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Global Investors Can Protect Their Interests Amid Succession Disputes at Korean Chaebols

In South Korea, family struggles and key shareholder disputes over control of conglomerates, or chaebols, have long posed risks to minority shareholder interests. As the chief of South Korea's Financial Supervisory Service raises concerns over a bid to take over Korea Zinc, many prepare for volatility and its impact on shareholder value. We explain why investors should work with international counsel to protect their rights and maximize their returns.

In South Korea, family struggles and key shareholder disputes over control of conglomerates, or *chaebols*, have long posed risks to minority shareholder interests. One recent case exemplifies this trend: the ongoing battle over Korea Zinc, one of the world's largest refined zinc producers.

As the chief of South Korea's Financial Supervisory Service raises concerns over a bid to take over the company, many are preparing for further volatility and its impact on shareholder value. Such uncertainty in a complex market dominated by chaebols presents opportunities and potential risks for activist investors.

Global investors, including activist funds, should consider deploying creative strategies to maximize their positions, considering both local and overseas factors.

#1: Find Your Allies

Many Korean institutional investors hold significant stakes in *chaebol* companies and have recently developed and published voting guidelines and investment philosophies, including their version of stewardship codes. In addition, joining forces with domestic Korean activist funds can help achieve common goals. In recent years, more than a dozen Korea-based funds have begun to focus on activist strategies and campaigns.

Mass media outreach to retail investors (see below) often tips the scales in close votes. Retail investor pressure may also encourage key local shareholders to join the campaign. Independent, on-the-ground Korean-speaking counsel is essential to leverage local messaging and advocacy.

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#2: Generate Public Support

An effective public relations campaign can be essential in persuading other local and overseas shareholders. A well-designed PR campaign considers the broader strategy, including anticipating key inflection points, and has precise messaging supported by verifiable facts. At the same time, activist investors should also manage PR risks, ensuring their messaging fully complies with local laws and accounts for local conditions.

For example, some Korean media may be affiliated with or influenced by a target company or family. Working with global outlets that are respected in Korea instead may mean that these local outlets have no choice but to boost the activist investor's messaging.

#3: Step Forward with Alternative Proposals

In addition to an application for a court injunction to block unlawful shareholder resolutions, subject to local rules on shareholder participation, consider proposing reasonable and economically attractive alternatives to shareholders to block a controlling shareholder's attempt to extract value from the company.

#4: Play Nice

In certain circumstances, a more cooperative approach may yield a better result. The target audience is often most receptive if they contrastingly perceive the activist shareholder as a palpable threat or if the activist has taken a "white knight" approach and cooperated with the controlling shareholder. Some controlling shareholders may be amenable to discussions about the activist shareholder becoming a strategic partner in exchange for certain concessions.

As the market evolves over and beyond Korea Zinc's ongoing battle and other recent campaigns, activist investors should remain cautious. By engaging with independent local counsel who understands both the intricacies of Korean corporate law, as well as the potential collateral effects of any consequences within and outside Korea, investors can deploy strategies that can help gain allies and add pressure to controlling shareholders – even those of *chaebols* – all in the interest of maximizing shareholder value.

About Kobre & Kim

Kobre & Kim is a conflict-free global law firm focused on disputes and investigations, often involving fraud and misconduct. Our team:

- Avoids ongoing relationships with common industry participants such as Korean *chaebols* and instead focuses on special-counsel engagements to advance activist agendas.
- Has significant experience in corporate governance matters, having led and defended initiatives on the formation and conduct of special investigative committees and other special strategies to place our clients in a position of strength to negotiate a satisfactory resolution.
- This includes native Korean-speaking lawyers from Seoul, the U.S., and other locations who assist clients in dealing with Korean regulatory and criminal authorities such as the Korean Financial Supervisory Service and the Korean Public Prosecutors' Office.