

# Samsung heir joins board, moving toward top leadership role

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In this Oct. 26, 2016 photo, Samsung Electronics Galaxy S7 and S7 edge smartphones are displayed at Korea Electronics Show or KES in Seoul, South Korea. Samsung Electronics said Thursday, Oct. 27 its third quarter profit has plunged 17 percent as Galaxy Note 7 recalls nearly wiped out its mobile profit. (AP Photo/Lee Jin-man)

The grandson of Samsung's founder is stepping up as its new leader after the failure of the company's flagship smartphone, the Galaxy Note 7.

Shareholders of Samsung Electronics Co. voted Thursday to appoint 48-year-old Lee Jae-yong, chairman Lee Kun-hee's only son, to its board of directors.

The appointment of the Harvard-educated vice chairman as a board member comes at a crucial time for Samsung, South Korea's biggest company.

Samsung Electronics, the world's largest maker of smartphones, memory chips and TVs, reported a sharp fall in its quarterly earnings after the unprecedented recall and discontinuation of fire-prone Galaxy Note 7 smartphones wiped out its mobile profit in the last quarter.

The Note 7, initially launched as Samsung's weapon against the iPhone, was scrapped less than two months after its launch after consumers reported some of the devices were catching fire. Replacement Note 7s given for the recalled phones also were found to be overheating.

Samsung's net income was 4.4 trillion won (\$3.9 billion) in July-September, down 17 percent from 5.3 trillion won a year earlier.

Its troubled mobile business generated just 100 billion won (\$87.9 million) in operating income during the quarter, compared with 2.4 trillion won a year earlier. Samsung's mobile business usually contributes more than half of its overall income.



In this June 23, 2015, file photo, Lee Jae-yong, vice chairman of Samsung Electronics Co., speaks during a press conference at the company's headquarters in Seoul, South Korea. Samsung Electronics said Thursday, Oct. 27 its third quarter profit has plunged 17 percent as Galaxy Note 7 recalls nearly wiped out its mobile profit. (AP Photo/Ahn Young-joon, File)

Sales fell 7 percent while operating income slumped 30 percent, in line with the company's guidance earlier this month.

Even before the messy recalls, like other big "chaebol," or industrial conglomerates in South Korea, Samsung was being urged to improve its transparency and corporate governance.

Lee Jae-yong is the grandson of Samsung's founder, Lee Byung-chull.

The younger Lee is thought to have been making key decisions for Samsung since his 74-year-old father was hospitalized after a heart attack in 2014 left him unable to oversee the company. But he largely handled internal management and meetings with VIPs.

Lee Kun-hee resigned from the board of Samsung Electronics in 2008 as he faced investigation over alleged tax evasion and other financial violations. His son's appointment to the board was long expected, but is raising questions.

Some South Koreans opposed giving him a board position because of questions about how he amassed billions of dollars of personal wealth and about the performance of businesses he has run.

"He has never successfully demonstrated that he is eligible to be a board member," said Lee Jee-soo, a lawyer and head of the Law and Business Research Center. "Just because he was born as the son of Lee Kun-hee, he is joining the board."



In this Oct. 26, 2016 photo, a man walks by an advertisement of the Samsung Electronics Galaxy S7 Edge and Gear VR at Korea Electronics Show or KES in Seoul, South Korea. Samsung Electronics said Thursday, Oct. 27 its third quarter profit has plunged 17 percent as Galaxy Note 7 recalls nearly wiped out its mobile profit. (AP Photo/Lee Jin-man)

Last year, Samsung narrowly won shareholder approval for merging two group companies, Samsung C&T and Cheil Industries. Critics of the plan said there was no reason to merge the two companies apart from enabling Lee Jae-yong to strengthen his control over Samsung Electronics without having to pay for acquiring more shares.

Samsung contended that the merger was in line with local laws and necessary for the future of the two companies.

Lee currently does not hold any "C-level" positions after serving as Samsung's chief operating officer from 2010 to 2012. Samsung now has

three CEOs overseeing its components, mobile devices and TV businesses.

Kwon Oh-hyun, CEO of Samsung Electronics, said Lee has proven his leadership in other ways, such as helping to improve the company's profitability through restructuring.

Samsung's earnings report Thursday showed that while its mobile profit shrank dramatically, its components businesses, especially its high-density chips for computers and next-generation smartphone displays called OLEDs, performed well thanks to strong demand from global smartphone makers. The component businesses generated more than 80 percent of the company's quarterly income in the latest quarter, helping Samsung weather the cost of the handset recall.

Analysts expect those high-end components to be Samsung's growth engine next year as more smartphone makers adopt Samsung's OLEDs.



In this Oct. 26, 2016 photo, Samsung Electronics Galaxy S7 smartphone is displayed at Korea Electronics Show or KES in Seoul, South Korea. Samsung Electronics said Thursday, Oct. 27 its third quarter profit has plunged 17 percent as Galaxy Note 7 recalls nearly wiped out its mobile profit. (AP Photo/Lee Jin-man)

Anticipating strong growth in demand, Samsung said it will spend 27 trillion won (\$23.7 billion) this year to increase production of OLEDs and an advanced chip.

Looking ahead, Samsung hinted that the worst may be over for its mobile division, forecasting that its mobile profit in the fourth quarter will likely be on a par with last year's.

The company estimated costs from the Note 7 fiasco will amount to at least \$5.3 billion.

Lacking a new high-end gadget to fight Apple's new iPhone, Samsung said it will introduce new mid- to low-end handset models while selling the Galaxy S7 and S7 Edge smartphones, which were launched in spring.

Samsung founder Lee Byung-chull started out trading rice and dried fish in the late 1930s. The company grew into an empire offering everything that South Koreans need from cradle to grave, from ships and washing machines to insurance and semiconductors. Cheap government financing helped, as South Korea rushed to recover from wartime devastation and catch up with Japan and other developed nations.

The Lee family holds only a minority share in the company, but maintains control through a maze of cross-shareholdings in the 59-odd

companies that make up the group.



In this Oct. 26, 2016 photo, a visitor walks by Samsung Electronics TV screens at Korea Electronics Show or KES in Seoul, South Korea. Samsung Electronics said Thursday, Oct. 27 its third quarter profit has plunged 17 percent as Galaxy Note 7 recalls nearly wiped out its mobile profit. (AP Photo/Lee Jin-man)

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