

CIO – Corporate innovation online

Innovation management best practices

Op-ed.

Samsung: is it time to innovate management practices?

June 11, 2020

Professional managers and new creative skills required.

According to Schumpeter¹, and largely based on Cain's book² 'Samsung Rising', the company has major challenges ahead. None are easy to resolve.

Mired in the Samsung dynasty with its ongoing trials for influence peddling, tied to Google's operating system but a strength in manufacturing chips, screens and gadgets, Samsung seems to lack the creative skills so much needed to compete with the likes of Apple, its major competitor globally. China is coming on strong in smart phones and has eclipsed Samsung's place in China, Big strategic decisions are needed.

Schumpeter advocates the need for professional managers and a new relationship with the founding family without killing its mojo!

CIO³ dissects the current situation with a view to finding a starting point from which Samsung can develop an improved climate for innovation and perhaps a modified culture.



Table of Contents

Samsung's management practices timeline.
The company has worked long and hard to change practices, but it has been a tough slog.

Culture is hard to define but omnipresent.
Corporate culture is hard to define and difficult to measure.

Samsung's culture for innovation.
Several major factors impact Samsung's culture/climate for innovation.

Trends in Korea.
Social media is creating the need for change.

Questions raised.
Need answers before acting.

Sources of ideas for change.
Samsung should look beyond Japanese and U.S. practices.

Appendix
DSM management initiatives to spur innovation

¹ The Economist, May 2, 2020. Schumpeter – The riddle of Samsung.

² Samsung Rising, Geoffrey Cain, published 2020 by Random House, a division of Penguin Random House.

³ The author has unique insight into global developments in the smart phone market having co-authored a detailed report on the demise of RIM (now Blackberry). Reference the web site.

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Innovation management best practices

Samsung’s management practices timeline

The company has worked long and hard to change practices, but it has been a tough slog.

Traditional ties to Japan until the 1990s

Samsung has historically relied on Japanese management styles⁴. Learning from the Japanese has been the practice, and in terms of success, this has worked. Even the forced bonding (planned drinking excessively) so traditional in Japanese management culture – has been adopted by Samsung. Life-time employment was and still is the norm.

In South Korea, a job at Samsung is a sign that you have made it. Prestige matters. When Lee wanted an outside appraisal done of Samsung’s business, he turned to the Japanese for the appraisal. Samsung has often turned to Japan for ‘faithful teachers and tough competitors – for wisdom and guidance’.

The ‘New Samsung Way’ - 1993

The New Samsung Way⁵ was initiated under Chairman Lee in 1993. The initiative was in response to Lee’s concern about Samsung’s competitive position in the global digital market. The ‘Way’ is described as a hybrid system – a compromise between Japanese (the traditional source of ideas) – and U.S. practices. Japanese personnel practices contributed its emphasis on employee loyalty and promotion and compensation based on seniority. The U.S. contributed its philosophy rooted in merit-based promotion and compensation and recruitment of experienced workers.

Strategies and core competency and supply network arrangements from Japanese and U.S. companies were also cherry picked to come up with a Korean solution. Coexistence and compromise were at the root of defining the Korean solution.

A centralized group, the Samsung Human Resource Development Center, evidently played a critical role in introducing the new ‘Way’; a recognition that this sort of change required significant direction and funding. Cain refers to this group as being modeled on Japanese corporate practices.

Samsung’s management style has long been described as militaristic, top-down, having a low tolerance for failure, and emphasizing long-term employment. The corporate structure is hugely complex with the Samsung family at large demanding retention of control.

⁴ For a discussion of Japanese management styles and how they have changed over the last two decades, go to ‘Japanese Management Culture and Corporate innovation’ under ‘Country Comment’

⁵ The Samsung Way by Dr. Jaeyong Song – lead author of the book by the same name released in August of 2014.

Researching and articulating innovation management practices

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Today's 'Way'

Cain's most recent book, *Samsung Rising*, paints a picture reminiscent of a bygone era. To Cain, Samsung was and is a strange 'labyrinth of a company, the product of a vastly different business culture from what Americans were accustomed to'. The company has 'long been trying to reform' its corporate culture. 'Samsung had instilled a sense of respect, loyalty, and fear in its employees, as well as a reluctance to challenge management either internally or publicly'. This is not a recipe which encourages change.

Cain quotes 'a former employee at Samsung who said he 'wouldn't have been so blunt, for fear of retribution'. 'Samsung's corporate culture is too rigid' – the result of fast following with poor fundamentals'. Trust is basic but with Samsung it 'rarely extends beyond one's family, and that includes "the Samsung family"'. A former Samsung executive laments that "our Samsung spirit exists no more", "We are becoming like any corporation". "We are becoming like you (an American) too short term and cold and logical".

Past attempts to change have gone nowhere. "How little you have changed, despite my repeated emphasis on quality management'. A speech often repeated in subsequent years as a reminder to staff. "For the older generation, the culture is sacred", according to a former senior executive. "We need more creativity" explained a senior executive in 2010. "I want someone who's got tattoos all over his arms and earrings".

Traditionally, to bring about change, Samsung has resorted to dramatic dictates from its senior executives. Some have worked but some have not. At the same time and with this background /Samsung has apparently wished for a change in their style of management and maybe their culture.

In 2016, Samsung Electronics management pledged that they would 'do away with authoritarianism and top-down hierarchy. 'They (Samsung) intended to transform Samsung's militaristic culture into that of a flatter more agile start-up'; referred to as "Start-up" initiative'. Note that GE at the same time under Immelt was 'pivoting' based on his time spent with venture capital entrepreneurial organizations and moved to introduce start up practices within GE.

According to Dr. Jaeyong, 'Samsung has adopted the elements of American management style like bold risk taking, securing core talent, strong performance-based incentives, creative organizational culture, and high speed' and 'reduced its reliance on Japanese models it has adopted in the past'.

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Culture is hard to define but is omnipresent!

Corporate culture is hard to define and difficult to measure

Deep down one knows, in their own organization, what is meant by its culture. Often heard is that ‘the culture here is really good or the culture is not so good’. We know it but we do not often get a chance to articulate what we mean. We know that when something happens which we do not like, the blame is put on ‘the culture’ – and that is the end of discussion.

Companies⁶ with a strong culture for innovation such as 3M and GE have developed their approaches over decades and have consistently worked to keep in front of mind the notion that they are fundamentally innovative organizations.

Since culture trumps strategy and Samsung is serious about wanting to become more innovative, it must address the issue of its culture otherwise future strategic goals will be upended and less than successful.

McKinsey tackled this subject in a recent article⁷. In McKinsey’s opinion, there are eight essential attributes and, would you believe, twenty-six supporting elements, only one of which is the need to have a ‘supportive culture’. One is left with a question about what is a ‘supportive culture’ as it applies to corporate businesses and more importantly, why is culture placed so low in importance.

If culture, as some believe, ultimately trumps strategy execution, this lack of understanding or clarity of what is a ‘supportive culture’ can be profoundly serious. Culture, if it is ‘not supporting’, can be a major impediment or even an impossible barrier, to improving or sustaining innovation.

Understanding and articulating the culture or the climate for innovation should be ranked at the top of concerns when dealing with change in an organization even though it is difficult to fathom.

Culture as defined by CIO colleague Peter Farwell.

The culture of a corporation is how the employees (and management) collectively feel about their work. It is usually founded on a common set of beliefs or values; and is manifest in the behaviours of the employees.

In a **good corporate culture**, employees are passionate about their work, eager to please their customers, continually seeking to improve their delivery to their customers and good at collaboration.

In a **bad corporate culture**, employees are unmotivated and lackadaisical about their work, look for motivation to internal factors such as internal politics, processes, and internal performance measurements, lacking in innovative leadership, and are poor at cooperating with other employees.

⁶ See CIO’s reports on 3M and GE

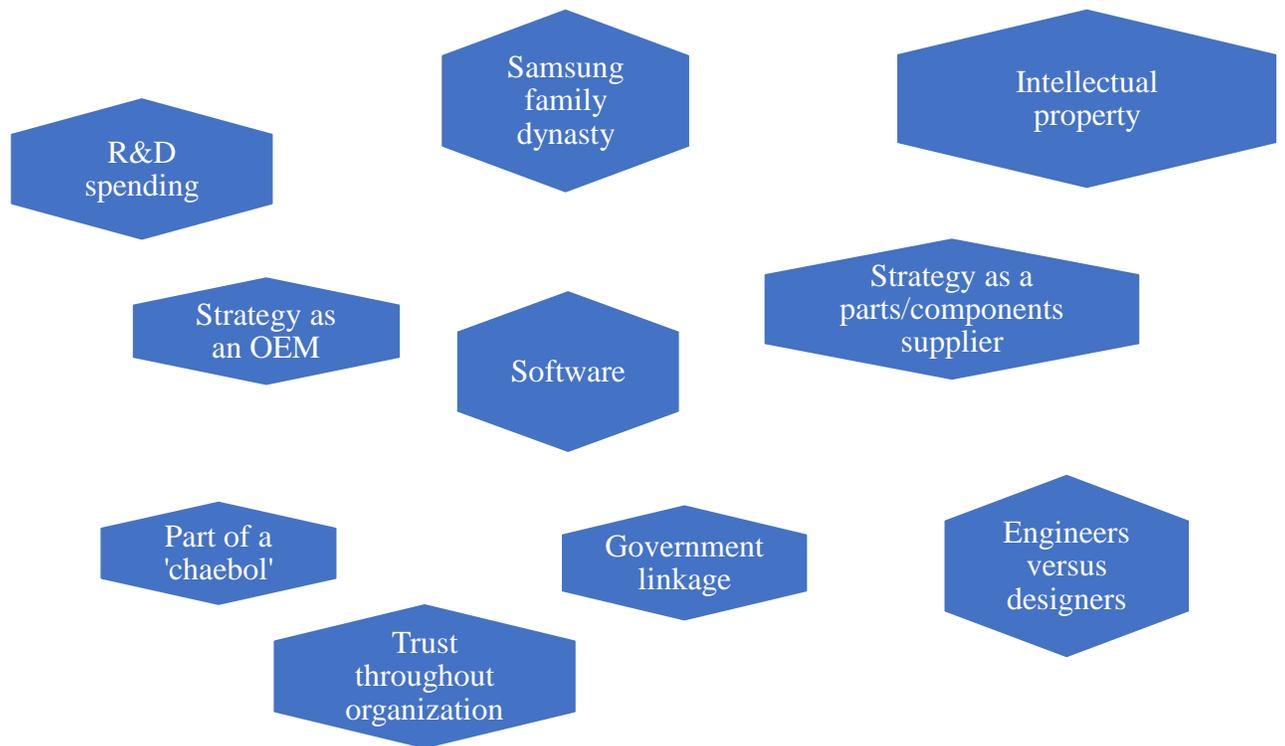
⁷ McKinsey Quarterly, April 2015, The eight essentials of innovation by Marc de Jong, Nathan Marston, and Erik Roth. Strategic and organizational factors are what separate successful big company innovators from the rest of the world

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Samsung's culture for innovation

Several major factors impact Samsung's culture/climate for innovation

Based on Cain's book, and only on Cain's book, Samsung's culture/climate for innovation can be described as an interplay of many issues.



The chart demonstrates the complexity of Samsung's Electronics situation. To the extent that Samsung Electronics moves to improve its management practices, it is difficult to imagine that the *chaebol* will not have to change as well. Maybe its time!

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Innovation management best practices

Trends in Korea

Social media is creating the need for change

The Economist⁸ points out that South Koreans are ‘challenging old structures and rigid expectations. Women are leading the way. The country is aging rapidly and working age population is declining.

Starting your own business is increasingly seen as an alternative to a job at a *chaebol* or in the civil service rather than spending decades scaling the hierarchy of a big company’ Kim Ji-Yoon says that “Young people no longer want these conservative traditions, and women are free to reject them”.

Clearly, there are forces within Korea that demand change. Those calling for change are young people, the next generation of business and political leaders.

Questions raised

Need for answers before acting

CIO uses ‘climate’ and ‘culture’ as close to having the same meaning when addressing innovation management practices. Here is a sample of the questions that need to be addressed as Samsung moves to address these issues.

- To what extent has or is Samsung willing to break free of its traditional source of ‘good guidance’ from Japanese sources? While there is evidence of some distancing, the real question is the degree of change that has taken place.
- Have the plans announced in 2016 – to flatten the organization and reduce hierarchy – been implemented and produced marked improvements?
- How effective has the introduction of U.S. style performance rewards for individuals – as opposed to a group orientation based on Japanese practices – been received?

For further insight into the issues and questions which need to be addressed in any review, check out the web site online survey⁹.

As Wayne Gretsky, a famous Canadian hockey player once said in answer to why he was so successful, he said that you do not go where the puck is but rather go to where it is going. Samsung should reflect on this guidance!

⁸ The Economist April 11th, 2020. A Special report South Korea. Loosening up.

⁹ www.corporateinnovationonline.com

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Innovation management best practices

Sources of ideas for change

Samsung should look beyond Japanese and U.S. practices

Given the success of so many U.S. based companies and their dominance in the digital economy, it would be easy to make the argument that Samsung should now totally embrace management practices from the U.S. Such a step may, however, be anathema to the Korean psyche. There are alternative models.

DSM, a Netherlands-based company, has numerous initiatives in place designed to increase innovation. These are set out in the Appendix. For several years, the company has conducted annual surveys to get the views of its employees. Surveying the views of employees, including management, is important to DSM.

The German model with its employee-participant Board had been successful. Apprenticeship programs and the emphasis on training, so long a practice in Germany, might be an idea deserving of some thought by Samsung.

In the end, Samsung must meet the challenge with its own solution. A tough challenge which will require much thought, consistency, resources and even some experimentation.

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Appendix – DSM management initiatives to spur innovation

Type of innovation management initiatives to spur innovation	Examples from DSM Practices		DSM
Employee/stakeholder surveys relating to innovation			
The scope of the survey is not available, but it is assumed that the survey would touch on matters at least related to innovation, such as communication, rewards etc.	Participation rate is high even after several years.		x
Dedicated organization arrangements to spur innovation			
Use of technical, business and executive champions			?
Use of task forces	Multi-disciplinary teams		x
Use of venture teams			?
New venture division	DSM Venturing established.	Explores emerging markets and technologies.	x
Business incubation	Innovation Centre works to establish new growth ‘platforms.		x
SBU proliferation	Not yet in common use.		
New business development within SBU	Separate centers established.		x
Acquisition/Divestiture			
Strategic acquisition	10 partnerships and acquisitions in addition to Sinochem and Martek		x
Spin-off	JV on biofuels global licensing		x
Spin-in	Not evident		
Financial Mechanisms designed to spur innovation			
Corporate venture capital	DSM Venturing		x
R&D partnerships	Many examples		x
Licensing	Intention in biofuels joint venture		x

CIO – Corporate innovation online

Innovation management best practices

Type of innovation management initiatives to spur innovation	Examples from DSM Practices		DSM
Strategic alliances aimed at marrying internal with external competencies			
Joint venture	Worked with Crucell N.V. on breakthrough initiative.		x
Three-tier venture	Engagement in Biomedical – a public private partnership		x
Supplier partnerships			?
Customer partnerships	DSM Dyneema with Badinotti		x
Union partnerships	Perhaps not relevant given European model		
Privileged relationship; with a source of technology	Dupont, POET		x
Government-sponsored venture			?
Corporate governance and innovation values aimed at spurring innovation			
Outside advisory group	Governance follows classic structure	No outside innovation group	
Strengthened Board role	No change evident re innovation		
CIO/CTO role	CIO was evident in 2008	CTO role in place	x
Corporate value re-orientation	Development of ‘Vision 2010’ – set out in 2005, commitment to innovation.	DSM should become ‘intrinsically innovative’	x
Customer viewpoint	Business groups focus		x
Idea generation management	Implemented a project-management approach dedicated to innovation.		x
Measuring innovation	Adopted % new product sales as main measure.		x
Incentives/rewards for innovators	Not evident for individuals.		
Open collaboration	Interaction with industry partners and technology thought leaders re Life Sciences and Materials Sciences. Linkages with research institutions.		x
Technological structure designed to broaden and deepen innovation competencies			
Central R&D	Established an Innovation Centre at corporate level.	DSM has a corporate research program focused on development projects.	x
Decentralized R&D	DSM is in the process of establishing centers in China and India.		x
Balanced R&D	Stated in annual report.		x
Contract out	No evidence of total outsourcing related to innovation. DSM now emphasizes the importance of open innovation.		x