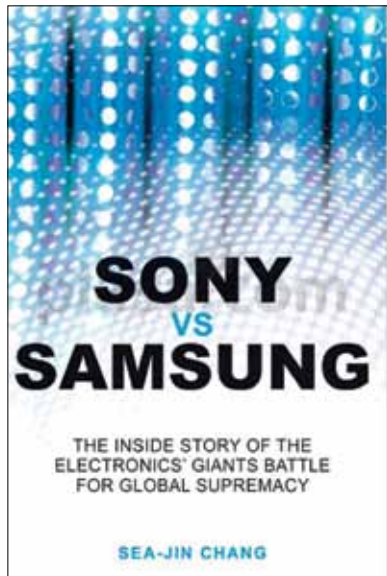


# Book Review



Chang Sea-Jin, *Sony vs. Samsung: The Inside Story of the Electronics Giants' Battle for Global Supremacy*, Singapore: Wiley, 2008, 250 pages.

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## INTRODUCTION

In this book, Professor Chang Sea-Jin explores why Sony's decades-long domination of market share in the electronics industry has dropped so rapidly.<sup>1</sup> In comparison, Samsung Electronics, then an obscure Original Equipment Manufacturer (OEM), emerged from nowhere and gained a foothold in the electronics industry. In his analysis of both companies, Professor Chang is convinced that performance differences between Sony and Samsung Electronics are not due to their differing strategies, but to their organisational processes and executive leadership. He argues that Sony's independent business units quickly became silos when its top management leadership was questioned, whereas Samsung's strategy of responding to commoditisation with speed and its militaristic organisation may have contributed to its stellar performance. This review will examine his comparisons of the two organisations and draw observations on how a militaristic organisation can succeed in the commercial world or in the areas of innovation.

## BEGINNINGS AND STRATEGIES

In Chapters 1 and 2, Chang details the beginnings of both Sony and Samsung Electronics and their overall strategies:

### Sony

#### Beginnings

In 1946, the year after Japan's defeat in World War II, Sony was incorporated as the Tokyo Telecommunication Engineering Corporation. As Sony-brand transistors became a hit overseas, the company changed its name to "Sony" in 1958 which is a combination of the Latin word *sonus*, which means sound, and "sonny," a nickname for a small boy. This name evoked the image of vibrant youth and reflected the company's ambition to grow. Though Sony has long been regarded as a market leader, since 2003 its sales have been either stagnant or on a downward trending. In addition, its profitability has been on the decline since 1997.

#### New Product Development

All of Sony's management resources have been concentrated on the development of new

products. Sony's capability to develop innovative products originated from its founding principles of "Freedom and Open-mindedness." Sony's founders believed that they could not compete with big companies by imitating what they did. Instead, they have been innovative, doing things which others could not. Sony's key capability was not in breakthrough scientific discoveries but in commercialising new, inexpensive, well-made products with large consumer potential that other companies neglected.

### **Internal Research and Development (R&D)**

Sony found creative ways to market its offerings, even when other firms did not consider them commercially viable. Because Sony pursued innovative products, it geared its research towards this goal. Sony's commercialisation capability relied entirely on internal research and development; it could not imitate others because it created products that had never existed before and it relied on its own research centres for new product development. Sony established a corporate culture that not only encouraged originality in research activities but even treated failure generously. However, such a system meant the possibility of costly failures, as well as researchers and developers using Sony's funds to pursue their own interests.

### **Diversity in Products**

As Sony had not set any direction for the future trajectory of the firm's technologies, technological

development typically occurred sporadically or by accident. As such, Sony was stretched thinly by too many products and rivals as it battled on a very broad front. At the same time, different business divisions could coincidentally develop similar devices separately without any cooperation or communication, thus creating competing products within its own brand.

### **Industry Jet Setter**

Sony frequently attempted to establish its own technology as the industry standard. However, owning unique standards is risky as well as costly and may alienate consumers who care about compatibility between products. At times, Sony's efforts to develop new products in conjunction with other firms have been inhibited because it is swimming against the industry tide.

### **Samsung Electronics**

#### **Beginnings**

Samsung Electronics, a subsidiary of Samsung Group, was established in January 1969 with an investment of 330 million won. Samsung Group established Samsung Electronics in order to diversify into the electronics business. Until the early 1990s, Samsung Electronics was an obscure Asian company that was known mainly for exporting cheap and generic OEM products. In fact it has only achieved laudable success recently. What is really noteworthy is its ability to gain a strong position in such a short span of time.

### **Borrowed Technology**

Samsung had no technological capability when it was first established in 1969. Until the late 1970s it was capable of nothing more than assembly, and it imported all its key components from Japanese suppliers. When it first began producing its own goods, many were of extremely poor quality.

### **Production Process Technology**

The R&D and production departments within Samsung Electronics' Semiconductor division worked closely to improve production. This was in contrast to a traditional, sequential approach where process engineers came in only after design was completed and test engineers took over only after the production process was done. Samsung Electronics continuously promotes process innovations that enhance productivity, even after mass-production is initiated.

### **Focus on Technologies with Clear Trajectories**

Unlike Sony's focus on unique and differentiated products, Samsung Electronics produced commodities with a focus on competitive cost advantages. It invested in technologies that had trajectories with clear evolutionary progress and industrial standards, and businesses with the highest returns given its resource level. Unlike Sony, it has not hesitated to source technology from other firms and other countries.

## **ORGANISATIONAL STRUCTURE**

Sony has become a synonym for "smart and unique products, good

performance, and outstanding design.” People are so familiar with Sony that some Western consumers never realise that Sony is a Japanese company. As a global brand, Sony is rated as highly as Coca-Cola and Nike. In comparison, Samsung was a completely generic brand until the mid-1990s. Its products sat unnoticed at the bottom of store shelves. Consumers once perceived them as cheap, though this gap in perceptions has narrowed considerably. Professor Chang explains the reason for this:

## Sony

### Culture of Freedom and Openness

Freedom and open-mindedness have long been the foundation of Sony’s corporate culture and organising principles. Its founding statement of purpose clearly states the guiding maxim of its corporate culture, “Let’s make a company where everyone feels happy to work.” During employee training, new recruits were told: “We did not draft you. This is not the army, so that means you have voluntarily chosen Sony. This is your responsibility and normally if you join this company we expect that you will stay for the next 20 or 30 years.” Sony also practiced on-the-job training (OJT). It sent new employees straight to its business units without any formal training because it believed employees could best enhance their skills when faced with real work and that they would grow more when tasked with a job initially beyond their ability. Sony also hired outstanding foreign employees for key positions to facilitate global localisation.

Sony’s organisation became horizontal, not hierarchical or authoritarian. The Chief Executive Officers (CEOs) of Sony’s founding generation managed Sony through charismatic leadership and even those holding dissenting views had few objections to their leadership.

## Samsung Electronics

### Office of Secretaries

The greatest difference in the organisational structure between Samsung Electronics and Sony is that the former is controlled by an Office of Secretaries, renamed the Group Strategic Planning Office in 2007. It is a group-level staff organisation that helps the Chairman of Samsung Group oversee individual affiliates. Its core functions are finance and accounting, auditing, planning, public relations, and human resource management, including the hiring and firing of all executives within Samsung Group. All important strategic decisions and sizable investment decisions, even at the individual affiliate level, have to be reviewed by this Office. In other words, all the important decisions made by its Chairman were with the assistance of this Office.

## RISE AND FALL

### Samsung Electronics

#### Emperor Management

Samsung’s governance structure can be characterised by the powerful authority held by the chairman of Samsung Group which was sometimes referred to as “emperor management” or

“dictatorship.” The immediate benefit of this power structure is that it has enabled the organisation to make decisions quickly and aggressively, yet still taking full responsibility for its strategies. Samsung Electronics has had several turning points when important strategic decisions were made under conditions of uncertainty, which was important as timing is crucial in the semiconductor business. Samsung Electronics was able to make decisions swiftly and concentrate on improving efficiency because it had a centralised structure with the chairman as its head.

### One-Man Decision Making

The problem with Samsung Electronics’ governance structure is the uncertainty of leadership as there is no guarantee that good leadership will be sustained. Furthermore, even good leaders can make mistakes and matters can be made worse because there will be few courageous enough to oppose the leader. In Samsung Electronics’ case, the few that expressed concern or opposition were fired. Because the firm was a latecomer to the electronics industry and technological trajectories were clear, it was not difficult for it to emerge at the top—catching up with market leaders through hard work and ingenuity was enough. However, Samsung Electronics is now a leader, not a follower, thus an autocratic system may no longer be optimal and wrong decisions could prove disastrous.

### Excessive Centralisation

All the major decision-making power is held by the Chairman and his Office of Secretaries—there are no measures in place to check their decisions even when they are wrong. In Western companies, strong corporate governance structures guard against such absolute power, ensuring that firms are not run into the ground by a few managers. Furthermore, while investment analysts and the media often serve as a check against untrammelled executive power, this safeguard does not exist in Korea where the media praises everything the Samsung Group does.

### Organisational Fatigue

Samsung Electronics is also experiencing organisational fatigue induced by “fear-based management.” Its employees and board members can be dismissed for any reason by the Chairman, the Office of Secretaries, or other superior managers. Working under such stress, the employees suffer accumulated fatigue and their performance suffers as a result.

### Lack of Creativity

Lack of creativity is another of Samsung Electronics’ weaknesses. As long as it had a clear target to pursue, it could surmount its considerable disadvantages by benchmarking against other firms and having its employees work around the clock. The firm’s corporate culture, management goals, values, and resources have been optimised to capitalise on the benefits available to a late entrant. Having become a market leader, it

now has no one left to imitate. It has few creative employees who can generate unique and new ideas. Furthermore, both engineers and managers fear failures, which make them focus on projects that give immediate payback and are low risk. The firm has also failed to accumulate technical expertise in developing new products because its R&D divisions have been focused primarily on improving production efficiency.

### Sony

#### Constant Restructuring

The CEOs of Sony’s founding generation managed Sony through charismatic leadership. As it switched from a charismatic leader to an administratively-oriented new CEO in 1994, it had already restructured many times. The new CEO wanted to introduce the “complexity theory” into management and he was a pioneer in experimenting with a new way of organising business. His frequent experiments, however, worsened pre-existing problems in Sony’s organisational structure. With the frequent restructuring, managers did not have enough time to improve performance. As such, their strategies became inconsistent and employees became dispirited.

#### Silos

Sony implemented a company structure in which individual product divisions have separate balance sheets and income statements, operating almost like independent companies. Such a divisional structure offers clear accountability but individual

divisions can become too independent. Sometimes product divisions in the same firm were “silos” and competed with each other rather than cooperate. In Sony’s case, some of the product divisions refused to share resources or transfer technology to each other.

#### Absence of Headquarters (HQ) Control Function

Under the company system, Sony HQ was supposed to be like a holding company that would take responsibility only for investing in new businesses and overall coordination. Sony HQ was defined as an “active investor,” which was to maximise shareholder value and the board of directors’ role was only supervisory. As such, Sony HQ was a staff organisation that could not force individual companies to act. Due to this non-interference by HQ, there were frequent disagreements as well as internal dissent. Consensus was hard to come by.

#### Cultural Change

Many problems that Sony encountered, however, resulted from the attempt to transform Sony from a traditional Japanese firm into a westernised global firm. Even though Sony implemented a Western board system, company structure, and evaluation measures like Economic Value Add (EVA),<sup>2</sup> it is questionable whether Sony’s executives and employees were ready to accept those systems and operate within them. At its heart, Sony remained a Japanese firm. At the same time, dividing Sony’s top managerial powers in terms of CEO

and Chief Operating Officer (COO) titles added to the confusion as these titles were difficult for Japanese businesses to understand and apply.<sup>3</sup> The proliferation of titles confused both outsiders and Sony's own employees.

## BRIGHT SPARKS FOR PROMOTION OF INNOVATION

There are also many examples of initiatives or "bright sparks" that have helped both companies achieve innovativeness. Many of these initiatives are found in our MINDEF initiatives as part of our PRIDE movement.

### Technology Strategy Meeting

Sony geared its research and development towards innovation. It held technology strategy meetings where divisional managers, researchers and developers met to formulate research projects for each division and exchange information.

### Internal Knowledge Sharing System

Samsung Electronics built an internal knowledge sharing system where detailed information collected during development and production processes are stored. It also assigns more than half the engineers who have worked on existing lines to build new ones, enabling knowledge sharing between existing and new lines.

### Focus on Process Improvements

Samsung Electronics continuously promoted process innovations that enhance productivity, even after mass-production is initiated.

Though most companies would be glad to sit back and let production take off, Samsung Electronics did not rest on its laurels and continued to strive for process excellence.

### Chief Technology Officer (CTO)

Samsung Electronics created the CTO post to manage mid to long-term basic research, road-mapping and patent standardisation, and to integrate and control the R&D functions of each general department. The CTO helped to prevent overlaps in R&D and decrease the competition between divisions.

### Strategic Product System

Samsung Electronics created this system to develop new products. The system instituted a tight time schedule where employees generate ideas for product concepts from March to April and the business division presidents present these ideas to the CEO in May and June. Three items are then chosen as the strategic products for the following year. This system is strategic and allows a bottom-up process of idea generation.

## CONCLUSION

Professor Chang's analysis of Sony and Samsung Electronics provides lessons that any organisation can learn from. A militaristic organisation can succeed in the commercial world, as seen by Samsung Electronics' success. However, an organisation that is centrally managed needs to carefully select leaders as well as maintain checks and balances

to avoid falling into the pitfalls of "emperor management" or "organisational fatigue" as evident in Samsung Electronics' recent years. Organisations also need to watch out for the usual habit of "transforming" without proper change management plan, exemplified by Sony's difficulties. They should continue to invest in R&D to become industry trendsetters, but should avoid going against the prevailing tide. 🌐

## ENDNOTES

1. Professor Chang Sea-Jin is currently Provost's Chair Professor, NUS Business School, National University of Singapore. He received his BA and MA in Economics from Seoul National University and PhD in Strategic Management from the Wharton School of the University of Pennsylvania, where he was a Dean's Fellow.
2. EVA or Economic Value Add is a financial performance method to calculate the true economic profit of a commercial organisation.
3. The Chief Operating Officer (COO) is responsible for the day-to-day management of the organisation and typically reports to the Chief Executive Officer (CEO).