

Lee & Lee (2007).

Understanding Samsung's Diversification Strategy: The Case of Samsung Motors Inc., *Long Range Planning*, 40, 488-504.

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■ Questions

- ❖ What are the **major ideas** of this article?
- ❖ Who are the **important actors** in this article?
- ❖ Explain the **rationale** behind Samsung's decision to invest in automobiles. Discuss whether the importance of **non-economic factors** outweighs that of **economic factors** with regard to Samsung's aim to diversify its business portfolio.
- ❖ To what extent did the **Asian monetary crisis** affect Samsung's **strategic management process**?
- ❖ What **practical implications** for **emerging economies** can you draw from the articles? What are the **crucial lessons for managers aiming to diversify the business portfolio**?

Samsung's Diversification Strategy



■ Who is Lee Kun-hee?



- Birth:** January 9, 1942.
3rd son of Samsung Group founder Lee Byung-chull.
- Education:** B.A. in economics from *Waseda University* in Tokyo
Course participation (MBA) at *George Washington University* in the US in 1966.
- Status:** Chairman of Samsung.

“It is difficult to understand the true dimensions of a problem or a situation when so many things seem to be happening on the surface. This is why I urge my employees to analyse a given situation from various perspectives. This way of thinking allows one to see the true aspects of a situation, which, in turn, allows one to respond wisely.”

Samsung's Diversification Strategy



■ What Surprises Us about Samsung is ...



2.29%



2.49%



13.38%



6.04%



4.14%



32.88%

Samsung's Diversification Strategy



The 1960s & 1970s

- > **No clear market for**
 - Managers & skilled workers.
 - Capital.
 - Materials.
- > **Government supports**
 - Long-term loans.
 - Subsidies.
 - Special permissions to enter other promising markets.

**Implementing
diversification strategy**

The 1980s & 1990s

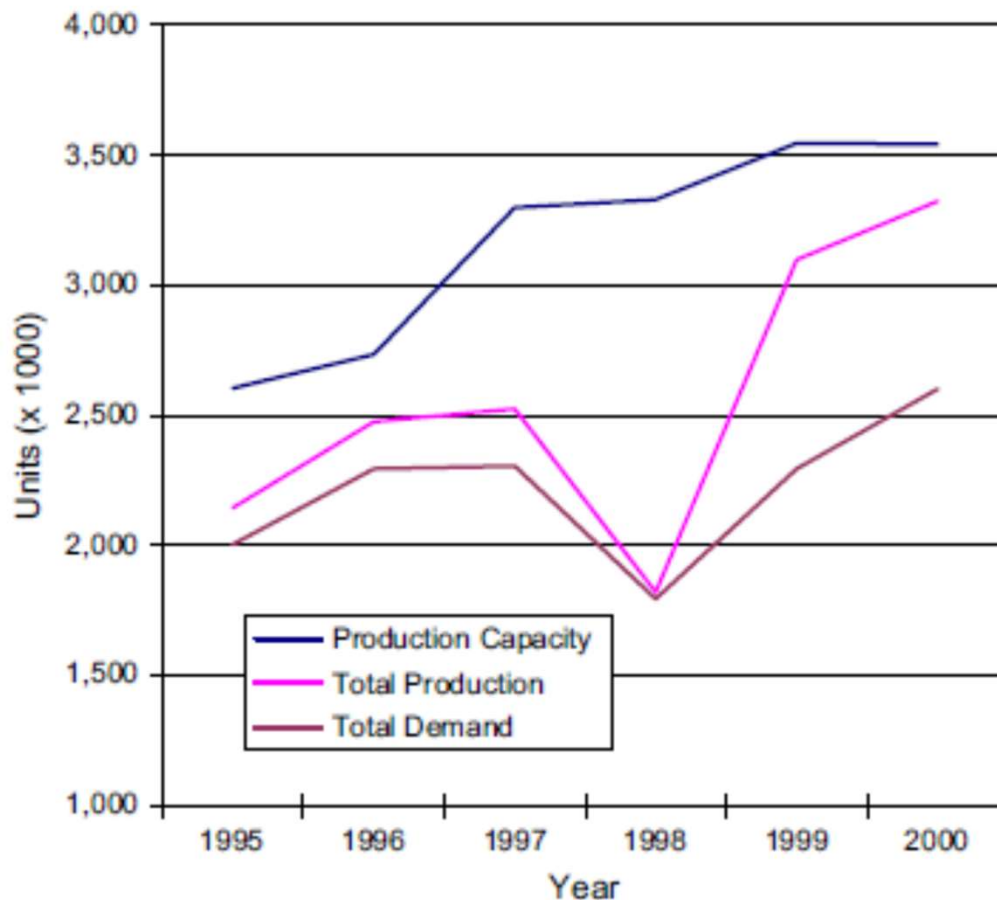
- > **Financial deregulation**
 - Market efficiency.
 - Foreign financial companies.
- > **Higher education institutions**
 - Competent engineers.
- > **GATT rules**
 - Reduction of trade barriers.
 - Increase in import products.
- > **No political favours**

**Rethinking
diversification strategy**

Samsung's Diversification Strategy



Korean Automobile Industry



Source: Lee & Lee (2007: 491).

Samsung Motors, Inc.

- > Technology licensing agreement with Nissan (1994.4.26).
- > Government accepts technology licensing report (1994.12.7).
- > Samsung Motors Inc (SMI) established (1995.3.28).
- > SMI's first passenger car in Pusan (1998.3).
- > Sold only 45,000 cars, which were mostly bought by Samsung employees (1998).
- > **Debt: US\$3.7 billion (1999).**



■ Non-Economic Motivations

❖ Competitive Imitation

- **Samsung's strong competitive rivalry with Hyundai.**
(*e.g.*, Hyundai followed Samsung's example by diversifying into high-tech during the 1980s.).
- Samsung entered the automobile market because of **their strong desire to curb Hyundai's dominance.**

❖ Legitimacy-Seeking

- **Charismatic leadership** of chairman.
- **Former Chairman Byung-Chull Lee's legacy:** Success of Samsung's semiconductor & shipbuilding business activities.
- **Contribution** not only to **Samsung** but also even to **the national economy.**
- **Chairmen is recognized nationally as a great business leader.**



■ Economic Motivations

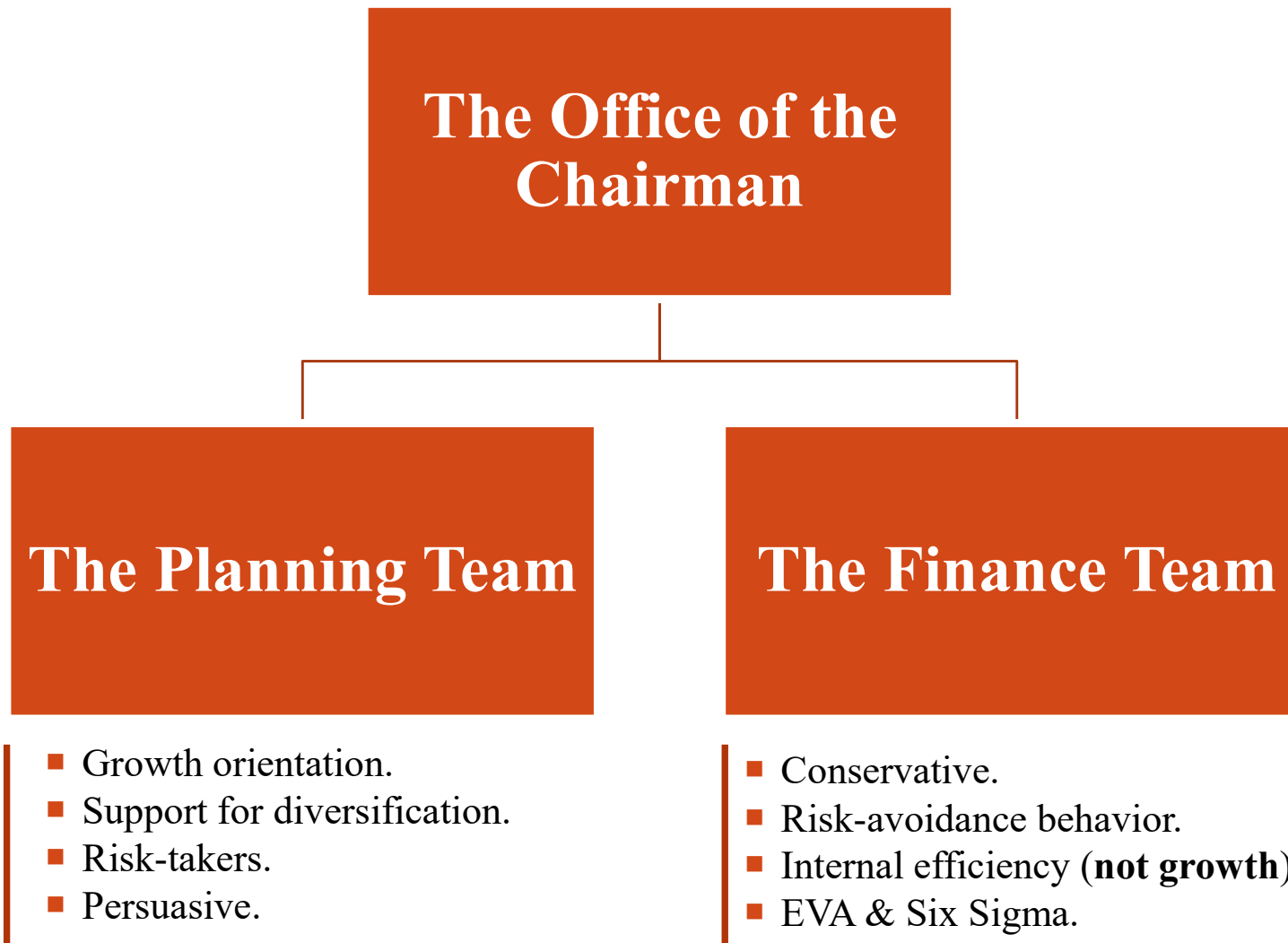
❖ Anti-Competitive Practice of Cross-Subsidization

- SMI was heavily dependent on Samsung's other affiliates for financial support (*e.g.*, **direct subsidy, debt guarantees**).
- **HOWEVER**, the Korean Fair Trade Commission imposed a substantial penalty on Samsung in 1998 for providing preferential financial aid across seven affiliates, including SMI.

❖ Synergy

- **Sharing of resources & capabilities** between SMI & other affiliates.
- **Samsung's brand identity.**
- **High quality products & services** (due to highly competent managers)
- **Leveraging the capabilities of Samsung Electronics → Transactional synergies.**

Samsung's Diversification Strategy





■ Conclusive Remarks

- ❖ **Adapt to both gradual & sudden shifts in business settings!**
 - Proactive response to them.
- ❖ **Avoid the risk of excessive diversification!**
 - A clear understanding about how to create synergies.
- ❖ **Identify which business units need to be reorganized!**
 - Priority over the overall competitiveness of the group.
- ❖ **Pursue strategies that involve both growth & efficiency!**
 - Operational efficiency may be necessary, but not a sufficient condition for a good strategy.
- ❖ **Balance between exploitation & exploration!**
 - Firms need to exploit their existing core competencies.
 - Exploration of new growth opportunities (*i.e.*, incremental expansion into different industries.).

Chizema & Kim (2010).

**“Outside Directors on Korean Boards: Governance & Institutions”,
Journal of Management Studies, 47(1), 109-129.**

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■ Discussions

1. Explain the **Korean corporate governance system before the Asian monetary crisis**. What change was seen after the crisis?
2. What are **potential mechanisms to mitigate agency costs** between **management & shareholders** in Korea?
3. What does it mean by “**principal-principal conflicts**”?
4. Discuss (1) the key concept of **institutional isomorphism** & (2) what **hypotheses** the authors developed in an extension of this theoretical perspective.
5. Identify the **weakness or pitfall** of this study.



■ The Anglo-American Corporate Governance Model

❖ *Key Features*

- **The Anglo-American model** focuses on a number of governance mechanisms including **(1) the separation of ownership from control, (2) financing through the stock market, & (3) the use of independent directors** (Dalton et al., 1998).
- **The Combined Code in the UK** recommends that the board should have **at least '3' executive directors & an equal number of non-executives**.
- In 1996, just before the financial crisis in Korea, **the average number of non-executive directors** in the top 100 of listed corporations **was 6.5 in the UK** (Pope et al., 1998).
- In the UK, **after the publication of the Cadbury Report in 1992**, there was **a widespread increase in the number & ratio of outside directors on boards**, accompanied by a significant improvement in operating performance (Dahya & McConnell, 2007).



■ ‘3’ Types of Institutional Isomorphism

❖ *Coercive Isomorphism*

- ... is driven by **pressures from other organizations** on which a focal organization depends & by **pressures to conform to the cultural expectations of society at large**.

❖ *Mimetic Isomorphism*

- ... is a **response to uncertainty**. In situations where a clear course of action is unavailable, managers may **imitate a peer organization perceived to be successful**.

❖ *Normative Isomorphism*

- ... is traditionally a result of **professionalization**, where **members of professions** receive **similar training** & interact through **professional bodies**.

Outside Directors on Korean Boards



■ Reform as a Result of the Asian Monetary Crisis

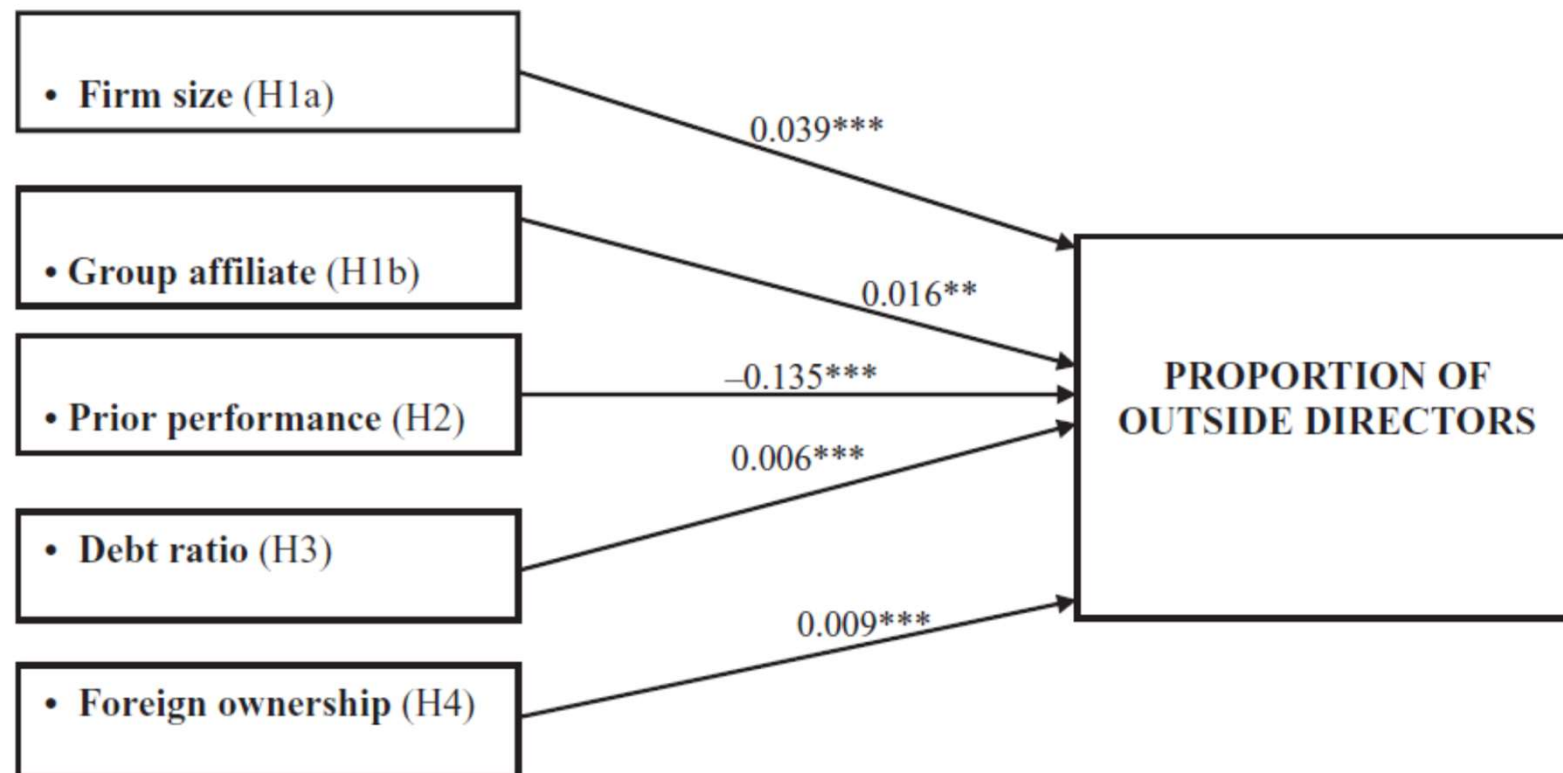
- > **Reform & recovery** have moved at a different pace in different countries (e.g., Recovery was very slow in Japan & Indonesia).
- > This period is characterized by:
 - **Improvements of accountability & disclosure** in the banking industry;

❖ **The Korean government pressured all listed companies, through the amendment of the Commercial Code in 1998 & through the Securities Exchange Act, to have at least 25 per cent of outside directors on the board.**

- A rise in **professionalism**, in both management & administration;
- The adoption of **democratic processes** in politics
- > Part of this reform & recovery: Firms take the notion of **CSR** serious & try to be more accountable publicly for the ethics of their behavior.
- > Asian countries are **converging** on a Western formula for organizing their societies & economies.



■ A Summary of Results through the Conceptual Model



The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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