



Yoon-Woo Lee was born on June 26, 1946. He is currently the Vice Chairman and CEO of Samsung Electronics.

Lee joined Samsung in December 1968 and moved on to Korea Semiconductors in 1976. In 1985 he became Factory Manager, in March 1987 was promoted to Managing Director and in 1989 became an Executive Director. In 1991 he became General Manager in charge of the entire semiconductor division. He was then promoted to Representative Director and CEO in 1993.

Prior to the interview Lee shared a few of his views with us.

Favourite Maxim: "Simple is Best."

Management Style: My life has always been full of choices. I constantly had to be very careful in making choices. My decision can affect hundreds of people in my company. Still, I had to be intrepid enough to deal with rapidly changing trends, which always demand prompt judgement.

Why a CeO: Our surroundings are not just changing but in upheaval. Changes take place in every sector of our society, and digitalisation and computers lie at the centre. There shouldn't be just a CEO; now is the time to have CeO, a "Chief e Officer."

Food: I don't think my appetite is "globalised", not that globalisation should always be the ultimate goal. I prefer Korean food and my favourite dish is spicy bean curd soup. What can be more delicious compared to the unique taste of one's own native food?

SAMSUNG

ELECTRONICS

"Technological Innovation is like Sushi"

Hyung-Gee Chung, Daesoon Hong and Changsuk Lee
from Arthur D. Little talk to Yoon-Woo Lee,
CEO of Samsung Electronics

Arthur D. Little: Samsung is a strong leader in the global memory chip and digital electronics area and a major player in mobile phones. What is the secret of Samsung's success? And what are the company's growth engines?

Lee: Samsung Electronics became globally competitive in 10 years through a corporate-wide innovation programme called Samsung New Management. Samsung was a local company competing on price in the early '90s. In 1993, it was faced with business challenges in terms of growth, profit and global competition. The company responded to these challenges with a corporate initiative to implement innovation under Samsung New Management. Chairman Kunhee Lee declared: "From now on we will focus on quality not quantity." This was the beginning of Samsung New Management. The core value of this programme is the consciousness of crisis, with all employees constantly thinking about new ideas and successful implementation with a sense of crisis.

Arthur D. Little: So what happened then?

In 1995 we held a major event involving the incineration of poor-quality electronic products. Chairman Kunhee Lee heard from consumers that several electronics products including mobile phones had major defects. But he strongly believed that mobile phones would become Samsung's next major product line after semiconductors. With all the company's manufacturing executives and workers present, Chairman Kunhee Lee ordered the destruction of some 150,000 poor-quality products, including phones, fax machines and mobile phones, worth a total of US\$ 50 million. The event was a strong sign of his commitment to quality management. I believe this was the turning point in creating Anycall, our mobile phone brand.

Arthur D. Little: Where did he take Samsung from there?

Lee: Samsung has continuously been restructuring its businesses through effective focus and selection strategy.

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Our corporate culture enables rigorous investment planning and implementation. When major Japanese companies were reducing capital and R&D investment in the '90s and major global companies were postponing investment plans, Samsung increased its investment in core technologies. Most financial analysts thought the company was being reckless, but Samsung Electronics has now secured a strong global position in memory chips, multi-media phones and LCD and digital TVs.

Arthur D. Little: How do you view the future development of information technology? What are Samsung's future strategies?

Lee: We have witnessed the development of digital convergence in the information technology area, and I expect to see this development repeated in other areas, including bio-engineering, nano-technology and environmental engineering. For example, we need the knowledge of nano-technology to solve various problems related to genetic science and health issues. And in order to create a nano-technology platform, we need advanced information technology. I'm sure we will see bio-technology, nano-technology and environmental technology grow in Silicon Valley. I don't think Samsung would be where it is today if we weren't obsessed with both technology development and commercial business. My personal view is that the convergence of technology and business will take place just as the convergence of technologies has.

Arthur D. Little: So what is your vision for Samsung technology?

Lee: Our vision is to put our corporate efforts into acquiring core technologies in selected growth engines. Following memory chips, LCD, digital TVs and multi-media phones, we expect system LSIs [large-scale integrated circuits], printers, upscale consumer electronics and storage to be interesting areas for Samsung. Meanwhile, we will strengthen our position in the global telecommunication technology market. Regarding future strategies, we are currently the global leader in nine major products and we plan to increase that to 20 in five years. This is based on our strategic objective of maintaining

economies of scale by owning 20 top global products. Another issue is enhancing our design capabilities, where our Chairman has concerns.

Arthur D. Little: Could you explain your "fat cat" management theory?

Lee: I was shocked by a comment I heard from an executive during a trip I made to the US in 1996. The executive was worried that Samsung Electronics might become a "fat cat," a giant, inefficient company. At that time, Samsung was enjoying record sales and profits due to phenomenal business results from its semiconductor division. Most people at Samsung believed that the company would soon become a global top-notch player. During my conversation with the executive, I drew an image of a fat cat on my personal notepad. When a cat becomes fat, it cannot effectively hunt rats. If a company becomes large and inefficient, it will experience delays in product development which will slow down its responses to customers' desires. If your company is unable to meet its production deadlines, it might be a fat cat that has lost its agility.

Arthur D. Little: So did the fat cat help?

Lee: After the trip, I sent my drawing of a fat cat to all senior executives with a message urging all of us to constantly move and progress to avoid becoming a fat cat. There was a great number of replies from the senior executives. All of us worked very hard on finding new business opportunities. We put a great deal of effort into new product development and technological innovation. Ten years have passed since I delivered my fat cat message, but we still try hard to be fit in the global market. Sometimes people ask me about the current state of Samsung Electronics. I answer them by referring to Samsung as a big cat but not a fat cat.

Arthur D. Little: What is Samsung's management philosophy? Do you think Korean or Asian philosophy and values have affected Samsung's management policy?

Lee: Samsung was founded in 1938, and since then our company has overcome various market challenges by



Fit not fat: Lee's 1996 sketch sent out to all senior executives at Samsung Electronics to remind them of what they must not become.

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properly responding to the key issues. Our management philosophy is to create the best products and services for global society by utilising our people and technology. We value our people. We are committed to developing them into quality workers. Our commitment to people and technology is the core value of our management philosophy. Korean philosophy and values certainly influence our management mission of commitment to human resources and core technology. I think the Korean value of having a challenging spirit has positively affected our strong track record of investment and implementation.

Arthur D. Little: China has been the most talked-about market among global companies in recent years. How does your company view the Chinese market? What role would China assume in Samsung's R&D activities?

Lee: China is recognised by Samsung as one of the top three markets, along with the US and Europe. Our semiconductor division in China, which has been vastly developed in the past three years, should become the foundation of future TFT LCD business. We expect promising results from these developments in the semiconductor business in China. Due to China's strategic importance to Samsung Electronics and the Samsung group of companies and the sheer size of the market, we plan to increase our activities in R&D and other technological initiatives. Localising R&D will solidify our top brand position, which should ensure high-quality people and advanced technology. Currently we have four R&D centres in China, including the telecom R&D centre in Beijing, where over 2,000 researchers are working. We intend to develop facilities there to become our global centres.

Arthur D. Little: Managing suppliers in high technology plays a major part of success for global companies. What are Samsung's strategy and position on developing a global supplier network?

Lee: A global company cannot sustain itself. At Samsung we believe that you can only become a top global player when your company, business partners and suppliers all become the best in the global market. We are forming

partnership relations with our suppliers aiming at win-win results.

We need our partners and suppliers to become and remain world-class companies. We ask them to remain top class in the global market. Otherwise, we have to look for better companies to satisfy our customers. We simply cannot produce world number-one products with second-tier parts. This rule applies even more strictly to our sister companies and the Samsung group of companies.

Arthur D. Little: Samsung Electronics invested US\$ 4.6 billion (about 8.3 percent of revenue) in R&D last year and plans to further increase R&D investment. What are the reasons for these aggressive investments?

Lee: Top global companies are equipped with core technologies. Technology value management is not an issue of choice but of survival. Technological innovation is like sushi. Technology, such as mobile phones, not innovated or managed timely could quickly become obsolete, like sushi not managed properly by a chef. We call it speed management. For Samsung, the issue is whether we become the best global company in the near future or lose out to the competition. Our current cash-generating businesses might disappear in five years. We need to constantly develop new growth engines. Therefore, speed management through continuous technological innovation is necessary for Samsung.

We believe the future is not for people to forecast. We should create the future for ourselves. Samsung is increasing its investment in R&D to create a better future for the company. We believe in creating our own better future by focusing on investment on technology and people. Close to 40 percent of our people at Samsung work in R&D. Our global R&D network in the US, the UK, China, Japan, Russia, India and Israel is being further developed. We are slowly seeing sound results in R&D activities, where we are issuing an average of four patents per day in the US. We aim to become the global number three company based on global patent awards.



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Arthur D. Little: Could you tell us a little about Samsung's R&D value and R&D management system?

Lee: In a rapidly changing market environment, "the winner takes it all" is becoming the dominant rule of the game. At Samsung, we not only believe in "the world's best" but also in "the world's first." This belief has been our mission of our R&D centre and our growth power to the company. Our R&D culture promotes competition among various R&D teams. Currently, home network technology, Samsung's next-generation business, is being studied by the Telecommunication Institute and the Digital Media Institute, which are competing intensely for the delivery of key platforms for the company. We believe that creating synergies is a key to successful R&D. For example, Samsung's core strength in memory chips, LCD and visuals were needed to develop the latest camera phones.

I am proud to talk about our "design value management." At Samsung, when we develop new products in consumer electronics and mobile phones, we begin our discussion with issues related to design. We go through rigorous brain-storming sessions and debate on design concepts for different markets. Samsung has received top prizes in the Industrial Design Excellence Awards for 19 products in the last five years.

Arthur D. Little: What implications does this have for the organisation?

Lee: A successful R&D organisation cannot be simply made with good people and superior technology. The organisation should be lean and agile in order to fully realise the potential. We had a campaign called Mont Blanc, where R&D divisional efforts were focused on cutting various costs to overcome sagging sales in the LCD business. In the course of this campaign our scientists were attentive enough to adopt an idea from a support staff assistant which later saved over US\$ 50 million.

Arthur D. Little: Innovation is a key issue for global companies. Could you give us an example of innovation excellence?

Lee: One example may be our VIP (value innovation programme) Centre. Samsung people, conscious of crisis, believe that success comes from speed, particularly speedy decision-making and implementation. Based on this belief, we established the VIP Centre in 1998. Through running the centre, we were able to come up with differentiated products and services. We were able to enhance our capabilities in quality, processes and cost. Most importantly of all, our experience at the centre helped us to look at our customers rather than our competitors. Our R&D and manufacturing people were sent to the VIP Centre. Our partners and suppliers were also sent there. People who experienced life at the centre can tell you that you need to work 18-20 hours a day to solve various issues and fix different problems. Our recent successful products, such as Anycall, DVD Combo and Zipel, were heavily tested at the VIP Centre, and there are currently several dozen projects being executed there.

Arthur D. Little: Mr. Lee, thank you for your time!

Lee: It's been a pleasure.

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