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Wannabe Globals

Our local HQs at U.S., Europe and Asia should present a new goal for localization. But this process should be in harmony with a unified goal, making Sony into a truly global enterprise. I will set global localization as our future principle from now on. This is a new way for Sony; Sony will suffice local demand through localization and develop globalization and technologies at the same time.

—*The late Akio Morita, co-founder of Sony*[1]

The problem Samsung Group is facing can be summarized in one line: Samsung Group's speed of globalization exceeds that of Samsung Group's globalization capability.

—*Yong-wook Jeon, Jung-hwa Han,*
Authors of Toward a First-class Enterprise[2]

This chapter focuses on Sony and Samsung Electronics' globalization efforts, which have been key to both firms' strategies. There are several ways of looking at globalization. If globalization means producing goods in a country with the cheapest costs, selling them in the most profitable places, and operating business all over the world, Sony and Samsung Electronics are both globalized. Yet, because both firms' decision-making power is concentrated in their home countries, it is more accurate to say these firms are still globalizing.

Sony's Global Strategy

Global Localization Strategy

When Sony began trying to grow the U.S. market, Morita took charge of Sony's U.S. subsidiary. In his book *Made in Japan*, Morita discussed how he responded to an antidumping lawsuit against Sony by appointing a local attorney, and actively promoted localization by recruiting local managers. Mr. Morita was Sony's first expatriate manager. He rented an apartment on Fifth Avenue in Manhattan in 1962, and tried to assimilate. He even asked his wife to have more American friends than Japanese. Most of Sony's other senior managers also worked abroad at some point. Idei founded Sony's French operation, and Sony's former President Ando led business expansion in the United States.

From early on, Sony believed it was important to secure local managers. It constructed a TV production factory in Rancho Bernardo, California, in 1972 and a color TV factory in Wales in 1974. In 1972, Sony appointed Harvey Shein from CBS Records as the President of Sony America. Shein taught Sony how to save money and enhance efficiency to generate more revenue. According to Morita, "He Americanized the company totally and did a fine job of it. He recruited a new group of top executives and fired some of the previous group, and he installed a budgeting system that kept tight financial control of everything. He even flew economy class himself when he traveled on domestic flights. He considered cost in everything, and as far as profit is concerned, there was no match for him."[3] Sony was the first Japanese firm to issue ADRs on the New York Stock Exchange (NYSE) in 1961, raising 1.2 billion yen; to issue consolidated financial statements according to U.S. accounting standards (GAAP); and to be listed on the NYSE in 1970.

In the late 1980s, as the yen doubled in value against the dollar, it became difficult for Sony to produce exports in Japan. With an appreciated yen, local manufacturing and local sourcing became more attractive. This was a time when Japanese firms were in a shopping spree all over the world. Mitsubishi Real Estate bought Rockefeller Center

in 1989, which epitomized the Japanese acquisitions of U.S. icons. Other Japanese companies followed suit, and Sony was no exception. In 1987, Sony built a factory in Singapore, producing laser pick-ups for CD players, followed by further construction in Malaysia, Thailand, and Indonesia. In the United States, Sony acquired a semiconductor factory in San Antonio in 1989, and built a CRT and color TV factory in Pittsburgh in 1993. In 1997, Sony constructed a factory for producing TV glass jointly with Asahi and Corning in Pittsburg.

Morita established Operation Headquarters (OHQs) in four regions, including Japan, the United States, Europe, and Southeast Asia. For example, Sony Europe, established in Germany, and administrating the overall European region, was headed by Jacob Schmuckli, the president of Sony Germany. SONIS in Singapore became Sony's HQ for Southeast Asia. Sony delegated most decisions to the OHQs, which handled production, sales, logistics, technology, and financing in ways that accounted for local needs. Sony HQ remained only as the world headquarters, overseeing the firm from a global perspective, and being the hub for overall research and development. Morita dubbed this the Global Localization strategy. His idea was to have an optimal balance between localization and globalization. In other words, localization, satisfying local demand, should proceed in harmony with Sony's overall global strategy. A famous motto, which both Sony and other large multinationals pursued at that time, was "Think Globally, Act Locally."

Sony showed its commitment to treat individuals according to their ability, regardless of their nationality. It also established political connections with influential people in the United States, such as Henry Kissinger, the former U.S. secretary of state, and used them as lobbyists. In 1992, Sony appointed Peter Peterson as its outside director. Peterson had been chairman of the Blackstone Group and was a former economic advisor to the president in the Nixon administration.

The level of Sony's globalization varied by business area. For example, Sony's music and film business was controlled by its U.S. subsidiary and was managed almost entirely by local managers. The HQ for the mobile communication business was relocated in London, after it was merged into a joint venture with Ericsson. The audio, games, semiconductors, and component divisions have their HQs in Japan and are controlled mostly by Japanese managers.

Sony's computer division is by far the most globalized of all its hardware businesses. With its operations in San Diego, it is run by managers who have a global vision and mindset. In contrast, authority for the TV, devices, and material businesses is still largely concentrated in Japan and has the traditional Japanese corporate culture.

Under Sony's global organization, there are country managers for each nation. Interestingly, Sony has separate production and sales organizations; regional organizations take charge only of marketing and sales, but all of Sony's factories are controlled by a separate organization, SEMC. For example, the Sony subsidiary in Korea is merely a sales organization, and its factories are controlled by SEMC. Country managers do not possess much decision-making power.

Losing Control over Overseas Subsidiaries

While pursuing its Global Localization strategy and delegating decision-making power to local managers, Sony has emphasized that "Sony is ONE." It has tried to make local managers adhere to Sony's management principles and basic policies. Many questions remain, however, as to whether Sony can control its local managers by emphasizing its management principles while it simultaneously pursues localization and delegates decision-making power. After all, "Think Globally, Act Locally" is easier to say than to practice.

Sony's main overseas market was the United States. Under Shein, Sony America's sales increased from $300 million to $750 million between 1972 and 1978. Sony planned to launch an active sales campaign to sell the Betamax VCR in the U.S. market in 1975, but Shein and his cadre of local managers hesitated to invest in promotion because they believed too much advertising would undermine their profits. Morita once called Shein in the middle of the night and yelled at him, "If you are not going to spend a million or two million dollars on the Betamax campaign in the next two months, I will fire you."[4] To Morita, the local U.S. managers appeared to be interested only in short-term profits and neglected to invest in advertising that was essential for long-term sales.

Mickey Schulhof, who spearheaded the acquisition of CBS Records and Columbia Pictures, was Shein's successor at Sony America. He was criticized for operating Sony America too independently from Sony's HQ and for failing to maintain control over Columbia Pictures. Under the two managers he recruited to head Sony (Columbia) Pictures, Jon Peters and Peter Guber, new movies went way over budget and were generally unsuccessful.[5] Because Sony America was the parent company to Sony Pictures, it was under Schulhof's jurisdiction, and Sony's HQ staff could not intervene even though it was apparent that Schulhof had lost control. Because of the autonomy that Schulhof enjoyed, it was practically impossible to create the synergies between the hardware and software businesses that Morita had initially envisioned. Even if Sony's electronics business tried to create synergies with the music or film business, it could not do so unless the terms were agreeable to U.S. management.

During Schulhof's tenure, Sony America often revolted against Sony HQ's decisions and frequently made decisions unilaterally. For example, when PlayStation was released, all the mangers in Sony America's game business were game professionals whose experience was based on Nintendo's business model. Sony America opposed PlayStation's grey and purple-tinted design, and ordered a white-colored product solely for the U.S. market. Local managers also thought the controller was too small, and wanted to change the name PlayStation, saying it made people think of Playboy. Moreover, they insisted on setting the price in the United States and proposed one as high as Nintendo's. The essence of PlayStation, however, was its global standard, one design with one price. PlayStation was also a game platform with an innovative concept that could overturn the existing game industry. Finally, President Kutaragi of Sony Computer Entertainment deprived Sony America of its control over PlayStation. He set up its own local corporation in San Francisco, replaced all local managers, and instituted a new management team. Sony used large store chains such as Wal-Mart, KMart, and Toys"R"Us as its major distribution channel, instead of resorting to the traditional electronics retailers where Nintendo was based. Subsequently, PlayStation became an unprecedented hit in the U.S. as well as in Japan.

Sony HQ also overrode Sony America's ideas about VAIO computers. The color of VAIO, with magnesium compound and violet, targeted the advanced U.S. market. Local managers asserted that the color and the futuristic design would not appeal to conservative U.S. consumers, and also opposed the name, saying that it was difficult to pronounce. Based on their market research, they proposed "Sony

Personal Computer" as the name. In the end, Sony HQ used the name VAIO to sell PCs in the United States. Sony HQ also changed the name of the movie theater chain that came with the Columbia Pictures acquisitions back from Sony Theaters to Loews, because the rundown theaters in many locations could tarnish Sony's brand image.

Some of Sony America's frequent conflicts with Sony HQ may have originated from differences in culture or ways of thinking, but the main reason was that Sony was incapable of controlling local operations while Morita pursued global localization. In other words, the hypothetical balance between globalization and localization was broken because of Sony's limited ability to offer global control. Because only a small number of individuals, such as Morita and Ohga, controlled Sony at a worldwide level, the firm did not have the organizational infrastructure to control local managers. Morita and Ohga instead managed local corporations based on their personal relationships. For instance, they trusted Schulhof, and gave him full power over Sony America. This meant that the only possible way to control Sony America was to control Schulhof, which only Morita and Ohga could do. This system ceased to function when the personal relationships between Schulhof and Morita and Ohga grew stronger, and Morita and Ohga could not control Schulhof.

Idei, who succeeded Ohga as president in 1994, once said: "They were all in cahoots— Burak, Pete Peterson, Mickey [Schulhof]—each of them was doing his job responsibility as an individual, but together as a group it seemed to me they were very skillful at working the generous entity called Sony. The problem was, we had never truly dealt with foreigners. When they recommended something we would generally accept the recommendation. I had done lots of business in the U.S. and Europe and I could see these people taking advantage of relationships to move the company to expend funds. They would all act together in this. Japanese of the generation before me had an inferiority complex about foreigners. Akio Morita himself was a living inferiority complex."[6] Idei also commented that "Mickey Schulhof was enjoying both the privileges of an American executive, the power and the salary, and the ambiguity of Japanese corporate governance. He was skimming the cream off the top of both worlds."[7] These episodes show the problems in Sony's governance structure for overseas subsidiaries, its management style, which attempted to mix Japanese and American practices, did not work out. Schulhof was dismissed in 1995. It is said that the employees at Sony HQ applauded when they heard he was leaving.[8]

When Idei came into office, Sony's global localization strategy faced an inevitable change. Idei announced that he would not pursue globalization for its own sake and that transferring power to the local manager wasn't always desirable. Looking at Sony America, he argued that Sony emphasized localization excessively as it implemented its global localization strategy. He believed the global headquarters should play a stronger role, and shifted power back to it. He also made himself Sony America's CEO to reinforce control of the Japanese HQ over overseas subsidiaries.

Excessive Investment in the Bubble Period

From the mid-1980s to the early 1990s, Sony's overseas production facilities were not necessarily built in order to achieve cost advantages. In some cases, it cost more to produce locally. Sony's global localization strategy was designed to develop products that best suited local market conditions, and so justify premium prices. Costs were a secondary issue. Further, the yen's appreciation during this period made it impossible to stick to producing in Japan and exporting to other countries. As the yen appreciated, the price of overseas assets converted into yen became cheaper, which made most of Sony's overseas investments too excessive. Sony also invested in many unrelated businesses, such as real estate.

Overseas investments during this period greatly expanded Sony's production capacity. But this increased capacity could pose risks if it was not supported by sales increases. With the digitalization of consumer electronics, it became more difficult to differentiate products, and Sony found it harder to maintain its price premium. Cost savings became increasingly important. From the mid-1990s onward, as its consumer electronics business deteriorated, Sony had to reevaluate all overseas production. It began to liquidate its overseas facilities, including several semiconductor plants and its CRT factory in Pittsburgh. This restructuring was facilitated as Sony reorganized its businesses into a company structure to improve its financial health. In 2003, Sony announced a restructuring plan, called "Transformation 60," to reduce its headcount by 20,000 and to shut down 20 manufacturing plants worldwide. This restructuring is still going on.

Samsung's Globalization Strategy

Electronics Complex and Regional HQ System

Until the early 1990s, Samsung Electronics' level of globalization was quite limited. It produced OEM products in Korea and exported them. Although it had local sales subsidiaries that were set up in bigger markets such as America and Europe, it relied on indirect sales in smaller markets through its the general trading company of its group affiliate, Samsung Corporation.

When Chairman Lee launched the New Management Movement in 1993, he pushed to globalize Samsung Group. One part of this initiative involved constructing electronics manufacturing complexes in other countries. It created five complexes, which were built to create various synergies, such as sharing local knowledge, saving labor costs, jointly purchase some components, and quickly diagnosing management problems, by colocating the subsidiaries of Samsung Group's electronics companies. Samsung relocated some of its subsidiaries' production plants to its Tijuana complex. For instance, Samsung Electro-mechanics and Samsung SDI's production subsidiaries moved into the complex in 1995. In March 1996, Samsung Electronics' other production plant moved into the complex, closing down its other location in Tijuana. In 1997, Samsung built monitor plant number two and constructed another plant for Samsung Electro-mechanics in 1998. As of 2006, SAMEX, Samsung Electronics at Tijuana Complex, is producing color TVs, color monitors, and mobile phones. This complex connected the entire value chain, from parts and components manufacturing to the sales of completed products. In this way, Samsung reduced its logistics costs, because the time required to supply parts was reduced, and overall it saved an estimated $7 million by conducting other supporting activities jointly, such as customs clearances, purchasing, tax, promotions, and logistics. Samsung wanted to use this complex as a beachhead for expanding further into North, Central, and South America. Other complexes were located in Selemban, Malaysia; Winyard, UK; Tianjin, China; and Manaus, Brazil. Samsung Electronics' other production

facilities that did not become part of the complexes were also advised to co-locate with each other to exploit the synergies between them. For example, SEIN, the Indonesian subsidiary producing VCRs, DVDs, ODDs, and color TVs, attracted its group-affiliated supplier, Samsung Electro-mechanics, to relocate in its vicinity in order to ensure swift supply of parts. SEPHIL, Samsung Electronics' Philippine subsidiary, established in 2001, settled right next to the already-existing Samsung Electric's Philippine subsidiary, receiving much help in settling down based on the experiences of the existing subsidiaries.

Because Samsung Group, including Samsung Electronics, had accelerated its overseas expansion when it initiated the New Management Movement, it implemented a regional HQ system in 1996 to enhance the efficiency of its complexes and transfer decision making to overseas subsidiaries. The overseas HQs included five regional HQs located in Japan, China, Europe, America, and Southeast Asia, and three smaller regional HQs in Central/Southern America, Russia and CIS (Commonwealth of Independent States), and the Middle East. Samsung Group's affiliates in the electronics, financial/insurance, chemistry, machinery, and other industries had already pursued globalization and set up their own overseas subsidiaries.

The regional HQ system was intended to let the regional HQs function as the Samsung Group headquarters in that region. The system was supposed to create synergies by integrating the administration of Samsung Group's affiliates' various subsidiaries, thus accelerating communication and decision making, and enabling these headquarters to capitalize on their understanding of local markets by seeking new business opportunities. Under the system, each regional headquarters would make decisions regarding local activities such as production and sales and would be responsible for local profitability. The responsibilities of the HQs in Korea would be limited to the domestic market,

Problems of Excessive Localization

The initial results of this more decentralized structure were very disappointing. Some of Samsung's overseas operations were unprofitable and/or too expensive to continue production at their current locations. Because every Samsung subsidiary in a complex paid the same wages, production costs for some subsidiaries were higher than they would have been had these subsidiaries located elsewhere. Actual synergies were limited because each business unit's characteristics were different. Companies that had very different businesses, such as electronics, insurance, and trading, were all controlled by the regional HQ, which only raised the complexity and merely added another layer of hierarchy rather than create synergies. Many considered this to be the main reason for breaking up the regional HQ system. The depreciation of the Korean won against other major currencies during the financial crisis in Korea further exacerbated these problems. Samsung Electronics ended up closing down its factory in Winyard in 1998 and moved it to Hungary, where Samsung SDI produced picture tubes. Samsung Electronics built a microwave factory at the Tijuana complex in 1998, but the completed factory remained idle because as the Korean won became weaker after the financial crisis it became much cheaper to produce in Korea and then export.

These results caused many employees in Samsung Group to reject the "integration strategy." Some even said that there was a "minus" synergy. A manager in Samsung Electronics said that "because electric parts don't cost much to transport, and don't need much ongoing investment, there wasn't much to gain by being located in the complex. The only synergy we experienced was cheaper transportation costs, but even those didn't matter much. It was possible to closely share information, because the customers—subsidiaries—were close by, but that isn't so different from what we do in Korea. Rather, we ended up paying a higher salary for workers by colocating with all other Samsung affiliates"[9] In the complexes, all the important positions were filled by Korean expatriate managers. To their way of thinking, localization meant anything beyond manufacturing locally. The complexes were not truly localized, however; they did not hire local managers, secure local resources, or capitalize on opportunities to learn indigenous management know-how. Instead, because Samsung Electronics' local subsidiaries dealt only with other Samsung subsidiaries located in the same complex, Samsung Electronics merely transferred its vertical integration system to a foreign country.

At last, complaints about the negative synergies of these operations led to dissolution of the regional HQ system. A manager working at an overseas corporation commented: "The regional HQ's job was to find new business opportunities or do some creative work that could not be pursued from HQs located in Korea. The problem was that the regional

HQs focused more on financial controls than they did on finding new business opportunities."[10] Samsung's deployment of the regional HQ system at the group level added complexity and contributed to this system's eventual collapse because it tried to harmonize local business practices among subsidiaries in a vast variety of industries.

Return to a Global Organization

After Samsung Group's regional HQ system was dissolved, Samsung Electronics restructured into a Global Product Manager (GPM) organization in 1998. The GPM organization structure comprised 17 business divisions such as TVs, VCRs, mobile communications, and so forth. Each took charge of global production and sales organization for its products at the Korean HQ, and the GPM head located in Korea made all important decisions regarding strategies, technical support, pricing, and production scheduling, and had bottom-line responsibility.

The local organizations executed a GPM's decisions according to local conditions. A manager commented on this plan: "The GPM system would be difficult to work if the products radically differed in each nation, but Samsung Electronics' products are mostly global. There's no need to make different products for each nation, and there's not much need for localization. I think the current GPM system is fine. Some small differences according to each market can be made easily by using different parts. The designs remain the same. The pricing decision is made by GPMs at the HQ, and all I have to do is focus on enhancing productivity. My goal is simply to increase the productivity and save more on material costs."[11]

Others, however, believed that the GPM system was insensitive to local needs. A local manager pointed out, "The past European HQ system developed marketing strategies that took local conditions into consideration such as local management, promotion and education. Especially in Europe, the industrial relations issue had to be managed in a comprehensive way, encompassing the entire European region by having a multi-national corporate form rather than let each nation manage its own problems; so, we made the Samsung New Management Committee, which could be considered as the solution, and dealt with the industrial relations issues in the overall European region. But now, the whole system is centralized, moving just as the GPM instructs, and manufacturing subsidiaries have to follow GPMs' orders regarding production quantity or pricing. Therefore, it has grown more difficult for the GPM system to respond to local conditions."[12] Some managers noted another problem: "We are now centralized again under the GPM organization. The GPM heads tend to be engineers who built up their careers in production and design centers. Their primary concern is to increase production efficiency. They do not know much about sales, or they don't have any experience running business overseas. They can manage the sales of existing products, but might not be able to invest in new products or build distribution channels."[13] Another problem of the GPM system was that local subsidiaries became cost centers rather than profit centers, and thus lost the incentive to develop new products or open new markets.

Samsung Electronics changed the organization structure again in 2001 from GPM to GBM (Global Business Manager). GBM is almost equivalent to GPM, but uses "business" rather than "product" to widen managers' perspectives from a focus on products to a focus on the whole industry. The change was supposed to widen the scope of products that are produced and sold by the divisions and to induce divisions to achieve maximum profit while optimizing the global management system.

Problems with External Globalization

External Globalization

Sony has a history of expanding overseas that is much longer than Samsung Electronics'. Sony has many overseas production plants in locations worldwide. It has many foreign outside directors on its board. The fact that a foreigner, Howard Stringer, was appointed as Sony's CEO demonstrates the firm's intention to globalize further.

Nonetheless, it is uncertain whether Sony is capable of operating a global organization. Morita and Ohga were very competent global managers, but Sony's organizational-level capability may be limited, which lets local subsidiaries get completely out of control. Moreover, Sony's globalization may reflect Morita's hubris and arrogance, his desire to expand overseas in order to show the world that "Sony is the only Japanese company that is capable of global management," even though Sony lacked the infrastructure to manage the challenges

of globalization. It is also legitimate to ask whether Sony is currently globalized enough to deal with a foreign CEO, and whether Stringer truly functions as a CEO, or is merely a temporary CEO whose role is very limited.

Samsung Electronics trails Sony in every aspect of globalization and is not seriously trying to be less Korean-centered. It has perceived globalization merely as building overseas factories and producing abroad, buying parts from local sources, and hiring locals for jobs with limited responsibility in its sales organizations. Under the current GBM system, most of the overseas corporations merely follow the instructions given by the HQ. In short, its version of globalization has been defensive and inward-looking. In contrast to Sony, which conducts its major meetings in English, and does the same in smaller meetings if a single foreigner is present, Samsung Electronics' attempt to use English as its official language was short-lived. Everyone, including the president, had to write down and read what he wanted to say, and the plan was soon abandoned.

Securing Global Managers

In the United States and Europe, Sony has secured many local managers, but in Asia and other developing countries, Japanese expatriates still occupy major posts. The expatriates are managed by the country manager, but important strategic decisions are reported to more senior managers of each division in Japan. This structure means that country managers evaluate the expatriates, but do not have actual power or control over them.

Ando promoted a project, "Global Open Architecture," which focused on identifying 100 important posts all around the world, and on hiring foreigners to fill them. Its aim was to hire talented people from outside sources, regardless of their nationality or gender, instead of hiring internally. Ando and Idei believed that Sony could not globalize adequately or pursue its network strategy unless competent foreign managers could be brought in.

In contrast, virtually all the heads of Samsung Electronics' local operations have been Korean. Samsung Group believed that it needed managers with global mindsets in order to achieve "globalization" as defined by its "New Management Movement," and it has been using a "local specialist" system in which it develops its existing personnel into global managers. Nonetheless, it has not placed full confidence in local managers, or sufficiently delegated power to them. The policy of relying on internal recruits, especially Korean ones, has helped the firm achieve discipline and swift execution, but it has also greatly undermined the firm's capability to respond sensitively to local market demands. For instance, local managers are not empowered since all the important decisions have to be communicated back to the head office in Korea, often only in Korean. Korean expatriates can grab a phone and explain at length what they need to their counterparts in HQ. As a consequence, a lower-level expatriate manager has often more influence over his or her locally hired superior. Even outside hires are mostly Korean-Americans, who not only know the U.S. market but can also communicate with Korean expatriates in their mother language and who have a more favorable attitude toward Korea.

Samsung Electronics has succeeded thus far with its Korean-centric bias, but it is unclear whether that policy will continue to work. As discussed above, Samsung Electronics has relied substantially on Koreans who have studied in the United States for its R&D and technology. If Samsung Electronics wishes to remain a technological leader, it cannot restrict itself in this way. This kind of talent is always in short supply. Samsung also needs more managers who have global perspectives and must build a system that can utilize talent from all over the world. Moreover, although the Korean culture's emphasis on hierarchy and rote memorization may facilitate swift, effective strategy execution, this same emphasis may obstruct the expression of creative ideas or dissenting opinions. For Samsung Electronics to become a true industrial leader, its leaders must recruit people from other countries who have diverse opinions and creative ideas.

In addition, Samsung Electronics must acquire other firms to gain advanced know-how to speed up its technological progress. To prepare for this effort, it must learn the basic techniques for overseas mergers and acquisitions (M&A). The GBM organizations also need to develop the ability to respond to local demands. Otherwise, it will be difficult for the company to face the challenges of globalization.

In short, Samsung Electronics is still in its fledgling phase of globalization, and it has not experienced the true challenges of this process. Unlike Sony, it has not fully encountered either the need for, or limitations of, global management. Insofar as Samsung Electronics

wants to become a global leader rather than remain a follower, its inexperience in managing global operations and in attracting global resources may be its weakest link.