Corporate Strategy of Samsung Electronics: From a ‘National Champion’ to a ‘Global Leader’

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ABSTRACT

This case study focuses on recent Samsung Electronics’ corporate strategies, in particular how the company succeeded in becoming a ‘global leader’ in the industry. Furthermore, the case also shows what kind of company structure was built and provides insights into management style and leadership in the company. The case is developed in four chapters: first, an introduction into the theoretical approaches to be applied for case analysis. Second, the case introduction focuses how Samsung Electronics became ‘national champion’, before moving on explaining how Samsung Electronics emerged as a ‘global leader’; and last Samsung Electronic’s strategy for sustainable globalization of the corporation. The challenges for Samsung Electronics associated with being a ‘global leader’ are summarized afterwards. The conclusions are structured in a way to provide questions how the case might be analyzed by applying the theoretical concepts introduced in the theoretical background chapter.
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1 Case Introduction

Samsung Electronics, headquartered in Samsung Town, Seoul, is the flagship company of the Samsung Group, which is regarded as one of the world’s leading conglomerates (Datamonitor 2009a). Samsung Electronics has remarkable achievements in product development, market penetration and strategic acquisitions and sales in recent years. During the 1990s, most of products of Samsung Electronics were categorized as low or medium-cost consumer goods except semi-conductors in advanced nations although it has been the ‘national champion’ in its home market for several decades. Moreover, Samsung Electronics was hit by the Asian financial crisis in 1997, and the chairman, Gun Hee Lee was severely criticized as one of major reason providers due to his newly started automobile business, Samsung Automobile Co.. As a result, the owner of Samsung Electronics handed his beloved automobile business over to the French Automobile company, Renault owing to the government big deal approach for excessive industrial production capacity as well as to clean up its business loss. In addition, he also had to restructure his entire Samsung Group in order to overcome the then massive crisis. In line with the process, he sold out Samsung Heavy Equipment Co, to Swedish Volvo Group. The Samsung and Volvo’s business deal accounted for US$700 million in 1998 which was the single largest foreign direct investment (FDI) in South Korea.

In the mid 1990s Samsung Electronics chose Swedish Eriksson as one of the benchmarking companies along with General Electronics in the USA and Sony in Japan in order to strengthen its image of state of art technology based company. It adopted Eriksson’s business strategy to be a technology leader in its own technology field such as mobile communication technology equipment. By importing blue tooth technology from Eriksson in the end of the 1990s, Samsung Electronics was able to launch its mobile telephone business and became the second largest mobile phone producer in the world since 2005 while Sony Eriksson declined its global ranking as mobile phone producer from 3rd to 5th.

In the field of home appliances Samsung Electronics set the target to take over Sony’s
position in the global market. Sony produced luxury TV sets and held its largest market share in the 1990s and 2000s. Compared with Sony, Samsung’s TV sets were regarded as medium range price products in the advanced nations although Samsung Electronics was the largest TV producer in the 1990s. Entering to the luxury TV markets in the beginning of the 2000s seemed to take a high risk due to high technological barriers and Sony’s strong market position. Additionally, the majority of Executive Vice Presidents in Samsung Electronics were sceptical to choose the luxury TV market as a strategic target.

However Gun Hee Lee’s idea was different. Despite a relatively strong opposition in the company, the chairman set the target to compete with Sony in the global market. By competing with Sony in the global markets he saw opportunities to increase Samsung Electronics brand power in private households. In the mid 1990s Samsung supplied more than 20% of total IC chips and became the largest IC chips producer in the world. However, these products were based on business to business (B2B) area. Therefore, private consumers were not aware of Samsung Electronics as a brand well. Accordingly, Gun Hee Lee focused his corporate strategy on business to customer (B2C) area as well. His idea and strategy were proven as Samsung Electronics took over Sony’s place in 2005. Finally Samsung Electronics became the largest electronics company in the world and its brand power based on luxury TV sets and mobile telephones grew rapidly in the mid 2000s. As a result, the company succeeded in becoming a global leader in the electronics industry.

Since then, the company’s vision for worldwide activities is to be the leader in the global digital convergence movement. In order strengthen its position as a trusted market leader continuously; the company aims to develop efficient and innovative technologies in its products portfolio. For it, Samsung Electronics’ mission to be the best ‘Digital e Company’ spreads its overall corporate strategies and operations.

This case study focuses on Samsung Electronics’ corporate strategies how the company succeed in becoming a global leader from relatively low brand power in the advanced markets. Furthermore, it shows which company structure has been built and what management style and leadership exist in the company. The case study is structured into four chapters: first, an introduction into the theoretical frameworks, to be applied for case analysis. Second, the case introduction, divided into steps, how Samsung Electronics became ‘national
champion’; next how Samsung Electronics emerged as a ‘global leader’; and last Samsung Electronics’s strategy for sustainable globalization of the corporation. The challenges for Samsung Electronics associated with being a ‘global leader’ are summarized afterwards. The conclusions are structured in a way to provide questions how the case might be analyzed by applying the theoretical frameworks introduced in the theoretical background chapter.

The case study is based on public available secondary data about Samsung Electronics. In addition relevant information concerning strategies and competitors in the electronics and telecommunication was studied in order to understand the case more thoroughly. The purpose of mixing both scientific research and industry sources was purposely intended to provide a broader picture on Samsung’s development, summarizing how Samsung Electronics is viewed both in industry and in academic research. In other words, we aimed at, what Marschan-Piekkari and Welch (2004) point out, the possibility to bring out a more descriptive and deeper perspective of the object under study in research in international business. In order to validate our case findings, we applied the method of data triangulation. First we followed Yin’s recommendation (Yin, 2003: 34), to emphasize the correct operational characteristics for the different steps in the development of Samsung Electronics, with the use of multiple confirming sources, the establishment of a chain of evidence and the creation of a structured case analysis. Second, we asserted validity of the case study findings by using theories to see if the stories learned by studying Samsung Electronic’s development can be understood, explained and applied in a broader sense.

2 Theoretical Background

The internationalization process and its geographical expansion of economic activities of a firm might be analyzed by two different perspectives (Benito, Petersen, & Welch, 2007): the “economic–strategic” view, and “behavioural, or process-oriented” view. Both perspectives will frame the theoretical background applied to the case study for discussion in the classroom.

2.1 Economic-strategic Approach

The economic approach indicates that companies aim to achieve a balance between economic benefits and appropriate degree of control that enables the company to control risk exposure and have strategic flexibility when it comes to location and entry mode choices (Anderson &
This economics-based international business stream of literature consists of different approaches (Benito, Petersen, & Welch, 2007), but for the purpose of this case, we will focus only on two of them. First, the resources-based view is suggesting that the choice of foreign entry mode is driven by the specific resources a particular firm attains. Second, the eclectic paradigm by Dunning (1980), focuses on ownership factors, location factors, and internalization factors (OLI) to explain internationalization.

The resources-based view is build upon a firm's competitive advantage is due to firm-specific resources, which create unique value and reside in an effective organization. Resources are defined by Barney (1991) as simultaneously valuable, rare, imperfectly imitable and imperfectly substitutable. When firms go international, we might conclude that firms need to utilize those resources and develop new resources to overcome inherent disadvantages in the new environment. In other words, a firm’s successful international development experience presents firm-specific tacit knowledge that is hard to copy (Barney, Wright, & Ketchen, 2001). The RBV encourages also the involvement of resources in foreign markets as argued by Peng (2001) and therefore expands firms’ views toward internationalization and growth strategies.

Hoskisson, Eden, Lau, and Wright (2000) emphasize the importance of using the RBV framework in the context of explaining FDI streams between Western and emerging economies. The traditional approach, notes that multinational enterprises from Western economies build their overseas investments with administrative heritage (Bartlett & Ghoshal, 1991), seek competitive advantages through global learning (Bartlett & Ghoshal, 1989), and then reap the benefits as first movers in markets (Hoskisson et al., 2000). The reverse stream argues that multinational enterprises from emerging economies seek market technologies in Western economies and build subsidiaries in Western economies order to access technologies and to compete in the global market (Yeung, 2000).

The eclectic paradigm by Dunning, developed as early as 1980 comprises ownership factors, location factors and internalization factors (OLI) to explain the internationalization of firms. Ownership advantages might be distinguished into ownership asset (Oa) advantages and ownership transaction (Ot) advantages (Dunning, 1988). The Oa advantages refer to proprietary ownership of specific assets, such as property rights, or intangible assets including product innovations, technology, reputation, trademark, management expertise and...
etc. Ot advantages derived from the ability of the firm to capture the transactional benefits or lessen the transactional cost during international production – for example, firm size (the economies of scale), product diversity and learning experiences, access to resources, synergistic economies (purchasing, marketing, finance), etc. (Dunning, 1993). According to him, successful multinational enterprises share the same characters of nurturing and exploiting both Oa and Ot advantages.

The location-specific advantages sub-paradigm indicates that a firm will engage in foreign production whenever it perceives it can combine spatially transferable intermediate goods from the home country with immobile factor endowments or other intermediate goods in another country (Dunning, 1993). Firstly, firms must hold comparative advantages that domestic firms do not posses. Secondly, firms need to test whether factor endowments in the potential host countries are attractive and worth an investment.

Internalization advantages are concerning the internal market within the firms as an effective way to avoid high and uncertain transaction costs caused by market imperfection (Dunning, 1988). Internalization advantages also refer to the firm’s capability of reducing transaction costs – for instance, to avoid search and negotiating costs; to avoid costs of moral hazard, information asymmetries and protect the reputation; to avoid cost of broken contracts and ensuing litigation; to control the quality of intermediate or final products; to avoid or exploit government intervention including quotas, tariffs, price controls, tax differences, etc. (Dunning, 1993).

2.2 Behavioural or Process-oriented Approach

In contrast to the economic approach, which puts strong emphasis on rational decision making, the behavioural approach explains firms’ international expansion activities from the decision making process of the entrepreneur. This decision making process is not solely based on economic criteria and might include other arguments, like personal preferences or experiences of the decision makers in the firm as well. We will introduce the Uppsala framework as one of the most prominent approaches in this stream for case analysis purposes in the following.

The Uppsala model was first developed by Johanson and Vahlne from the Uppsala University
in 1977, with the purpose of explaining the characteristics of the internationalization process of a firm (Johanson & Vahlne, 1977). This original model also is known as the “stage model”, or “process theory of internationalization” (Autio, 2005). In 2009 Johanson and Vahlne revised the Uppsala model by strengthen the importance of networks in the internationalization process of firms and by considering trust-building and knowledge creation as important factors (Johanson & Vahlne 2009).

Johanson and Vahlne (2009) emphasize that firms are embedded in a business networks that include different actors involved in interdependent relationships, both externally and internally. Internationalization might therefore be analyzed as an activity to strengthen or improve a firm’s position in its network. Existing business relationships of a firm influence the selection of country markets a firm would like to enter, as well as the selection of the entry mode. The importance of the existing business relationships is led by their ability to provide access to recognize and exploit new opportunities. They emphasize that that learning and commitment building that take place in the development of business networks have positive relationships with the identification of opportunities. Because some types of knowledge are difficult to access or restrained to network insiders, a strong commitment to partners provides opportunities to firms to access these knowledge.

Like the 1977 framework, the revised one consists of two sets of variables: state variables and change variables which impact each other (see Figure 1). The framework describes processes that are dynamic and cumulative – processes of learning, trust, and commitment building. Thus, an increased level of knowledge impacts both, trust building and commitment. Johanson and Vahlne (2009) also added the “recognition of opportunities” on to their conceptualization of “knowledge”. The identification of opportunities is the most significant element of the body of knowledge that drives the internationalization process. In addition, there are other components, such as needs, capabilities, strategies, and networks that are directly or indirectly related to the firms’ institutional contexts. The “learning, creating, and trust-building”-box emphasizes the importance of “experiential learning”, thus focussing on the subjective, direct experience in the learning process. In this sense knowledge results form the combination of grasping and transforming individual experience (Kolb, 1984). The “relationship commitment decisions”- variable implies the decisions of the firm to increase or decrease the level of commitment to one or several relationships in its network. These
decisions would be presented by changes in entry modes, the size of investments, organizational changes, and definitely in the level of dependence. However, a change in commitment would lead to the possibility of both strengthening and weakening the relationship. Generally, there are two types of decisions in terms of commitment to the relationship (Johanson & Vahlne, 2009). The first is to create new relationships, and the second is to build a bridge to new networks and fill structural holes.

Figure 1: The business network internationalization process model

Source: Johanson & Vahlne (2009: 1424)

3 Case Description

3.1 Corporate Strategy to become a ‘National Champion’

Samsung Electronics is a subsidiary of Samsung Group. The company was established in 1969 with an investment of 330 million won (about US$ 1 million). Samsung Group started with the founding of Samsung Corporation, a trading company, which was established by the group founder, Byung Chull Lee in 1938. It was a humble beginning according to Chang (2008), but the business areas have been rapidly diversified into foods, textiles, various financial services, petrochemicals, ship-building, heavy equipment, and aerospace.
Samsung Group established Samsung Electronics for diversifying its business area that could generate a high economic growth as well as company’s revenue. In the end of 1960s, electronics business was a new area for the Korean industry. Therefore, the company had to take a high risk to carry out the new business. Samsung Electronics began operations in 1970 by producing black and white TV sets which were an outdated product even at the time. The reason for it is that the company was not able to produce colour TVs due to the lack of technology capability. In order to overcome the technological barrier to produce colour TVs, emphasized by Kang (1996), the company asked Japanese TV manufacturers to supply picture tubes for TVs in 1974. Japanese manufacturers simply thought that Samsung Electronics was far behind to observe the picture tube technology although they offered it. As a result, Samsung Electronics was able to persuade the Japanese company, Matsushita Electric to sell colour TV picture tubes and started its production.

In fact, Samsung Electronics was only able to assemble its parts and key components imported by Japanese suppliers until the late 1970s. As it began producing its own products, many of them were of extremely poor quality. The concept of quality control did not exist, and the company was not able to improve the quality of its products by itself. In order to increase its production capability, the company often used to purchase it from other firms. In fact, Samsung Electronics secured technology and production facilities for microwave products by acquiring a U.S. company, Ampherex producing the key component named as magnetron. As a result, microwave products became a flagship export item for Samsung Electronics for a long time. Additionally, Samsung Electronics also used to secure production technologies by acquiring private exchanges, jointly developed by the U.S. public company, General Telephone & Electronics Corporation (GTE) and Korean Institute of Science & Technology (KIST). (Chang, 2008)

Despite the technological barrier, the company enabled to produce refrigerators, washing machines, colour TVs, computer monitors, and microwaves. Furthermore, it tried to be integrated vertically by manufacturing electronic parts as it set up affiliates such as Samsung Corning, supplying glass for picture tubes, Samsung SDI, manufacturing TV tubes, and Samsung Electromechanics, manufacturing various other items. The vertically integrated structure enabled the company to grow rapidly and systematically, which is one of the major advantages for a conglomerate. As a result, the revenue of Samsung Electronics grew
significantly with time. However, home appliances in Samsung Electronics were mainly OEM products until the early 1990s.

It was not very difficult for Samsung Electronics to expand its domestic market share. In 1985, the Korean government carried out so called picking up champion policies. Electronics industry was regarded as strategic industrial area and belonged to the policies. Samsung Electronics and LG represented the electronics industry and competed with each other for becoming a ‘national champion’. Even in the early 1990s, the Korean government chose CDMA (Code Division Multiple Access) as a standard technology for the mobile communication system that enabled Samsung Electronics to be the first movers in CDMA technology. Indeed, the success of Samsung Electronics becoming the ‘national champion’ is closely linked to the industrial policy of the government as well as an aggressive investment based on the strong entrepreneurship of founder.

The strong entrepreneurship of the founder enabled Samsung Electronics to enter into the semiconductor business, which was regarded as a turning point of the company. The reason for doing semiconductor business was to secure a stable supply of semiconductor components. Owing to the first oil crisis in 1973, Japanese companies could not supply semiconductors properly that affected Samsung Electronics to stop its TV and refrigerator production facilities. It caused vast scheduling problems.

Although opportunities for semiconductor businesses were obvious, all leading companies in the industry were only from Japan or USA. At that time, Korean semiconductor companies were only capable of assembling OEM products. Moreover, US companies such as Motorola or Fairchild entered already the Korean market and they refused to carry out any technology transfer. Additionally, the semiconductor industry required a vast capital investment in production facilities, which created a high entrance barrier.

Despite such a high barrier the founders of Samsung Group decided to acquire Korea Semiconductor in 1974, which was almost a bankrupt company. He was ready to venture into the semiconductor business. Soon afterward, however, Samsung Semiconductor faced product quality problems due to its lack of technical know-how. Business timing for producing semiconductor chips was not proper. As a result, Samsung Semiconductor was
almost out of business by the late 1970s. The successor of the founder, Kun Hee Lee rescued the company by bringing in Japanese semiconductor engineers to transfer technological know-how to Samsung Semiconductor’s engineers. Additionally, he improved continuously production facilities and reorganized its technical workforce (Lee, 1997).

After the semiconductor business became stabilized in the early 1980s, Kun Hee Lee was keen to enter the Very Large Scale Integration (VLSI) semiconductor business although Samsung Semiconductor was not capable to carry out the business area properly. The reason for it was based on his personal strong belief in the strong demand possibility of memory chips as the information industry grew. He selected general purpose technologies such as DRAMs. In this business area, economies of scale played the most important roles in achieving business success. Finally, he built factories in Giheung, near to Seoul and became the world largest semiconductor producer in 1993 (Ballhaus, Pagella and Vogel, 2009). Samsung Electronics became the ‘national champion’ in its industrial sector in the 1980s and moved continuously on building an Asian company in the beginning of the 1990s that was known mainly for exporting cheap, generic OEM products.

Based on the development process it can be explained how the corporate strategies of Samsung Electronics to become the national champion were as follows; firstly acquiring foreign firms in order to overcome technology barriers as soon as possible, secondly following the government industrial policy providing various benefits such as R & D fund, financial subsidy, creating technological standard etc., last, but not least strong entrepreneurship of owners being able to take a high risk and invest a vast capital (see Figure 2).
3.2 Corporate Strategy to become as ‘Global Leader’

In September 1993, the second chairman of Samsung Group, Kun Hee Lee called the Frankfurt Conference. All CEOs of the group participated in the conference, in which the chairman Lee declared a new management changing everything except their wives and children. At that time Samsung Group was the largest conglomerate in Korea. In most of business areas Samsung became national champions. However, Kun Hee Lee was shocked when he saw Samsung’s products were displayed on the corner of major department stores in advanced nations. He showed his CEOs how their products were treated and regarded in Frankfurt, Germany. After realizing the fact of national champion as a second class in the global market, Samsung’s leadership set the target to become the global leader. Samsung Electronics became its flagship to realize its goal without any doubt.

The first global leader in business areas was achieved by the Samsung Semiconductor in 1993. When Japanese producers introduced the 4M DRAM, Samsung Semiconductor was just slightly behind. However, Samsung Semiconductor caught up to Japanese producers when it introduced the 16M DRAM and finally surpassed them with the introduction of 64M DRAM. Samsung Semiconductor could maintain its lead continuously through its introduction of the world first Giga DRAM chip in 1999. Eventually Samsung Semiconductor became the industry’s technological leader in global markets (Chang, 2008).
Samsung Electronics had been faster than any other competitors in time to market because it had not only increased its R&D investment but also carried out so called parallel development strategy. This strategy initiated the development for next generation products, while developing and mass producing the current generation products (Shin & Jang, 2006; Chang, 2008; for details). As a result, it contributed to accelerate new product development and be able to generate new technologies, which could be directly applied to next generation products. Furthermore, Samsung Electronics adopted the parallel development method to other related memory products such as flash memory that could accelerate the development speed of all products.

Samsung Electronics also developed a combined production process technology, which improved production yields, as highlighted by Shin and Jang (2006). The basic function of the production process technology is that the R&D and production departments closely interact in order to avoid the traditional sequential approach from the process engineers after completing design to the test engineers after taking over the production process. Samsung Electronics forces engineers from design and manufacturing to cooperate with each other that can solve the many technical problems in product development and mass production.

Figure 3: Samsung Electronics’ U.S. Patents (As of 1991 – 2009)

![Graph showing Samsung Electronics’ U.S. Patents (As of 1991 – 2009)](source: www.uspto.gov, last accessed 2011-07-10)

Furthermore, the company has also developed a yield estimating system from the pilot
development stage by integrating the development and production processes. It has built an internal knowledge sharing system. It means that detailed information collected during the development and production processes use to be stored, and it assigns more than half the engineers having worked on existing lines in order to build new ones. As a result, the developed system has enabled knowledge sharing between existing and new lines.

Figure 4: Samsung Electronics’ R & D Expenditure (As of 1991-2010)


The second strategy of Samsung Electronics is focusing on technologies with clear trajectories. After becoming the global leader for DRAMs, the company has expanded into flash memory and LCDs. These are high value added products, and their production processes are rather similar to that of DRAMs. Therefore, their production lines can be easily shared. Additionally, these products do have industrial standards as like DRAMs that can be produced with general purpose technologies. It is one of the major competitiveness in Samsung Electronics because the company can produce commodities with cost advantages compared with other electronics companies. Accordingly, Samsung Electronics use to invest
in technologies strategically, which have clear trajectories with clear evolutionary progress and industrial standards. As a result, the company could achieve to gain a rapid growth of US patents since the mid 1980s. Furthermore, the company has had a high patent to investment ratio compared to its competitors although its R & D investment ratio has not been extremely high. The company’s focus on general purpose technologies has enabled to concentrate on swift new product development and production efficiency despite its weakness of technological know-how (Chang, 2008) (See Figure 3 and 4).

The third strategy of Samsung Electronics was set the target to aggressive investment and high speed for TFT-LCD business in the mid 1990s. At that time the company had defect rates as high as 40 to 50% on its 11 inches line for PCs due to technological weakness. During this time, Japanese companies aggressively declined their product prices in order to defoliate Samsung Electronics in the global LCD market. Samsung Electronics responded to the crisis with aggressive investment in LCDs and outflanked Japanese competitors by starting a 12 inch line although Japanese firms still produced 11 inch models. It was a turning point for Samsung Electronics to expand rapidly to the global market of LCDs. Since then, the company has reinvested its profits to produce up to 46 inch panels by using the aggressive investment strategy just as it did in the semiconductor business.

There is another example as well, which is the mobile phone business. Samsung’s design engineers can complete their design work for a new product within three to six months and develop eight to ten new platforms per quarter. This is the world highest speed as well as broadest platforms compare to its global competitor such as Nokia and Motorola, which can release only four to five new products per year with a design cycle of 12 to 18 months (Samsung Handset, 2007). The reason for the highest speed of new products is mainly based on strong competition between development teams. It means that the competition among models speeds up new product development in Samsung’s mobile telecommunication division.

The last, but not the least strategy is vertically integrated production processes for key parts such as IC chips or LCDs to end products. Samsung Electronics has set its strategic targets to control four components such as semiconductors or LCDs, computers, communication, and consumer electronics. Such an attempt means vertical integration that can strengthen the
competitiveness of end products. In fact, Samsung Electronics has its competitiveness in this structure compared to other companies. For instance, DRAMs, flash memory, mobile phone chips produced by Samsung Electronics Semiconductor Division have been supplied to the firm’s white goods appliances, computers, digital home appliances, communication etc. (Jin, 2006; Shin and Jang, 2006).

The largest adventure of vertically integrated business structure is to minimize procurement costs and to enhance the speed of design, development, and production. Additionally, Samsung Electronics uses supply chain management (SCM) in order to create fast delivery and low inventory costs. As a result, the company can supply products within two to four weeks after receiving an order from foreign dealers. Thanks to the SCM system, the company can forecast demand precisely and optimize the results in connection with enterprise resource planning (ERP) by considering various variations such as market demand, trends, past experience, and target market share (Chang, 2008) (See Figure 5).

Figure 4: Major factors of corporate strategies of Samsung Electronics to become a ‘Global Leader’

3.3 Samsung’s Strategy for Sustainable Globalization

Samsung Electronics’ level of globalization was very limited until the early 1990s because it just produced OEM products in Korea and exported them. In fact, Samsung Electronics operated its local sales subsidiaries in the major markets such as North America and Western Europe even in the 1990s. However, it relied on indirect sales in other small markets such as
Southeast Asian countries, South America, Africa etc. through the general trading company of its group affiliate, Samsung Corporation.

Globalization strategy started with the ‘New Management Movement’ initiated by the Chairman Kun Hee Lee in 1993. He emphasized to globalize Samsung Group. In line with the globalization strategy, building electronics manufacturing complexes abroad was one of the key issues. As a result, Samsung Electronics built six complexes in North, Central, and South America, Malaysia, UK, and China by the year 2006. These complexes enabled to connect the entire value chain from parts to components manufacturing to the sales of completed products. By doing that, the company expected to create various synergies such as sharing local knowledge, saving labour costs, joint purchase for components, quickly diagnosing management problems etc. (Chang, 2008).

In addition, Samsung Group including Samsung Electronics implemented a regional headquarter system in 1996 in order to strengthen the efficiency of its complexes and transfer decision making to overseas subsidiaries. The regional headquarter system was planned that the regional headquarters operate as the Samsung Group headquarter in their regions. This means that the regional headquarter system was implemented for creating synergies by integrating the administration of various subsidiaries, accelerating communication and decision making and seeking new business opportunities in local markets. However, the initial results of the system were not as expected. Some of Samsung’s overseas operations were not profitable because every subsidiary in a complex paid the same wages, and production costs for some subsidiaries were higher than in elsewhere. Accordingly, actual synergies were limited because each business unit’s characteristics were different. At last, the regional headquarter system was stopped. (Chang, Yoon and Sohn, 2004)

After the dissolution of the regional headquarter system, Samsung Electronics restructured a Global Product Manger (GPM) organization in 1998. The organization consisted of 17 business divisions, and each division was responsible for global production and sales organization. GPM head located in Korea enabled to decide on all important issues on strategies, technical support, pricing, production scheduling etc. The most important goal of GPMs was to increase the productivity and save more on material costs. Local organizations had to follow a GPM’s decisions according to local conditions. Although the GPM system
was insensitive to local needs, it worked properly because Samsung Electronics’ products were mostly global. As a result, Samsung Electronics became centralized again under the GPM organization (Lee and He, 2006).

Despite its proper functioning, the GPM system had its limitations to develop further. The GPM heads used to be engineers building their careers in production and design centres. Their priority was to targeted only for increasing production efficiency. Therefore, they were limited to understand running overseas businesses. In order to improve the disadvantage, Samsung Electronics restructured from GPM to GBM (Global Business Manager) in 2001. GBM has functioned rather similar to GPM. However, the former has emphasized business rather than product in order to widen managers’ perspectives from focus on products to a focus on the whole industry. By doing that, Samsung Electronics has succeeded in creating maximum profits and establishing the global management system (Chang, 2008) (See Figure 6).

Figure 6: Samsung Electronics’ Strategy for Globalization
4. Analysis: Challenges for Global Leadership

As Samsung Electronics has established itself as a leading company on the world market, a number of challenges lie ahead. The company wants to be a leader within the global digital convergence movement. Samsung is well positioned to create this through using its different technologies and electronic platforms, within telecom, media and audio equipment. The innovative capability of the firm together with the commitment of building a strong brand name is important. In order to become a leader within the digital economy the company also strives for building organization capability. Here it is a question of creating trusts in the market and constantly works on production processes to deliver products ahead of competition. By obtaining a solid market position in Asia further global strength can be created. A SWOT analysis of the company based on an extensive analysis by the MSc class on International Business and Trade at the University of Gothenburg, School of Business, Economics and Law in the Course on International Business Environment Analysis (IBT, 2010) delivers a broader picture of Samsung Electronics in the mid-term future.

4.1 Strengths

Constant focus on R&D

Samsung Electronics is continuously strengthening its R&D activities and has today a global R&D network that consists of 24 R&D centres. According to Datamonitor (2009b) the R&D centres are allocated in more than ten different countries, spanning from the US, UK, Russia, India, Japan, Israel, China and Korea. The company devotes significant resources and attention to its R&D activities and invests at least 9 % of its revenue on the development of new technologies and products. In 2008, the company devoted around US$5.5 billion in its R&D functions (Samsung Profile, 2009) and has nearly 42,000 people in the research activities across its 42 research facilities around the world. As a result of its commitment to innovation and its large investment in R&D, Samsung has become one of the most recognized companies in the electronics industry in terms of R&D capabilities. Samsung Electronics was ranked 26 among the most innovative companies in 2008 by BusinessWeek and ranked sixth among Fortune Magazine’s most admired companies of the electronics industry in 2008 (Samsung News, 2009).
Large scale of operations

Compared to many of its competitors, Samsung Electronics has a large scale of operations. For example, in terms of revenues and number of employees, Samsung Electronics is much larger than competitors like LG Electronics and Philips Electronics. In comparison, Samsung had a revenues of approximately US$112,803 million in 2008, while LG Electronics and Philips Electronics recorded revenues of approximately US$58,850 million and US$38,821 million, respectively (Datamonitor, 2009b: 20). In terms of employees, Samsung Electronics had a workforce of 164,600 people (Samsung profile, 2009), while LG Electronics and Philips Electronics had 84,445 and 126,459 employees, respectively (Datamonitor, 2009b: 20). Additional example of Samsung Electronics large scale operations is the new mobile phone plant that is under construction in Vietnam (Samsung, 2008). The plant is predicted to produce 1.5 million mobile phones every month to supply the markets in Southeast Asia, Middle East and African markets and eventually to Europe and Australian markets (Vietnam Briefing, 2009). The large size of its production offers the company the ability to achieve economies of scale in terms of procurement and production.

Strong market position

Since its inception, Samsung Electronics has become one of the world’s leading actors in telecommunication, semiconductor, digital media and digital convergence technologies (Samsung Profile, 2009). Samsung Electronics has in many of its products segments become the leading producer and enjoys strong market position in monitors, TVs, DRAM, SRAM, flash memory and mobile phones. For example, Samsung is the leading supplier of LCD TVs in India with more than 30 % share of the market, followed by Sony and LG Electronics with 19 and 16 % respectively (Displaysearch, 2008). Further, Samsung is the third biggest actor in mobile phones in India after LG Electronics and Nokia in April 2009 (Sinha, 2009) and number one in the US market (Datamonitor, 2009b). Moreover, Samsung has through large investments in advertisement and sponsorship, such as the Olympic Games, created a strong brand image (Chang, 2008: 74). In 2008, BusinessWeek estimated the Samsung brand to be valued at US$16.8 billion and was ranked by Fortune Magazine to be one of the world’s most admired company within the electronics industry (Datamonitor, 2009b: 18).
**Diversified business portfolio**

Samsung Electronics operates a diversified business portfolio, which ranges from semiconductors, LCD panels, mobile phones, household devices, notebooks and many more. The business portfolio is divided into the segments of digital media, telecommunications, semiconductors and LCD (Samsung profile, 2009). The diversified business portfolio generates synergies in terms of improvement in market share across the different markets segments of the company. For example, the company can leverage its strength in one segment to other segments (ICMR, 2006). Furthermore, this also generates a diversified revenue source for the company, which limits the company’s exposure to the risks associated with a particular segment. For example, the home appliance and telecommunicated division supported the memory division when they accumulated massive losses, and it was speculated that without this help the memory division could not have survived (Chang, 2008).

**Strategic alliances**

Recently, Samsung Electronics has engaged in several different strategic agreements with some of the most well-known companies in world. Two examples of strategic alliances that Samsung Electronics has engaged in are with SOE in Vietnam (Vind, 2008) and with Siltronic in Singapore (Samsung Electronics Co., 2008a). Samsung Vina Electronics Co., LTD (SAVINA) was established in Ho Chi Minh City in 1996 through a joint venture with SOE. It was Samsung Electronics first production and sales unit in Vietnam and the main products manufactured were TVs, monitors, mobile phones and refrigerators (Vind, 2008). A more recent joint venture is the collaboration with the Siltronic company (Samsung Electronics Co., 2008b). The outcome of the agreement was the establishment of 300 mm wafer production facility in Singapore, which is owned 50 % by Samsung Electronics (Samsung Electronics Co., 2008a). The purpose of the agreement was to create synergies through collaboration between two technology leading companies with different specialization (Electronic News, 2006). As an additional example, Samsung Electronics announced in 2009 that the company has signed a patent cross-license agreement with Toshiba Corporation for semiconductor technologies. These types of strategic alliance with some of the globally recognized actors will provide the company a way to tap into new business possibilities but also increase the firm’s ability to generate revenue growth in newer landscapes.
New products launched
Several new products have been introduced by Samsung Electronics over the last few years. Among the newly introduced products are a mono laser printer with network-ready connectivity and the world’s first four gigabit DRAM chip, introduced in January 2009. The regular intervals of new product launches help the company to increase the customer loyalty and generate revenue growth.

4.2 Weaknesses
Lack of creativity
One of Samsung Electronics’ weaknesses is the lack of creativity capacity that the company possesses. As long as the company had a clear trajectory to pursue, the company could mitigate its lack of creativity through benchmarking against leading companies in respective business segment, such as Sony in consumer electronics, Nokia in mobile phone and Intel in semiconductors. Nowadays, however, Samsung Electronics is itself a leader in many segments and not a follower anymore, and therefore has no one to benchmark against (Chang, 2008). The company entered the market very late, and therefore, the company’s structure as pointed out by Chang (ibid.), in terms of culture, management, goals, values and management resources, has mainly been optimized to be able to capitalize on the benefits available on its late entry. For example, the company’s culture, emphasizing obedience and execution with a strong orientation on the financials, may be rapid and efficient, but this culture does also encumber the encouragement of creativity when developing new products. Moreover, according to Chang (ibid.), Samsung Electronics is a company that prefers to hire Koreans or Korean-Americans. Therefore, it is argued that the company should be open to being increasingly inclined to hire and promote non Koreans in order to increase its creativity capability.

Product recalls
Due to various quality issues, Samsung Electronics has recently recalled certain products of its portfolio. Some examples include the recall of Jitterbug phones in May 2009 (Datamonitor, 2009b) an incident where the company announced a voluntary recall of certain over-the-range microwave ovens due to production errors which could cause electricity shocks (Samsung
Recall Information, 2009) These types of product recalls can have a significant negative effects on consumer confidence in the company’s products.

**Patent litigation lawsuits**

Samsung Electronics has recently been subjected to various patent litigation lawsuits. In April 2009, the company had to pay US$70 million to the company Spansion due to patent infringement. Future types of similar lawsuits and confrontation could seriously inflict damage on the company’s reputation and also have a negative effect on the company’s financial health (Datamonitor, 2009b).

### 4.3 Opportunities

**Positive market outlook for global consumer electronics**

In recent times, there has been a significant growth in the global consumer electronics industry. In 2008, the global market grew by 4 % and reached a value of US$267.2 billion and generated a total revenue of US$267.2 billion. The compound annual growth rate (CAGR) for the five-year period spanning 2004 to 2008 amounted to 7.1 %. The market is predicted to decelerate with an accumulated compound annual growth rate of 2.8 % for the period 2008-2013, reaching a market value of US$306.1 billion by the end of 2013 (Datamonitor, 2009d: 7-8). As one of the leading actors in the consumer electronics industry with a diversified product portfolio, we see Samsung Electronics well-positioned to reap significant shares of the growing consumer electronics industry.

**Initiatives to tap the Indian mobile phone market**

Over the last few years, the Indian mobile phone market has grown significantly and is today the second fastest growing market in the world after China, featuring tremendous growth potential in the future (Datamonitor, 2009c). In March 2009, the number of mobile phone subscribers reached 261 million subscribers (DIT, 2009: 9). The company has a rather strong presence in the Indian market and has market share of 9.5 %, behind Nokia and LG Electronics with market shares of 53.7 % and 14.4 % respectively (Shina, 2009). For the fiscal year 2008, the Samsung Electronics’ subsidiary in India recorded over USD 1.7 billion in turnover. With the purpose of strengthening its market position in India, the company has recently engaged in several initiatives (Datamonitor, 2009b). For instance, in order to meet the growing demand in the economically stronger southern part of India, Samsung decided to
establish a second facility near Chennai (Samsung, 2009b). Furthermore, the company planned to invest US$5 million in its manufacturing facilities in India during the fiscal year 2009, in addition to US$24 million already invested by the company in the Noida facility (Dataquest India, 2009). Further, besides the already 14 mobiles launched by Samsung Electronics, the company was predicted to release an additional two dozen models in 2009. The competitive position of the company was to be strengthened with different types of initiatives in the growing Indian mobile phone market and hence, contribute to the top line growth of the company.

4.4. Threats

Highly competitive business environment

The company operates in an environment that is highly competitive which implies strong competition from a growing number of competitors. Large established competitors include LG Electronics, Whirlpool, Motorola, Nokia, Sony and other major global players with strong consumer brand equity (Datamonitor, 2009b). In addition to the competition from global electronic companies, Samsung Electronics also faces strong competition from different local companies. In the Chinese market, for instance, the company faces strong competition from local companies across Samsung Electronics’ different business segments (China Economic Net, 2007). Among the local Chinese competitor are, amongst others, “Shanzhaij” in the mobile phone segment (People, 2009), Skyworth and Hisense in the LCD segment (Skyworth, 2009; Hisense, 2009) and Lenovo and Haier in the digital media segment (Haier, 2009; Liu, 2007). The market share of the company could be affected negatively by this increased and multifaceted competition, especially from companies that realize lower costs such as the local Chinese competitors.

Declining margins

Parts of Samsung Electronics have over the last three years experience a decline in profit margins, for both operating and net margins. From the fiscal year 2006 to fiscal year 2008, the company’s operating margin declined from 10.6 % to 5 %. The decline of operating margin indicates that the company tends to have problems with managing its cost structure efficiently. Further, during the same period the net profit decline from 9.2 % to 4.6 % (Datamonitor, 2009b: 20) According to Moody’s Investor Service, Samsung Electronics’ profitability is expected to significantly erode as a result of a weaker consumer demand due
to the global economic downturn and/or impairment in the company’s competitive strength in areas such as cost competitiveness and its innovation ability. Furthermore, Moody expects that the company’s margins will be volatile in the near term due to surging input costs and the potential oversupply of flat panels (Moody, 2009). We might conclude that Samsung Electronics’ profitability will be affected by the declining operating profit margins and this is likely to result in a weakening investor confidence in the company.

**Government regulations**

Samsung Electronics is operating in several industries that are imposed with various stringent laws and regulation related to environmental protection, human health, safety and related issues. The company invests capital and other resources in their pursuit to comply with these laws and regulation. For instance, Europe has implemented new environment regulations, such as the WEEE (Waste Electrical and Electronic Equipment) and ROHS (Restriction of Hazardous Substances) directives. According to Datamonitor (2009b) these new regulations may incur cost for the company and can negatively impact the company’s ability to sell certain products in Europe. Furthermore, the increased environment concern in countries around the globe might enhance the future liabilities that the company is subjected to as well as the fines or penalties or the suspension of product manufacturing for failing to comply with the future environmental regulations.
5 Case Questions

Please read the case and the chapter on the theoretical background carefully, then analyze the case and answer the following questions:

1. What does globalization mean for Samsung Electronics?
2. What are Samsung Electronics’ core competencies? How can you explain its success over the past four decades?
3. Describe and analyze the impact of the economies in the electronics industry on market structure and market development.
4. Comment on the global expansions strategies of Samsung Electronics by applying the OLI paradigm. What was successful and why?
5. Analyze the development of Samsung Electronics towards becoming a ‘global leader’ by means of a behavioural or process-oriented framework. What are influencial variables? How did Samsung Electronics achieved its position in the national market, in the global market? Is its current position sustainable?
6. Does Samsung Electronics have an effective structure to support its international strategy? If yes, why, if not, why not?
7. How will Samsung Electronics deal with the challenges that lie ahead?
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