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The Life Cycle of Samsung Electronics

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> *The life of a man is short, but that of a corporation must never be.*
>
> Lee Byung-chul[1]

Courtship and infancy

What did Lee Byung-chul, founder and chairman of the Samsung Group, think he was founding in January 1969? Globally, the electrical industry was at the end of its first electronic transformation, from valves to diodes and transistors. The American and European electrical industry was under siege by the Japanese industry—Sony, Matsushita, Toshiba and Sanyo. The Italians were taking the European whitegoods market by storm. In Korea, American and Japanese companies—including Motorola, Signetics, Fairchild Semiconductor, Control Data, Victor, and Canon—were in the process of setting up ventures to take advantage of cheap labor costs and moderate-quality labor.

In all probability, Lee mainly had his eye on his local competitor Goldstar Electronics (now LG Electronics). Founded in 1959, Goldstar was sweeping the local appliance market, as Korea's high tariffs and cumbersome non-tariff barriers limited the supply of imported products to the domestic market. Goldstar's founders, the Koos, had linked up with the founders of Lucky (at that time involved in clothing and chemicals), the Huhs, to form a new rival to Samsung called Lucky Goldstar. This would form a *chaebol*

which could seek to challenge the Samsung Group in every field. And Lee was not happy: unlike Lucky Goldstar, the Samsung Group was not then the favorite of Korea's military rulers, led by President Park Chung-hee.

When Park had come into power eight years earlier, Lee, the richest man in Korea, had spent six months in exile in Japan, negotiating the terms of his return, which included the surrender of his ownership of most of the Korean banks, and the creation of a new chemical fertilizer plant as a penance. A scandal involving Lee's eldest son over the sale of saccharine related to this new plant led to the confiscation of the plant and the political unacceptability of his first son as the future heir of the Samsung Group.

South Korea in the late 1960s was still one of the poorest countries in the world. It had been 18 years since the end of the Korean War, one that had left the agricultural South divided from the industrial North. During the war, more explosives had been used on the Korean peninsula than in the entire Second World War. While most of these explosives had fallen on North Korea, rebuilding South Korea had been a slow task in a country riddled with corruption and without a vision for the future. However, this changed on May 16, 1961 when a group of young military officers seized power, and put planned economic growth first. Only one thing had gone right in the first five-year plan period (1961–66)—exports grew. When the harvest was good (40 percent of GDP hung on the success of agriculture), Korea's economy, which is buoyed by exports, grew.

Between Lee, the rich patrician from Daegu in the Southeast, and Park, the peasant's son from nearby, there was no love lost. A supplementary account of this rivalry is given in the next chapter. For now it is enough to note that Lee was determined to make Samsung excel in every field of endeavor. In 1968 the government passed a law for the promotion of the electronics industry and this unlocked the door to a license for Samsung.

Chairman Lee was already the richest man in Korea under the old regime, but his surviving enterprises also prospered in the new era. He began to think about changing the name for his group of companies. Until the mid-1960s, he had called most of them "First" or "Best"—the word *cheil* in Korean means much the same. But now he launched new companies reviving the name of Samsung—Three Stars—which he had used in the 1930s and 1940s. Many people

thought this new name reflected a conscious desire by Lee to compete with Three Diamonds, the literal translation of "Mitsubishi."

Consumer electronics was a natural field to enter. Rural electrification had become a major part of Korean planning from 1968 as the supply of electricity began to match demand. Every Korean household wanted a TV set, an electric fan and a refrigerator. The Japanese were finding that labor costs were rising as the Japanese miracle pushed its economy to new heights. South Korea was a country that most Japanese businessmen felt they knew well from their colonial presence up to 1945. It was a country in which all those now over the age of 35 had been forced to learn Japanese. After the unpopular treaty which President Park signed with the Japanese in 1965, forcing the Japanese to pay reparations for wartime and colonial damage, the Japanese were allowed to officially invest in Korea.[2]

Consequently, in the courtship there was no shortage of suitors. Japanese companies were eager to utilize Korea's low-cost, but disciplined, labor. Because of historic animosity stemming from the colonial period, they preferred to create joint ventures. It was suddenly easy to get Japanese technology, components, and partners, not just for Lee, but for almost any Korean company. The Samsung group was armed with joint-venture and technology partners from Japan, including Sanyo and NEC. For Lee, who had studied at Waseda University in the 1930s and whose wife was Japanese, Japan was a second home, and his entire corporate structure was built on the concept of Japanese excellence as interpreted by Koreans. For the richest man in Korea and one comfortable in dealing with the Japanese, it was easy to find whatever technology Samsung needed. In 1969, alongside Samsung Electronics, Lee also founded Sanyo-Samsung Electronics to manufacture black-and-white TVs.[3]

The Japanese were the biggest investors in Korea in the late 1960s and early 1970s. But much of this promised investment—including a Toyota car plant—never arrived. In 1974, oil prices doubled and the Japanese pulled back much of their investment, especially from Korea, where they encountered continuing hostility. Korean industrialists hesitated as a mistaken government policy on private lending in 1972 almost brought business to a halt, and then two years later when OPEC brought the world economy to a halt.

Samsung Electronics, which started off manufacturing home appliances such as television sets and refrigerators in January 1969,

entered the microprocessor manufacturing business (as it was then called) by taking over Korea Semiconductor in 1974. At the time, there were doubts as to the wisdom of this quantum leap, from being an assembler of consumer electronics to a producer of basic components. In 2005, Lee Kun-hee, chairman of Samsung since 1987, explained how the management of Samsung Electronics, citing the company's lack of technology in the new field, had tried to dissuade his father and himself from initiating the microchip business in 1974. Lee said that he and his father decided to move into the semiconductor business as they were already convinced that, as the nation has virtually no natural resources, the high-tech industry was the only means of survival for the Korean economy. As Lee said in 2004, "Preemptive investment is critical to success in the chip industry since missing the timing for an investment will generate a huge loss."[4]

Thirty years earlier this was far from obvious to most Koreans. Rich as the Lee family and the Samsung empire were, committing money to a new business meant diverting a lot of resources that the company could use to add profitability to existing businesses.

Worse, Korea Semiconductor, which had a plant in Puchon in the Kyonggi province, was on the brink of bankruptcy only two months after its foundation. With the economy faltering, and the Japanese, expecting the worst, canceling nearly all their planned investment in South Korea, Samsung's managers saw this new investment as too risky. There were serious doubts about how South Korea, always short of foreign exchange, would survive in a world of high oil prices. Naturally, those around the Lees warned against jumping into a new industry that they knew little about.

Chairman Lee had already created a culture in which he listened to his senior managers. So father and son, rather than go directly against the ideas of their executives, funded the takeover of Korea Semiconductor privately, and only merged it with Samsung Electronics in 1979. Consumer electronics was seen as the leading business. Semiconductors were seen as items which would fit into these appliances, a source of import substitution more than of profit.

Given that the leading semiconductor companies had begun their businesses in the 1950s, just a few years after the first semiconductor transistor was invented in 1947, Samsung made a relatively late start. In 1976, Samsung Electronics succeeded in manufacturing the semiconductor transistor, and also installed mass production facilities of 3-inch silicon wafers in its Puchon plant.

At the consumer end of the industry, the Korean government deliberately blocked the entry of Japanese-finished consumer electronics. It was possible to smuggle in Japanese goods, but it was not possible to import them legally. The Korean government was determined to make an external competition-free environment for its electronics industry. Samsung did not stop at TVs and semiconductors but proceeded to create a total of six different electronics companies.

The government's thinking—governed by the simple idea that exports were good and the domestic market was secondary—was that consumption was waste.[5] For this reason, color TV sets could not be sold in Korea, and all domestic broadcasting was in black-and-white, although the American Forces Korea Network (AFKN) broadcast in color and those who had smuggled in TV sets could watch these English broadcasts in color.

In 1977, a young Ira Magaziner (later to be industrial adviser to President Clinton) stopped by the Samsung Electronics center at Suwon, while working for the British government as a consultant looking at color TV technology. As he was to put it later: "A few years before, Korean black-and-white televisions had begun arriving in England. At first, British TV producers hadn't been concerned. The Koreans gained only a small market share, and besides, this was exactly what developing countries were expected to do: compete in 20-year-old products."[6] Fifteen years later there would not be a UK-owned TV manufacturer.

Magaziner was not very impressed by Samsung Electronics:

> The company's electronic division, in Suwon, an hour's drive from Seoul, wasn't much. The factory floors were bare concrete, and people were hand-wheeling parts to and from the production line. I moved on to Samsung's research lab, which reminded me of a dilapidated high-school science classroom. But the work going on there intrigued me. They'd gathered color televisions from every major company in the world—RCA, GE, Hitachi—and were using them to design a model of their own.[7]

The chief engineer told Magaziner that rather than buy parts from overseas, Samsung was going to make everything itself.

Magaziner did not believe the company because he thought it could not find the engineers who could accomplish this.

In 1982 he returned, working for GE's microwave division and aiming to source cheap microwave ovens. At that time only the Japanese and American firms could make microwave ovens, but the Koreans were close behind. First he was struck by the color television line. "This was different—as automated as any TV plant I'd seen in America," he said.[8] He was also surprised to find that the company was making its own tubes for the TVs, right down to the glass in a joint venture with Corning. But he was most impressed with the change in the R&D lab which had gone from a school science room to a large modern operation: "Everything Samsung had said it would do in 1977, it had done."[9] Samsung was also ready to offer a way to allow GE to make money out of microwaves by producing them at a price that GE could not refuse.[10]

Go-Go Growth (1983–95)

By the 1980s when Samsung's six electronics companies were merged into two, Samsung Electronics and Samsung Semiconductors, electronics made up 42.1 percent of the group's industrial workforce, and about 10 percent of the total workers in the Korean electronics industry. Goldstar was still ahead, employing 14 percent.[11]

Problems with the Korean government continued. Samsung had to fight off an order to move the company's semiconductor operations from Suwon (where it had moved from Buchon) to Kumi, where the government planned to have all Korea's semiconductor plants located alongside the state-funded Korea Institute of Electronics Industry (KIET). Only Samsung was strong enough to resist this order. Its answer was to merge both companies.[12]

Why did Samsung Electronics Corporation (SEC) continue to invest money in components? The answer to this strategy lay at the heart of what it meant to be Korean in the 1970s and early 1980s. Despite escaping from Japanese colonization in 1945, Korean industry remained heavily dependent on Japanese know-how and even more on Japanese components. Samsung Electronics strategists could see that they were basically assemblers. As they disassembled the world's best TV sets, they saw the same components in many of them. Unless they could penetrate into the component business,

Korean industry would forever be dependent on the Japanese, who were now dominating the electronics industry. Did Samsung managers realize that they would be building up a core competence which would eventually allow them to out-compete the Japanese?

The Samsung Group began to make rapid strides in the semiconductor business with the "Tokyo Declaration" by chairman Lee in February 1983 where he announced that Samsung was making full inroads into the semiconductor industry. Ten months later, Samsung Electronics announced that the company had placed Korea in the third spot in developing the high-speed memory chip, behind only the US and Japan. Samsung lagged behind the US and Japan in developing the 64K DRAM by four and a half years. This meant that the Japanese and Americans enjoyed high prices; but when Samsung entered the market, the price for DRAMs fell dramatically and fell further as others followed.

Samsung engineers worked hard to narrow the technology gap with their top-tier competitors. In 1984, one year after the Tokyo Declaration, the company had narrowed the gap in its 256K DRAM development to three years. Samsung developed the 1Mb DRAM in 1986, the 4Mb DRAM in 1988 and the 16Mb DRAM in 1989, shortening the lead time on each occasion. In 1992, it gained the technological initiative in the global memory-semiconductor market by developing the world's first 64Mb DRAM.

During the 1980s, Korea was also undergoing historic changes. In 1980, a second military revolution had taken place which brought Chun Doo-whan to the presidency. In 1986, the democratic movement prepared for the overthrow of the military dictatorship. This did not take the dramatic form of violence. Chun Doo-whan did not step down from power as Synghman Rhee had done in 1960 in the face of massive demonstrations, nor did the KCIA chief assassinate him as Park Chung-hee had been assassinated in 1979. In the face of the determined will of the Korean people, Roh Tae-woo, Chun's designated successor, made a June 1987 declaration that free presidential elections would be held. Chun allowed these elections to take place in 1987 and Roh, a co-conspirator of the December 1979 military coup that rushed to fill the power vacuum after Park's assassination, was elected, as two opposition leaders fought one another and split the vote. But Roh allowed the democratic forces to continue their protests, allowing unions to form in all major industries and beyond. He presided over an era of prosperity in

which Korean wages rose 250 percent and inflation only 50 percent, doubling every Korean consumer's income.

Also in 1987, Korea acceded to the requests of the US government to open key markets, allowing the import of cigarettes, cars and other consumer items, and to allow foreign investment in the life insurance market. This liberalization did not extend to Japanese products, which gave Korea's electronics industry a further 10 years of protection.

These changes did not upset the growth pattern of Samsung Electronics. The strong cohesive culture of the company prevented the formation of unions, but Samsung Electronics continued its high wage policy. The company continued to produce both consumer products for which there was a surge in demand from 1986 onwards, and showed increasing competence, especially in TVs and, above all, in DRAMs.

Adolescence: Rejuvenating Samsung Electronics—The Yun era, phase 1 (1996–2000)

With the 64Mb chip in 1992, Samsung Electronics had entered the border zone between go-go and adolescence. It was time to change and restructure. Samsung had achieved a core goal to take leadership in DRAMS, but what should its new goals be? DRAM chips supplied 50 percent of the company's profits in 1995, and provided 35 percent of the total sales of the Samsung parent company. In 1995 Samsung was now at the leading end of the product price cycle. This meant that it was ahead of the global supply curve and enjoyed initial high profits. But when the rest of the manufacturers caught up, Samsung's profits would fall, and this would happen in early 1996, when a global oversupply of microchips caused prices to fall drastically. Since the early 1990s, Samsung has led the global market in DRAM semiconductors, the memory chips that are vital to almost every digital product we use. During the 1990s price slump, as competitors like Hitachi and NEC were backing away from the chip business Samsung dived further in, introducing two new lines.

In 1996, sales of Samsung Electronics fell for the first time, by 2.1 percent from 16.2 trillion *won* (about US$20 billion) to 15.87 trillion *won*. Facing considerable pain in this cyclical movement, Samsung executives began to look again at its then-inefficient

consumer electronics division, which had been neglected in favor of manufacturing microchips. Samsung had market leadership in television sets and the company began to aggressively market these abroad. But before Samsung could develop an effective strategy to cope with both the promotion of TVs and the problem of the DRAM price slump, the whole of Korea was engulfed in a financial crisis of unparalleled proportions.

The Samsung Group was lucky that in December 1996 chairman Lee had appointed Yun Jong-yong as CEO of Samsung Electronics. Forty-nine-year-old Yun, a long-serving engineer and a great admirer of Jack Welch and the corporate restructuring movement he led, was eager to apply many of the same ideas to Samsung Electronics. This marks him as a very unusual man within the Korean corporate universe of the 1990s. While most CEOs at the time were very able men, they lacked a sense of global vision or regard for Western companies. None of them had had experience of restructuring their companies or of ever downsizing. Rather, they were all growth specialists who had experienced double-digit sales growth almost every year since the early 1980s, and whose only financial skill was in borrowing new money to pay back old money.

If Samsung Electronics was to experience more than organic growth that was heavily dependent on product cycles, it would have to do something different, or change gear. Without this, there was every possibility that the company would develop signs of falling into the aristocracy cycle where Korean-style complacency was developing. This form of complacency was a more dynamic form of the disease than that seen in Western management, but complacency nonetheless. Samsung Electronics was by then already the largest company on the Korean stock market. It was one of the most prestigious in the Samsung stable, and was overstaffed with highly competent Samsung men who did not have to try too hard to be successful.

By the time Yun took the helm in December 1996, Samsung Electronics was primarily known for manufacturing microchips. Its consumer electronics products were regarded internationally as cheaper and lower-quality imitations of leading brands such as Sony and Mitsubishi. In Korea, other brands such as LG Electronics and Daewoo Electronics were experiencing surges in consumer confidence that were chipping away Samsung's market share.

At this time, the Samsung group was intently focused on its new auto company, which was preparing to make its first sales. Samsung Electronics was a major investor in the auto company, holding 50 percent. The Korean economy appeared to be defying gravity, continuing to grow at 8 percent per annum and growing visibly richer. Yun, as president of Samsung Electronics, was expected to preside over this successful company in which decision-making was decentralized, and in which each executive had wide discretion in making his own decisions.

Yun had other ideas. Although an engineer by training, he had evolved a set of management principles modeled along what Welch did at GE. He could see strong parallels between Welch's descriptions of GE in 1980 and Samsung Electronics (and most other Korean companies) in 1996. In 1988, Yun had completed a senior executive course at the Massachusetts Institute of Technology's Sloan School, where Jack Welch's achievements were being praised. In 1996, Robert Slater's 1993 book on Welch's work at GE was popularizing Welch's achievements.[13]

Yun brought to his job a lingering regret that he had studied engineering and not philosophy. "I just think I was very curious about everything ever since I was young, and curiosity just leads you to natural science," he told Eric Minton of Industrial Management in 1999.[14] Although Yun was more interested in studying philosophy, he had entered Seoul National University to pursue a degree in electrical engineering (a field often called "electronics"). "Korea was a poor country then, so I knew that if I majored in philosophy I would not have a job."[15]

Yun was born on January 21, 1944 in Yongchun, part of the Southeastern province of Kyungsangpukdo. He joined the Samsung Group in 1966 after graduating from Seoul National University's School of Engineering. Three years later he moved to the newly founded Samsung Electronics Company, where he worked on televisions. In 1977, he was promoted to head the Tokyo branch, which was concerned largely with relationships with the Japanese electronics companies in selling components and obtaining sub-contracts, and in sourcing and buying the Japanese components that went into every Samsung product at the time. Samsung-branded products were not on sale in Japan, and Japanese products were not legally available in Korea.

An equally important function for those in Tokyo was to keep track of the next generation of Japanese products. The Tokyo office was also a good place to meet the chairman. Lee Byung-chul spent several months each year in Japan., and the Tokyo office was responsible for keeping in touch with the chairman's day-to-day needs and orders. In Tokyo, Yun was able to establish relationships with both the first chairman and the future chairman.

This was a good base from which to start a string of high-level appointments within Samsung Electronics. In 1988, Yun was promoted to vice president. In March 1990, he rose to the position of vice president and representative director of the Consumer Electronics Business Group. He was appointed the Consumer group's president two years later. Outside of Samsung Electronics, he was establishing his reputation as a leader in South Korea's electronics industry. In November 1990, he received the Korean government's bronze medal for his contribution to the electronics industry, followed by a gold medal in May 1992. In that same year, he was named the most successful manager of the year by the Korea Management Association.

During Yun's time at the consumer products division, Samsung Electronics was investing heavily in research and development. "Producing high-value products with the next generation consumer electronics and improving product images among consumers are our main goals," Yun told the *Christian Science Monitor*.[16] Yun temporarily left Samsung Electronics in December 1992, to become president and CEO of Samsung Electro-Mechanics. He then headed Samsung's Display Devices division for two years from 1993, and managed its Japan headquarters in late 1995 before being called back to Samsung Electronics by the chairman.[17]

Samsung's chairman, Lee Kun-hee, who felt Yun had done well in consumer electronics, charged the new CEO of Samsung Electronics with the specific task of accelerating the company's growth and diversifying its portfolio at a time when the chip industry was in cyclical decline. Yun wrote in 2005 that in 1996 and 1997:

> . . . the market plummeted for major product lines, including semiconductors, IT devices, audio/video products and home appliances. Retail prices for mainstay items continued to fall . . . The record profits achieved

> by our semiconductor division in 1995 distorted the perception of the entire company's financial standing. The revenue structure and product portfolio worsened, jeopardizing the very survival of the company.[18]

This problem was far from apparent to most Samsung Electronics executives. On appointment, Yun initially thought that the world's memory-chip industry would recover from the previous year's decline. He also increased funding for research and development of consumer electronics. Still adhering to a mentality of viewing greater market share as an ultimate goal—a common perception in East Asian corporate philosophy, as opposed to an emphasis on profits in the West—Yun spoke of plans to hire more workers.[19]

In 1997, Yun's ideas and rapidly developing skills were essential. Initially, he thought of embarking on expansion, so he concentrated on new areas of growth. As part of this process, in January 1998 he introduced the Global Product Manager (GPM) system which would make the GPM, rather than the centralized decision-making process, responsible for product management. Yun was already emphasizing that marketing, rather than manufacturing, was part of the way forward.[20] But within a few months it had become obvious that Korea was caught in its worst economic and financial crisis since independence.

On December 3, 1997, South Korea's Minister of Finance and Economy, Kang Kyong-shik, signed an accord with the IMF which inaugurated what the Koreans called "the IMF era," or as it is commonly called in English "the IMF crisis." The crisis had in fact started 11 months earlier, in January 1997, with the collapse of Hanbo, a mid-ranking *chaebol*—the Korean word for the curious kind of conglomerate which the Korean system had generated. By December, despite the best efforts of the government, 14 of the top 30 business groups in Korea had fallen into bankruptcy. With them, they had taken most of the domestic banks and, almost as a by-product, the confidence of foreign banking institutions and investors. Many more groups teetered on the brink of bankruptcy, protected only by government restrictions on debt repayments, which in turn forced all banks into a state of near bankruptcy.

Korea had ring-fenced its financial system with the intention of pushing consumer savings into industrial investment. Because Korea

had a continuous current account deficit, these banks had also borrowed abroad. While the government could keep the *chaebol* on life support by preventing domestic banks from recalling their loans, there was no restriction on foreigners trying to collect their debts. As a result, by late November Korea was on the verge of default on its extensive foreign debt. The foreign debt problem, rather than the corporate crisis, required the attention of the IMF. Korea, unlike Japan or Taiwan, had had an endemic current account deficit throughout its 36-year growth marathon and owed the world's banks enough, it was believed, to threaten the world financial system. Korea had exhausted its foreign exchange reserves by November 1997, and was within hours of default on foreign short-term borrowing. This required drastic action by both the government and the private sector.

The term "IMF crisis," used by Koreans to describe the brief period of about six months from December 3 that the government lost decision-making power,[21] does not mean that South Korea believed that the IMF was having a crisis or caused the crisis. A better description of this whole crisis was that it was a *chaebol* crisis, rather than a financial crisis. The sequential collapse was induced by the over-ambitious investment plans of the 30 top business groups within an inadequate macroeconomic environment. The *chaebol* managed to survive as business groups under legislation which was expressly designed to prevent them from existing! We will examine in detail how unique the *chaebol* was as a Korean institution in the next chapter.

What contributed to the excessive foreign borrowings by Korean companies? Control of foreign exchange and a fixed exchange rate plus high domestic interest rates had made it attractive for both corporations and banks to borrow heavily abroad, both on a long- and short-term basis. Foreign banks had been happy to supply funds as, in most cases, Korean banks acted as intermediaries because the Korean financial market was still closed. These borrowings were thought of as sovereign debts by both sides.

These short- and long-term loans pulled down more and more companies during 1997. Korea's impractical bankruptcy provision in the Commercial Code exacerbated the problem—even Korean blue-chips came under pressure. The chairman of LG summed up the issue accurately by saying that no company in the world could survive the sudden withdrawal of all its credit. More accurately, no

company in the world with a debt ratio of over 100 could survive such action by the banks. Almost no Korean company had a debt ratio that low. The Samsung Group's debt-to-equity ratio in 1997 was 356 and Samsung Electronics' was 300. The resulting impact of this high debt ratio was the rapid erosion of profits through having to make high interest repayments. In 1996 Samsung Electronics had a very respectable operating profit of 1.44 trillion *won* (about US$1.8 billion) but after deducting interest charges, the net profit was only 160 billion *won*, or US$202 million. The Samsung Group had planned to invest between US$12 billion and US$15 billion during 1998–2000, but had earnings of just US$160 million in 1996.

Because Samsung, LG, and SK survived without a dramatically visible crisis like those happening to Daewoo or Hyundai, the assumption was that these *chaebol* were in good shape at the end of 1997. This was not at all the case. The Samsung Group had huge debts of about US$4 billion, most of it borrowed from Samsung Electronics, and servicing this debt eroded net profits. Furthermore, the Samsung Group's profits were sunk into Samsung Motor Company, which had no revenue. In 1997, Samsung Electronics Corporation had sales of 18 trillion *won* (US$22 billion), a marked improvement on 1996. Its net pre-tax income was US$108 million. But this net profit masked the fact that many product lines of Samsung Electronics Corporation, notably the consumer products division, were unprofitable. Samsung Electronics was kept in the black by one product line, DRAMs. A net profit of US$108 million was woefully inadequate to keep the steady reinvestment in new DRAM production facilities going. Samsung Electronics needed to borrow more money every year to keep up with its competitors. Its local competitors, LG Semiconductor and Hyundai Electronics, needed to borrow about the same amount with much lower incomes.

The entire corporate expansion of Korea had been built on debt. The less well-managed local competitors, LG Semiconductors and Hyundai Electronics, were bankrupt by the end of 1997 based on their debt-servicing needs. More bad news was to come. The IMF was convinced—based on its Latin American experience—that capital flight was a high danger and that interest rates should be raised to 20 percent to encourage capital to remain in Korea. In fact, this was a complete misunderstanding of the mechanism needed to prevent a currency flight on the Korean *won*. But it took a year to convince the IMF that this measure was unnecessary.[22] During that

year, every company in Korea struggled with the surge in the cost of local debt servicing. Joseph Stiglitz, then chief economist at the World Bank, later wrote that this mistake made the 1998 recession much worse than it needed to be.[23] Many small Korean companies and many large companies perished unnecessarily as a result of this mistake.

Against this backdrop of financial chaos in Korea, Yun's work on restructuring Samsung began. It was not until the second half of 1998 that Yun could get a consensus for a "resolute restructuring program." In his words, "A policy called 'Concentration on Selective Resources' was adopted, and all units or functions not considered strategically important were sold, discontinued or spun off."[24] In one year Yun cut the company's debt by US$13 billion; reduced investment; and pared its 84,000-man payroll by 30 percent without labor unrest. He was also ruthless in selling or closing down parts of the operation which did not make money. In 1998, it was rumored that this could include the entire consumer products division.

This moment gave Yun his chance to practice the lessons derived from Jack Welch. Under the Concentration on Selective Resources program, Yun looked at the whole company from the perspective of its resource base. He and his team concluded that the company, far from needing new employees, only needed two-thirds of the existing managers and workforce. He adopted a management reform program called "3P Innovation" which focused on Products, Processes and Personnel.[25]

Yun streamlined the company and made costly operations more efficient. He laid off more than one-quarter of the workforce, but managed to mollify the labor management council because both factory workers and managers were involved. He pulled the plug on 52 products and removed 45 companies from the Samsung Electronics stable. "The restructuring was painful but necessary," he told Ravi Velloor of *The Straits Times* (Singapore). "It is this bitter pill that we were prepared to swallow that has helped put Korea on the road to recovery."[26]

A horrendous external distraction that emerged at this time may have saved Samsung Electronics. The Korean government is prone to meddle in business affairs. While some meddling may be highly productive, other meddling imposes huge burdens on business. Somewhere in the decision-making machinery, President Kim Dae-jung had been sold on the idea of swaps or "big deals" between

the *chaebol* on a gigantic scale which would involve taking two or more loss-making companies and merging them into one entity.

The government proposed that Daewoo Motors would take over Samsung Motors, and Samsung Electronics would take over Daewoo Electronics, Korea's number three consumer electronics company. Samsung might have landed the better deal, since Daewoo Electronics was, on paper, a successful company, and Samsung Motors was a dead dog. But for those around Yun, who were considering closing down the consumer products division, it was far from attractive to be handed a purely consumer products company, with massive overseas investment and unclear debts. Both groups spent a lot of energy resisting the deal and Samsung was ultimately saved by the collapse of Daewoo Group in 1999. Because of the collapse of both the deals and of Daewoo, Samsung in turn had to put its motor company into liquidation. This meant writing off more than US$2 billion of Samsung Electronics' assets.

Under the same "big deal" policy, LG Semiconductor and Hyundai Electronics were forced to merge, to create Hynix. (Technically Hyundai "acquired" LG Semiconductor, including the debt which in the end helped create the collapse of the old Hyundai group in 2000. After 2000 Hyundai split into several groups.) Samsung attempted to stand above the other groups in crisis, resisting all orders from the government to restructure. It is claimed—and this is probably true—that in 1998 the newly-elected South Korean president, Kim Dae-jung, threatened to cut off Samsung's bank credit if the company could not reduce its debt, which stood at about three times its equity.

The one saving grace in the 1997 crisis was the devaluation of the *won*, which fell from about 800 *won* to the US dollar to 2,000 *won* in the last six weeks of the year. In the short term, this created further liquidity problems for any Korean company which had debts in US dollars, but it created a super-competitive economy when it came to exports. The *won* had been overvalued in the mid-1990s as Koreans had paid themselves handsome salaries without regard for profitability—part of the cause of the crisis. The *won* rebounded to about 1,250 to the US dollar by the end of 1998, but did not cross the 1,000 frontier until 2005. This meant that Samsung and other exporters made money, and could grow rapidly to repay domestic debt and refinance FX debt. Korean pay rates could remain at their

current levels in Korean *won*, but become highly competitive in international terms during this period.

In 1997, Samsung Electronics had sales of 18 trillion *won* (US$22.5 billion). In 1998, its sales were 20.8 trillion *won* (US$16 billion). Although the sales growth constituted a 15 percent rise in *won* terms, the weakness of the Korean currency meant a drop in dollar income of 71 percent over 1997 figures.

During 1998, each dollar in exports brought in more *won*. The company's financial position was helped by DRAMS exports and a reduced reliance on consumer sales in Korea. Samsung Electronics had more than US$259 million in earnings during 1998, almost tripling the results of the previous year. By implementing his changes, Yun paid off the company's US$4.7 billion debt, and Samsung's share price on the Korean stock exchange more than doubled from December 1997 to April 1999. DRAM chip prices rose again, as Yun had predicted they would, providing another source for the immense increase in Samsung's profits. "Half the credit goes to our restructuring and the other half to the booming demand in DRAMs and LCDs," Yun told Ravi Velloor.[27]

During this period, Samsung's attention was drawn towards the rest of the world, especially the US where the "new economy" and the Y2K issue was creating a boom for everything connected to IT. Samsung Electronics' TVs, mobile phones and the flat screens first produced in 1995, all found ready markets. The voice of Samsung Electronics America grew within the organization, perhaps reminding some managers of the way Sony had moved to the US in the 1960s. As part of an effort to make Samsung a multinational corporation and to decrease bureaucracy, Yun had already set up regional headquarters in the US, Europe, and Asia as part of the group's strategy of diversification. While these changes were intended to gradually ease the temporary slump of the microchip industry, the Asian financial crisis derailed any plans to expand Samsung Electronics over the next several years.

In June 1999, the Korea Management Association named Yun the most successful CEO in Korea. At the end of that year, as a mark of the chairman's favor, Yun was promoted from president to vice chairman of Samsung Electronics—second only in the entire Samsung hierarchy to chairman Lee Kun-hee—exciting the envy of his colleagues both within Samsung Electronics and the Samsung Group as a whole.

Prime: From DRAMS to world leadership—The Yun era, phase 2 (2000–07)

In Adizes' model of the corporate life cycle, prime is the optimum point in the life cycle curve. This is where the organization achieves a balance of self-control and flexibility. He describes the characteristics of "prime" organizations as:

- Functional systems and organizational structure
- Institutionalized vision and creativity
- Results orientation; the organization satisfies customer needs
- The organization makes plans and then follows up on those plans
- The organization can afford growth in both sales and profitability.[28]

Nothing describes Samsung Electronics more aptly. The scale of the financial revolution which Yun and his team wrought between 1997 and 2000 can be measured by Samsung's sales, which grew from 20.8 trillion *won* (US$16 billion) to 32 trillion *won* (US$28 billion). Much more impressive was the fact that net profit rose from 123.5 billion *won* (US$94.6 million) to 6 trillion *won* (US$4.8 billion), giving CEO Yun considerable leverage to grow the company and to prepare for more aggressive goals without borrowing.

Yun had rescued the company from financial crisis by implementing a new corporate philosophy within its ranks and by enhancing its research and development wing. Tackling the inefficiencies of the old Samsung philosophy, Yun introduced cash-flow principles to Samsung Electronics and emphasized profits over market share. One of his innovations was ensuring that consumer products were not made for foreign sale before they were ordered. Workers were offered an opportunity to study modern techniques in marketing and productivity through a school set up within Samsung Electronics, and large bonuses were given for outstanding performances.

Yun, who repeatedly described himself as "the chaos-maker," said he "tried to encourage a sense of crisis to drive change. We instilled in management a sense that we could go bankrupt any day."[29] In 1998, this could literally have been true and this gave Yun the confidence both to put the reform drive into Samsung Electronics

and to continue it as a philosophy. The downfall of Sony during the period when Samsung was playing catch-up only confirms the efficacy of the "continual crisis" philosophy.

Yun's astute reading of how digital convergence would impact consumer electronics also kept Samsung at the forefront of development. In the early 1990s, he had been the head of consumer electronics. He continued to observe the switch from analog to digital format in the future of every consumer device made by Samsung. He saw amazing opportunities in the globe's enthusiasm for the digital age, and the birth of digital convergence. The technological innovations that Samsung was working on had placed the company ahead of the pack in the digital revolution. "With the digital age, we can catch up with our competitors . . . We were 30 to 40 years behind in the analog age, but in the digital age, the playing field has been leveled."[30]

Moving away from Samsung Electronics' previous dependency on the DRAM market, Yun also focused on building new and high-quality consumer electronics. Early into the recovery process, he pinpointed the mobile phone market as an especially lucrative one. Samsung Electronics supplied athletes, staff, and others at the 1998 Winter Olympic Games in Nagano, Japan, and at the 2000 Summer Olympic Games in Sydney, Australia, with 25,000 pieces of wireless communications equipment. The South Korean population alone provided a large demand for mobile phones, but Samsung's exposure at the Olympic Games provided a boost to the international reputation of its consumer electronics. In 1999 Samsung struck a deal with the cell-phone service provider Sprint PCS, through which Sprint would market Samsung-built phones in the US. Other Samsung products developed at the time included internet music players and flat-panel LCDs.[31] Yun expressed the company's desire "to become a world-class company in the digital era, and in particular we want to become the best in terms of digital convergence and core components."[32]

Following the restructuring, Yun touted the virtues of "digital convergence," in which many electronic functions, using the same microchips, are combined into one product. Digital convergence is used in such products as mobile phones that double as game-playing, internet-enabled computers. This required the development of a new microchip set, and Samsung, because of its premier place in microchip production, was in an ideal position to lead the development of such technology. The results were such products as

color-screen mobile phones, smaller notebook computers, and enhanced camcorders. As Yun explained it:

> The IT industry is heading towards convergence. TVs, camcorders, mobile phones, PCs and other digital devices are being connected together through networks. We make all of these products and we make the chips needed to operate them. We are better placed than any other company in the world to enjoy the benefits of digital convergence.[33]

This, of course, was after the "tech-wreck" in the US which pushed most US hi-tech companies on the defensive. Samsung continued to pursue the digital era because, for it, the mobile phone was the first wave of digital convergence. By 2001 Samsung Electronics had a truly diverse line of products. Twenty percent of Samsung Electronics' revenue came from semiconductors, compared with 35 percent from digital media (including PCs) and 25 percent from telecommunications. By March 2002, Samsung Electronics was also the world's largest supplier of flat-panel monitors and DRAM chips, and the third-largest supplier of mobile handsets.[34]

In October 2002, the company reached a deal with the International Olympic Committee to be the "Official Wireless Communications Equipment Partner" for the 2006 and 2008 Olympic Games. That same year, Samsung also introduced an internet-enabled refrigerator and the world's smallest portable DVD player. Profits, which were US$2.7 billion in 1999, rose to US$5.7 billion in 2002.

Yun had high ambitions for Samsung Electronics. "I want to lead Samsung Electronics to become one of the best companies in the world," he explained. "When this goal is achieved, I want to visit historical and cultural sites around the world to pursue my study of philosophy."[35] Yun's achievements were honored when he received *Fortune Magazine*'s "Asia's Businessman of the Year" award in January 2000 and CNBC's Asia Business Leader Award in November 2002.

We have to consider what would have happened to Samsung Electronics if Yun had not become CEO. As Andrew Ward observed in 2003:

> In 1996, Mr. Yun was not the obvious choice of leader for a company in urgent need of painful restructuring. As a Samsung veteran who had risen through the

> company's ranks, he might have been expected to protect the status quo. Instead, Mr. Yun turned out to be an aggressive reformer. A third of Samsung's workforce was shed, lossmaking businesses were sold, costs were trimmed and the company's rigid management structure was shaken up.[36]

Samsung Electronics would certainly have restructured but would have concentrated on production rather than marketing and branding. Downsizing would have been limited and product areas that were unviable would have been kept in-house. An ardent campaigner against complacency, Yun set in motion processes to break down habitual tendencies and bureaucracy within Samsung Electronics. In a 1999 address to all employees he said: "Timing and speed will determine (the) life and death of a company in the digital era. Thus we must take the initiative in eliminating the 'Five Ills' of complacency, habitual practices, formality, authoritarianism and egoism; and equip ourselves with sound management fundamentals represented by speed, simplicity and self-regulation."[37]

Yun described the Five Ills as factors that cause major but unseen damage to the organization, including delayed decisions, poor inter-departmental co-operation and communications, unnecessary meetings, and massive paperwork.[38] In order to ensure that managers were able to access the company at all times, Yun distributed notebook computers and mobile phones to his staff. To combat bureaucracy and reduce costs, he set up a memo system on his computer that enabled employees to contact him directly with their complaints or ideas.

Although the Samsung Electronics team were divided over the appeal of consumer products, they felt even more threatened by dependency on DRAMs. Yun, particularly, wanted to reduce Samsung's reliance on commodity semiconductors, whose profits varied wildly depending on the ups and downs of the product cycle. In 2000, operating income for semiconductors was US$4.8 billion or 82 percent of Samsung Electronic's income base and 38 percent of total sales. In 2001 chip prices would slump again, and Samsung's semiconductor profits would fall with them.

But where would equally profitable lines come from? Yun had pruned the company of most of its loss-makers, and yet 62 percent of sales was only making 18 percent of the operating revenue. With the

coming renewed slump in DRAM prices at the end of 2000, where was Yun to make up for lost profit?

Supercharged prime: Catching up with Sony

One of Samsung Electronics' main challenges at the end of 2000 was trying to figure out how to finance the next round of investment for the next generation of commodity chips. Was there a way to make consumer products more profitable?

One man in the marketing division believed that stronger branding was the way to go. This man was Eric Kim, a Korean American, who persuaded Yun to spend money in the US market in 2001 to promote consumer products in America. He argued that this would raise the brand image of consumer products and allow new products to command a price premium. A reporter captured Kim's early days:

> Although Yun speaks through a translator in a formal reception room at the Seoul headquarters, he seems to relish the battle for the consumer market as much as 46-year-old Kim, a native son he enticed back in 1999 from a Dun & Bradstreet software unit. The casual Kim meets visitors in his airy office. As an outsider in a tradition-bound *chaebol*, or conglomerate, he can strike some elders as audacious. So be it. Samsung has just rolled out a $470 million global advertising and display campaign to establish itself as the "digit-all" company.[39]

So Kim got the go-ahead to market a strong brand for products focused on digital technology. "Through market research, we've found that people are tired of techno-snobbery. They want leading-edge technology at a good price," Kim said.[40] In 2002 Eric Kim, now newly-appointed global marketing director for Samsung Electronics, announced the company's goal of reaching the level of Sony's brand equity by 2005. This challenge to Sony, and indirectly to all other electronics companies, caught the imagination of the world's business writers. Coming from a company which in 1998 had considered abandoning consumer electronics as part of its portfolio, the challenge represented a major shift in policy driven by the

vision of the digital era in which Samsung could sit at the center. Many within the company did not believe that this was possible, or that marketing should take this role. Nor did they like the American turn that the company was taking.[41] Eric Kim and CEO Yun saw eye to eye on this goal and they had a ready listener in the chairman of the Samsung Group, Lee Kun-hee. (Indeed, this was something that might have met with the approval of Sony's Akio Morita, who had expressed the view that "Management of an industrial company must be giving targets to the engineers constantly; that may be the most important job management has in dealing with its engineers.") The goal to beat Sony, whose products were at this stage selling at a premium, had been Yun's ambition since he took charge of Samsung Electronics in 1996. The task was not to find a new product area to drive the expansion of the company, but to seek the integration of everything Samsung did to achieve premium status.

The market's reaction to Samsung Electronics' audacious ambition was mixed. While some thought it laughable, others felt Samsung Electronics had the makings of overtaking the industry giant. Sony's CEO, Nobuyuki Idei, certainly wasn't laughing. To him, Samsung was already on the verge of overtaking Sony. After all, Samsung was already the second-most recognizable consumer electronics brand in the world, according to New York-based consultancy, Interbrand. Another observer, Graeme Bateman, head of research in Seoul for Japanese investment bank Nomura Securities, was of the opinion that Samsung was no longer making poor equivalents of Sony products but making products consumers wanted.[42]

Those who listened carefully realized that Samsung was doing more than just advertising—it was changing its entire brand positioning and making entrepreneurial marketing the driving force.

For a company which up until the 1990s was concentrated on producing electrical goods for other manufacturers, Samsung Electronics had a huge undertaking. It was now seeking not only to raise the awareness for its brand but to break away from being associated with discount stores such as Wal-Mart and Target in the US. To create the demand for its products, the company relied on targeted channels—high-volume electronic-goods chains and prominent independent distributors—to boost sales and volume. It formed strategic alliances with Best Buy, Sears, and J&R Music & Computer World. Samsung Electronics certainly had the vote of one of its resellers. "This company is very oriented toward the

future," said Michael London, executive vice president at Best Buy, the biggest US electronics seller, adding: "Their products are now high-value and sophisticated."[43]

The first two years of this campaign were impressive. By 2003 Samsung Electronics had sales of US$36 billion and pre-tax net income of US$4.98 billion (see Figure 1.1). Moreover, the extra US$8 billion in sales compared with 2002 was based on much more profitable sales. In 2004, the company crossed the US$50 billion mark in sales, adding US$14 billion and doubling net income based on mobile phones, flash memory and LCD screens. By then, it had a market capitalization double that of Sony. Samsung had gone from crisis to triumph. During the same period Sony had encountered nothing but trouble.

Between 2002 and 2004 Samsung Electronics doubled its sales. And it began to run close to Sony on a number of measures. In 2005 it achieved its goal of having a higher brand value than Sony, reaching number 20 on Interbrand's top 100, with a value of US$14.9 billion. Sony was number 28, with a brand value of US$10.7 billion. But this was not quite the achievement it appeared, since while Samsung's brand value had risen 186 percent, Sony was the fastest-falling company of 2005, with only two-thirds of the brand equity it had had in 2000.[44]

When Eric Kim set his sights on overtaking Sony, he did not realize that the Japanese company was in such trouble. The fact that Sony's brand value was falling fast was only a warning of the magnitude of Sony's troubles. In March 2005, Sony did the

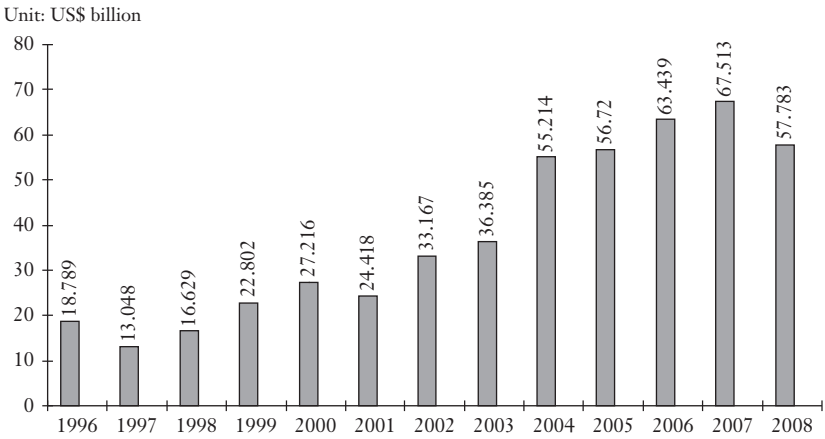


Figure 1.1 Samsung sales growth

unthinkable—it appointed an American, Howard Stringer, to head its entire operation. No Japanese consumer products company had voluntarily turned to an American for leadership. But Sony is no ordinary Japanese company. It is one of the flagships of Japan Inc. In adopting this shift, Sony was admitting to the necessity to reshape the company to cope with the rising competition. The media was quick to identify Samsung Electronics as the key competitor.

By contrast, Samsung had pursued a lean corporate structure since 1997. Increasingly, it delegated authority to front-line managers around the world and assigned almost a quarter of its far-flung staff of 88,000 to research and development. In 2005, Samsung Electronics saw ultimate success. Interbrand showed Samsung had conclusively beaten Sony in brand valuation. However, Samsung was faced with inherent weakness, as we shall see later. The Korean way of accounting created some problems for Samsung Electronics against international competitors. At the same time, by the end of 2005, Eric Kim had left Samsung for Intel, and the brilliant entrepreneurial marketing campaign was about to unravel.

In 2005, Samsung Electronics was South Korea's largest company in sales revenue terms, as it had been for many years. It was now also Korea's most profitable company and was one of just nine companies in the world with a net profit of over US$10 billion. Samsung Electronics continuously represented about 27 percent of the capitalization of the Korea Stock Exchange. By this time, 69 percent of its shares were owned by foreigners. It was still controlled by the Samsung Group, which cumulatively owned 20 percent of its shares, as explained in the following chapter. Its nearest Korean rivals, in terms of size, were Hyundai Motors and LG Electronics, each about half the size or lower in turnover terms, and far below in profit terms. Samsung Electronics' major products were now DRAMs, LCDs, handphones, and consumer appliances. In 2005, the company ranked thirty-ninth in Fortune's Global 500 companies.

The problems of stable going on aristocracy (2006–present)

Prime is the last phase of youth, and is followed by the first phase of aging, which is the "stable" cycle, later followed by "aristocracy." This hardening of the arteries is usually accompanied by a growth

in the power of the bureaucracy versus the other aspects of management. Sony was layered in bureaucracy in 2005. When Jack Welch became chairman of GE, one of his main aims was to "nuke the bureaucracy" earning him his early 1980s sobriquet "Neutron Jack." GE, as a conglomerate, was already decentralized and Welch's contribution, by simplifying the bureaucracy and management structure, was to increase control while emphasizing flexibility and entrepreneurialism which he had experienced in the plastics division.

Although Samsung Electronics was focused on being lean, it had yet to learn the true lesson of decentralization. One aspect of organization which the conventional life-cycle model does not consider is the impact of decentralization and empowerment, especially in a centralized Asian context. "Aristocracy" perfectly describes this situation where a divisional structure based on products, as adopted by Sony in 1995 and Samsung in 2005, creates a set of semi-autonomous business satraps[45] contending for resources and power.

Decentralization became a way of handling diversity and allowing flexibility in many organizations, normally under a divisional structure, as seen during the later 1980s and 1990s. Samsung Electronics, in particular, did not embrace such a structure until the early twenty-first century.

When CEO Yun wrote about Samsung Electronics' change agenda, he put great emphasis on the "processes" part for change. It is important to remember that the life-cycle concept measures the total DNA of the organization, which includes its ability to change, and this is best measured by sales growth and profitability. In 1996, on the basis of the Yun reforms, a rejuvenated Samsung Electronics managed to avert settling into stable complacency by soaring into a new life, and a line of rapid growth. By the beginning of 2006, however, the company had lost its marketing entrepreneurialism shine, and was showing signs of aging.

The product cycle exhibits the same sort of dynamics as a company's life cycle. In 2006, 80 percent of Samsung's revenues were coming from semiconductors, principally DRAMs, and NAND flash memory (used for storage devices), LCD screens and mobile phones, and in each sector new challenges were emerging.

At this juncture of its growth, Samsung Electronics was far from its 1992 days. Its DRAMs normally commanded higher prices and fatter margins because the bulk of its memory revenues come from specialty products, including graphics chips for game

consoles and high-density memory modules for heavy-duty servers. "We move up to higher-value chips if other companies catch up," Hwang Chang-gyu, president of Samsung's memory-chip unit, told *BusinessWeek* in 2006.[46] Its fastest growth came from flash memory, which can hold data even when electric power is turned off. Samsung, in 2005, wasn't able to keep up with the voracious demand for flash-memory chips that go into cell phones, MP3 music players, digital cameras, camcorders, and other handheld devices.

In 2004, Samsung controlled 55 percent of the US$2 billion market for NAND flash memory, used mainly in removable cards that store data, music, and image files. With a sprouting portable digital-products field, the NAND flash-memory market globally hit US$7 billion by 2005, and continued to grow.

Samsung Electronics was also somewhat shielded by the commoditization of the DRAM and LCD-panel markets as a result of the strong demand for LCD screens from growth in the notebook PC market, the increasing replacement of cathode-ray-tube computer monitors as well as consumer preferences for flat-screen TVs. In the second quarter of 2004, Samsung's LCD sales totaled US$948 million, up 42 percent from the first quarter, to account for 11 percent of its US$8.6 billion in second-quarter sales.[47]

Samsung Electronics was also riding high in the mobile phone market. It had proved that a Korean company is capable of building a brand through a top-down marketing strategy. By focusing only on mid- to high-end phones, it sold 25 million units in the first half of 2004, grabbing about a 10-percent share of the market, to be the world's number three in mobile phones, after Nokia and Motorola. It introduced well over 100 models globally in 2004, including those that allow users to download and view up to 40 minutes of video and watch live TV. "We're confident we'll get stronger," Chu Woo-sik, Samsung's vice president, declared in 2006.[48] In 2007, Samsung continued to climb, to reach the number two spot in the mobile phones market; but Nokia also increased its lead.

But in 2006, when chairman Lee and vice chairman Yun surveyed their product portfolio, they saw that growth was hitting the ceiling. Without entrepreneurial marketing, Samsung's brand value was rising slower than that of other companies. After more than 12 years of energetic growth, the energy was waning. Companies in the aristocracy phase tend to still be cash rich, but characteristically try to raise profits by raising revenues, not by cutting costs.[49]

Faced with this, Lee called for a new vigor to be injected, not only in Samsung Electronics but the whole Samsung Group. The new slogan was: "creative management." As usual, Yun championed active cost-cutting, prepared to reorganize and rejuvenate Samsung Electronics.

For Samsung, this was *the* moment to return to the state of "continual crisis." Change, however, was going to deal Lee and Yun a series of blows. If one talks of a "continual crisis," as one might talk of the continual ebbing and flowing of the tides, what should a company do when a real tsunami hits it? In 2007 growth slowed down and profits fell as semiconductor prices sagged, which offered a chance for Yun's critics to raise their voices. Then a political scandal affecting the Samsung Group was to force the resignation of chairman Lee in April 2008. The unleashing of an underlying tension between "the Korean voice"—forces within the company—and "the international voice," at a moment when the product portfolio was no longer yielding growth, resulted in Yun also resigning a month later. Finally, the onset of the global financial crisis in 2008 required all the skills that Yun had honed, but demanded them of a new team. As the following chapters will show, a company at the prime stage in its life cycle will cope with the problem very differently from a company at the aristocratic point.

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