

# What Happened in Samsung?: An Asian Management Perspective



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# Samsung (三星) Story

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- ❖ Samsung History
- ❖ Economic Power
- ❖ Samsung Electronics
- ❖ Governing Structure
- ❖ Management System
- ❖ Samsung Under Chairman Lee, Kun-hee (李健熙)



# Samsung History (歷史)

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- 1938: Small rice trading outfit in Daegu (大邱)
  - Founder: Lee, Byung Chul
- 1950's: Sugar, Textile, Retail
- 1960's: Electronics, Fertilizer, Paper
- 1970's: Construction, Electronic Components, Heavy Industry, Synthetic textiles, Petrochemicals, Shipbuilding
- 1980's: Aircrafts, Bioengineering, Semiconductors
- Present: Conglomerate (Chaebol, 財閥) with 59 Corporations
  - 70 Years Old
  - Amusement Park, Information Systems, Security, Insurance, Hotel, Hospital, Baseball, ...

# Samsung's Economic Power

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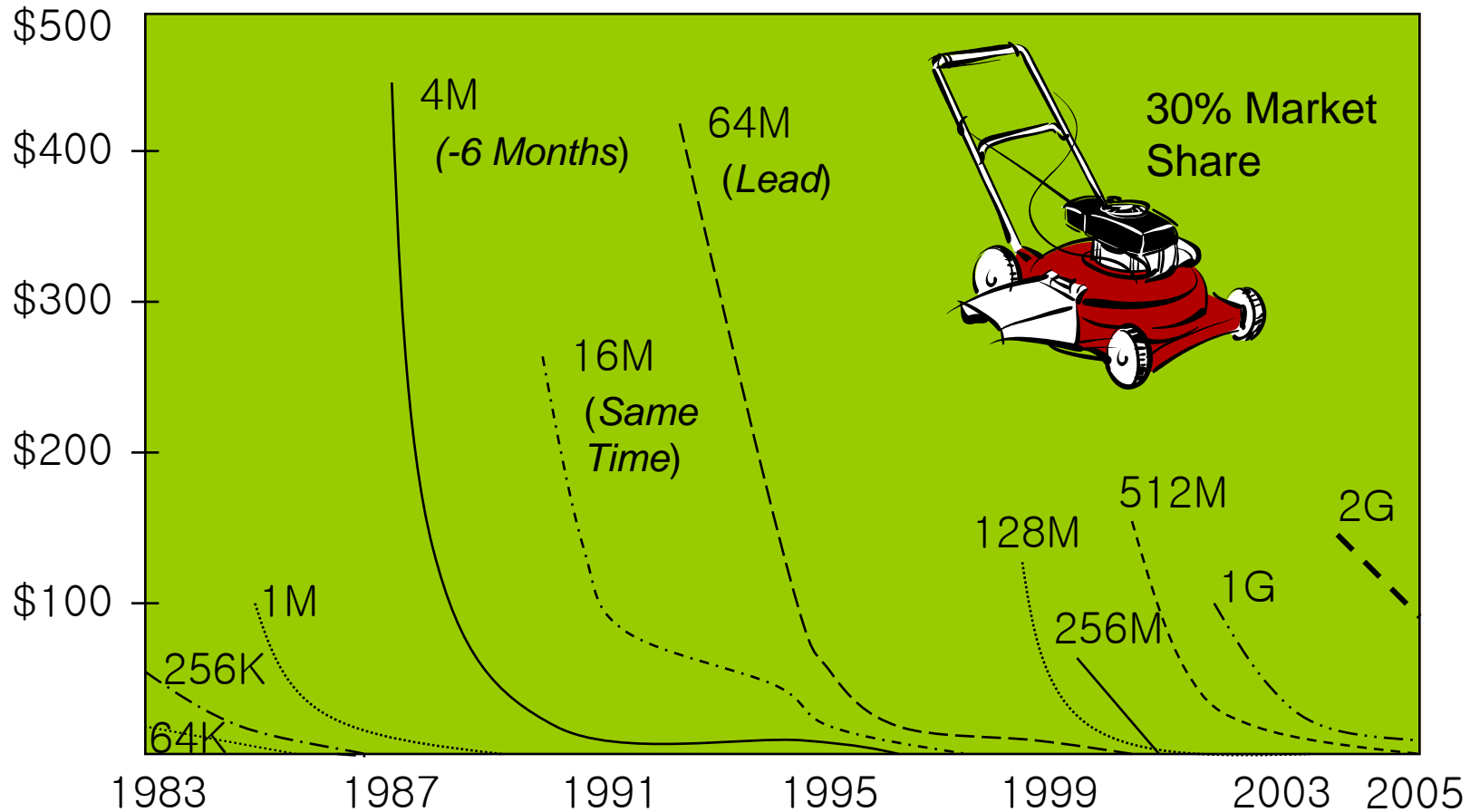
- Total Revenue: \$160 Billion (17.3% of GDP)
  - About the Same Size of Singapore's GDP
- Export: \$70 Billion (20.4% of National Exports)
- Brand Value: \$17 Billion (Global Ranking: 21<sup>st</sup>)
- Market Capitalization of Listed Companies: \$140 Billion (14% of the Total KOSPI)
- Proportion of Corporate Tax in Korea: 25%
- Employment: 261,000 (169,000 in Korea)

# Samsung Electronic's Success

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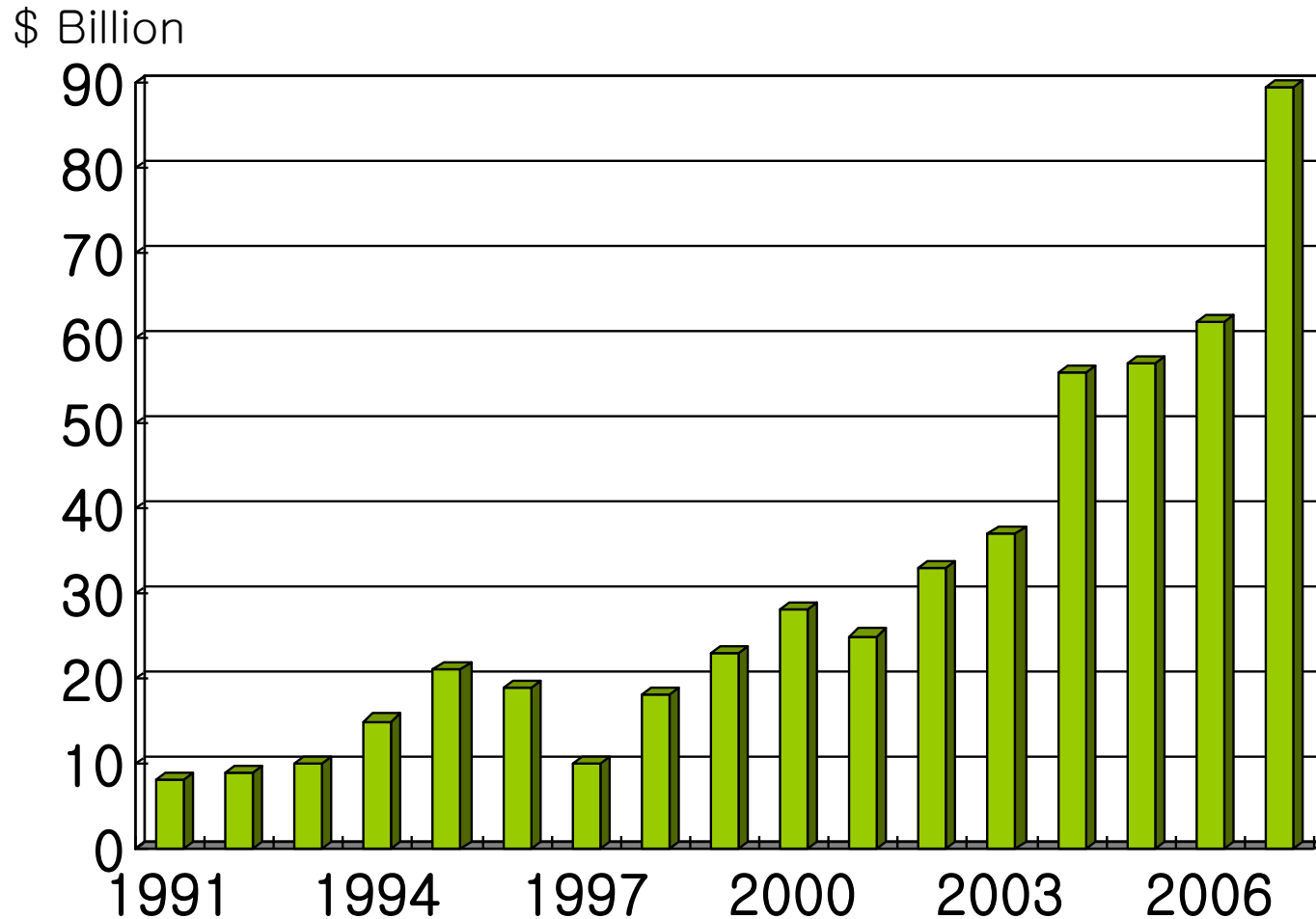
- Flagship Company of Samsung Group: Established in 1969
  - \$89.5 Billion Revenues, \$8.3 Billion Profits in 2007
  - Global Ranking 46, Top in Semiconductor & LCD, 2<sup>nd</sup> in Cell-phone
  - About 70% of Group in Market Cap & Over 40% Revenue
- Keys for the Success of Samsung Electronics
  - Speed and Efficiency (速度, 效率)
    - Production Efficiency (Commodity): Yield Management, ERP
    - Heavy Investment in R&D: 40% of Employees & 3,200 Ph.Ds
    - Speed: Grass-Cutter (除草機) Strategy (High Risk High Return)
  - Owner Leadership (主人 指導力)
    - Supported by Strategic Planning Office (SPO, 戰略企劃室)
    - Bold Investment Decision
    - Decisive Coordination Among Group Businesses
      - LCD: SDI -> Samsung Electronics (SE)
      - Digital Camera: Samsung Techwin -> SE

# Market Characteristics (市場特性): Price of DRAM



# Revenue of Samsung Electronics

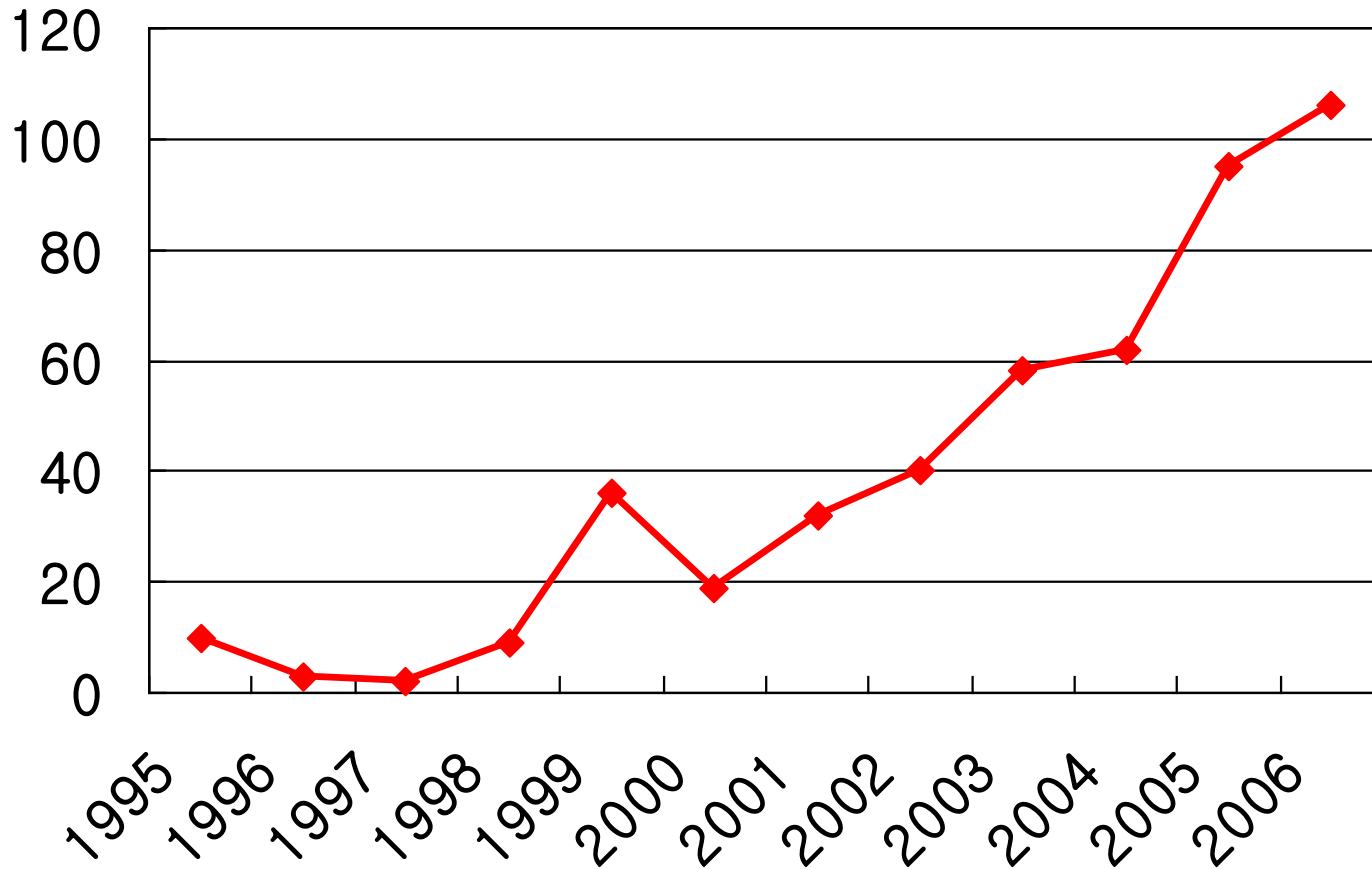
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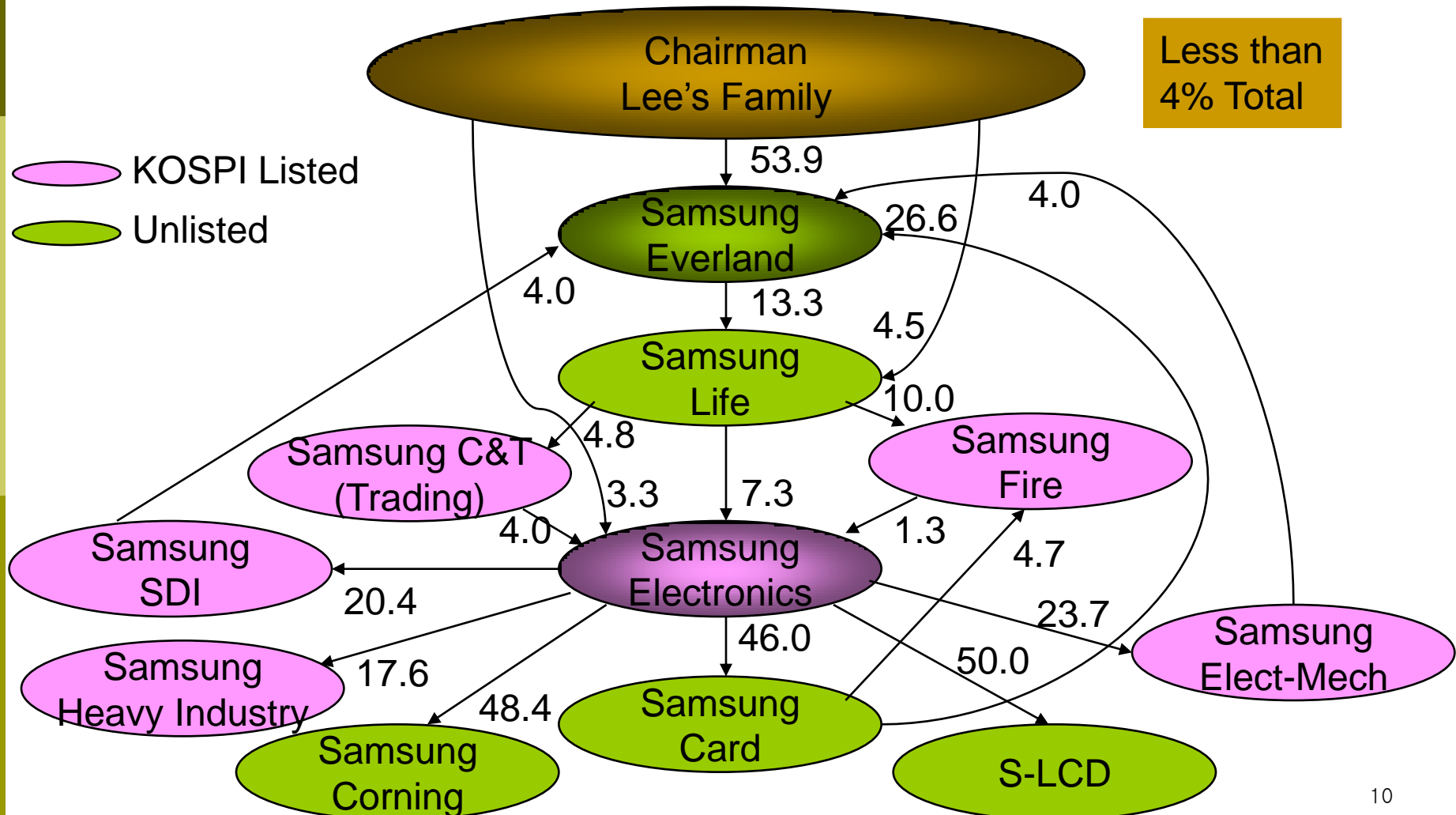
# Market Capitalization of Samsung Electronics

\$ Billion



More than  
Double of  
Sony, Philips

# Governing Structure of Samsung: Pyramid Structure



# Samsung's Management System

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- Organizational Structure
  - High Degree of Centralization & Formalization
  - Business Unit & Team Organization
- Leadership: Strong Authoritarian Style of Superiors
  - Top-down Decision Making
  - Personal harmony among Superiors-Followers: Inhwa (人和)
- Motivation
  - More Extrinsic Factors (Wages, Working Conditions, Job Security) than Intrinsic Factors (Creativity, Achievement)
  - Strict Discipline (管理 三星) and Loyalty
  - Incentive Bonus: Profit Sharing System
- Communication: Vertical Communication

# Chairman Lee's 'New Management' (新經營)

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- Frankfurt Declaration of 'New Management' in 1993
  - CHANGE: "Change everything except for your wife and children!"
- 7-4 System: Start work at 7 a.m. and finish at 4 p.m.
  - Killing 5 Birds with One Stone (一石五鳥): *A Spike to Wake-Up*
    - Get up early to raise the consciousness of crisis
    - Raise the quality of life by having personal time for retraining or hobby
    - Contribute to alleviate the traffic congestion during rush hour
    - Reduce the logistic cost and raise the efficiency of work
    - More time with family: Peace and happiness at home
- World Best Samsung (超一流 三星)
  - Quality Not Quantity
    - Bonfire 150,000 Units of Low Quality Mobile Phones (Worth \$15 Million)
  - Ethics Focus: Only ethical company can make good products
    - CEO: Chief Ethics Officer

# 'New Management' (continued)

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- Cultivation of Top Manpower
  - Techno-MBA at KAIST: 2 Year Full-time (1995-)
  - Regional Specialist: Spend free 1 Year in a foreign country
- Information Infra & Process Innovation
  - ERP: Reduction of Inventory (1/2), Insolvent Obligation (1/2)
  - CRM, SCM, KMS
- Design Innovation
  - Samsung Identity
- Complex (複合化): Mix All Needs in One Place
- Global Marketing: Brand, Sports (Olympic) Marketing
- Emphasis on Technology
  - Cell-phone: Chairman's Design (Nitty-gritty details of gadgets)
- Genius Management (天才經營): Creativity
  - Manpower: S(uper), A(ce), H(igh Potential)

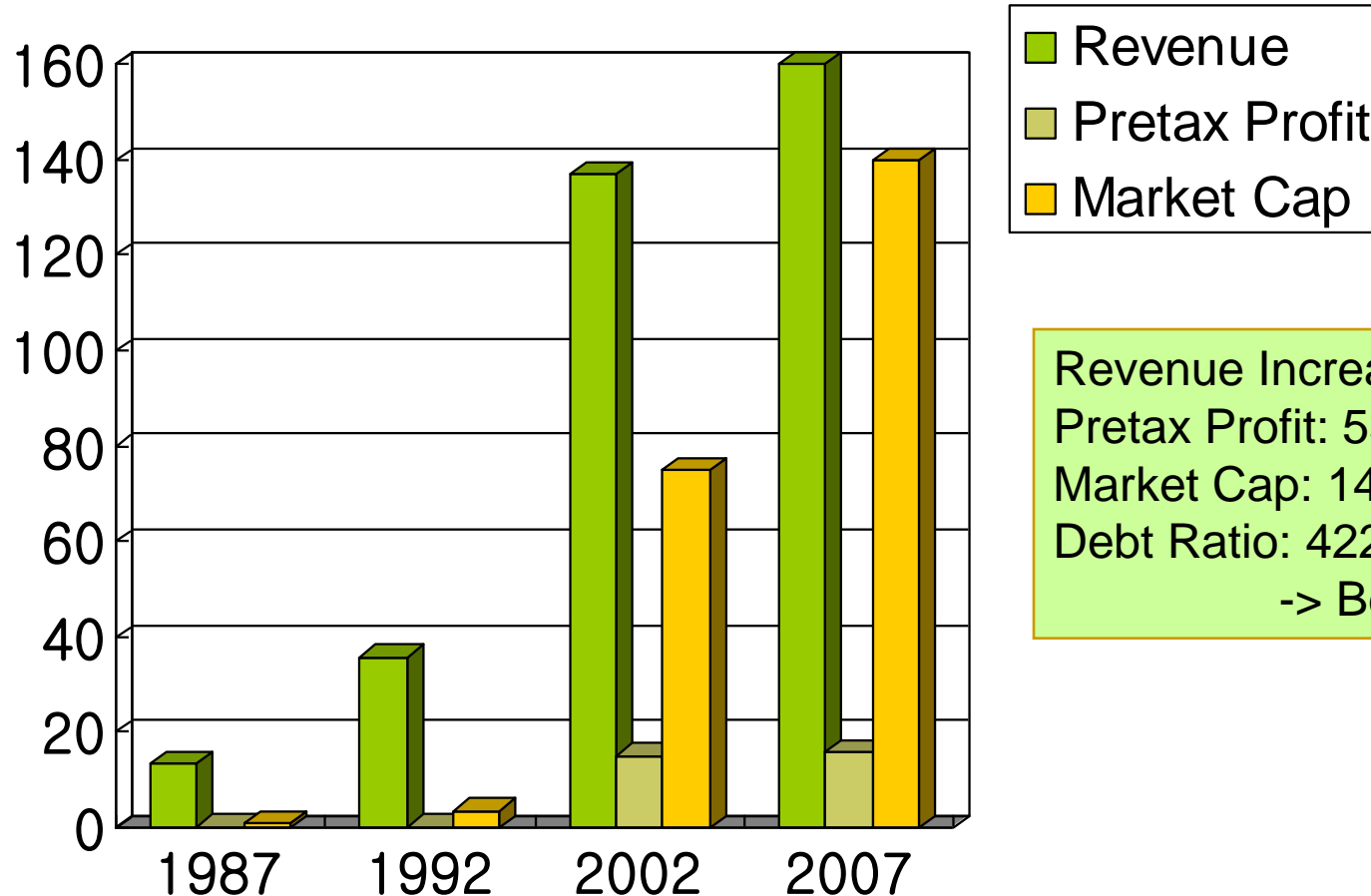
# Chairman Lee's Leadership

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- Hermit King (隱遁王) (Newsweek, 2003)
  - Invisible Man
  - Mixed Evaluation: Reclusive Nerd (特異人) vs. Outstanding Genius
- Charismatic Leadership: Autocratic (獨裁的) Delegation/Entrust
  - Big Picture and Key Decisions
  - Empowerment: “疑人不用 用人不疑”
    - “If you don't believe one, don't use. If you use, believe in him or her”
  - Management by Un-management for Normal Business
- Execution (實行) Orientation
  - Decisive Actions
  - Detailed Follow-up: Cell-phone Development
  - Speed in Key Decisions
- Consistency (一貫性) & Long-termism
  - Evaluation, HRM
  - Longer tenure for CEOs: More than 10 years, e.g., Vice Chairman Yoon J.Y.

# Samsung's Performance Under Chairman Lee K.H.(1987-2007)

\$ Billion

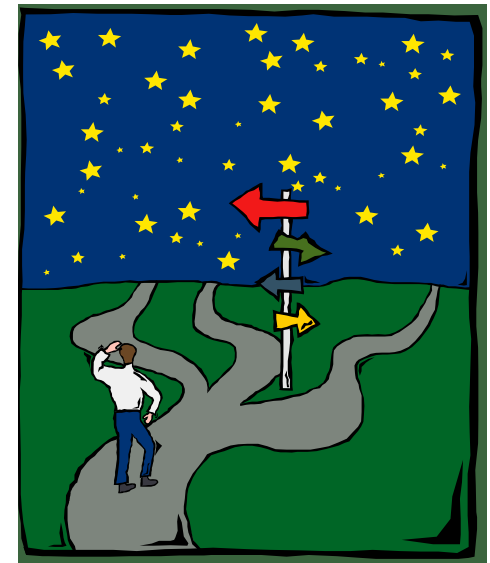


Revenue Increase: 12 Times  
Pretax Profit: 53 Times  
Market Cap: 140 Times  
Debt Ratio: 422%  
-> Below 80%

# Samsung Scandal

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- ❖ Samsung Scandal: Facts
- ❖ Why It Happened?
- ❖ Inheritance Issue
- ❖ Samsung's Hubris
- ❖ Conflicts with Western Management
- ❖ Samsung's Reform





# Samsung Scandal: Facts (事實)

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- Lee Kun-hee, Chairman of Samsung Group: Charged with *tax-evasion* (脱税) and *breach-of-trust* (背任罪) in April 2008
  - \$4.5 Billion secret funds in 1,200 false-name bank accounts: \$110 Million tax evasion
  - Breach fiduciary (信託) duty: Letting his children buy (convertible) bonds of Samsung's affiliate companies through irregular financial transactions, incurring losses at the companies
  - Cleared bribery (賂物授受罪) charge: due to lack of evidence

# Why Samsung Scandal Happened?

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- Inheritance of Ownership (經營權 承繼)
  - Tradition of Owner-management
    - Phenomenal achievement under Chairman Lee
  - Strong Preference of Blood-relationship
    - Insufficient Proof of Heir Son's Capability: Weak Public Acceptance
    - The 3<sup>rd</sup> Generation Syndrome (小皇帝)
- Paradox of Success
  - Hubris (傲慢)
  - Excessive 'Can-Do' Spirit
    - Excessive Confidence and Influence to the Whole Country
- Conflicts between Global & Korean/Asian Managements
  - Traditional value of Korean/Asian management
  - Rule Changes: The Real-name Financing Transaction System(實名制, 1993)
  - Public awareness of global standards and Anti-Corporation Sentiment (反企業情緒)

# Inheritance Issue

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## □ Two (Ab)Normal Practices

### ■ Convertible Bond (轉換社債): Samsung

- Buy convertible bond of unlisted company at a substantially low price (1/11 of Market Value)
- Realize the Convertible Bond to build a seed money
- Buy stock of holding-like company
- Control through pyramid-structure of cross shareholding

### ■ Unfair Favor (不當特惠): Hyundai Motors

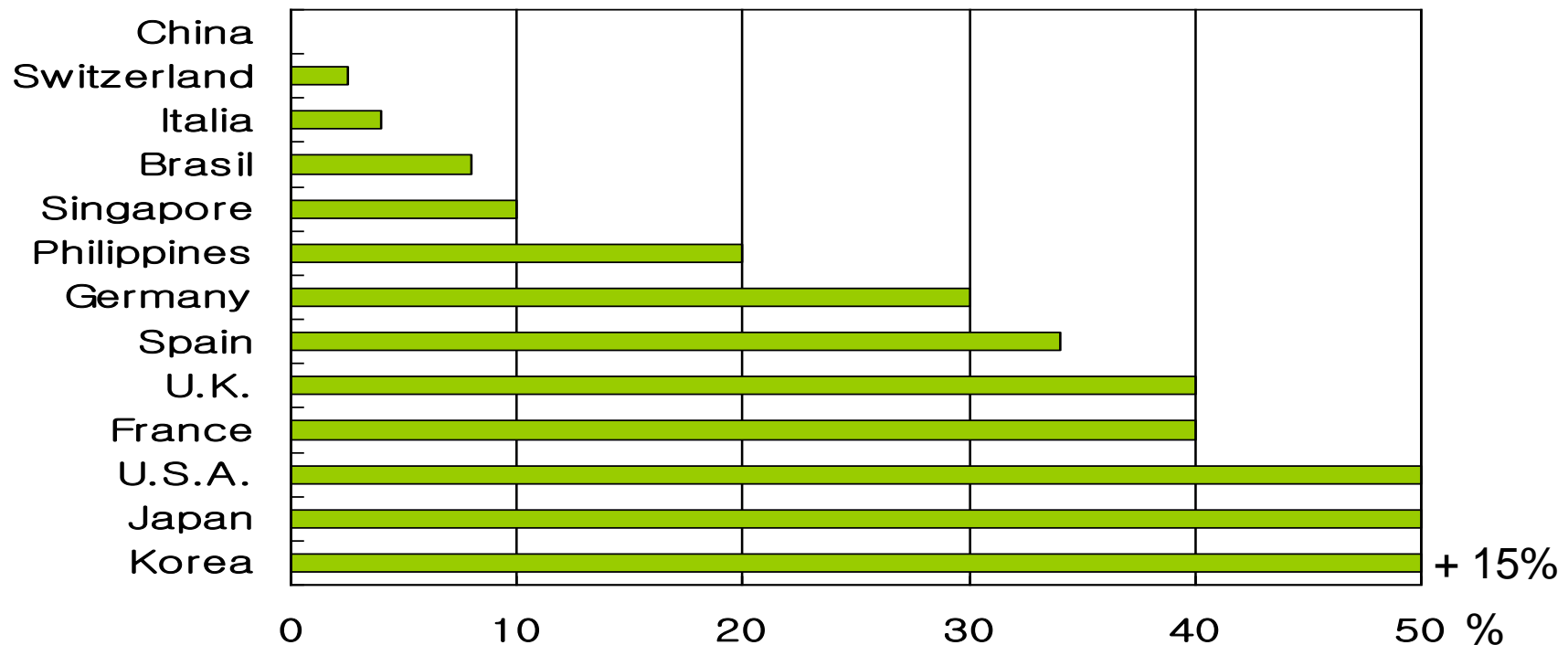
- Establish an unlisted company
- Give one-sided unfair favor such as supply of parts, logistics, sales, etc. to build a seed money
- Buy stock of major company to control

## □ Legal but Unethical Practice (不當合法): Board of Trustees

- Groups tend to act in their common interest: Not True
- Role of External Independent Board Member (社外理事): Very limited

# Inheritance Tax

- 71 Countries have zero inheritance tax
  - China, Canada, Australia, New Zealand, Russia, Sweden, Malaysia, Mexico, India, Thailand, Portugal, Hong Kong, ...



# Arguments on Inheritance Tax

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## □ Pros

- Inequality Solution
- Protect Excessive Accumulation of Wealth
- Contribution to Tax Revenues

## □ Cons

- Prohibit Capital Accumulation and Economic Growth
- Against the Entrepreneurship
- Unethical Tax: Milton Friedman
  - Encourage Spending than Saving
- Inequality of Consumption: Joseph Stiglitz
- Harmful to Labor: Gregory Mankiw
  - Decreased accumulation of capital may lead to the increased inequality of wealth

# Samsung's Hubris (過多傲慢)

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- Success of Samsung Electronics
  - Became the National Pride as a World Top Class Company
  - 59 Companies in the Group closely collaborate to become the biggest group
- Influence to Every Part of Country
  - Administration/Politics
    - Recruit Retired and/or Influential High-ranking Officials
    - Token of Good-will (Pseudo Bribery)
  - Media
    - Control by Advertising Contract
  - Academics
    - Influential Group in the Society
- Republic of Samsung (三星共和國): Public Resistance

# Samsung's Conflicts with The Western Management Practices

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- Key is Corporate Governance (企業支配構造)
  - Question: Owner Management
    - Independence of Board of Trustees for Transparency
- Other Asian Management Practices
  - Stakeholder Idealism, Autocratic Leadership, Seniority-based Promotion, (Semi-)Lifetime Employment, Hierarchical Organization, ...
- Are these all bad? Outcome tells!
- But *Corporate Governance* issue will remain.

# Samsung's Reform (改革)

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- ❑ Chairman Step Down
  - Accountability: Leader takes the responsibility
  - Top executives also quit
- ❑ Reform Corporate Governance
  - Change and Strengthen Independent Directors in the Board
- ❑ Dismantle Strategic Planning Office
  - Powerful central control across the whole Group
- ❑ Sell Samsung Card's 24% stake in Everland
  - To reduce cross-shareholdings
- ❑ No Banking nor Holding Company (持株會社)



Efforts towards More Transparency,  
More Autonomy, No Cross-sharing



# Roots of the Issue

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- ❖ What is Company?
- ❖ What is Management?
- ❖ Western and Eastern Way of Thinking
- ❖ Asian and Western Management
- ❖ Experiments of Asian and Global Management



# What is Company?

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- Ideas of Modern Company
  - Artificial Person (人造人): Same ability to do business
  - Issue tradable shares (株式) to any number of investors
  - Investors could have limited liability (有限責任)
- The Companies Act (企業法) of 1862 (Britain)
  - Limited-Liability Joint-Stock Company
  - No special sanction (認可) from parliament for limited and specific worthy aim: Chartered corporations, e.g., Railway, Harvard, ...
  - Copied to other European Countries and America
  - “The greatest single discovery of modern times” N. M. Butler
- Success in America
  - Competition Among the States: Favorable conditions, corporate tax

# Issues of Company

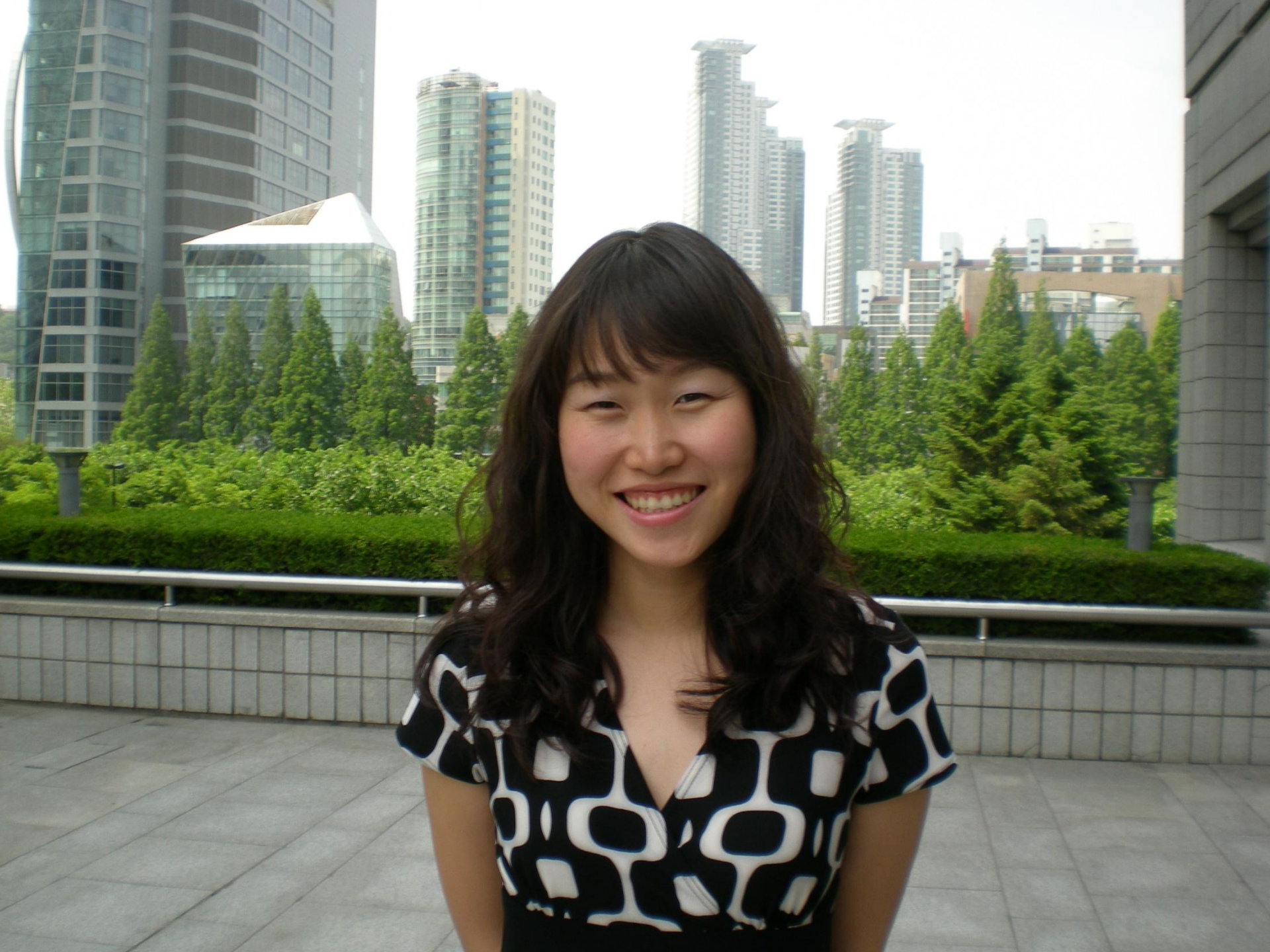
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- A Legal Entity
- Historical Concerns (歷史的 憂慮)
  - Less efficient than sole traders: Adam Smith
  - Agency problem: Hired managers would not bring the same “anxious vigilance” to their firm’s interest as owner-managers
- Ownership
  - Shareholder (株主) Ideal: Anglo-Saxon Model
  - Stakeholder (利害者) Ideal: German-Japan Model
- Social Responsibility
  - A Franchise (特權) from Society
    - Company is an organ of society and exists for the sake of society
  - Cum + panis: Breaking bread together

# What is Management?: Drucker's View

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- Management is about *human beings* (人間).
  - It's task is to make people capable of joint performance, to make their strengths effective and their weakness irrelevant.
- Management is deeply *embedded in culture* (文化).
  - What managers do is exactly the same but How they do it may be quite different.
- Management must also enable the enterprise and each of its *members to grow and develop* as needs and opportunities change.
- The results of enterprise exist *only in the outside*.





# What goes with Cow?

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**A**



**B**

# Is He (Center) Happy?

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# Is He Happy?

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# Fundamental Question (R.E. Nisbett): Western vs. Eastern Way of Thinking

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	West	East
	<i>Individualism</i>	<i>Collectivism</i>
Agency	Personal Agency	Collective Agency
Happiness	<i>Liberty</i>	<i>Harmony</i>
Rights	Individual Rights	Community Rights
Focus	Object	Relationship
Social Norm	Diversity	Unity
World View	Reductionism Static View	Holism, Ying-Yang Dynamic View

# Asian Cultural Traits (文化的特性)

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- Collectivist Norms (集產主義的 規範)
  - High Family Values
  - Hierarchy-Sensitive
  - Equality of Result
  - Consensus Formation
  - Relationship Orientation
- Education Emphasis
- Strong Work Ethics
- Pragmatism & Thriftiness
- Cooperation
- Long-termism
- Heavy Government Involvement

# Asian vs. Western Management

	Asia	West (U.S.)
<b>Corporate Governance</b>	Owner Management	Professional Management
<b>Board of Trustees</b>	Internal Execution & Supervision	Separate Execution & Supervision
<b>Idealism</b>	Stakeholder	Shareholder
<b>Focus</b>	People	Work Task
<b>Leadership</b>	Autocratic	Democratic
<b>Promotion/Pay</b>	Seniority-based	Performance-based
<b>Employment</b>	Lifetime	Contract
<b>Orientation</b>	Group/Society & Relationship	Individual
<b>Trust</b>	Human Relationship	Social Contract
<b>Time Frame</b>	Long Term	Short Term
<b>Organization</b>	Hierarchical	Horizontal

# Experiments of Asian Management

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- Corporate Governance: POSCO and KT
  - Active Role of Independent (External) Directors
  - Stakeholder Model
- Owner Management: Toyota, LG, Samsung, Daewoo (大宇)
  - Society Accepted Succession of Family Member: Toyota
  - Holding Company with Owner-Control: LG
  - Wise King (賢帝) Model of Owner Management: Samsung
    - Leave what professional manager can do better but make key decisions
  - Almighty Emperor (皇帝) Model: Daewoo
    - Do everything by the owner: High Risk led to Failure
- Performance-based Pay System: Fujitsu, Nikko Securities
  - Failure in Fujitsu, Success in Nikko Securities
  - Group Performance-based System
- Lifetime Employment: Toyota, Cannon
  - Performance-based Lifetime Employment: Cannon
    - Combination of Performance based merit system and stability of employment
- Hierarchical Organization: Toyota
  - Switch back to hierarchical structure after experimenting horizontal structure

# Experiment of Global Management: Sony Story

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- Adopt a US-style Management Structure (2003)
  - Abolish Japanese-style audit system
  - Create a committee structure with a majority of independent directors
- Change of Top Management (2005)
  - CEO Idei Nobuyuki: World's Best Manager (1997) -> Worst Manager (2004)
  - Chairman & CEO: Howard Stringer (British)
- Difficulties of Sony
  - Revenue \$70 Billion, Profits \$1 Billion in 2007
  - Profit Rate: 8% (97) -> 1.4% (07)
  - Market Capitalization: \$80 Billion (00) -> \$53 Billion (07)
- Reasons of the Difficulties
  - Hubris: Technical Prowess, First Global Company in Japan
    - Legacy: Huge Success of Analog led Missing to Catch On Digital Trend
  - Confusion of Japanese/Asian and Global Management
    - Short-termism
    - Either Not-Ready Or Not-Fit: Externally Global But Internally Japanese

# Additional Considerations

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- ❖ Family Business
- ❖ Collective Relationships in East Asian Countries
- ❖ Corporate Governance in Korea: A Survey
- ❖ Leadership
- ❖ Failure of Samsung Motors



# Family Business (家族企業)

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- Is family-owned or -controlled business bad?
  - More than 50% of GDP in U.S.A.
  - More than 80% in Europe
  - Better Performance: Revenue, Profit, Earning Ratio of S&P 500
- Ford
  - Ford Family control the Ford Company with 1% of share but more than 40% (discriminated) voting rights
- Toyota
  - The biggest family(-controlled) business in Japan
  - Similar governance structure with Samsung
  - Toyota Akio (3<sup>rd</sup> Generation) is expected to succeed
    - No Public Resistance: Why?
      - Capability Proof Process, Pro-Corporation Sentiment (親企業情緒)



# Collective Relationships in East Asian Countries

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- China: Guanxi-Oriented (關係)
- Korea: Personal Relationship-Oriented (個人關係)
  - Blood (血緣) > School (學緣) > Home Region (地緣)
- Japan: Organization-Oriented (組織關係)
  - Succession of Ownership by Blood or Adoption
  - High Survivability of Companies (企業壽命)
    - World's Oldest Company: Kongogumi (金剛組) Construction Company (578 A.D., 1430 Years Old)
    - Over 50% of the 200+ Years Old Companies in the World (3146/5586)
    - Korea: Only 2 Over 100 Years Old Companies

# Corporate Governance (支配構造) in Korea: A Survey

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- Korean CEO Survey (Forbes Korea, 2008)
  - Shareholder Capitalism: 11%
  - Stakeholder Capitalism 52%
    - Customer(9.8), Employee(9.2), Shareholder(8.3)
- Owner Management vs. Professional Management
  - Which Fits Korean Business?
    - No One Solution: 58%
    - Professional: 22%, Owner: 19%
  - Owner Management: Manufacturing
  - Professional Management: Finance, Service, Construction, Retail/Distribution

# Importance of Leadership

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- A business short on capital can borrow money, and one with a poor location can move. But a business short on leadership has little chance for survival. - Warren Bennis
- One of the biggest problems of Korean companies is the fact that there is very few CEOs but many COOs. COO follows orders while CEO makes a decision on the direction and takes risks with responsibility.
- Crisis (危機) = Danger (危險) + Opportunity (機會)
- Only True Leader can turn Crisis into Opportunity.
- Great Leadership by Jim Collins: Humility (謙遜) + Will (意志)
  - Asian Value: 德能兼備

# Leader (指導者) vs. Boss (頭目)

<i>Boss</i>	<i>Leader</i>
Drives	Leads
Relies on authority	Relies on cooperation
Says “I”	Says “We”
Creates fear	Creates confidence
Knows how	Shows how
Creates resentment	Breeds enthusiasm
Fixes blame	Fixes mistakes
Makes work drudgery	Makes work interesting

*Source: Shayle Uroff*

# Failure of Samsung Motors

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## □ History

- Established in 1995
- Net Loss exceeded \$600 Million/Year and growing
- Under Legal Management (法定管理) in 1999
- Sold to Renault in 2000: Renault-Samsung Motors

## □ Why Failed?

- Dogmatic Decision-Making: Question of Leadership-Fit
- Over-Investment
  - Expensive Land, Over Automation, Luxury Parts
- Cultural Conflict (Mis-fit)
  - Motor business was not fit to Samsung Culture

# Conclusions (結論)

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- ❖ Towards Global Management
- ❖ Study of Asian Management
- ❖ Final Thoughts



# Towards Global Management

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- Cross-verging Trend
  - Westernization of Asian Management
    - Asia Eclipse after Financial Crisis: Cronyism, Favoritism, Corruption, ...
    - Towards Transparency, Shareholder Value, Rational Decision Making, ..
  - Asianization of Western Management
    - Disadvantages: Short-termism, Systemic Irresponsibility, ...
      - Extremely High Compensation of CEO: 500 Times More
    - Towards Human-Centered, Social Responsibility, Sustainability, ...
    - Sub-prime Financial Crisis and Questions on Market Capitalism :
      - Creative Capitalism, Value-based Capitalism, ...
      - From Maximization of Profit to Maximization of Society's Good (社會善)
- There is no single model of global management
  - A myth: There is the one best global (western) management system
  - Superficial Globalization: Difficult to change the inside of Human
- Success of Asian economy will depend on the success of finding Asian management fit to culture and global business

# Study of Asian Management

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## □ Need Systematic and Extensive Study of Asian Management

- Past Studies: Analysis      Given I & S -> O
- Future Studies: Design      Given I & O -> S
  - To Find Cultural-Fit Model





# Final Thoughts

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- ❑ Hubris is the Cancer of Successful Companies
- ❑ There is no Unilateral (一方的) Model of Management
- ❑ There are strengths and weaknesses in both Western management and Asian management systems
- ❑ An Extravaganza of Management Experiments is going on in Asia
- ❑ Management system that doesn't fit to it's culture will be doomed to fail
- ❑ Right management system will be the definite competitive advantage
- ❑ We need an extensive and systematic study on the Asian management not only for Asian companies but also for global companies
- ❑ Values of Transparency (透明性), Accountability (責任性), Social Responsibility (社會責任) and Sustainability (持續可能性) will continue to be the Global Norm for Business
- ❑ The 21<sup>st</sup> Century can be 'the Asian Century' only if we can find Asian management models fit to it's culture and global business

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***Thank you!***

***謝! 謝!***