

**Understanding Samsung's Governance Structure Change and its
Impact on Strategy after the Asian Financial Crisis:
from Diversification to Focused Strategy**

- Proposal for INCAS Project -

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Top Five Chaebols from 1960 to present in Korea

Asian Currency
Crisis in 1997

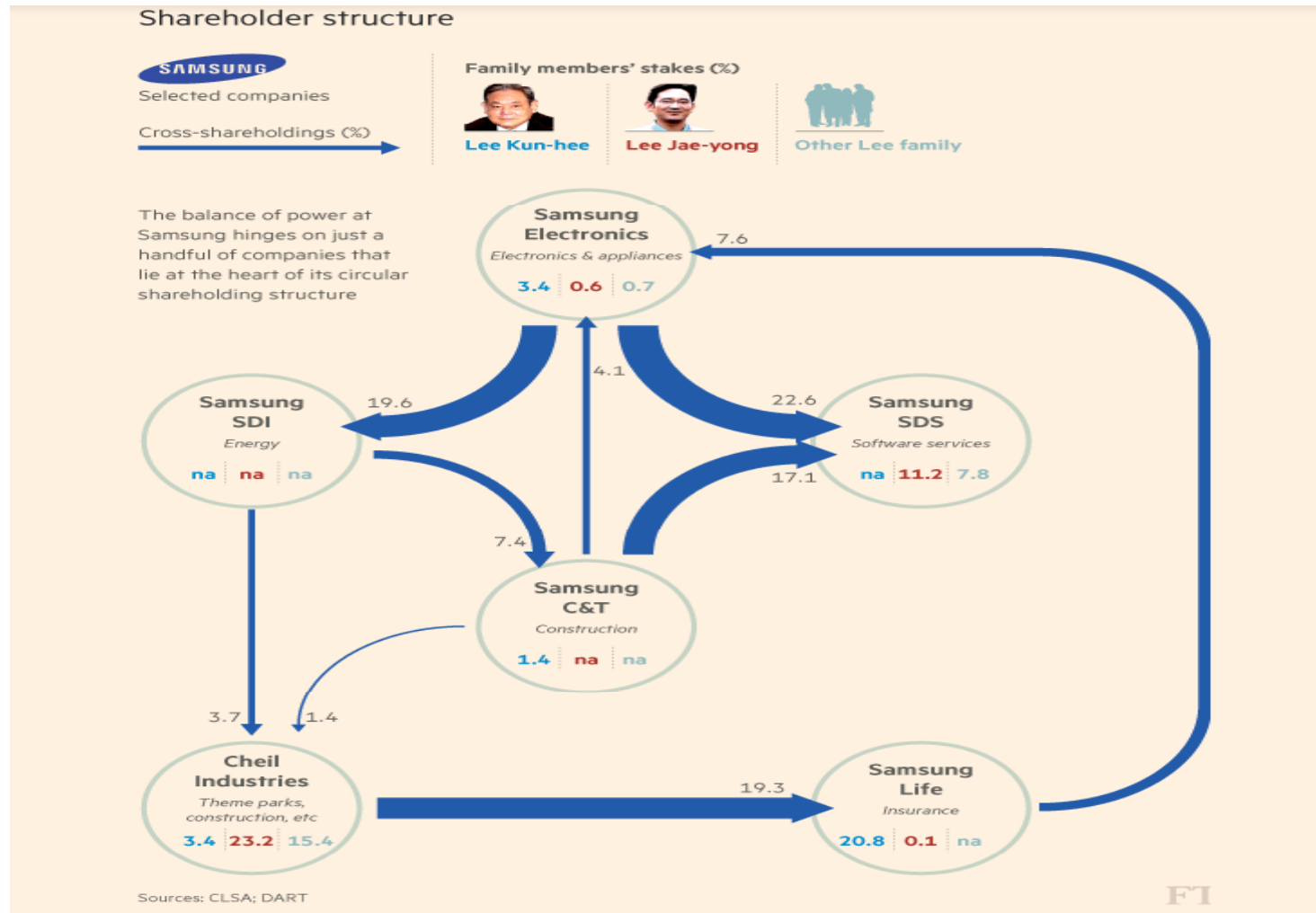
Heir Apparent Jae Yong Lee's
Control Underway

Ranking	1960	1972	1984	1996	2001	2014	Remarks
1	Samsung	Samsung	Hyundai	Hyundai	Samsung	Samsung (KRW 352 trillion)	100%
2	Samho	LG	LG	Samsung	Hyundai	Hyundai Motor	55%
3	Kaepung	Hanjin	Samsung	LG	LG	SK	43%
4	Taihan	Shinjin	SK	Daewoo	SK	LG	30%
5	LG	Ssangyong	Daewoo	SK	Hyundai Motor	Lotte	27%

Bedridden Chairman Lee's Term
Begins in 1987

Market Capitalization of Samsung Electronics: USD 214 Billion, ranked 22nd as of September 2016

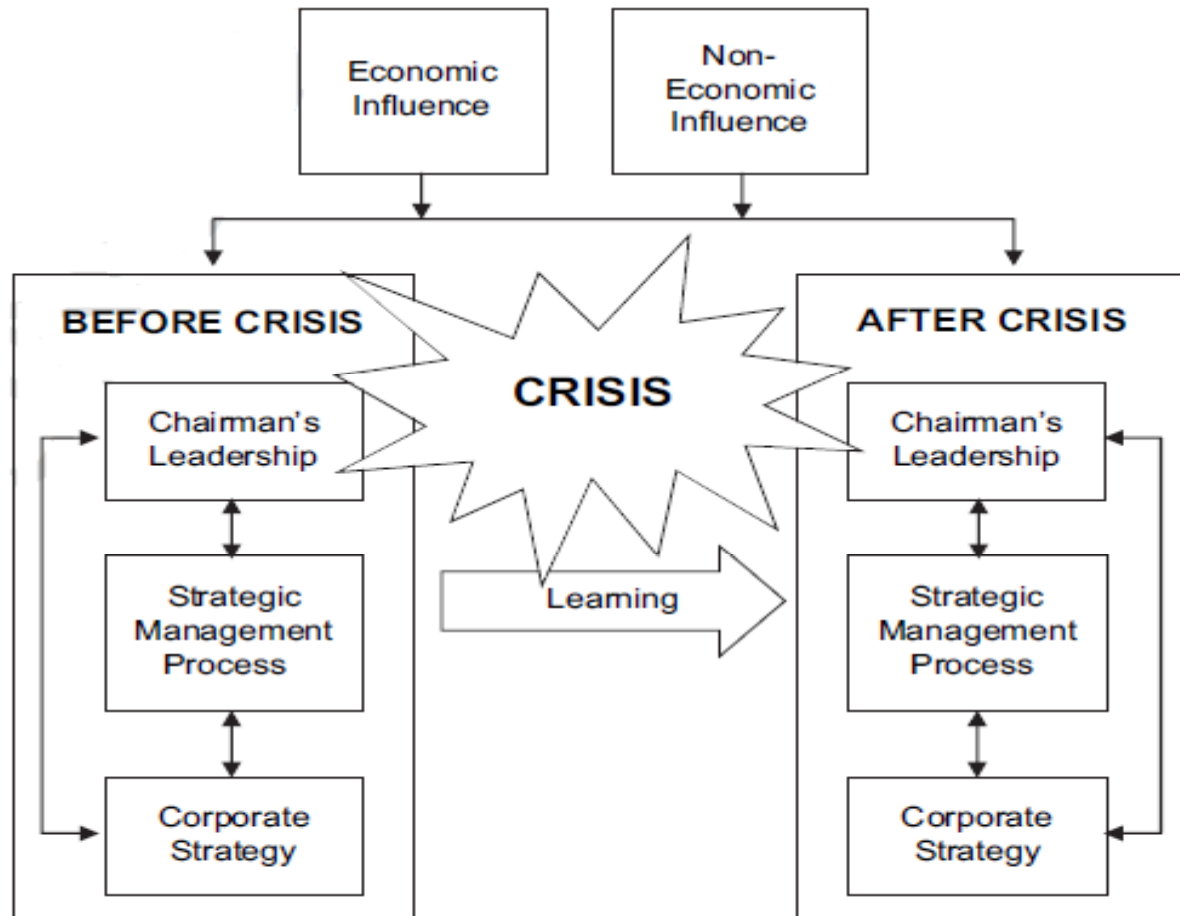
Simplified Shareholder Structure before Merge between C&T and Cheil Ind. in 2015



Restructuring in Progress at Samsung Group through Consolidation and Spin-offs

- **May 10, 2014: Chairman Lee hospitalized due to heart attack**
- September 2014: Attempt to merge Engineering Unit into Shipbuilding, but failed in November
- November 2014: Petrochemical and Defense affiliates sold to Hanwha Group at about USD 2 Billion
- **May 2015: Controversial Merge between Cheil Ind. (former Everland) and Samsung C&T (Owner family: 30.4%, Affiliates: 8.8%)**
 - A Newly Merged Samsung C&T holds 19.4% of Life Insurance, 4.1% of Electronics, and 51.2% of Biologics, while Life Insurance holds 7.2% of Electronics and Electronics holds 45.6% of Biologics.
- October 2015: Chemical Businesses sold to Lotte Group at more than USD 2 Billion
- As of August 2016: **Samsung Life Insurance** to become the group's **financial holding company** (in order to meet the government's principle of separating financial from industrial capital.)
Samsung Electronics is expected to become **non-financial holding company**.
Another third holding company is projected to be made to link the two.
- Others: Sports Teams have been consolidated under control of Cheil Worldwide since 2014.
e.g. Football (Electronics); Men's (Electronics) and Women's basketball (Life Insurance);
Men's Volleyball (Fire & Marine Insurance)
- Rumors to sell Construction, Cheil Worldwide, SDI, etc.

Analytical Framework



Understanding of Samsung's Growth before and after the Asian Financial Crisis

- Main Driver of Growth: Diversification Strategy with focus on Vertical Integration in Value Chain Activities (e.g. Electronics, Financial Services)
- Diversification before the Asian Financial Crisis: Electronics (1960s), Heavy Industry (1970s), Semi-conductor (1980s), **Passenger Cars (1990s)**
- **One of the recent highlights newly explored by Samsung was passenger car in the 1990s which turned out to be a failure and ultimately changed Samsung's strategic management during and after crisis.**
- Central Decision-makers: Chairman and Chairman's Office (Planning Team)

- c1 Over the first two generations of ownership held by the founding family between the 1950s and the 1990s, Samsung drove its growth stemmed from diversification strategy. Most of the businesses were unrelated in nature initially, but it gradually expanded its main business areas into certain industries, such as electronics and financial services, in particular, following the logic of vertical integration. Without any significant changes of ownership structure between insiders and outsiders even after the crisis, Samsung's focus on its main business recorded a historic financial performance. A similar phenomenon was also observed in another representative chaebol, Hyundai Motor Co.
- cau, 2016/09/07

Any Changes Observed after the Asian Financial Crisis?

- ✓ **Founding family's firm grip on ownership unchanged: Succession to Jae Yong Lee from Bedridden Chairman**
- ✓ **Finance Team had taken charge of strategic management emphasizing internal efficiency after the crisis.**
- ✓ **Emerging as a global player in IT/Electronics: Case Study of Samsung Electronics**
e.g. memory chip, LCD, TV, Mobile Phone, etc.
- ✓ **Outside foreign financial investors that formerly remained silent, however, started to raise voices over strategic agenda when the ownership of the founding family is expected to transfer to the third generation.**
e.g. Activist U.S. Hedge Fund, Elliott
- ✓ **Any New Business added?**
e.g. Biosimilar, Auto Parts and Components

➤ **Proposed Research Questions**

What is the impact of changes in governance structure on strategic management after the Asian Financial Crisis? - The case of Samsung Group in Korea

➤ **Research Methods**

Ethnographic Approach employing observation, interviews and document analysis.

➤ **Period**

Fall 2016 to Summer 2017

c2

In 1995, the Korean chaebol Samsung diversified into automobile manufacturing with the establishment of Samsung Motors Inc (SMI). The timing of this venture turned out to be rather unfortunate, as SMI's first car rolled off the Pusan production line in the middle of the Asian economic crisis. Under serious financial distress, Samsung had to abandon SMI, and sold it to Renault in 2000. This study explores the process of SMI's creation, and follows the changes in Samsung's strategic management during and after the crisis. Two questions are raised in the research: (1) How did Samsung come to invest in automobiles? and (2) How did the Korean crisis in general, and the crisis in the automobile market in particular, change Samsung's strategic decision-making process? Central to its diversification strategy were the chairman of Samsung and key members of the planning team at the Office of the Chairman. We find that non-economic influences prevailed over economic influences in pursuing the diversification strategy, and that due in part to the strength of these influences, Samsung underestimated the market risk and overestimated the contribution its core competencies and synergy could make. Matters were made worse by the significant costs incurred in transferring Samsung's core competencies and its high quality reputation and culture to the new business. By the time Korea finally emerged from the crisis, the finance team at the Office of the Chairman had taken charge of strategic management, increasing financial control and emphasizing internal efficiency.

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Theoretical Underpinnings for Analysis

- **Disruptive Innovation (Christensen et al., 2015)**
- **Dynamic Capabilities (Teece et al., 1997; Teece, 2009; Eisenhardt and Martin, 2000)**
- **Japanese management style and American management style – Samsung’s way (Song and Lee, 2013)**
- **Imprinting theory (Stinchcombe, 1965; Marquis and Tilcsik, 2013)**
- **Events and circumstances that influenced the management of Samsung Electronics**
- **Technological catch-up from the perspective of knowledge management and organizational learning**
- **(Nonaka and Takeuchi, 1995; Kim, 1997, 1998)**
- **Changes in the international management approach of Samsung Electronics (Perlmutter, 1969; Heenan and Perlmutter, 1979; Bartlett and Ghoshal, 1998)**
- **Analysis of Samsung Electronics’ SCM (Supply Chain Management)**