

A Synthesis of Interviews with Executives of Samsung Electronics

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Samsung Electronics is a great success story in Asia and many parts of the world. To understand the company's history, its development, and its success secrets, we wrote this report based on interviews with the managers and former executives of Samsung Electronics.

REASONS FOR DIVERSIFICATIONS AND MANAGING DIVERSIFIED BUSINESS

Samsung Electronics has very diversified product lines. The company's products include HDTV, home appliances, computers, printers, cell phones, network products, mobile music devices, semiconductor etc. Some of these businesses are vastly different from each other and are not very related. Such a broad product portfolio sharply contrasts with the mainstream view on diversifications in the West, which favors focus and specialization. More and more western companies divest their unrelated businesses and focus on a few core areas.

There are several reasons why Samsung Electronics has taken its diversified business approach. Historically, Korea had a small domestic market and the sizes of different product markets were limited. As a result, companies faced limited growth potentials in various markets. This forced companies to branch out their existing sectors to seek new growth opportunities. This is an important reason for Samsung electronics and even Samsung Group to enter a broad range of business areas. The same is true for some Japanese companies several decades ago. During then, many Japanese conglomerates entered a wide variety of markets because of limited domestic markets in many sectors.

Samsung electronics sees advantages and benefits of having diversified product lines. One obvious benefit is diversifying business risk. Because the company's products spread out in many areas, it is better able to cope with the ups and downs in certain product markets and thus helps the company to generate steady and stable earnings. The other benefit is the cross product sharing and support. The cross product support is especially important when different products are converging onto a few product platforms such as cell phones, computers etc. Because convergence requires cooperation and coordination among different products or technological areas, having broad product lines makes it easier for Samsung Electronics to engage in such cross product cooperation within the company. Furthermore, there are a lot of innovations in some of the markets where Samsung Electronics competes, and many of these innovations depend upon or require the cooperation of different technologies. Samsung Electronics can achieve such cross product cooperation internally, avoiding the difficulties and delays of seeking and working with external partners, thus enabling the company to make fast product decisions and to reduce its new products' time to markets.

THE RELATIONSHIPS BETWEEN THE HEADQUARTER (HQ) AND PRODUCT DIVISIONS

Although Samsung Electronics has benefited from diversified products, managing the diverse business lines is challenging. Samsung Electronics has developed a sophisticated management system and capability to cope with the challenges. In the past, Samsung Electronics' product divisions did not have much autonomy. Nor did they control a lot of resources. All the employees were assigned to each division. This practice started to change about ten to twelve years ago. Today, each product division enjoys high level of autonomy and independence. Each division has the power to make investment decisions up to a certain amount. For example, a few years ago, each product division had the authority to make investment decisions up to \$1 million. Later, this limit was increased to \$10 million. For large investments that exceed each division's authority, HQ approval is required and these investments normally have important impact on the future direction of the entire corporation or affect multiple product divisions.

Although Samsung Electronics HQ encourages internal cooperation among different divisions, product divisions have the final say on the cooperation decisions and makes such decisions based on their own business interests. Product divisions have their own management structures, staff, and operating budgets. They are evaluated by the HQ on their operation performance.

Although many of Samsung Electronics' businesses are different from each other, the HQ has learned to manage and evaluate the performance of its different divisions. One of the reasons that help the HQ manage product divisions is the strong technical expertise of HQ executives and their deep understanding of the markets. Such technical expertise helps the HQ understand and foresee the overall trends that affect the overall direction of Samsung Electronics. These product and market expertise are especially important as Samsung Electronics is in many fast changing markets and product innovations play key roles in competition. Usually, the CEO and most corporate executives of Samsung Electronics have deep understandings of technologies, and their product division presidents are also required to have strong technical expertise.

Samsung Electronics does not always have difficulties in encouraging product divisions to achieve stretching goals. This is because most of their product division presidents are highly capable and

motivated, the company has an aggressive, risk taking culture, and no division wants to be a “loser” in the company. As a result, the HQ sometimes tries to lower the ambitious goals proposed by product divisions.

STAFF FUNCTIONS AT SAMSUNG ELECTRONICS

Samsung Electronics has developed highly capable and specialized staff functions at the corporate level. The corporate staff members collect detailed data and have deep understandings of external and internal conditions of each product market. They provide corporate executives with detailed information about each business division, and help the executives monitor and manage the divisions.

At Samsung Electronics, staffs are more actively involved in company operations than their counterparts in Western corporations. For example, the corporate staffs of Samsung Electronics sometimes play mediating and facilitating roles among different product divisions. When there are problems or differences among divisions, the staff would communicate with the respective divisions, facilitate negotiations among the divisions and help them resolve the differences. This mediating role is very important in Asian business culture, where people try to avoid or minimize face-to-face conflicts in business dealings. Furthermore, staff people at Samsung Electronics also actively work with line managers. In the area of employee performance management, for example, staff people work closely with line managers in determining the specific rewards, bonuses, and other incentives to their subordinates. Such deep involvement frees up the time of line managers so they can concentrate on their primary duties in markets or products.

PRODUCT AND PEOPLE DEVELOPMENT SYSTEMS

Samsung Electronics has also developed an effective R&D system at HQ and product divisions. The company has a corporate R&D lab where engineers work on long term R&D projects or on projects that benefit multiple divisions. Product divisions can send engineers or engineer teams to work on important projects at the corporate lab, which also develops the skills of the engineers. The lab is supported by HQ and product divisions. Product divisions also have their own labs that work on medium-to-short term projects. Furthermore, Samsung Electronics has established R&D centers in various important locations. For example, the company has a unit in Silicon Valley to identify promising technologies and potential partners. The unit serves as eyes and ears for the parent to identify future trends and opportunities. This R&D system helped the company to develop its technical capabilities and key technologies. In addition to the technical capabilities, the company has also developed an extensive training system to develop leadership talents. The company has detailed training programs and requirements for leaders at different levels.

Samsung Electronics also developed a sophisticated mechanism to take calculated risks when exploring new market opportunities. For example, to explore new product opportunities, its product divisions need to develop contingency plans to prepare for different scenarios.

Product divisions sometimes engage in multiple competing development projects. At one point, for example, its hand-set division had five competing product development teams working on a similar new product. The multiple competing teams help the company to hedge the risks of R&D activities. Furthermore, to assess the market potential and risks of new development projects, the company uses a sophisticated evaluation system, which evaluates the technological, market and other risks of R&D projects at different phases. Through this comprehensive evaluation system, the company is able to select a few high potential products from a pool of candidates, thus reducing the risks of new product development.

THE IMPACT OF OWNERSHIP STRUCTURE ON THE BUSINESS PHILOSOPHY OF SAMSUNG ELECTRONICS

The ownership structure of Samsung Electronics contributed to its success. Although Samsung Electronics is managed by professional managers, its business philosophy and culture are deeply influenced by Mr. Kun-Hee Lee, who is a major shareholder of Samsung Electronics and the chairman of Samsung Group. Since Mr. Lee has a long term vision and ambition to build Samsung as a global leading player, his philosophy and leadership is clearly reflected in the company culture and investment decisions. For example, a few years ago, Mr. Lee was ill for a period of time. When he recovered and returned to the company, Samsung Electronics executives presented him with a “gift” of a 25-story R&D building which was built when Mr. Lee was in the hospital. Many executives expected that Mr. Lee would be happy to see the new building. But to most people’s surprise, Mr. Lee asked the executives why they only built one, rather than two 25-story buildings, why they did not build a 50-storey R&D building. Mr. Lee feels that such R&D facility has long term impacts on the company and therefore, the company shall commit more resources to it even though it may hurt short term profits.

Such long term thinking is not always congruent with professional management thinking among many Western public companies. Many Western public companies are required to show yearly or quarterly results to the stock markets. Furthermore, professional managers are pressured to show results within their short tenures, causing their decisions more short- or medium-term oriented.

It is important to note that although Samsung Electronics benefited from its major shareholder who has long term visions and great leadership, such dominant ownership is not without its problems. If a major shareholder of a company does not have long term views or is incapable of leading the company, the majority ownership can hurt the company as such ownership structure lacks the checks and balance of power in the company management.