-kyung's retirement, the main body of the group went to his eldest son, Koo Bon-moo, who is currently the President and Chairman of LG, the holding company of the LG Group.

LG is controlled by a holding company, LG Corporation. Groups of companies are controlled in a pyramid-shaped hierarchical structure. The structure facilitates smooth succession and protects LG from outside M&A attempts. LG is unique in the sense that succession did not bring about any problems. LG prepares for succession well in advance and in a very professional way. The LG owner-family believes strongly in the principle of primogeniture. Koo Cha-kyung's son and Chairman of LG until recently, Koo Bon-moo, lost his only son and adopted his nephew, Koo Kwang Mo, his younger brother's son, to adhere to the principle of primogeniture. LG was inherited by Koo Kwang Mo when Koo Bon-moo died recently. The Koo family seems to treasure the Confucian culture. Following Confucianism's principle of primogeniture, the management rights have been passed on to the eldest sons for three consecutive generations. When the third generation Chairman Koo Bon-moo's son died, he decided to adopt his brother Koo Bon-Neung's son to avoid handing over the group to his daughters. This shows how strongly the principle of primogeniture influences succession. His adopted son, Koo Kwang-mo, will inherit the group sometime in the future.

Primogeniture is well-known as the LG Group's succession principle. However, this is not only LG's principle; it is quite common in South Korea. Something that is unique and special about LG's primogeniture rule is that it helps maintain friendly relationships. Once the principle is set, preparation follows. The future heir has no legitimacy problems and he receives thorough training. Other family members do not complain, and the control rights of successor and the succession size are both high, leading to a very smooth succession process. The founder of LG, Koo Cha-kyung, stepped down voluntarily from ownership when he became 70 years old. His son came into control of the group before his father's death. This is a quite unique and rare case in South Korea's chaebol history. The vertical relationship type is wavering, and the horizontal relationship is cooperative. LG Group owners are admired by employees, customers, and citizens of South Korea as a result of its smooth succession process. LG's main business has not been changed by successors, continuing to focus on electronics and related businesses.

The vertical relationship in LG is unique and disciplined. When the Chairman reaches 70 years of age, he resigns, and succession takes place; this can be categorized as a wavering type. Its horizontal relationship is also uncommon; brothers and sisters do not have any conflict over succession. LG's horizontal relationship is very friendly and cooperative.

When there are more than two succession candidates, LG also passes part of the predecessor's estate to candidates not selected as the main heir. In principle, LG maintains its main businesses even after a couple of successions. The recent succession in June 2018 is already the fourth one since LG was founded. LG's business portfolio changes after successions are less striking than those of other chaebols, as it is very conservative in making business portfolio changes. In contrast, LG is very aggressive in making R&D investments, but it is hard to find any evidence that this is linked to succession. As LG's succession process is so smooth and well prepared, it is quite different from the cases of the other chaebols.

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Table 6. LG Group's Succession

Successor Succession Period	Koo Bon-moo 1950-1970
Ownership	
Legitimacy	Primogeniture principle was strictly applied.
Control Rights	Strong control rights through a succession of the holding company
Family	
Vertical Relationship	Typical wavering vertical relationship due to the apparent succession plans and retirement of the predecessor in the proper time
Horizontal Relationship	Family tradition emphasizing the primogeniture rule allowed cooperative horizontal relationship among the second-generation family members.
Business	
Succession Size	Concentrated succession size based on a succession of the holding company
Business Portfolio	The first generation focused on chemical businesses and the second generation focused on electronic areas. Both require heavy investment in R&D and consumers' choice.

3.1.4. Lotte Group

Lotte has expanded its business vigorously since its establishment in 1967. It started with the food business and then entered the hotel and department businesses; the construction business was added later. Since Shin Dong-bin's involvement, Lotte has put effort into the chemical and non-infrastructure distribution businesses. Shin Dong-bin has also invested substantially in the China market. Shin Dong-bin has been, so far, capable of managing the Lotte Group.

Founder Shin Kyuk-ho was active in the expansion of the business portfolio. His heir, Shin Dong-bin, has followed in his father's footsteps. The number of sister companies grew to 107 in 2018 from 54 in 2009, an increase of 98.15%. This growth is extraordinary when compared to other chaebol cases, although Lotte was more active in M&As.

Founder Shin Kyuk-ho originally intended to hand over the Korean Lotte Group and the Japanese Lotte Group to his two sons. His eldest son, Shin Dong-joo, took the position of Vice-Chairman of Lotte Group Japan in 2009, and the second son, Shin Dong-bin, took the position of Hotel Lotte's Chairman in 2011. The eldest child and daughter Shin Young-Ja has controlled the duty-free business as President of Lotte Shopping since 2008. The corporate structure of the Lotte Group in South Korea was closely connected to the Lotte Group in Japan, and the Japanese Lotte Holdings was a major shareholder of the Korean Lotte Group. This complicated investment structure caused disputes between the two brothers over the ownership of Lotte Group in South Korea, which has grown larger than the Lotte Group in Japan. Shin Dong-bin was designated as the representative executive for Lotte Holdings in July 2015.

Since then, three general meetings of shareholders have been convened and in all three meetings, Shin Dong-bin has continued to be supported. At the last general meeting held in June 2017, it was announced that the battle had been won by the younger brother. Shin Dong-joo tried to get his old and ill father's support but failed. The legal dispute only resulted in many harmful and undesirable results for the Lotte Group. Lotte Group has almost finished its first succession from its founder, Shin Kyuk-ho, to his second-born son, Shin Dong-bin. Lotte Group has been succeeded from the founder Shin Kyuk-ho to his second son Shin Dong-bin. After a long succession dispute between two brothers, Shin Dong-bin and Shin Dong-joo, that began in 2015 and lasted for almost three years, Shin Dong-bin eventually took the throne. Shin Kyuk-ho remained an owner of Lotte Group for almost a half-century, making the succession more complicated. This is a uniquely long period of time for a South Korean chaebol founder to maintain control of a group. Shin Dong-bin started his career at the London office of Nomura Securities at the age of 26 and joined the Japanese Lotte International at the age of 33. After 30 years in the company, he became Chairman of Lotte Group in 2011. His chairmanship was challenged by his elder brother, Shin Dong-joo, who stayed in Japan. The legal battle was settled in 2017 and Shin Dong-bin's ownership was formally acknowledged. Shin Dong-bin's son and future successor, Shin Yoo-yeol has not joined Lotte Group in South Korea.

Shin Dong-bin studied in Japan and got his MBA from Columbia University in the US. He had spent his whole life in Japan until he moved to Seoul to join Lotte in 1988. Before he joined Lotte, he worked with Nomura Securities mostly in London. His management training began in 1990 when he was promoted to a senior manager. Lotte was believed to be succeeded to Shin Dong-bin, Shin Dong-joo, and Shin Young Ja (daughter). Even though it was not officially announced, Shin Dong-bin was to get the Lotte Group in Korea, Shin Dong-joo was to get the Lotte Group in Japan, and Shin Young Ja was to get Hotel Lotte DFS. If the scheme is realized, the succession size would be low. Now, however, it not certain who will get what after legal battles among them, but it is at least sure that Shin Dong-bin has an edge.

Both brothers seemed to hope to inherit Lotte Group, even though it is not officially confirmed. When the younger brother entered South Korea and started his career at Lotte, people thought the elder brother would inherit Lotte Japan and Lotte Korea would go to the younger brother, which has not yet been officially decided. Shin Kyuk-ho was thought to support the idea. It is commonly accepted that Shin Dong-bin has contributed quite a lot to Lotte's recent expansion. Shin Dong-bin's legitimacy comes from his ability and support from shareholders. His father's endorsement seemed to be helpful, which is quite controversial considering his recent behaviors.

Recently, there was a row over succession between Shin Dong-bin and his elder brother Shin Dong-joo. It is interesting that his father and the founder of Lotte, Shin Kyuk-ho, supported his first-born son, Shin Dong-joo while Shin Dong-bin finally won the legal battle. It is not certain why the founder supported the first son, but it has been suggested that the founder is too old and ill to make a reasonable decision on his own. However, Shin Dong-joo is now accepted as the new owner of Lotte. Shin Dong-bin has been successful in defending his ownership of Lotte in the last four shareholders' meetings. Shin Dong-bin obtained his legitimacy from his father, which is no longer certain since the founder stood side by side with his first son, Shin Dong-joo, and the shareholders.

The vertical relationship between the predecessor and successor is conservative in the sense that the founder, Shin Kyuk-ho delayed the official announcement of his heir. He might have needed more time to prepare for succession. The horizontal relationship between the two brothers and sister is antagonistic. The reason behind the complex succession is that Shin Kyuk-ho tried to divide the group into three businesses, Lotte Korea, Lotte Japan, and Lotte Duty Free, for succession but failed to finish the succession due to the related costs. As the succession is not complete, he could not resign from the position. This situation can be described as a conservative succession type. Afterward, the feud between the brothers started, and the competitive horizontal relationship arose in the fight to obtain higher control rights. In the antagonistic horizontal relationship, Shin Dong-bin is one side and Shin Dong-joo and Shin Young Ja are on the other. Shin Dong-bin managed to obtain concentrated ownership; he has higher control rights, but they are based on the support of non-family shareholders. If we exclude the shareholder's ownership, Shin Dong-bin and a person with special interest have a total of 21.7%, which implies risk in the control rights. Furthermore, as Shin Dong-bin is confined due to Korea's political scandal, it is hard to assure the support of the shareholders. It is apparent they have not reached any agreement on succession.

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Table 7. Lotte Group's Succession

Successor Succession Period	Shin Dong-bin To date from 1987
Ownership	
Legitimacy	It is presumed that the eldest son Shin Dong Joo was decided as a successor at first.
Control Rights	Shin Dong Bin, the second son, took bigger control rights because he held more shares of the holding company in Japan.
Family	
Vertical Relationship	On the early stage, the vertical relationship was a wavering type, but it became conservative due to the failure of the restructuring of the group.
Horizontal Relationship	Antagonistic type
Business	
Succession Size	Most companies were succeeded to Shin Dong Bin, contrary to the initial succession plan.
Business Portfolio	The first generation focused on food and distribution industries and the focus has been shifted to the petro-chemical industry. Lotte is the most successful in the diversification of businesses.

3.1.5. Hanwha Group

The founder of the Hanwha Group is Kim Chong-hee, and his eldest son Kim Seung-Yeon is the current Chairman. Korea Explosives was established by Kim Chong-hee in 1952. The Korea Explosives Group changed its name in 1992 to the Hanwha Group. In 1987, in accordance with the government policy of "measures to rationalize the industry," the group decided to separate non-core companies such as the food company, Binggrae, which was turned over to Kim Seung-yeon's younger brother, Kim Ho-Yeon. Kim Seung-yeon's sister got First Fire & Marine Insurance and the Korea System in 1996.

Succession in the Hanwha Group took place earlier than in other chaebols. The founder of Hanwha, Kim Chong-hee, suddenly passed away without leaving a proper will. There were some legal scandals with the second and third sons, which invited public attention, and the succession from the first generation to the second was not smooth. Kim Seung-yeon, the first-born son of the founder, was 29 years old when his father died, four years after Kim Seung-yeon joined Hanwha Constructions (then Taepyeongyang Constructions) at the age of 25. His father left no will; however, he was thought to be the successor simply because he was the first-born son. It is thought that the legitimacy of the first-born son was more important than it is now. His younger brother, Kim Ho Yeon, was too young, so Kim Seung-yeon was regarded as legitimate. The relationship between Kim Chong-hee and his son Seung Yeon cannot be categorized as wavering or as conservative, because Kim Chong-hee died abruptly. In this case, the type of vertical relationship is rebellious.

The control rights of Kim Seung-yeon were high, because he took almost all of his deceased father's estate. There were some disagreements about inheritance between the two brothers, and the elder brother ended up getting almost all of it after a legal battle. He was able to secure control rights of almost all of the sister companies, including financial firms. In a rebellious type vertical relationship, preparations for a smooth succession, like the announcement of the future heir, management training, and acquisition of shares, do not take place. In this case, negative effects usually follow: legitimacy problems, poor management risks caused by lack of management training, and weak control due to a low percentage of shares.Poorly prepared succession procedures sometimes unexpectedly work well. To overcome risks after the sudden death of an owner, executive members voluntarily deal with succession issues. The rebellious type is a double-edged sword. In Kim Seung-yeon's case, it worked well because executive members helped Kim Seung-yeon deal with risks.

The relationship between the two brothers in Hanwha's succession process was antagonistic in the early stage. The executive members attempted to achieve a fair inheritance for both sons, which failed, as Kim Seung-yeon rejected the advice of the executive members. Against his wishes, his brother ended up with a food company. In conclusion,

the horizontal relationship was antagonistic, and the succession size was also high. Without his father's will, the elder brother's assertion worked.

The business portfolio has changed a lot since Kim Seung-yeon took the chairmanship. Under the founder's management, Hanwha was a chemical company manufacturing explosive that was acquired from the US Army. Kim Seung-yeon expanded the portfolio through aggressive M&As. Now the main businesses of Hanwha include financial businesses, chemical manufacturing, construction and engineering, and solar energy related manufacturing. Contrary to the founder who was conservative in the expansion, his successor was very active, and it proved effective.

Table 8. Hanwha Group's Succession

Successor Succession Period	Kim Seung-Yeon 1980-1981
Ownership	
Legitimacy	Primogeniture rule was the most important as the predecessor died when the potential successors were quite young.
Control Rights	Chairman Kim Seung-Yeon successfully achieved strong control rights after he won the legal battles. Before the legal victory, control rights of two brothers were similar.
Family	
Vertical Relationship	The predecessor suddenly died, and it resulted in a rebellious type of vertical relationship.
Horizontal Relationship	Antagonistic type
Business	
Succession Size	Chairman Kim Seung-Yeon successfully got hold of almost all the companies after he won the legal battle against his younger brother.
Business Portfolio	The first generation focused on chemical and construction industries. The successor diversified group's main businesses. Now the financial industry takes up the biggest portion of the group's sales.

3.1.6. Hanjin Group

Hanjin is well known for Korean Air, which was acquired from the government in 1959. Hanjin has widened its business portfolio into the marine transportation business, heavy industry, and the financial business After the death of the founder, the four sons divided up the affiliate companies in 2005 in a quite friendly way. Cho Jung-ho owns Meritz Financial Group and Cho Nam-ho owns and manages Hanjin Heavy Industries Group. Cho Su-ho took Hanjin Shipping, which went bankrupt some years after his sudden death in November 2011. Hanjin is now controlled by a holding company, Hanjin KAL. The present owner and first-born son, Cho Yang-ho, inherited the main company, Korean Air, from his father and the founder, Cho Joong-hoon, in 1992. Other businesses were given to his brothers.

The eldest son of the founder of the group, Cho Yang-ho, joined Korean Air in 1974 at the age of 25, and became a managing director in 1980. He became Chairman and CEO of the company in 1999 when his father resigned after a series of air accidents, that resulted in pressure from public opinion and investigations by governmental regulatory bodies. The founder selected Cho Yang-ho to be the successor, and this first-born son took the most meaningful business in the group, Korean Air. The four brothers had similar education and careers and similar business performance. The only legitimacy factor Cho Yang-ho had was that he was the first-born son.

Cho Yang-ho's control rights are believed to be strong. This is because Cho Yang-ho was the only successor as far as Korean Air is concerned. Korean Air is the crown jewel and his brothers did not get any Korean Air shares or business rights. According to the Korea Fair Trade Commission's (KFTC) official reports, he acquired the same control rights or shares as his father had through succession. To consider the funding capability of the successor, Cho Yang-ho was able to do well because he could control JungSeok Enterprise, which is a cash cow company of Hanjin Group, even though Meritz Financial Group, the financial arm of Hanjin Group, was succeeded to his brother, Cho Jung-ho. Cho Yang-ho strengthened his control of Korean Air and other affiliated companies by setting up a holding company in 2013.

The founder of Hanjin Group, Cho Joong-hoon, made a decision about how to succeed his estate in advance, when his four sons each joined the company that would be given to them, and prepared for future succession. After the death of the founder, the four sons divided up the affiliate companies in 2005 in a quite friendly way. Cho Jung-ho owns Meritz Financial Group and Cho Nam-ho owns and manages Hanjin Heavy Industries Group. Cho Su-ho took Hanjin Shipping, which went bankrupt some years after his sudden death in November 2011. Hanjin's vertical relationship type is wavering. Cho Joong-hoon's sons had enough time to obtain experience in their own future business areas. Further, the horizontal relationship was friendly. This is simply because Cho Yang-ho's three younger brothers all inherited quite sizable companies. As the first-born son, Cho Yang-ho might have had the ambition to inherit all the sizable businesses, but that was not the case.

The succession procedures were smooth. The founder sent a very clear message regarding the succession, and the other companies that were to be succeeded to the other three brothers were also quite large. There was no motivation for anyone to cause problems. The vertical relationship type was wavering, and the horizontal relationship type was cooperative. This case shows the impact of types of vertical relationships on the horizontal relationships among the second generation.

It is quite simple to give points to Hanjin as low on succession size, as four major business areas were separately succeeded to four sons, although the most lucrative and largest, Korean Air, was succeeded to the first-born son, Cho Yang-ho. The succession procedures were smooth. The founder sent a very clear message regarding the succession, and the other companies that were to be succeeded to the other three brothers were also quite large. There was no motivation for anyone to cause problems. The vertical relationship type was wavering, and the horizontal relationship type was cooperative. This case shows the impact of types of vertical relationships on the horizontal relationships among the second generation.

Cho Yang-ho had only to focus on the business he inherited, as the other sizable businesses were given to his brothers. When his brother, who had the marine transportation business, passed away at an early age and the international economy went down, Hanjin Shipping had financial problems and was on the edge of bankruptcy. Though Hanjin Shipping had no legal connection with Korean Air, but the government and public opinion asked for Cho Yang-ho to pour in money, simply because Hanjin Shipping was part of Hanjin Group in his father's time. Korean Air lost a great deal of money when Hanjin Shipping finally went into bankruptcy. After succession, Chairman Cho Yang-ho did not have the capability to expand the business portfolio.

Table 9. Hanjin Group's Succession

Successor Succession Period	Cho Yang-ho 1985-2003
Ownership	
Legitimacy	The eldest was the most important factor.
Control Rights	The successor's control rights were not significantly stronger than other second-generation family members.
Family	
Vertical Relationship	Wavering type (parent owner allows the successor candidate to be trained, allowing the successor to succeed when the proper time comes.)
Horizontal Relationship	The cooperative horizontal relationship was expected on the early stage. But it turned into the antagonistic relationship because of the legal battles for the control of sister companies which owned a big asset.
Business	
Succession Size	Companies were quite equally succeeded to four sons.
Business Portfolio	The second generation focused on transportation and hotel businesses as the first generation did.

3.2 Comparative Analysis Based on the Six Factors of Three Circles Model

Based on six factors, we identify the characteristics of each chaebol's succession. Table 10 displays the summary of our comparative analysis. By analyzing the six factors relevant to the three-circle model, we are able to suggest the level of smoothness of succession. In this section, we point out the important issue for every six factors.

Table 10. Analysis of Six Chaebols' Succession Type Based on the Six Factors

Factors	Samsung	Hyundai	LG	Lotte	Hanwha	Hanjin
Ownership						
Legitimacy	High	Low	High	Low	High	High
Control Rights	High	Low	High	High (Conflict)	High	Low
Target Country-specific						
Vertical Relationship	Wavering	Conservative	Wavering	Conservative	Rebellious	Wavering
Horizontal Relationship	Competitive	Antagonistic	Cooperative	Antagonistic	Antagonistic	Antagonistic
Firm-specific						
Succession Size	Concentrate	Equally	Concentrated	Equally	Equally (initial)	Equally
Business Portfolio	Non-Infra (Cash+)	Infra → Non-Infra	Non-Infra (Cash+)	Non-Infra → Infra	Infra → Non-Infra (Cash+)	Non-Infra → Infra
Smoothness	**Medium**	**Low**	**High**	**Low**	**Medium**	**Medium**

3.2.1. Legitimacy

It would not be easy to decide who is the most competitive succession candidate because most chaebol family members have a good education and good careers. Moreover, in South Korea, with its strong Confucius traditions, primogeniture is prevalent, so primogeniture is naturally one of the most important factors in a succession of Korean chaebols. Many first-born sons in the six cases, however, were not successfully designated as successors; only half of them were successful. Being the first-born son is an important positive factor for being selected as a successor, but it is not, however, decisive. Therefore, there is no causal relationship between being a first-born son and succession.

3.2.2. Control Rights

When a successor holds high control rights, he can defend his ownership. If a successor does not have sufficient control rights, he may not be able to manage the risks. Whether control rights are sufficient is a crucial indicator for the survivability of chaebols. Chaebols owned by successors with high control rights rarely had disputes afterwards, and successfully made long-term investments with enough funding capabilities. When a chaebol has an unstable ownership structure, or its owner does not have enough control rights, the company will have a problem with long-term investments. The company will suffer from turmoil over quite a long period.

3.2.3. Vertical and Horizontal Relationship

The succession process is influenced by intimacy between the founder and the next generation family members. When founders and succession candidates are intimate, the process of succession can be peaceful (Ibrahim & Ellis, 1994). Good relationships among family members may lead to successful succession (Dunemann & Barrett, 2004). If a family conflict does arise in the process of succession, the future successor could incur a significant amount of transaction costs (Sharma et al. 2001).

Vertical relationships and horizontal relationships are closely related, and these two relationships are also connected to the other four factors of succession. The LG Group is the sole case where the succession process was completed peacefully without any conflict, due to a friendly family relationship. The LG Group's owner-family constantly maintains the primogeniture principle. The owner resigns voluntarily when he reaches a certain age and the successor is ready after proper management training. This is a typical wavering type of vertical relationship. The owner-family has a cooperative or Confucian horizontal relationship. One noticeable thing is that all of this is voluntary, not regulated or pressured by any type of rules. It can be said to be desirable.

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When the vertical relationship belongs to the wavering type, succession takes place successfully without serious conflict. The successor's legitimacy is supported by the predecessor and the successor can obtain thorough training. A conservative vertical relationship might result in conflicts. Successor candidates who were appointed in an early stage were later excluded, largely because of an uncertain succession plan. Candidates fought to be appointed a successor until the last minute. Factions around each candidate cause problems and candidates accumulate conflicts. This is an antagonistic horizontal relationship.

The vertical relationship is called rebellious when the founder suddenly passes away without any will or succession plan. Hanwha Group's succession is a typical one. The vertical relationship could lead to either a positive result or a negative result. The positive case is when family members and executive members work hard harmoniously to cope with challenges. The negative case is when brothers and sisters fight for ownership of companies.

3.2.4. Succession Size

When succession size is high, which means that control is centered on an owner, other brothers and sisters may complain, but at the same time, conflict is less likely to take place. If the succession size is low, the successors' brothers and sisters would not complain much, but the successor might not be satisfied, leading to a greater chance of conflict. Second generation family members complain when the succession size is high, but when the second-generation family members inherit the founders' estate equally, they tend to have conflicts after the succession process finishes.

Succession size does not determine the level of satisfaction among related parties to the succession. One clear finding is that conflict among second generation family members does not develop into a serious problem for chaebol companies when succession size is concentrated. This is because the balance of power has already been tipped toward a successor. In conclusion, concentrated succession is less burdensome for the management of chaebol company.

3.2.5. Business Portfolio Change

Differences in business portfolios at the time of succession can be divided into three types. The first type is when the main business is non-infrastructure business oriented, the second is when infrastructure business is the main business, and the third is when the main business changes in the process of succession.

When the main business is a non-infrastructure business, the new leader of the company tends to aim at more lucrative businesses and expand the business into other countries. This happens when the succession process finishes and is utilized to promote the new owner's capabilities. This might help him control the company on his own. In the case of an infrastructure business company, which competes against rival companies for orders, the successor focuses on the social human network rather than promoting his capabilities.

New successors attempt to diversify their businesses. These chaebols went through a less prepared succession process. Sometimes they failed to follow an already planned succession process. When a future plan is not ready at the time of succession, the new leader is forced to take the diversification option.

4. KEY FINDINGS

Based on the case study of six succession cases, it is able to classify them into a group under each factor. By classifying chaebols with similar patterns in succession processes and comparing with their business activities after succession, important findings are found. This section highlights the important and interesting research findings by showing different factors are intertwined in making succession process more difficult or easy.

Research Finding I: Business portfolios before succession determine the level of succession size and a change in the business portfolio in the process of succession has an impact on corporate survival after succession.

Businesses of Korean chaebols can be categorized into non-infrastructure businesses and infrastructure businesses. Founders behaved differently according to what type of business they were in, and the difference was reflected in the

succession size. A concentrated succession took place in the cases of chaebols with non-infrastructure businesses; infrastructure businesses resulted in equal succession.

Figure 4 illustrates how six chaebols' change in their business portfolio during the succession period. Succession period is defined by the years between the year of entry to an affiliate company in the group and the year the successor becomes a de facto owner of the group by becoming chief in charge of the group operation.

Figure 5 illustrates the four types of business portfolio change. In Type one, the successors expanded their non-infrastructure business into new markets, aiming at high-value-added businesses. They usually focus on non-infrastructure business products and prefer professional CEOs as they believe that marketing non-infrastructure business products is in the realm of professionals. They invest heavily in R&D for new products, adjusting to changing demands of customers. There can be several risks with chaebol companies that have professional CEOs. The CEOs might not have less information than owners, and sometimes, CEOs are not loyal to the owners. Successors should take care of shareholders' interests by taking good care of professional CEOs. The successors in case one tried to enter into global markets against risks, which might be that the domestic market is not large enough for business expansion. Chaebols in Type two and Type three are those that either has insufficient preparation for succession, or when the business portfolio stays steady before succession. Successors in these cases make earnest efforts to diversify their businesses. They usually find new main businesses. Type four illustrates the situation when chaebol companies focus on infrastructure businesses and do not expand their business portfolio in the process of succession. These businesses are vulnerable when the global or local economy is bad, and the successors might not be able to cope with the risks. The successors try to maintain the human relation built during their predecessors' time, which is quite important to the business.

Figure 4. Portfolio Change during Succession Period

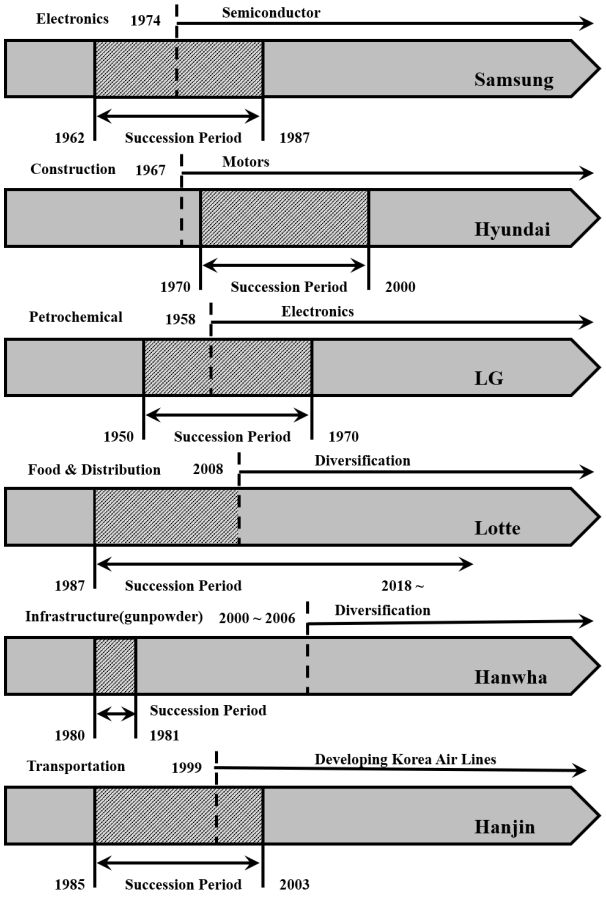
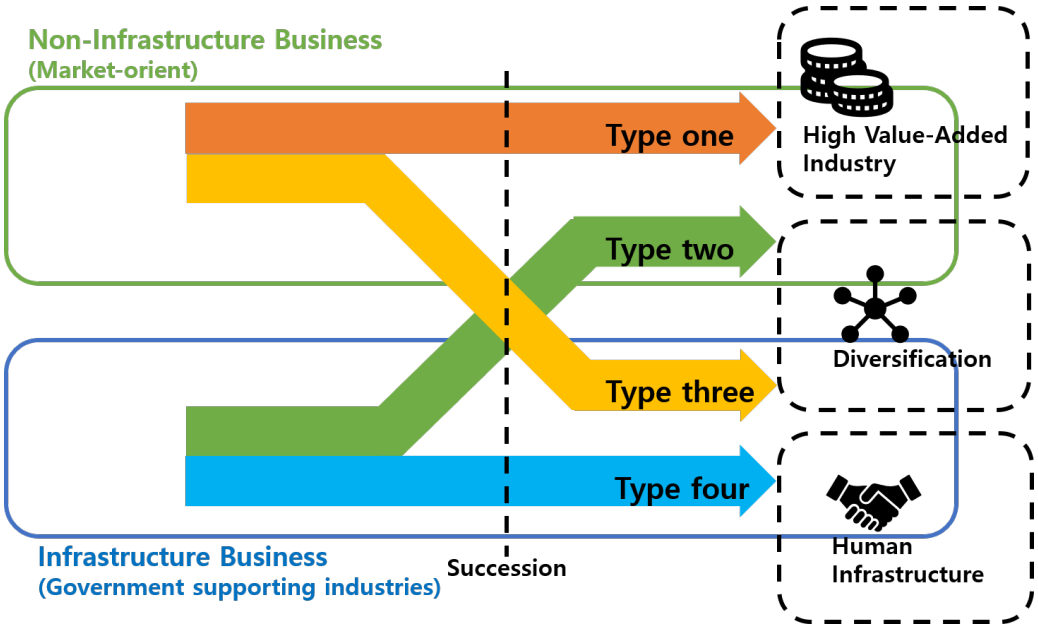


Figure 5. Types of Business Portfolio Restructuring



Research Finding II: If the horizontal relationship is cooperative, the succession is smooth. However, the main factor that creates conflicts among succession candidates is the type of vertical relationship.

In the conservative vertical relationship type, succession candidates become nervous and take unnecessary actions that result in an antagonistic horizontal relationship. The person who can control the conflict efficiently is the founder or predecessor. The founder can leave things open so that the most competitive candidate wins the competition. In contrast, he can announce his heir well in advance and make the succession process go smoothly. This wavering vertical relationship type allows the horizontal relationship type to be cooperative. Founders should have this in mind when they design succession plans.

Research Finding III: Even with a high level of legitimacy, in other words, the privilege of being the first-born brother, a succession candidate might not achieve a successful succession if he does not secure sufficient control rights. The liquidity of the cash flow played an important role in increasing control rights.

If successors do not have funding capability, for example, when they do not inherit the financial arm for the chaebol group, other candidates may intend to challenge the successor. This might decrease the control rights of the successor. When the financial arm of the chaebol group is inherited by the successor, it makes the whole succession process easier, and helps the successor focus on future-oriented management.

5. CONCLUSIONS

When a company enters a declining stage after stages of successful growth and maturity, the company and those who run the companies tend to maintain the existing situation. They do not bother to work hard for growth and expansion. In this case, succession may offer a firm the opportunity to have more business momentum. Reviewing the succession processes of six cases, factors that lead to successful successions can be identified.

Through the analysis, we show that the succession is closely related to a change in the business portfolio. Changes were either carefully planned or discovered in the process of diversification of the businesses. In the latter cases, chaebol companies went into a serious decline when new main businesses were not tried or made successful. Even though succession is a major event for chaebols, it may be conjectured that preparation for succession was not thorough in many cases. Additionally, succession size is found to have an influence on the succession outcome. When the

succession size is low, other candidates easily challenge the successor's legitimacy and the succession process may involve conflicts among family members and followers of each member. Even after the succession is finalized, successors might have problems managing companies with long-term plans.

5.1 Theoretical Contribution and Implications

First, the research case-studied South Korean chaebols' successions and firm performance from their founding to the present day. No one can deny the contribution of owner-families to the success of chaebols or chaebols' contribution to South Korea's economic miracle of rapid growth in a short period of time. There have been many studies on chaebols. However, there is not much research on chaebols' succession that applies a theoretical analysis. Second, by adopting the three-circle model, we are able to compare the succession case of different firms. Specifically, we suggest six factors based on the three-circle model. As we show that cases show the similarity as well as the dissimilarity in those six factors, future research on successions may define the characteristics of the succession process according to the six factors. Third, this research compared firm performance before and after succession. While previous studies argue that prior succession performance is better than post succession performance, this study finds that the contrary is the case. The research dug deeper to identify factors that explain the contrary results.

5.2 Practical Contribution and Implications

This research shows whether smoother succession results in a more successful business outcome with the new successor. The answer is no. It is true that factors like an antagonistic horizontal relationship, which makes the succession process less smooth, influence unsuccessful succession in which unpleasant incidents like legal suits, improper distribution of human resources, shares issues, unnecessary costs, and weakening of corporate structures take place. These factors, however, did not necessarily cause the collapse of chaebol companies. Some companies successfully completed the succession processes through risk management and changes in the main businesses, even after a serious conflict. In some chaebol succession cases, a certain level of conflict was planned to improve the successor's management capabilities.

The results of the study show that succession processes should be prepared in advance. The importance of succession preparation was found to be important in previous studies. A business portfolio change in the process of succession should be included as part of the succession preparation. New businesses might help companies revive from their declining main businesses. When a company's main businesses are in trouble during the succession process, those companies may even be bankrupt. Succession is necessarily followed by big changes, and it is important to establish succession plans that include long-term and meticulous plans for business portfolio changes.

It is also important for predecessors to succeed as many companies as possible to their heir. This helps successors manage chaebol groups from a long-term perspective. If the successor's' brothers and sisters inherit almost equal estates, the successors tend to focus on short-term issues, harming chaebols' long-term growth.

To conclude, it is true that chaebols might be badly affected when the succession process is not smooth, but this would not, however, directly lead to the chaebol's collapse. It is better for predecessors and chaebol groups to investigate future businesses and select the most competitive successor for the new businesses.

5.3 Limitation of the Study and Agenda for Future Research

There are some limitations and future research recommendations to be addressed. First, six chaebols were selected for the case study. The cases were picked from the list of the ten largest business groups designated by the Korea Fair Trade Commission. Large business groups owned by the Government were excluded. The SK Group, one of the ten large business groups, was also eliminated because it was a brother to brother succession. Instead, the study included Hanjin Group, one of whose affiliate companies is Korean Air. The study might have been more complete if the eliminated groups had been included. The chaebols that were dismantled in the 1997 Asian financial crisis might have made this research more fruitful. It is also regrettable that only family-owned chaebols in the big ten group were included in the research. If the research had reviewed more cases, the findings would have been stronger. Second, the study only utilizes public data. Interviews were not conducted, and internal documents could not be secured. The

interpretations and analyses might be criticized as subjective. First-hand materials and internal documents of chaebols would have made this study richer in insights. Finally, it was not possible to obtain common statistical data from before and after the succession, or among the different chaebols. If the data could be acquired, a more objective analysis would be possible. To achieve more objectivity in research of South Korean chaebols and their successions, variables, statistical data, and scientific analysis are necessary.

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