

# Samsung Electronics: Transformation under Yun Jong Yong

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*Once a humdrum contract manufacturer of commodity electronics, Samsung has aggressively moved into flat panel TV monitors, DVD players and mobile phones. It is now taking branding more seriously. In many instances, its goods have more features than comparable models from competitors. This enables it to charge a premium.*

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Even in a year of remarkable recovery for Asia in 1999, some of the region's leading companies were foundering because of old habits. That was not the case with Samsung Electronics. Its CEO, Yun Jong Yong reinvented a company that seemed near death. For this exemplary performance he won accolades from *Fortune* as Asia's Businessman of the year 2000. He won the award because of a penchant for risk, a clear vision for the future, a feel for new technology and skill in leading people. He also won praise from Jack Welch, the ex-Chairman of General Electric.

How did Yun engineer the transformation? What steps and strategies did he adopt? What are the lessons to take? The answers to these three key questions form the subject matter of this article.

## About Samsung Electronics

Samsung Electronics is a global leader in semiconductor, telecommunication and digital convergence technology. It employs approximately around 64,000 people in 89 offices in 47 countries. It manufactures in 14 countries, including China and

Mexico and generates 70% of its revenues outside Korea. The company is the world's largest producer of memory chips (semiconductors), TFT—LCDs, CDMA mobile phones, monitors and VCRs. It consists of four main business units: Digital Media Network, Device Solution Network, Telecommunications Network and Digital Appliance Network business. Today, Samsung Electronics has succeeded in securing the largest global market share for 13 of its products. The company intends to add Digital TVs, IMT 2000 and printers to its list of products, which had already become global market leaders.

## The past

Samsung Electronics started out in 1969 making cheap 12-inch, black and white Televisions under the Sanyo Label. In 1988, the Seoul Olympics helped spotlight the country's economic and technological ambitions. For decades, Samsung Electronics was known for churning out cheaper alternatives to electronic goods from Japan, in the process becoming the world's largest maker of memory chips. By 1992,

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Samsung Electronics ranked No. 1 in DRAMs in terms of market share and revenues. It took some of the profits that the chips were generating and put them into wireless communications producing its first handset in 1994. Since then the South Korean company has been steadily moving up the value scale to a point where its innovative handheld devices and home appliances have allowed the brand to rival the likes of Nokia, Sony and Philips in price and visibility. It is no longer a copycat, making stuff designed by others. Instead it has become a truly innovative company. Last year, it ranked fifth in the world in patents, behind IBM, NEC, Canon and Micron Technology—but ahead of Matsushita, Sony, Hitachi, Mitsubishi Electric and Fujitsu. They also came in as sponsor to the Sydney Olympic Games and have been running heavy advertising. As experts put it, after Sony, they have the potential to be the No. 2 brand globally in consumer electronics.

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New product segments have been created which is more open to consider different brands. Samsung Electronics has focused on mid- and upper-tier segments in the cellular phone market with premium process, a departure from the company's earlier approach of low cost leadership. This year, Samsung Electronics will edge

out Siemens and Ericsson and become the world's third biggest cellular phone maker after Nokia and Motorola.

### Asian financial crisis of 1997

Yun is an electrical engineer who has been with the company since its founding in 1969. After graduating from Seoul National University, Korea's equivalent of Harvard, he joined the Samsung Electronics group and worked his way through almost every key management position. When he took over as CEO in 1997, he was empowered by its Chairman, Lee Kun Hee to do whatever necessary to save Samsung Electronics.

When Yun took charge of Samsung Electronics in 1997, earnings had largely evaporated because of a long decline in the prices of memory chips—

**Table 1 : Samsung Electronics: Financial Highlights**

	1995	1999	2000	2001
Sales	\$14.2 bn	\$21.5 bn	\$27 bn	\$26.4 bn
Net income			\$5.3 bn	\$2.4 bn
Semiconductors	47%	39%	NA	NA
Computer products	15%	15%	NA	NA
Consumer electronics	28%	17%	NA	NA
Telecom equipment	10%	29%	NA	35%

Samsung's main source of profit then. And the company was losing money on its low priced me-too models of TVs and microwave ovens. One of the first steps that Yun took was to reduce the overhead and bureaucracy while swiftly introducing a stream of innovative high-tech products. He reduced the payroll by one-third and replaced half the senior managers. He sold off \$1.9 bn in assets, from an executive jet to an entire semiconductor division; refusing to tolerate long presentations or reports. Then

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Yun launched a series of leading edge products, including Internet music players, flat panel displays and sophisticated cell phones (with both voice activated dialing and Internet access). These are products that can now compete with the likes of Sony and Nokia. He also forged alliances with such

potent customers as Dell, Apple Computer and Sprint PCS. As a result of above efforts, earnings of Samsung Electronics rose more than tenfold in 1999 to \$2.7 bn on revenues of \$22 bn.

Yun believed that fundamental changes often begin with destruction of an old order. He defied such Korean business traditions as lifetime employment and a Confucian respect for seniority. He stirred change by chopping one-third of the payroll to 55,000 and replacing about half of the senior managers. Most of the displaced workers landed jobs with suppliers, stayed with the businesses Samsung Electronics spun off, or received generous early retirement packages. He gave the survivors a degree of autonomy rare in Asia compensating them on their

### Lessons

Sustained superior performance is based on the ability to manage the tension between two forces (1) the need for continuous improvement in operational performance and productivity through relentless rationalization in existing activities (2) need for growth and expansion through continuous revitalization of strategy, organization and people. To quote Sumantra Ghoshal from his book *"Managing Radical Change"*, companies like Samsung Electronics that achieve radical performance see the two forces as symbiotic. The continuous rationalization process provides the resources including money and people, needed for growth and the continuous revitalization process generates the hope and energy to sustain the grueling challenge of relentless productivity improvement. Growth without productivity improvement is like building castles on sand. Inevitably they collapse under their own weight. An exclusive focus on productivity improvement alone, with no attention to growth, proves to be corrosive, ultimately sapping all the energy and creativity of the organization. In other words, while most companies do one or the other, sustained superior performance requires a management that has learnt to do both. This is the underlying lesson from the example of transformation of Samsung Electronics over the last five years.

contribution to profits. He infused a tradition bound Asian corporate culture with western values.

## Change management

In reshaping the company, Yun engineered the four steps in the "Cycle of Change". First, "Chaos-making" to shake up the old structure. Second, depreciating past accomplishments because Samsung Electronics had long regarded itself as the best run company in Korea. Third, instilling new values. Fourth, stabilizing the company.

### Chaos-making

He relentlessly slashed debt. He sold \$1.9 bn in assets, ranging from an executive jet to an entire semiconductor division and has quit 16 such marginal businesses as juice mixers, electronic pagers and dish washers.

## Shaking the complacency

For years, Samsung Electronics had succeeded by gaining market share at the expense of profits. The Asian crisis in 1997 came as a blessing in changing the attitude of complacency. The crisis made the managers see the need for radical change. The crisis made the job easier for Yun to overcome the initial resistance from managers who were used to putting size over profits. The slogan was "first survival then growth."

## Infusing new values

He infused fresh talent. He welcomed to his corporate board its first foreign Director, German banker Franz-Hermann Hirlinger. He hired 53 young Koreans with American MBAs in marketing and assigned them to every division as catalysts for making the company more attuned to global customers. Yun worked hard to change the bureaucratic culture. He refused to read lengthy reports and preside over endless formal meetings. He spent half his time visiting plants and sales offices, asking questions and listening to employees at every level. He made it a point to meet retailers to learn firsthand how Samsung Electronics is regarded in the marketplace.

## Stabilizing the company

His strategy was to implement a management formula which in his words can be summed up as "Quick, Simple and Autonomous". He has handed 17 global product managers total responsibility for the entire value chain, from R&D and production to distribution and sales. He insisted, for example, that they reduce inventories. Simple as it may sound, it saved billions for Samsung Electronics when it reduced the 75% of worldwide inventory from a four month to a one month supply.

His core strategy is to put the company at the cross roads of "Digital Convergence" in which many functions of phones, computers and consumer electronics are combined in a single product. The result is a Samsung cellphone that can access the Internet and even play music downloaded from the Internet. Yun believes that digital convergence will change lives as profoundly as electricity did a hundred years back.

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The threat of new entrants in digital convergence arena does not concern Samsung Electronics very much. Samsung Electronics has developed core competencies and capabilities in telecom equipment, consumer electronics and key components as advanced semiconductor chips and displays. Samsung Electronics is no longer a mere follower as in the period before 1997.

In the year 2000, it rolled out 30 original digital products in New York. One of the products is called YEPP (for Young, Energetic, Personal, Passionate)—a portable audio player of music downloaded from the Internet. The newer versions will play music videos. Other products are a miniature “watch phone” worn on the wrist. These innovative products stem from Samsung’s ability to pack more and more circuits onto semiconductor chips. It is like putting an entire system on a chip. It is this technology which will reduce the number of components in digital TV from 3500 to maybe a few hundreds. In the past, Samsung Electronics could not compete head-on with Sony in analog products, but with digital technology, it is ahead of Sony in some areas like channel switching for digital TV, optical disk in a digital video recorder that can capture up to four hours of recording.

## **Anatomy of a turnaround**

### ***Financial restructuring***

Some \$10 bn in debt has been wiped out since 1997. Dozens of companies have been sold or spun off. Stakes in money losing Samsung Electronics Motor and computer maker AST have been written off.

### ***Profits first***

The old obsession with market share and setting production and export records is giving way to a focus on making money with high-end products based on innovative designs.

### ***Streamlining***

Managers now strive to produce goods only after orders are placed and get them to customers within days, eliminating billions in inventory costs and accounts receivable. With JIT production, Samsung Electronics is saving billions on inventory

## **Diversification**

Once dependent on commodity memory chips for half of sales and 90% of profits, Samsung Electronics has greatly broadened its base to become a global giant in telecom devices, LCD and digital appliances. Back in the mid-1990s, when the bottom fell out of semiconductor prices amid too much supply and too little demand, Samsung Electronics was caught in the squeeze. Rather than simply ride out the storm or abandon the chip business, Samsung Electronics transformed itself into a diversified company that now depends less on semiconductors. It helped that it had been making products such as TV, DVD player, and home appliances under other brands, which gave it a fillip start for making digital TVs and DVD players

under its own name. While it was making this transition, Samsung Electronics expanded rapidly into mobile phone handsets. As part of its strategy, Samsung Electronics also focused on creating a more recognized brand that stood for quality products sold at a reasonable price, but not the lowest. Recently, in order

to upgrade its image, Samsung Electronics has pulled out of big discount chains like Wal-Mart and K Mart, which emphasize price over quality and moved its products to Best Buy, Sears, Circuit City and other speciality stores.

## **The future**

So far Samsung Electronics has been a global market leader in digital phones and computer monitors as well as such components as memory chips and thin-panel displays. Now Samsung Electronics wants to be among the first to excel in new high-growth businesses, such as cellphones that transmit the images of their users. Samsung Electronics has been able to use its home field advantage as a kind of test market for the world. It has today become the No. 4 maker of cellphone handsets.

As Samsung Electronics creates more of its own technology and upgrades its brand, its relations with customers and allies will become more complex. On one hand it sells chips to Microsoft for the Xbox and on the other hand it is developing an instant messaging phone for Microsoft rival AOL Time Warner.

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Managing a path between these feuding giants will require a delicate balancing act. Sony is also a big customer for Samsung chips.

The ambitious roadmap is to expand the revenues to \$77 bn from the current \$22 bn by the year 2006. The age of Samsung Electronics today is 33 years.

It is a good reminder that the average corporate life span has been just 30 years for companies in US and Japan. The demise of companies has been the inability of the top management to read environmental changes and respond appropriately. In today's fast changing world, nothing can be taken for granted. ■

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Personal Profile—Jong-Yong Yun	
<b>Date of Birth</b>	January 21, 1944
<b>Place of Birth</b>	Yeongchun, North Kyungsang Province
<b>Academic Record</b>	<ul style="list-style-type: none"> <li>Feb. 1966- Graduated with a degree in Electronic Engineering from the Seoul National University School of Engineering</li> <li>Jun. 1988- Completed the MIT Sloan School Senior Executive Program</li> </ul>
<b>Career</b>	<ul style="list-style-type: none"> <li>Jan. 1966 - Entered The Samsung Group</li> <li>Jan. 1969 - Samsung Electronics Co., Ltd.</li> <li>Jan. 1977- Head of The Tokyo Branch Office</li> <li>Dec. 1985 - Head of Research &amp; Development Div.</li> <li>May. 1988 - Electronics Group/Vice-President</li> <li>Mar. 1990 - Consumer Electronics Business Group / Vice-President &amp; Representative Director</li> <li>Mar. 1992 - Consumer Electronics Business Group / President &amp; Representative Director</li> <li>Dec. 1992 - Samsung Electro-Mechanics Co., Ltd./ President &amp; CEO</li> <li>Nov. 1993 - Samsung Display Devices Co., Ltd./ President &amp; CEO</li> <li>Nov. 1995 - Samsung Japan Headquarters/ President &amp; CEO</li> <li>Dec. 1996 - Samsung Electronics Co., Ltd./ President &amp; CEO</li> <li>Dec. 1999 - Samsung Electronics Co., Ltd./ Vice-Chairman &amp; CEO</li> </ul>
<b>Awards</b>	<ul style="list-style-type: none"> <li>Nov. 1990 - Bronze Medal for Contribution to Industry by the Government</li> <li>May 1992 - Gold Medal for Contribution to Industry by the Government</li> <li>Jun. 1995 - The Prize for The Honorable Engineering Alumnus Graduated from Seoul National University.</li> <li>May 1998 - Outstanding Achievement in Management (IIE)</li> <li>Jun. 1999 - The Prize for The Most Successful CEO in Korea (Korea Management Association)</li> <li>Jan. 2000 - The Top 25 Managers of the Year (<i>BusinessWeek</i>)</li> <li>Jan. 2000 - Asia's Businessman of the Year (<i>Fortune</i>)</li> </ul>
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