Independent Research Paper

Samsung Electronics Co. Ltd.

Samsung Electronics Co., Ltd., founded in 1969, is a South Korean multinational electronics corporation headquartered in the Yeongtong District of Suwon. It is the pinnacle of the Samsung chaebol, accounting for 70% of the group's revenue in 2012. Samsung Electronics has played a key role in the group's corporate governance due to circular ownership. As of 2019, Samsung Electronics is the world's second-largest technology company by revenue, and its market capitalization stood at US$520.65 billion, the 12th largest in the world.

Samsung is a major manufacturer of electronic components such as lithium-ion batteries, semiconductors, image sensors, camera modules, and displays for clients such as Apple, Sony, HTC, and Nokia. It is the world's largest manufacturer of mobile phones and smartphones, starting with the original Samsung Solstice and later, the popularity of its Samsung Galaxy line of devices. The company is also a major vendor of tablet computers, particularly its Android-powered Samsung Galaxy Tab collection, and is regarded for developing the phablet market with the Samsung Galaxy Note family of devices. It has also developed 5G capable smartphones including the Galaxy S22 and foldable phones including the Galaxy Z Fold 3. Samsung has been the world's largest television manufacturer since 2006, and the world's largest manufacturer of mobile phones since 2011 when it surpassed Apple up until 2021. It is also the world's largest memory chip manufacturer and, from 2017 to 2018, had been the largest semiconductor company in the world, briefly dethroning Intel, the decades-long champion.

Organizational Assessment & Risk Culture:

Risk is an inevitable part of business operation. When we do business in sales and wealth management, we are naturally exposed to various risks such as market risk, credit risk, and liquidity risk. As we can only make profit by properly manage and respond to risks, risk management defining risks and monitoring them while putting a risk management system in place that manages, evaluates, and controls risks in an adequate level is extremely critical in management activities. All employees, including the top management have a firm belief that 'financial business is a risk management business', so we analyze diverse risks that may occur in each business area throughout the company in advance. Aligning with it, we have also established an efficient management system maximizing profits while managing risks at a certain level.

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Risk Infrastructure:

The company follows a classic hierarchical structure as shown below. It has a committee with subcommittees and a Chief Risk Officer in charge of most variables in any case.

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Risk Identification:

Samsung identifies two major types of risk, financial and non-financial. They are further divided as follows:

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A risk assessment team is in place to identify these risks by various analytical models run by them on scale, and given the scale of the team, tasks are divided amongst them to make it more efficient to identify risks, with specialists for financial and non-financial risk analysis.

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Risk Measurement & Indicators:

Risk Cost was something Samsung focused on. Samsung relied on RAPM (Risk Adjusted Performance Measurement) which is an indicator for assessing revenue creation against risk taken. As a part of RAPM, Samsung Securities division implemented a specialized risk cost system where the risk costs are calculated for each division and reflected in the performance bonus of executives and divisions (Retail, Sales, Trading, etc.), while incorporating risk management into financial performance.

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Risk Management & Assessment

The Board of Directors of Samsung Securities is responding to risk-related issues by overseeing risk management tasks and organizing meetings at each decision-making stage. The Risk Management Executive Committee makes decisions by sales sector, while the Investment Acquisition Committee and Product Committee are subcommittees. Approvals from the subcommittees are reported to the upper-level committee, and if further review is needed, the upper-level committee reapproves the matter. To ensure an independent risk management process, the head of the trading division and executive officers in charge are not allowed to serve as the head of the risk management division or as the executive officer, while there is a chief risk officer who reports directly to the CEO to maintain independence in the process.

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Amid the low growth and low interest rates in Korea, investors are expanding beyond local stocks and bonds into domestic and overseas corporate lending, real estate finance, and infrastructure. In response to this trend, Samsung Securities has strengthened its assessment capabilities by hiring talented individuals for investment evaluation who are then assigned to evaluate the risk and profitability of investment assets using their expertise and experience. This is when Samsung decides to strengthen their risk assessment.

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Contingency Planning/ Disaster Recovery Planning:

Samsung is mainly dependent on insurance to cover the costs of any damages to physical facilities. As far as data is concerned, it is housed on the Samsung cloud, based on AWS servers. This allows for the data to be recovered quickly. Their warehouses and manufacturing units are outsourced, insured, and protected by government policy.

Key takeaways from the case:

I learnt a different perspective on handling risk through this case. Samsung has divided risks based on their priorities and this gives them the leeway to be flexible enough to handle all types of risks well.

References:

[1] https://www.samsungpop.com/mba/common/pdf/view.do?cmd=view&file=%2Fcommon.do%3Fcmd%3Ddown%26saveKey%3Dkor.business%26inlineYn%3DN%26fileName%3D2020%20Samsung%20Securities%20Report%20eng.pdf