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The growing giant: How Samsung Electronics got its appetite

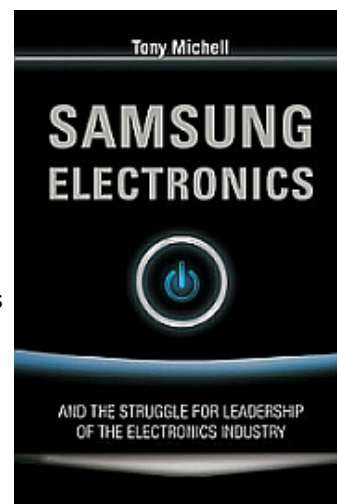
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Hindsight, as they say, is an exercise in 20/20 perfection.

Too many management books have remained on shelves, stricken with the malaise of having claimed to explain too much or extend themselves too thinly only to see changing events render their conclusions lame, or invalid. Let's not even talk about second editions. While trying to explain too many things, they make study of the book a ridiculous exercise. In response, some authors have shied away from the one-size-fits-all model of trying to explain everything and resorted to more narrowly targeted volumes with less ambitious scope.

Tony Michell's balanced book, [Samsung Electronics: And the Struggle for Leadership of the Electronics Industry](http://as.wiley.com/WileyCDA/PressRelease/pressReleaseId-75317.html) (<http://as.wiley.com/WileyCDA/PressRelease/pressReleaseId-75317.html>), is one such example. A careful academic and analyst (he taught graduate school and leads Korea Associates Business Consultancy Ltd), Michell brings a finely balanced perspective to his writings on one of the world's largest conglomerates. The book stays well clear of grand generalisations in trying to explain the rise and rise of Samsung as an industrial group and as a leader in the global electronics industry and leaves it as that.



At the first brush, the story of Samsung Electronics could not have been a more unpromising one. The Samsung group, founded by Lee Byung-Chul, was a relatively low-tech trading business in 1938. Samsung Electronics, the flagship of the conglomerate, came in 1969 against entrenched local competitors like the Lucky Goldstar group, later Goldstar Electronics, and today, LG Electronics.

Like almost all large Korean companies started during that time, it had come by fiat from a government anxious to reduce Korea's dependence on expensive foreign exchange to purchase equally expensive foreign technology. The South Korean government also gave support to critical industries like steel and petrochemicals, to support the country's industrialisation efforts, which were mostly exercises in import substitution given the weak *won*, relatively high costs of imports and difficulty of technology transfer.

The transition from lifting heavy iron to the mass production of consumer goods took just five years (by 1979). In a sense, Samsung's leap from producing raw materials (e.g. petrochemicals) and industrial goods into the consumer market (e.g. microwave ovens) also mirrored the general development of the Korean economy, as it moved from the post-war years to a more stable and sustainable pattern of steady GDP growth. This growth path resulted in higher individual disposable incomes and the ability to spend with the emergence of a burgeoning middle class.

By the beginning of the 1990's, the company's financial muscle and growth allowed it the relative luxury of branding for long term market clout. Before it took on the consumer electronics market in a big way, Samsung built a solid base for itself in the form of its semiconductor business. For one, in 1992, Samsung created the world's first 64-megabyte (MB) Dynamic Random Access Memory (DRAM) – an achievement that made even the Japanese sit up and take notice. Then, it took a mere four years more to scale the DRAM development to 1-gigabyte (GB), the same year the 64MB DRAM went into mass production.

The global DRAM market today shows signs of that rush to dominance. As at end 2009, Samsung held the top spot in this market, accounting for almost a third of global revenues [DRAMexchange 2010], followed by Hynix (also Korean) and Japan's Elpida.

The capacity to invest into innovation has seen the company continue to lead in this area. In July this year, Samsung announced its decision to mass produce 2 GB DDR3 DRAM using a 30 nanometre (nm) process, a world's first. This announcement needs to be seen in context since most of the rest of the semiconductor industry is still struggling to move from 60 nm to 45 nm geometry which is a major technical achievement in process design and stability. That such a process has been achieved in the realm of computer memory chips, a relatively low-margin product, is even more proof of Samsung's reach in this market.

Behind this rush to dominance, Samsung, with a view towards long-term sustainability, showed a willingness to invest heavily in its in-house expertise. Rare for its time, the company was one of the pioneers among Korean conglomerates in setting up and funding its own Advanced Institute of Technology in 1987 to provide the seed for

its future growth. Up till then, the bulk of the technology had been sourced overseas, notably from Japan, whose providers increasingly became wary of selling to a potential competitor that would one day overtake it.

Growing and ageing

By the beginning of the 1980s, Samsung's size, measured in terms of revenue and profitability, had grown, and the growth rate showed little signs of slowing, providing a stark counter-example of the normal pattern experienced by other large companies. As companies mature, most will experience a slower rate of growth as they consolidate their operations and develop a new management culture to deal with the push into overseas markets and continuous innovation. Not Samsung.

Michell cites the research of Ichak Adizes, a management guru famous for his "corporate lifecycle" framework, to illustrate his point that all companies go through the life-cycle of growth to stable maturity and they decline as the internal structure ages and fails to keep with changes in the marketplace. Samsung's defiance of the normal company aging process, Michell suggests, might be due to the company's ability to identify and catch each passing wave of products, and then hitching the company's resources to ride that wave.

Central to this process is the series of internal call-to-action memos – indications that Samsung's emergence is not something that was achieved overnight or by chance. In 1983, the so-called Tokyo Declaration outlined Samsung's ambition to be a global leader in electronics and semiconductors. A decade later came the "Frankfurt Manifesto" in which chairman Lee challenged everyone in the company to renew and innovate, or in his own words: "change everything except your wife and kids".

Leadership

By any measure, Samsung has made that leap by transitioning from backwater national champion to a lead contender in an international market where its reach has not exceeded its grasp, largely due to continuity in its strategic vision and leadership. For years, Samsung has been able to attract and retain talent from within Korea's elite universities. For them, a job in Samsung is seen as a ticket to the good life and social prestige seldom associated with any other company.

Anyone with more than passing knowledge of Korean corporate life beyond watching Korean TV dramas can remember tales of loyal employees that sleep the night in Samsung despite official denial that it works its staff to the bone. Central to this sense of loyalty is not just the famous work ethic of the typical Korean office worker, but the sense of urgency cultivated into their ranks by the management.

Lee Byung-Chul, Samsung's legendary founder, was instrumental in urging that sense of urgency to his staff and this legacy was continued by his son, Lee Kun Hee, the current chairman. It is a measure of the longevity of the company that this continuity was not disturbed even by corruption and official punishment as Samsung Electronics got into the news for the wrong reasons.

In April 2008, Lee Kun Hee was indicted in a government crackdown on the company and was sentenced to jail following a corruption probe over a slush fund used to bribe politicians but released 23 months later after a presidential pardon. Since then, Lee has since made a decisive comeback to the company.

It is also a measure of the dominance of the company that on its founder's 100th birthday, the national broadsheet did a cover story on Lee Byung-Chul's life. After all, the company that this man founded now accounts a fifth of South Korea's GDP.


Competition


Predictably, the inevitable comparison with Sony gets an airing in Michell's book. Unfortunately, he did not do sufficient justice to this question as he did for the rest of the book. Particularly unsatisfying was the decision to contrast only two periods (2004-2005, mid-2009) for comparison between these two giants. The rivalry between an aging but still potent Sony and a younger and hipper Samsung must surely be one of the defining rivalries in the electronics arena (witness Intel vs AMD in microprocessors).

Predictably, Michell's treatment of the competition between the respective national champions of Japan and South Korea will be compared against [Chang Sea-Jin's study \(Wiley 2008\)](http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470823712.html) (<http://as.wiley.com/WileyCDA/WileyTitle/productCd-0470823712.html>) of the same topic. It is, of course, unfair for Chang's book-length portrait to be compared with Michell's chapter-length treatment. So, for a book that tries hard not to come to a definitive conclusion, Michell's study of the Sony-Samsung rivalry succeeds much too well.

But in a marketplace crowded with business titles, this book stands out for shedding light on a success-story seldom discussed outside of Korea. The balanced reporting of the conglomerate's legacy, events and outlook, coupled with the ensuing management learning points, provide a compelling peek into the makings of a growing giant – with an appetite for more.

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