

The Analysis of Strategic Management of Samsung Electronics Company through the Generic Value Chain Model

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Abstract

Purpose - *The purpose of this paper is to explore a successful case of Samsung electronics company as it applied the generic value chain model. Specifically this study seeks to answer two questions: How has the generic value chain model been applied in Samsung electronics company? and What lessons can be learned from this successful case?*

Methodology - *This paper employs a single case design to gain an in-depth understanding. The case study is the methodology when the focus is on a contemporary phenomenon within a real-business context.*

Findings - *The findings reveal that Samsung electronic uses a number of the generic value chain model in creating a shared vision, establishing a performance-based personnel management system, technology development, logistics, marketing and sales, and cost control procedures. The success of the company's change effort is largely attributed to leadership, standardization of management systems, commitment to innovative strategies and training, and partnership with value chain experts.*

Research limitations - *Findings of this paper are limited by the single case study of Samsung electronics company. Future research is needed to study more cases of success where the generic value chain model have been applied.*

Paper type - *Case study*

Keywords: *Generic value chain, Samsung's strategic management, Hybrid management system*

1. Introduction

The world economic situation has been approaching the low economic growth since the Lehman Brothers Holdings inc. collapsed in 2008. The current time is an age of competition where legal and institutional restrictions are easing or disappearing and barriers are crumbling. To compete globally, companies need to adopt innovative strategies and carry out open management that removes all restrictive and discriminatory institutions and practices. The human resources, technology, marketing manufacturing, and design departments are getting more and more importance as competitive resources than ever before. So far Samsung has used these resources very effectively. That is why many management scholars and practitioners have been looking at Samsung electronics company as a successful case of the leading global company.

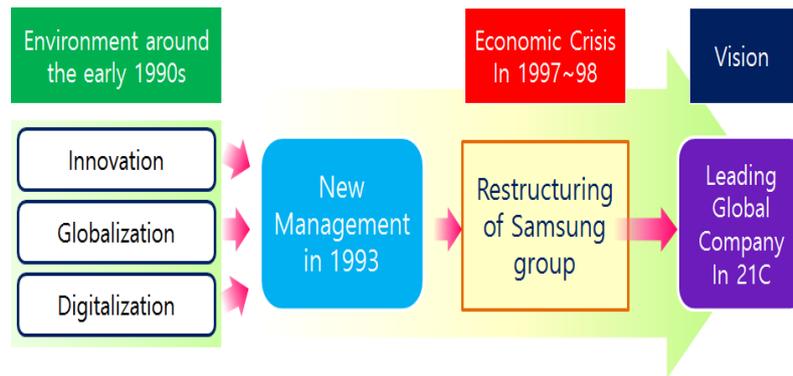


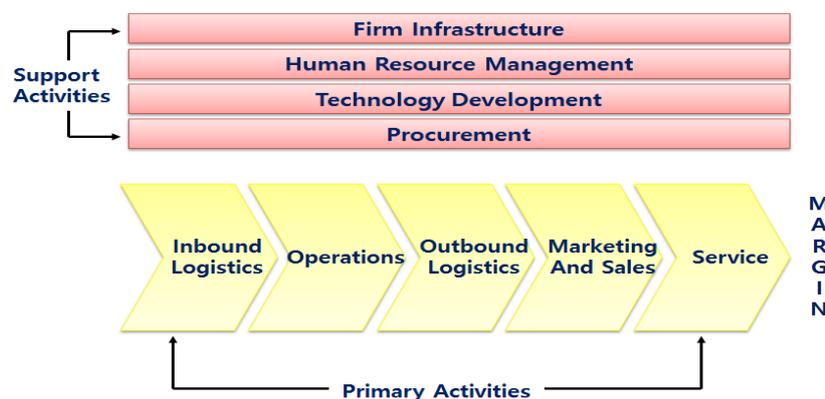
Figure I-1. Chairman Lee’s “New Management” System

Chairman Lee declared the launch of “New Management” in Frankfurt in 1993. Since then Samsung has transformed itself from a mediocre manufacturer based on low cost advantages to a world class performer with a strong brand value and premium products. As Figure I-1 shows, chairman Lee directed to transform Samsung group into leading global company in the twenty first century. The Samsung story is one of the great business achievements of the last 20 years and in the 21st century. A number of mandates of Samsung’s New Management Program were made that had significant impacted Samsung’s personnel management system, namely new management demands, new awareness, and net human resources(HR) paradigms.

Samsung declared “Open HR” to prepare for an “Open Era” The company abolished discrimination based on academic background and gender for HR which maximizes potential capabilities of their employees.

This study intends to analyze Samsung electronics company’s strategic management system through the value chain model(Figure I-2). The value chain model was proposed and popularized by Michael Porter in his 1985 best seller book, *Competitive Advantage: Creating and Sustaining Superior Performance* (blog.naver.com 2006). He presented the value chain analysis as a model for the identification and measurement of those activities comprising a firm’s value chain.

Within the value chain, there are two distinct sets of activities that a firm undertakes. The first set of activities is deemed to be primary activities, as they are directly related to the products or services that a firm sells to a customer.



Source : Porter, M.E. (1986), *Changing patterns of international competition*. *California Management Review*, 28(2), 9-40

Figure I-2. M. Porter’s Value Chain Model

Support activities make up the second set. Those activities relate to functions that are contained within a firm's infrastructure that assist in the performing of the firm's primary activities. All of these activities, whether they are primary or support activity, are interdependent (Walsh, 2011). As with Porter's value chain (Figure I-2), all activities within the value chain are interdependent and must be managed together by an organization in order to succeed. This paper analyzes Samsung's success factors through this value chain model. This paper focuses on understanding how Samsung has transformed itself from a mediocre original equipment manufacturers based on low cost advantages to a world class company with a strong brand and premium products since declaration of the New Management in 1993. This research investigated many relevant materials such as business magazines and newspapers to learn about various factors that contributed to the Samsung's success and interviewed several directors of Samsung.

2. Applying the Generic Value Chain Model into the Strategic Management of Samsung Electronics Company

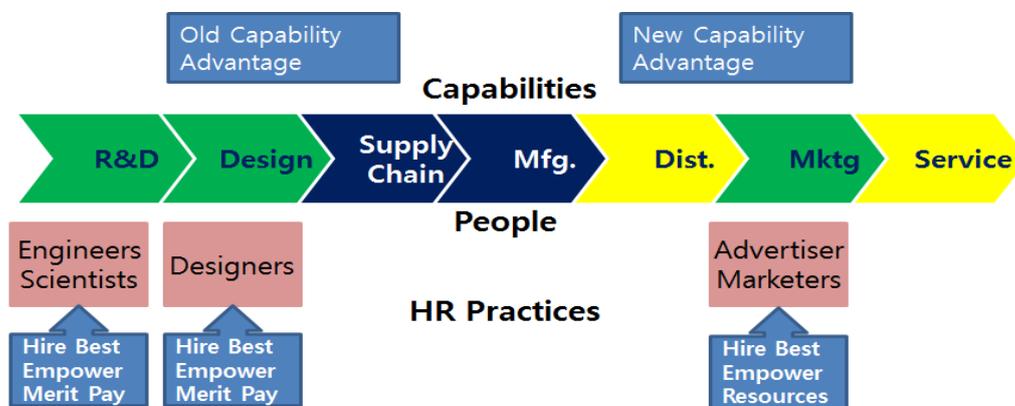


Figure II-1. Samsung's Transformation

2.1. Personnel Management System

Samsung has adopted an open management in the era of personnel management. Open management refers to respect the autonomy and creativity of employees and removing obstacles in systems and practices to enhance efficiency and competitiveness, while promoting transparent management to grow in harmony with their customers. The key to Samsung's Open HR is human resource management that promotes equal opportunity, put skills first, and realize human potential.

It maintains that opportunities should be available to all without discrimination and restrictions. Compensation and promotion should be boldly differentiated based on skills. Pay should be based on performance, and performance based promotion. The most important thing is that people are crucial to Samsung's success. With the introduction of New management Samsung (Figure II-1) has moved further forward its goal of global first-class company based on its "People first" management philosophy. New HR facilitated new management system by building capital in HR and changing the awareness and actions of employees.

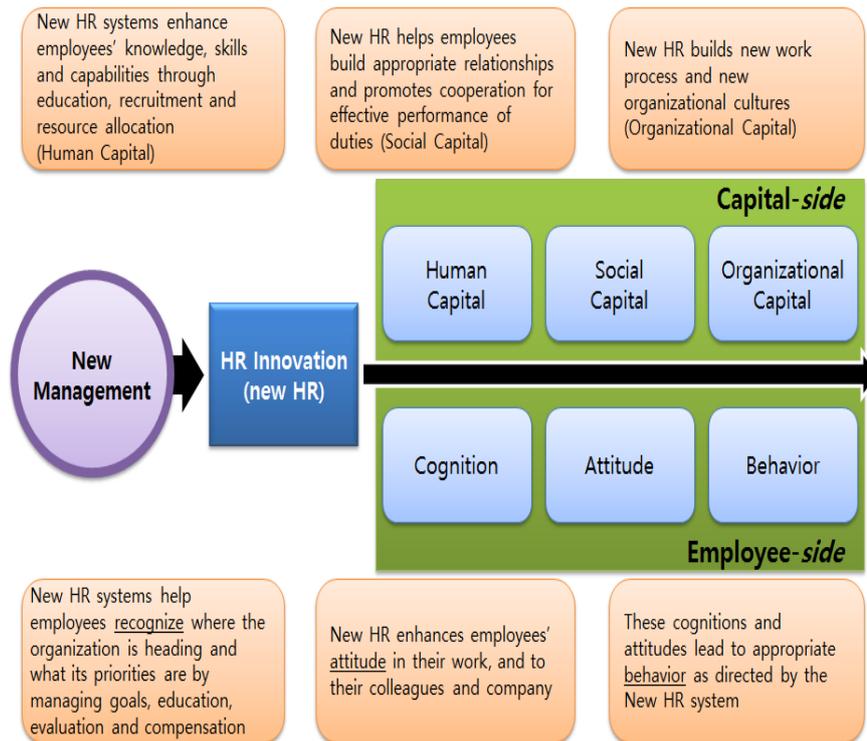


Figure II-2. New Management and New HR Model

Source: Youngt(2004), Youndt & Snell(2004)

As a strategic effort to foster long term talent to enter global markets, regional specialists(Figure II-2) are dispatched as expatriates or heads of overseas branch linked with the global leader fostering track. Over 4,700 regional specialists have been posted in 80 countries since 1990. Regional specialists also take a role in pioneering emerging markets. Moreover, these regional specialists provide business opportunities to gather vast regional data around the world. Samsung implemented a performance based reward system both pay and promotion. While emphasizing individual performance more than most Asian Companies, it simultaneously emphasized group and company performance.

2.2. Marketing and Design

Marketing and branding strategies of Samsung have played a critical role in its success. One way to understand why Samsung is so successful is to evaluate the brand and its marketing strategies in terms of six marketing imperatives. These six imperatives, I believe, are critical for marketing success in the 21st century.

First, Samsung has developed a strong customer-focus which emphasizes on understanding the needs and wants of customers, and future needs. Samsung has done this with a global perspective in mind. Second, Samsung recognizes the power of well-designed products and services. Through design, Samsung provides functional and emotional benefits. Third, Samsung has a strong design philosophy, which is simple and intuitive, efficient and adaptive. It want to come up with eco-friendly designs, not just good looking products. Fourth, It tries to create designs that can reflect users' lifestyles and interact with them.

It designs not only to create unique and intelligent products, but also to engage and interact with users. Samsung recognizes the power of brands and branding. Samsung maximizes long-term growth by launching new products and entering new markets.

2.3. Samsung's quality-based Management

Chairman Lee told his employees "attack bravely and timely" He further told his employees to hold a sense of crisis when going well and attack when crisis occurred. Samsung's quality-based management focuses on technology resources which is driving force for formulating best corporate quality. Featuring quality-based management is especially linking with two major enablers that are called human and technology. Human means the driver of 4 kinds of abilities which contribute to formulate speedy and timely management.

Chairman Lee Kun-Hee first mentioned brand in August 1996 when he was appointed as a member of the international Olympic Committee. He pointed that Samsung's brand image which has remained at low level brand, should be upgraded to at least high quality brand. First of all, consistent quality is the starting point of a strong brand. Design should reflect the philosophy and culture of a company. New slogans like "change begins with me", "start with the easy tasks", "start changing now", from the top were created and shared to create consensus about fundamental innovation.

A healthy sense of crisis was created internally speeding the image of an efficient and principle entered brand by introducing 7-4 work hours and the line-stop system. Previous unsatisfactory models were ceremonially burned in front of employees of Samsung. The key success factor in brand management of Samsung is chairman Lee's strong will and guidance. Swift improvement in quality and design is the foundation of successful brand-building. Lee convinced all employees in all departments of the significance of brand-building efforts, and encouraged them to internalize the promises of Samsung's brand and make efforts to fulfill those promises. Samsung has grown into a market-driven company by continuously raising marketing investment and attracting outside talent.

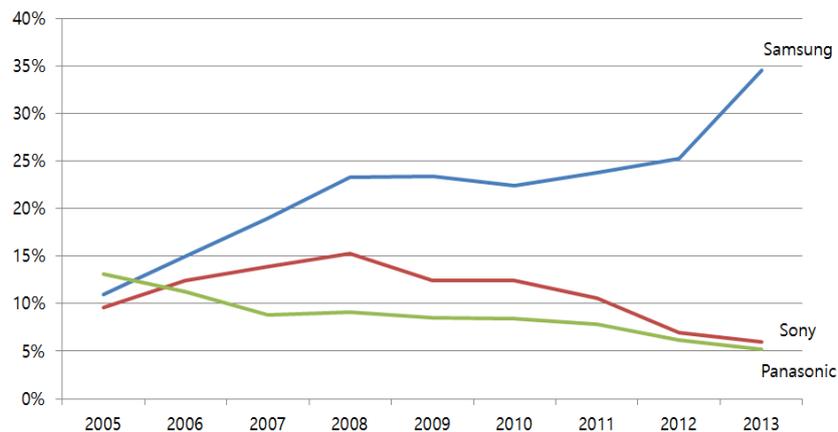


Figure II-3. Global Color TV Market Shares

Timely brand-building efforts are coinciding with the emergence of the digital era. The emergence of the digital mobile phone market and the flat screen TV market (Figure II-3) provided Samsung Electronics with the opportunity to compete against market leaders like Apple and Sony on equal terms. The emergence of smart phones gave Samsung another opportunity. Samsung surpassed Nokia and emerged as one of the world's two largest smart phone makers along with Apple phones provide an attractive brand-building opportunity.

2.4. Samsung's Hybrid Management System

Samsung has been predominantly using Japanese style management system until 1980s. However, since 1990s elements of American style management system added due to the success in the semiconductor business. Samsung adopted American style strategy and HR,

while keeping Japanese style of operations management. It secured core talent employees from both outside and inside (regional specialist) as change agents. They also changed the coexistence of seniority-based and merit-based promotion and compensation from seniority-based and promotion and compensation system in the past. Twenty years ago, few people would have predicted that Samsung could transform itself from a low-cost original manufacturer to a world leader in R&D, marketing, and design with a brand more valuable than the Sony or Toshiba (Tarun Khanna, 2011).

Samsung's unlikely success in mixing Western best practices with an essentially Japanese business system holds powerful lessons for today's emerging giants. As Table II-1 Shows, they mixed up traditional Japanese management style with western style of management skills. They made a new Samsung's hybrid system like Table II-1. Samsung's hybrid management system introduced a focus on innovation into a company optimized for continuous process improvement. And also merit pay and promotion system put into an organization with a strong tradition of reverence for elders. These are just some of the challenges which Samsung has faced in creating its unique hybrid management system.

Table II-1. Samsung's Hybrid System

Traditional Japanese	Samsung's Hybrid	Western
Diversification strategy	Diversification but more focus	Focus strategy
Dependence on internal capital markets	Ability to tap into both internal & external capital markets	Dependence on external capital markets
Focus on continuous operational improvement for price competition	Focus on continuous improvement and applied R&D but also on innovation, marketing, and design	Focus on innovation, mktg, and design for strong brands & premium pricing
Focus on innovation, mktg, and design for strong brands & premium pricing	Internal co-opetition: Long-term cooperative supplier relationships with some level of competition	Contingent relationship with suppliers based on market pricing
Dependence on internal labor market	Interweaving of internal workforce with outsiders attracted thru market-based compensation	Dependence on external labor market attracted by market-based competition
Limited recruitment, mostly once a year, and only for entry-level	Annual recruitment for entry-level; open recruitment for experienced specialists	Open recruitment of the best candidates for all positions as needed
Seniority-based promotion and compensation; standardized incentives	Coexistence of seniority-based and merit-based promotion and compensation; Mostly standardized, some individualized incentives	Merit-based promotion and compensation; individualized incentives

Porter's well-known value chain model(VCM) and the corresponding idea of value systems has clearly influenced the understanding of how the strategic management system work. But in spite of the accepted importance of VCM, little is known about the determinants of success of failure in strategic management techniques. These models have formed managerial thinking about such strategic issues as value creation, coordination, and positioning.

The original focus of Porter's value chain firm (see Figure I-2) was to transfer raw materials into relatively standardized, physical products, where the value of the product in the market is the medium that makes difference from competitors' product.

An explicit emphasis on inbound logistics(raw material handling, inspection of material, warehousing, *etc.*) and outbound logistics(multifaceted decisions in planning and controlling activities, such as collecting, storing and distributing products to the marketplace, including order processing and shipping) explains the model's appeal to the SCM field (Baig & Akhtar).

Stabell and Fjeldstad note the primary activities for such mediating firms are:

First, network promotion and contract management (promoting and building the network by acquiring customers and managing service provision contracts, including 'the starting, maintenance and closing of contracts to cater whatever service the intermediary offers to furnish')

Second, service providing(linking agents across the network and collecting payment from them for making or handling the connection); and

Finally, infrastructure operations(where the mediator operates such resources as switches and distribution centres for telecom providers, branch offices and financial assets for financial services companies, and warehouses and vehicles for logic service providers).

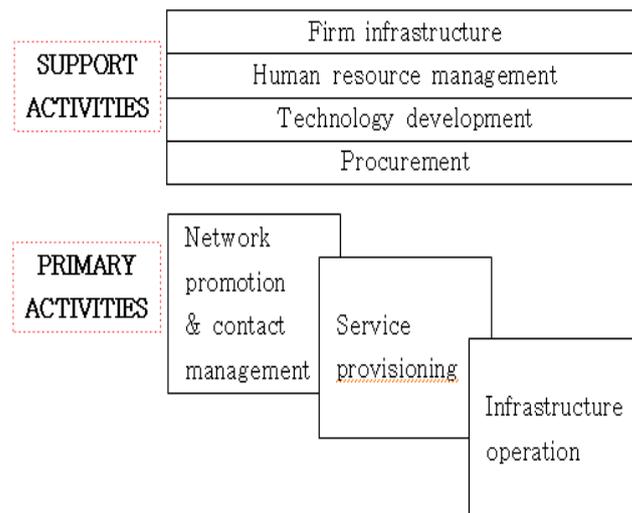


Figure II-4. Support Activities and Primary Activities in VCM

Source: Stabell and Fjeldstad (1998)

Industrial networks are based on the agent bonds, resources ties and activity links. Defining a firm's position in indeterminate network structures can be challenging. But it is also important. A firm's network identity is determined by its position in the structure of actors, resources and activities in the network and through its relationships with other network firms. Consequently, a firm's strategic network identity captures the overall perception of a firm's attractiveness(or otherwise) as an actor within its perceived network context. A strong and clearly defined network position will make a firm a strong competitor in its own field and thus an attractive network partner.

Table II-2. Value Configuration Analysis and Other Perspectives on Supply Strategic Management

Source: Johanson and Mattsson (1992); Hakansson and Ford (2002).

	Value Analysis	Configuration	Industrial Networks	Strategic Management
Analytical framework/ Value-creating logic	Value analysis	configuration	Actor bonds, resource ties and activity links(the ARA model)	1. Activity (value chain or resource// knowledge explanations 2. Value constellation/ web or strategic network
Supply structure	Interlinked chains and co-producing layered networks		Interlinked supply chains embedded in indistinct actor, resource and activity	Defined networks with leading firm acting as hub
Interdependencies	Shared, sequential and mutual		Stress that firms should build interdependencies in a systemic way	Stay independent, competitive interactions Relational view, social embeddedness
Coordination	Implicit a need for planning, Standardization and mutual adjustment		Mutuality Relational norms, trust See value configuration analysis	Arm's length contracting Relational norms Creating a shared sense of purpose Trust and identity building
Positioning	Horizontal and vertical scope in business value system		Positioning within networks provides strategic network identity	Positioning within an industry or between different networks

For two decades now, Samsung has been grafting western business practices onto its essentially Japanese system, combining its traditional low-cost manufacturing prowess with an ability to bring high-quality, high-margin branded products swiftly to market.

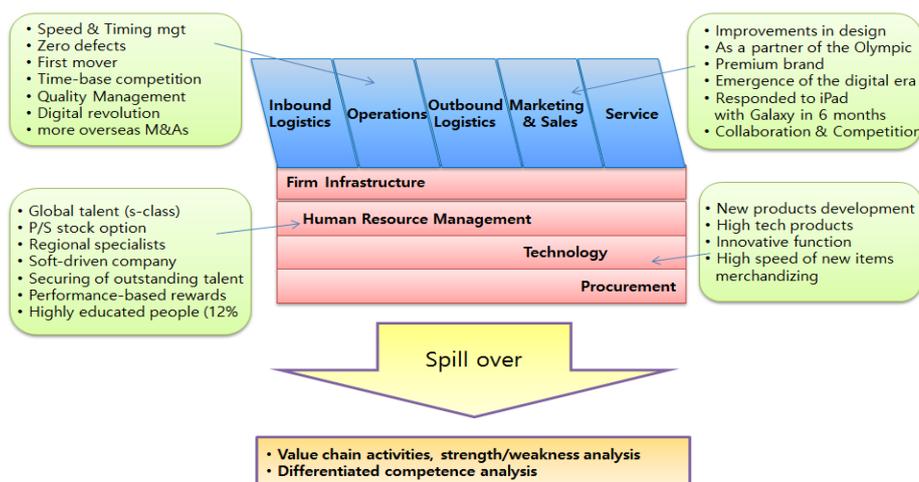


Figure II-5. The Strategic Management of Samsung through the Generic Value Chain

According to the value chain model(Figure II-5), Samsung has been adopted open personnel management system to enhance efficiency and competitiveness. Samsung has also developed a strong customer-focus which emphasizes on understanding needs and wants of future. Samsung has been predominantly using Japanese style management system until 1980s. However, since 1990s elements of American style management system added due to the success in the semiconductor business. Namely, Samsung adopted American style strategy, while keeping Japanese style of operations management. It secured core talented employees from both regional specialist and outside change agents. These key success factors have made Samsung electronics company to the world class company.

To compete outside its home markets, Samsung has moved beyond its well-integrated system to engage with non-Koreans in non-Korean contexts. Samsung has established new organizations to seek out and adapt best practices from abroad. And also introducing a focus on innovation into a company optimized for continuous process improvement, including merit pay and promotion into an organization, Samsung has developed to the world-class company.

1. Conclusion

The purpose of this paper is to find out the key success factors of strategic management of Samsung electronics company through the generic value chain model. Therefore, I analyzed how Samsung has transformed itself from a mediocre OEM manufacturer based on low cost advantages to world-class company with a strong brand and premium products since the New Management declaration in 1993. I have investigated many relevant materials such as diverse magazines and newspapers of Samsung's success factors and in depth interview with a lot of directors of Samsung.

In the field of strategic management, the "value chain" represents a series of activities within the firm that provide value to the firm's customers in the form of either a product or a service. To the extent that the firm can configure and continuously perform these inter-related activities so that it has minimized costs and maximized value, then it can be deemed to have developed sustainable competitive advantage like Samsung electronics company.

Twenty years ago, few people would have predicted that Samsung could transform itself from a low-cost original equipment manufacturer to a world leader in R&D, marketing, and design, with a brand more valuable than Pepsi, Nike, or American Express. Fewer still would have predicted the success of the path it has taken. For two decades now, Samsung has been grafting Western business practices onto its essentially Japanese system, combining its traditional low-cost manufacturing skill with an ability to bring high-quality, high-margin branded products swiftly to market (Tarun Khanna, 2011).

The Samsung's transition has been achieved as the first global electric company. To keep steadily moving upward, it will have to reach a higher level of diversity and decentralization as a global company.

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