

Samsung CEO Ki Tae Lee on expanding the global market

Interview by Sang M. Lee

Executive Overview

Samsung Electronics Co. Ltd. is a global leader in semiconductor, telecommunication, and digital convergence technology. Samsung Electronics employs approximately 64,000 people in 89 offices in 47 countries. The company is the world's largest producer of memory chips and a major producer of TFT-LCDs, CDMA mobile phones, monitors, and VCRs. Samsung Electronics consists of four main business units: Digital Media Network, Device Solution Network (semiconductors), Telecommunication Network, and Digital Appliance Network (home appliances).

Ki Tae Lee is president of Telecommunication Network. In 2002, he was named by BusinessWeek as one of Asia's stars. A former military officer who taught at an army communications school, Lee is soft-spoken but hard driving. He has been known to throw handsets on the floor to demonstrate their durability while giving tours of his factories. Lee credits his success to his refusal to lower the prices of Samsung Anycall cellular phones. The average selling price of Samsung phones is now higher than that of Nokia products—\$198 vs. \$152.

Samsung Electronics (SE) is the symbol of the Korean IT industry. How would you describe the contribution of SE to the development of the human and technology infrastructures of Korean information and communication technology?

I believe the history of Samsung Electronics represents the live history of Korean information technology. Currently we are the largest producer (53 per cent of the market) of the high-speed Internet equipment ADSL. In the wireless communication area, we produced 1.96GHz CDMA PCS cellular phones for the first time in the world in October 2000 and CDMA-2000 1× EV-DO in February 2002, also for the first time in the world. We are the exclusive provider of CDMA equipment to SK Telecom, KTF, and other major mobile communication firms.

We are not satisfied with our past accomplishments. Instead, for our mid- and long-term strategies, we are constantly striving to develop new core competencies and profitable new business areas. We are further reinforcing our already strong competitiveness in the CDMA mobile communication system. Also, we are working hard at developing standards, world-wide marketing, and R&D strategies for the

next generation of mobile communication and cellular phones.

What are the most important success factors of Samsung Electronics' mobile phone business?

There are five major success factors for the world's best cellular phone of Samsung Electronics. First, we secured the competitive edge for the product. Our firm has superb product development personnel and the global standardization initiative in ICT. Thus, we have been able to produce the world's best products. Second, we possess the world's most competitive position in manufacturing. We currently produce 2,350 units per line (18 persons per line) each day, the highest productivity level in the world. Third, our products are the best in quality. Fourth, our products have exceptional design. Finally, we have maximized the utilization of Samsung's internal resources. We developed vertical links between Samsung Electronics and Samsung affiliates for components, thus securing a competitive edge based on cost. We have developed management innovation and profit-oriented management strategies.



Ki Tae Lee

What are the most important core competencies of your company that contribute to your firm's competitive advantage?

First, we have technology competitiveness with which we can produce the best product for the first time in the world. The mobile phone has a very short life cycle, and its technology changes rapidly. Thus, it is very important to read changing customer needs and technology trends, and then to introduce the differentiated product in a timely fashion. Through advanced technology, Samsung Electronics has the development and manufacturing capability to produce better products faster than its rival companies. Second is product-quality competitiveness. Sound quality is of critical importance in wireless communication. Thus, we are making a concerted effort for quality-first management to satisfy customers with innovative design to create a product which is small, light, sturdy, and has the best sound quality. We put our top priority on the world's best product quality in the belief that customers eventually will select the quality product, and now our mobile phone has the world's best quality.

The third factor is broadening the relationships

with our important clients based on trust. Samsung has extended strategic partnerships with SKT, KTF, Sprint, and some Chinese companies. The last factor is our human-resource-oriented management philosophy. Even though technology is vital in the digital age, having competent employees who can best leverage this technology is the key. Here, a competent person is the one who has creativity and foresight. Thus, we provide incentives to people who work hard voluntarily with pride. Our pay scale is the highest in the industry, and we have introduced unprecedented profit-sharing incentives and stock options.

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It has been stated many times that the close cooperation between the government and industry played an important role in the development of the Korean ICT industry. What do you think would be the model cooperative relationship?

The representative model would be CDMA development and its first commercialization in the world in cooperation with the Korean government. As shown by the CDMA example, it is important to have a good working relationship between the government and industry. To accept the role of an avant-garde company and commercialize a new technology faster than other countries, the government should provide policy support, and businesses need to build the capability to develop and commercialize the technology.

There has been some criticism that time and money are being wasted because of duplicate efforts when both the government and industry participate in technology development. Is there any effective alternative? If an effective distribution of research and development efforts would be an alternative, what should be the criteria for that distribution?

To encourage competition and maximize creativity, a certain amount of duplicate development effort is unavoidable. I believe fair competition will allow the market to have the best technology chosen by organizations. Through that process, we can accomplish customer-oriented technology development and strengthen the competitiveness of our IT industry. In that sense, cooperation between the government and industry is extremely important. Korean ICT research institutions include those managed by

the government, corporations, and universities. Each center's research themes should be based on its objectives, capabilities, and competitiveness.

The government and its research centers should be in charge of macroscopic and long-term technology development activities. That is, they must conduct large-scale technology development projects that will bring national competitiveness, obtain information concerning global technology trends, and provide information about where our country should be headed. Corporate research centers should focus on technology development geared toward excellent service and product development to strengthen business competitiveness. University research centers need to focus on pure science and then move toward developing core technology for industry through strong industry and university cooperation.

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Samsung has successfully introduced information/telecommunication equipment with multifunctions, such as a mobile phone with PDA and photo editing functions. What kinds of products will Samsung introduce in the future? From the perspective of a mobile phone exporter, what is the difference between Koreans and foreigners in their cellular phone handset selection criteria?

In the future, Samsung is planning to introduce an all-in-one product which has multifunctions such as credit card, CD player, camcorder, and ID card. Moreover, we will emphasize the portability of the product with additional functions such as video-conferencing, video streaming, and the 3D stereophonic chord function.

The Korean people prefer a mobile phone that contains high-technology functions since Korea has the top wireless infrastructure. North Americans and western Europeans prefer practicality and design, whereas Southeast Asian and Chinese people tend to put more emphasis on the brand name.

What kinds of opportunities and risks do you think will exist in the information/telecommunication industry in the future?

There will be more opportunities available through the evolution of services. Currently, mobile telecommunication is moving toward 3/3.5G, and a multiplex cellular phone market is being formed. Another opportunity is the expanding high-speed telecommuni-

cation market due to the Internet boom. Lastly, around China and Southeast Asia, the market is growing rapidly for wireless telecommunication, fiber optics, and cable networks.

One of the risk factors would be the increasing market control power of large, world-class firms that have gone through restructuring and M&A. The mobile phone market is entering the maturity stage, and thus slow growth and intense competition represent other risk factors. The value chain is also changing its focus fast from hardware to content and solutions. A corporation's survival is highly dependent on how it can secure the standardized technology.

What is your strategy to cope with the worldwide ICT slump that might reach Korea? What are some of your new strategies in preparation for the future?

We are going to transform our domestic-market-oriented business into a global-market-centered business structure after strengthening our core technologies related to mobile phone technology and the CDMA system, and simultaneously complement our weaknesses. By 2010, we are going to increase our production in foreign countries to 55 per cent as compared to 25 per cent today. To accomplish this objective, Samsung will focus on three business strategies:

- We will enhance the mobile phone business as our primary business. We are going to extend the current simple sound phone set to a multimedia style mobile phone set containing a computing function.
- We will be prepared for the ubiquitous network environment through the conversion of wired and wireless technology. By 2010, we are expecting a new telecommunication environment in which fourth-generation mobile telecommunication and wired telecommunication are combined. To prepare for this, we are going to strengthen not only our wireless communication but cable communication as well.
- We are also considering grafting new technologies such as biotechnology and nanotechnology into the existing IT.

Thank you very much for your time and vision for the future of Samsung Electronics.

Thank you for visiting our firm. I hope I provided you with useful information.

Sang M. Lee is the University Eminent Scholar and Regents Distinguished Professor at the University of Nebraska—Lincoln. He received his Ph.D. degree from the University of Georgia. His current research interests deal with the strategic use of ICT for interorganizational collaboration. He has published over 200 journal articles and 50 books. Contact: slee1@unl.edu.

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