

# The Analysis of strategic Management of Samsung Electronics Company through the Generic Value chain Model

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**Abstract.** The purpose of this paper is to find out the key success factors of strategic management of Samsung Electronics Corporation by the generic value chain model. The value chain model was popularized by Michael Porter in his 1985 best seller book, *Competitive Advantage*. 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.

The findings reveal that Samsung Electronics Co. has been using the generic value chain model in creating a shared vision, technology development, logistics, marketing, and cost control procedures. The success of Samsung's change effort is largely attributed to leadership, standardization of management system, commitment to innovative strategies and partnership with value chain experts.

**Key words:** New management system of Samsung Electronics Co., value chain, restructuring

## 1 Introduction

Chairman Lee of Samsung 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 seeking the New Management Initiative. 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" They 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. The value chain model was described 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.

Support activities make up the second set, and they relate to those functions contained within a firm's infrastructure that assist with the undertaking 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, all activities within the value chain are interdependent and must be managed together in order to succeed. Therefore 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 the New Management declaration in 1993. This research investigated many relevant materials such as business magazines and newspapers of Samsung's success factors and interviewed with a number of directors of Samsung.

## **2 Applying the generic value chain model into the strategic management of Samsung Electronics Company**

### **2.1 Personnel management system**

Samsung has been adopted open management in terms of personnel management system. "Open management means respecting 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 HR that promotes equal opportunity, put skills first, and realize human potential.

Opportunity should be available to add without discrimination and restrictions. Compensation and promotion should be boldly differentiated based on skills. Pay based on performance, and performance based promotion. The most important thing is that people are crucial of Samsung. With the introduction of New management Samsung 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.

As a strategic effort to faster long term talent to enter global markets, regional specialists 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 understand needs of wants 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 wants to come up with eco-friendly designs, not just good looking. Fourth, It tries to create designs that can reflect users' lifestyles and interact with them.

It designs not only to create unique and clever 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 Brand 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.

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 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 Sony or Toshiba.

## **3 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.

According to the value chain model, 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. 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.

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