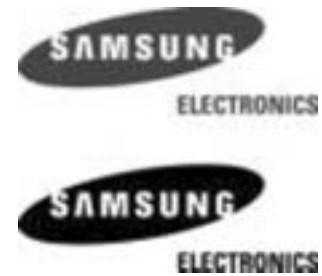


# Capturing Value in Global Markets: The Case of Samsung Electronics



Rishiksha T.Krishnan and K.Kumar

In this paper Dr.Rishiksha T.Krishnan and Dr.K.Kumar of IIMB undertake the study of the specific case of one EMC, Samsung Electronic (SEC) that appears to have progressed beyond ODM to a market leading position in certain industries.... This is one of the special situations where a single case study can be justified as a means of understanding the relevance and explanatory power of our framework.

Companies from emerging markets (henceforth referred to as EMCs) typically enter international markets by offering low prices, based on the low cost of inputs, principally labour (Erramilli, Agarwal and Kim, 1997; Pananond and Zeithaml, 1998). As labour costs increase, the competitiveness of EMCs<sup>1</sup> is liable to be eroded. To continue to compete effectively in international markets, they then need to be able to compete on additional dimensions, or to be able to build cost advantages that transcend factor cost advantages such as those based on scale, proprietary learning or proprietary product or process technologies. Additionally, they may seek to differentiate products or

services so that the value they provide to customers is not based on a low-cost proposition alone. However, achieving this is not easy, and only some EMCs make a determined effort to go up the value curve. Of those that try, only some succeed.

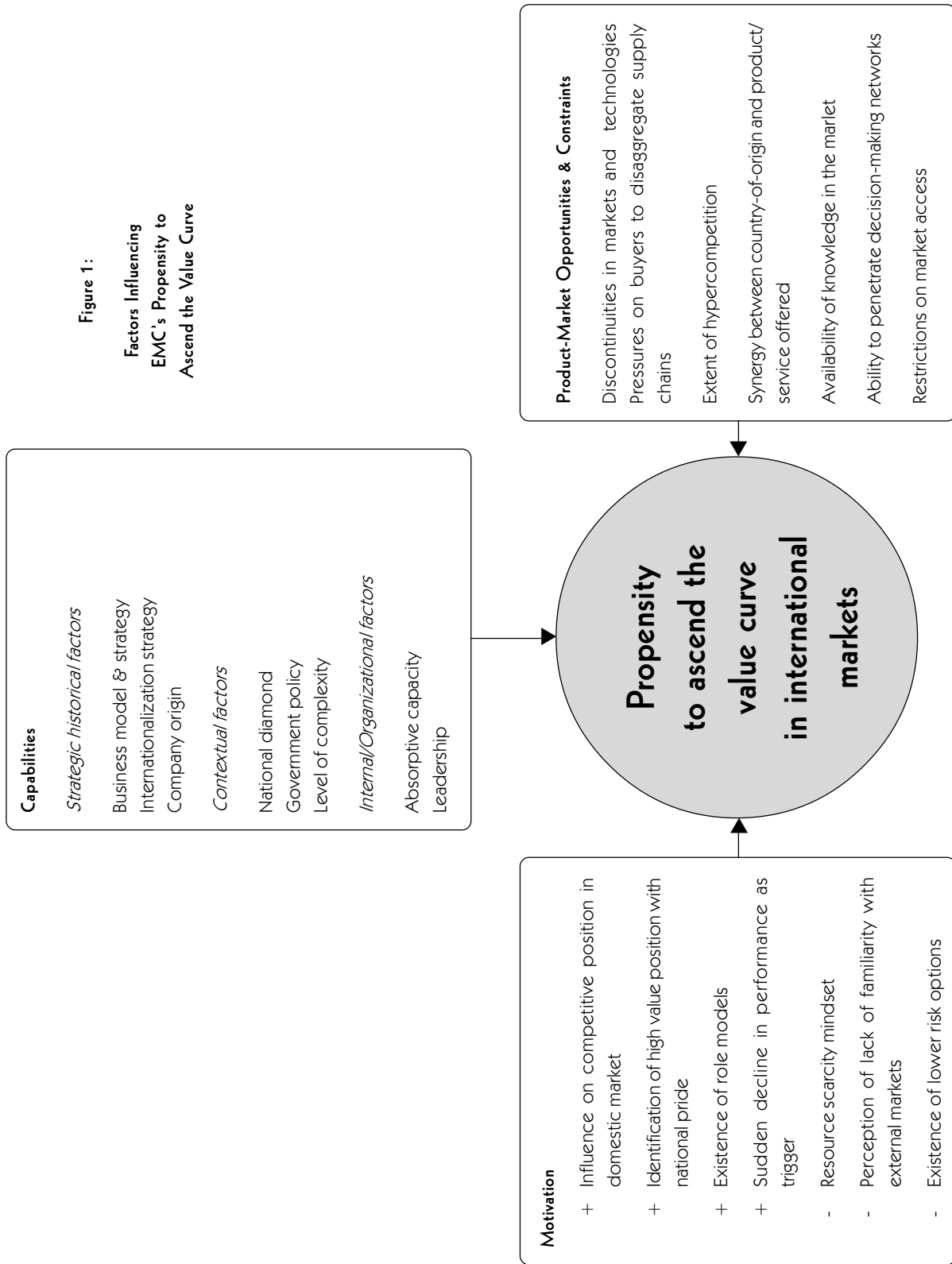
In an earlier paper (Krishnan & Kumar, 2003), we explored the rationale, motivation and strategies for EMCs ascending the value curve in international markets. Increased factor costs, poor bargaining power, the threat of backward integration by their customers, and the threat of new entrants from other geographies competing on the same cost dimension are the major drivers to ascend the value curve.



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**Figure 1:**  
**Factors Influencing**  
**EMC's Propensity to**  
**Ascend the Value Curve**



In the framework we proposed (see Figure 1), the propensity of EMCs to ascend the value curve is dependent on their motivation and willingness, the availability of suitable opportunities and their capability to do so. We proposed that the willingness of an EMC to attempt this transition is enhanced if establishing a higher value position in external markets would help its domestic business, such a high value position is closely identified with national pride and prestige, role models for the creation of such a position exist and if there is a trigger such as a sudden decline in financial performance in global markets. The willingness would be constrained by the extent to which a mindset of resource scarcity exists, the extent to which top management perceive they are unfamiliar with external markets and by the existence of lower risk options.

While willingness to take the risks involved is a necessary condition, EMCs need to develop internal capabilities in order to be able to ascend the value curve successfully. The existence of such capabilities would depend on a number of strategic, contextual and internal organizational factors. Strategic historical factors include the business strategy followed by the company, the reasons for its entry into international markets, and whether the company was "born global" or gradually entered global markets. Though it is firms that compete, features of the national environment (the "national diamond") such as factor conditions, demand conditions, the presence and competitiveness of related and supporting industries, and firm strategy, structure and rivalry affect the pressure on firms to innovate (Porter, 1990) and thereby provide the context for capability development. Government policy can also help or hinder capability development. The level of complexity involved in building new capabilities also affects the extent to which the company can ascend the value curve in that particular business. Capability development also depends on the absorptive capacity of the company and the leadership's vision of the importance of creating new capabilities.

The EMC's ability to ascend the value will depend on opportunities and constraints related to the product market. Discontinuities in markets and technologies and pressures on buyers to disaggregate their supply chains constitute important opportunities in the product-market. Hypercompetition in end product markets makes direct entry into those markets very difficult but can open up opportunities in intermediate markets. The relationship of the EMC's country-of-origin with the product/service in question and related products and services

will also influence the extent to which product-market opportunities can be exploited. The degree of tacitness of technical knowledge and the extent to which technical knowledge is traded in the market, the ability to penetrate decision-making networks, and the degree of market access are other important drivers of product-market opportunities that involve the EMC ascending the value curve.

Though many EMCs have succeeded in making transitions up the value curve [such as Korean and Taiwanese companies that have moved from being manufacturers of original equipment (OEM) for large multinational customers to doing the design of such products as well (ODM)], few companies have graduated to the status of being leaders in their respective businesses and capturing the premia that go with strong brands and a premier market position. Studying companies that have achieved the latter allows us to investigate the framework we have proposed in greater detail and look for nuances that may be related to different stages of the process of ascending the value curve.

In this paper, we study the specific case of one EMC, Samsung Electronics (SEC), that appears to have progressed beyond ODM to a market-leading position in certain industries. SEC is arguably the most successful company in South Korea. It has emerged from the Asian crisis stronger than before. It is a leader in the highly competitive DRAM (memory chip) business that has been exited by a number of leading companies in the United States and Japan. It has established an early lead in the rapidly growing NAND flash memory business, and is also one of the leaders in LCD-TFT monitors. In addition, it has over the last decade created a powerful global brand in the mobile handset and high definition television businesses. SEC is on the verge of entering the exclusive club of companies that have a market capitalization in excess of \$100 billion. And much of this has been achieved in an open and highly competitive economic environment, and in a period in which South Korea has passed through serious economic and political turmoil. This is one of the special situations where a single case study can be justified (Yin, 1984) as a means of understanding the relevance and explanatory power of our framework.

### **The Case of Samsung Electronics<sup>2</sup>**

With an estimated brand value of \$10.8 billion and a rank of #25 in the Interbrand survey of Top 100 global brands in 2003<sup>3</sup>, Samsung Electronics (SEC) is nipping at the heels of its role model, Japan's Sony Corporation (brand value of \$13.1 billion

& ranked of #20). In the two preceding years, SEC more than doubled its brand value and improved its ranking by seventeen places. In addition to being a world leader in memory chips, SEC is today the third largest player in the mobile handset business and a major player in such diverse businesses as ADSL equipment for broadband networks and LCD displays. SEC is highly profitable (a net profit of \$5.3 billion on sales of \$36 billion in 2003) and is today less dependent on memory chips for sales and profitability. Though SEC has, for many years, been one of the most successful multinationals from outside the developed world, today it is well on its way to being known as a trendsetter and global leader, and to join the ranks of the top consumer electronics giants of Japan and Europe.

Founded in 1969, Samsung Electronics (SEC) started through the OEM route, typically with products that were already in the later stages of the product life cycle, such as black and white televisions<sup>4</sup>. Since the Korean market was limited in size, export was always an important mode of achieving sales<sup>5</sup>. Over time, in order to overcome trade restrictions, SEC also set up plants in other countries to manufacture products there<sup>6</sup>. Some products were focused on external markets - e.g. colour televisions were initially exclusively for export because at that time there was no colour TV transmission in Korea. Similarly, the microwave oven business built up in the early 1980s was targeted at the U.S. market based on the requirements of large buyers like J.C. Penney and General Electric<sup>7</sup>. These efforts proved Samsung's ability to absorb technologies, build up capacities, deliver on time and with adequate quality, and to improve productivity and efficiency over time. Some design capabilities (more in the technical design sense than in the sense of design based on an intuitive understanding of user needs) were also developed. Generally, the approach was a vertically integrated one with all important components being made in-house. Where technologies were not easily available, SEC acquired companies that had the technology (for example, it bought a magnetron plant in the United States and shifted it to Korea when Japanese firms refused to share the magnetron technology with it) or partnered with companies that were not doing well in the market (to get the technology for memory chips, the company collaborated with failing companies in Silicon Valley)<sup>8</sup>.

Though originally started as a separate company, a major driver of SEC's growth was the memory chip business that was merged with SEC in the mid-1980s. As in other businesses of SEC, they started at the later stage of the PLC as an assembler of large

Scale Integrated Circuits in the mid-1970s. By the mid-1980s, they were manufacturing VLSI chips under licence, graduating to independent DRAM design and production by 1988 and leadership in DRAM design by 1994<sup>9</sup>. SEC is today the largest producer of memory chips in the world, and among the top four producers of all semiconductors (by value). SEC's progress in the memory chips business can be attributed to the identification of sources of technology in the initial stages (US semiconductor firms that were not doing well); strong involvement of Korean Americans with experience in the semiconductor business; quick absorption of process skills (for later chips, SEC still obtained some design technology but was able to handle most of the process issues on its own); marriage of explicit knowledge obtained from technology sources with tacit knowledge built internally both in Korea and in San Jose; speed of execution and learning; strong demand growth and the willingness and ability to make large investments in production capacity<sup>10</sup>. Scholars who have studied the company have been uniform in their praise for Samsung's discipline and intensity of effort<sup>11</sup> (the company could remain in a "war mode" for months on end to meet new challenges such as the demanding specifications of General Electric in the microwave oven business), and the ability to manage by target and think several years ahead<sup>12</sup>.

Throughout the 1970s and 1980s, SEC benefited from Korean government policies to help the chaebol. The Samsung chaebol's entry into electronics was a part of the Korean government's initiative to move away from Heavy industry and chemicals towards electronics and durable consumer goods. The Korean government invested in specialized research institutes and the development of qualified manpower. It protected the chaebol from competition in the domestic market, and provided low-cost loans to facilitate expansion of capacities and entry into foreign markets<sup>13</sup>.

While SEC was successful in its efforts to build a large electronics business, some problems remained. Prices were always under pressure (not surprising considering that most of its products were in later stages of the PLC), and the Samsung brand name was associated with low-end products. Moreover, SEC was not immune to the excesses of the Korean chaebol. The company's emphasis was on volumes and production at any cost ("Production is King" at Samsung, according to a number of studies in the 1980s and early 1990s<sup>14</sup>). Inventories piled up in different parts of the supply chain. As the cash cow of the

Samsung group, SEC was used to raise funds for the entry of other Samsung group companies into new (and often questionable) businesses such as Samsung's late entry into automobiles in the mid-1990s<sup>15</sup>.

The Asian financial crisis was a major trigger for the move of SEC into the next stage of evolution<sup>16</sup>. Though Samsung was already a well known brand, it was not considered a top-tier brand. The largest selling products were memory chips that though branded as Samsung were not visible as end products. The crisis in Asia coincided with a "low" in the memory chip business - SEC's net profits plunged from \$2.8 billion in 1995 to \$194 million in 1996<sup>17</sup>, and still lower in 1997. Simultaneously, a reform process was kicked off in Korea and with the debt levels of companies like SEC coming under increasing scrutiny, the company had to reduce debt rapidly. The company used this opportunity to restructure internally (sale of non-core assets, reduction of manpower, liquidation of excess inventories, improvement in supply chain efficiencies, etc.). The fall in the value of the Korean *won* offered an opportunity to flood the export market with low-priced exports, but SEC's top management resisted this<sup>18</sup>. Instead they decided to put in place a plan to build a more stable income stream that would make the company less vulnerable to the ups and downs of the semiconductor business. The cornerstone of this was an effort to move towards higher value products based on a strong, global brand.

These tough decisions were taken by the new management team at SEC led by Yun Jong Yong, a long-time SEC employee who became head of SEC in January 1997. As a part of the chaebol reform process, in mid-1998, the Samsung Chairman allowed decision-making to be pushed down from the executive staff at the corporate office (i.e., from himself!) to the operating management. Yun Jong Yong and his team administered shock treatment to the company such as reducing the manpower by 30 per cent and even closing the main Suwon plant for two months to prevent further build-up of inventory<sup>19</sup>. The acceptance by Samsung and SEC of the restructuring programme enabled SEC to reduce its debt substantially and then expand chip capacity to meet an expected upturn in demand using funds raised by securitizing accounts receivable and obtaining credit from equipment suppliers<sup>20</sup>.

SEC has been quite successful in its move upmarket. In mobile phones, SEC is a strong and profitable #3 and has a higher average price realization than market leader Nokia (\$198 compared to \$152 in 2003)<sup>21</sup>. By 2003, the telecom business

was contributing about one-third of SEC's revenues and profits<sup>22</sup>. The complementary drivers of this have been brand building, design and technology integration. While SEC had a strong technological competence even earlier, the challenge was to translate this into differentiated products and to be able to capture the value of this differentiation. One important element of this strategy was the use of its manufacturing technology to pioneer feature-rich new products with which the company would be identified<sup>23</sup>. SEC has been first-to-market with a number of product features in mobile phone handsets (e.g. voice-activated CDMA handsets)<sup>24</sup>. Combined with elegance in design, this helped SEC capture the attention of young up-market customers across the world<sup>25</sup>. Entering the US market in 1997, it was able to build a strong position in CDMA mobile handsets in the United States thanks to the early adoption of the CDMA technology in Korea, a tie-up with Sprint and the setting up of a design and marketing centre in Dallas<sup>26</sup>. The rapid growth and evolution of the Korean market in advanced telecommunication such as broadband networks has also provided a good testing ground for SEC's products<sup>27</sup>. SEC brought in new people in key positions (such as an HBS MBA Eric Kim, as Senior VP Marketing; this was a significant break in tradition as Kim was not fluent in Korean!)<sup>28</sup>.

SEC used the sponsorship of important events such as the Olympic Games and the Soccer World Cup to launch a global brand campaign; prior to this it also consolidated all its global advertising under a single advertising agency. SEC spent \$200 million on the 1998 Winter Olympics and 2000 Summer Olympics alone, leading to a five per cent increase in global brand recognition<sup>29</sup>. Subsequently, it used an in-film (supported by external advertising) campaign in the popular "virtual reality" film *Matrix Reloaded* to strongly associate itself with contemporary technology<sup>30</sup>. Global advertising expenses have risen to about \$400 million per year in the process<sup>31</sup>. SEC has also taken tough decisions to improve its brand profile such as moving away from mass retailers such as Walmart to specialized retail stores like Best Buy<sup>32</sup>, and exiting some low-end product lines altogether<sup>33</sup>.

SEC used international consultants to weave the design and branding efforts together into a brand-led design campaign built on the twin pillars of reason and feeling<sup>34</sup>. The brand positioning was consciously inclusive ("all are invited") unlike many other brands that put high technology on a difficult to reach pedestal<sup>35</sup>. The Korean government launched a national design initiative in 1994 and SEC followed suit with one its own in 1995<sup>36</sup>. SEC has

addressed the design challenge through a global approach integrating design efforts across design centres located on multiple continents. These local design centres allow the company to be sensitive to local user needs but the company, through its overall brand and design philosophy, makes sure that the core brand values are the same everywhere<sup>37</sup>. Local design also facilitates reduction in time-to-market. The early success of the organised effort to upgrade design skills was reflected in SEC obtaining three IDSA awards in 1997<sup>38</sup> against just one in the preceding four years.

To speed up the overall product development process, decision-making has been decentralized, and the organization flattened<sup>39</sup>. Decisions regarding product portfolios and launches are taken by global product managers managing individual product lines rather than top management. The compensation of these product managers is directly linked to the profitability of their divisions and the company's stock price<sup>40</sup>. Young product evangelists are encouraged to champion new product ideas and given enough funding to take them to market<sup>41</sup>. For new products, SEC quickly assembles large teams of designers and engineers from different divisions and charges them with producing quick results<sup>42</sup>. Between 1998 and 2003, SEC doubled the number of designers to 350<sup>43</sup> and hired 800 PhDs (total about 1900)<sup>44</sup>. It believes that its integrated manufacturing set-up and manufacturing capabilities allow it to make sure that newly developed products reach the market quickly. As a result, SEC has cut time-to-market to as low as five months, from fourteen months in 1997<sup>45</sup>. SEC is able to launch more new platforms and products per year than its competitors<sup>46</sup>.

Internal manufacturing efficiencies allow SEC to be a cost-competitive manufacturer. Also, it has most of the key technologies in-house including microelectronics and chip design, and TFT-LCD and other display technologies. This allows it to integrate technologies in novel ways within the boundaries of the company. The company believes that the shift from analog to digital technologies reduced experience-based entry barriers<sup>47</sup> and that the company's ability to integrate technologies to exploit digital convergence has enabled it to "make new waves<sup>48</sup>." Software has, so far, not been a major area of focus for SEC<sup>49</sup>. SEC has backed up its variety-based strategy with strong supply chain capabilities; according to SAP, SEC has "by far the most advanced supply chain system among Korean companies<sup>50</sup>."

In semiconductors, SEC has moved into application specific

chips and customized applications such as graphics chips for games consoles and high-density memory modules for heavy-duty servers<sup>51</sup> so as to distance itself from the highly commoditised standard memory chips business. These "power" applications are increasingly critical for the integrated communications and entertainment devices that result from convergence across technologies<sup>52</sup>. SEC moved key R&D personnel into this area in 1997. SEC has taken an early lead in the NAND flash memory business that is expected to grow substantially in the coming years<sup>53</sup>. SEC has also made efforts to strengthen its product lines in monitors, LCD displays, and semiconductors. It supplies many of these products to its competitors as well believing that a presence in the OEM business is still helpful in terms of understanding emerging trends and applications. At the same time, its own in-house units are expected to compete with outside suppliers for company business<sup>54</sup>.

The company has continued to invest heavily in research and development. In the mid-1980s SEC invested only about 0.5 per cent of its revenues in R&D but this had risen to 5+ per cent in the 1990s<sup>55</sup> and has crossed six per cent in 2001<sup>56</sup>. According to one estimate, 22 per cent of the company's employees are involved in R&D<sup>57</sup>.

By 2003, SEC is an outstanding success story. It accounts for about one-tenth of Korea's exports<sup>58</sup> and one-fifth of the capitalization of the Seoul Stock Exchange<sup>59</sup>, and is the most widely held emerging market stock<sup>60</sup>. It is the world's largest producer of memory chips (by a big margin) and the third-largest producer of cell phones (but with healthy profitability). It appears to be well positioned to take advantage of new opportunities in the trend towards "digital homes."

### Lessons from the Samsung Experience

SEC's transition can be seen to follow a progression such as that described by Forbes and Wield (2002), moving through the stages of (1) learn to produce; (2) learn to produce efficiently; (3) learn to improve production; (4) learn to improve products; and, finally, (5) learn to design new products. In addition, it has also "learnt to lead" through technology integration and brand-driven design. However, perhaps more interesting than this *sequence* itself is the *process* through which the transition has occurred.

While the earlier improvements along the value curve were based largely on the development of technological capabilities, the

transition to a top-tier brand involved discontinuous change. It appears that this discontinuous change would not have happened without the Asian financial crisis and the resultant pressure on Korean firms to improve their profitability and reduce their vulnerability to market cycles. Absent this crisis, there would have been little motivation to move away from the existing business model and, as part of the Samsung chaebol, SEC might have continued to be a source of funds for other businesses and high levels of debt would have remained. The tough restructuring undertaken by Yun Jong Yong would not have been possible without the crisis, nor is it likely that a strategy based on product variety could have been contemplated without the decentralization that was forced by the reform of governance structures within the chaebol.

The second most important factor that has enabled SEC's transition is the opportunity provided by the shift from analog to digital, the convergence of different markets (such as communication and entertainment) and the integration of diverse digital technologies. The prior development of some of the key technological capabilities was essential to be able to take advantage of the market opportunity. It is a moot point whether this was part of a grand plan or simply fortuitous. SEC was able to ride this wave because it had elements of the diverse technologies; it had experience in the consumer electronics, telecom and component industries; and it was able to organize itself to integrate across these different businesses and technologies. Thus the SEC experience suggests that moving up the value curve calls for action at multiple levels (product, business and corporate). The move into products and businesses that were at an early stage of the product life cycle and seen as "high technology" gave the company the opportunity to upgrade its corporate image as an innovator. Within the opportunity space, SEC was able to take advantage of the emergence and rapid growth of mobile communications. The existence of competing standards, and Korea's adoption of the CDMA standard provided SEC with an early-mover advantage, the ability to develop and test new products and hence a credible basis for claims of leadership in the mobile phone space.

However, SEC would not have been able to capture the value it was creating for customers without the global brand-driven, design-based campaign. This third element required innovative marketing thinking and acquiring the tacit knowledge of global branding through the recruitment of senior marketing professionals with global experience, supplemented by

consultants and advertising agencies. Within this paradigm, specific decisions such as the creation of a global brand-led design philosophy, empowering teams to pioneer new-to-the-world feature rich products that gave Samsung the tag of an innovator, manifold increases in advertising budgets, the choice of an egalitarian platform for the brand (that brought a large number of young customers into the Samsung fold) and product proliferation at a faster pace than competitors made a significant contribution to the success of the attempt.

A fourth important factor in the SEC transition has been the role of the leadership. While the crisis provided the trigger, it is the company's leadership under Yun Jong Yong that took the tough decisions such as reducing manpower (a major shift in Korea where lifetime employment was the norm), stopping production to reduce inventory (sacrilege in a company in which "Production is King"), bringing in a senior manager not fluent in Korean, committing to "irreversible" investments in brand-building through advertising, and foregoing short-term opportunities to flood export markets with low-end products based on the low value of the Korean *won*. The SEC leadership made a conscious strategic choice to move up the value curve and backed this up with appropriate investments in R&D, product development and brand-building. The leadership also chose target markets, products and businesses carefully, ensuring an alignment that facilitated moving up the value curve. They endorsed moving out of product lines that could be inconsistent with the new image they sought to create even if this resulted in some losses in revenues or profits in the short term.

Established brands such as Sony and Nokia do appear to have played a role in inspiring SEC's strategy. In interviews with senior SEC managers, one finds frequent mention of Sony as the company against which SEC benchmarks itself. It is of course ironic that SEC's period of ascent has also coincided with a decline in the position of Sony as an innovator except for a few market segments such as video games. In many ways, SEC is better placed today than Sony as it has excellent manufacturing capabilities and a strong position in many of the core components that go into digital products.

Government support does not appear to have played a very important "direct" role in this stage of the ascent up the value curve, though the government's seriousness in chaebol reform must have played a role in SEC's decision to put its house in order. Some decisions of the government such as the design initiative started in 1994 and the hosting of the soccer world

cup in 2002 helped SEC's moves, but were probably not critical to the process. The government's adoption of the CDMA standard also helped SEC in the mobile handset business as explained above.

### The Framework Revisited

In the above analysis of the SEC case, we focused largely on "later stage" ascent of the value curve, i.e. the movement from being a competitive player with a global presence to taking a lead role or what has been described by Mytelka (1999) as moving from "keeping up" to "getting ahead." At this stage, willingness to ascend the value curve was enhanced largely by a trigger (in this case, the Asian crisis) that stirred the company from its inertia. Willingness was also enhanced by the existence of role models, in particular Japanese companies like Sony that had earlier traversed the path to brand leadership. The former suggests that the trigger can come even from external events as opposed to our expectation in Krishnan and Kumar (2003) that only a sudden decline in performance would provide a trigger. The latter indicates that, as we expected, role models are important, but that the role model need not necessarily come from the domestic market. Of course, the geographical proximity of Korea and Japan, the close historical links between companies in the two countries and the emergence of successful Japanese companies about twenty years ahead of the Korean companies can explain the influence of Japanese companies on Korea.

Behavioral factors did influence the willingness and motivation of SEC to ascend this last stage of the value curve. In the case of Korean companies at this stage of development, "resource scarcity mindset" *per se* was not an issue, for the Korean chaebol were already large and successful, and had benefited from considerable financial support from the Korean government. However an important barrier to overcome was the willingness to make investments in intangibles such as brand-building as opposed to investments in plant and machinery (production capacity). The Chaebol were already very familiar with external markets (for SEC, exports have historically constituted about 70 per cent of revenues), but they needed some tacit knowledge of brand-building and the confidence to reach out to a new generation of buyers with new rather than "me too" products - this came from the global brand-driven, design-based product development initiatives that were facilitated by new hires from the international market and consultants backed up by a large team within the company.

The willingness to eschew lower risk options is of tremendous importance at this stage of the progression of ascending the value curve. This is clearly manifested in the SEC case (overcoming the temptation to push volume-based exports using the low value of the won; pulling out of low-end product lines to avoid brand dilution, etc.). It thus appears that lower risk options will always exist but unless a company is willing to forego some of these and resolutely concentrate on the higher value-adding business, ascending to the final stages of the value ladder will be difficult.

In the case of SEC, strategic historical factors did not play a significant role in holding back the company. In fact, SEC had a number of strong technological capabilities that it had already developed and the major resource it lacked was a strong brand. Contextual factors also did not play a significant negative role, and in fact some contextual factors (government choice of CDMA as a standard, the government's design initiative, etc.) facilitated the ascent up the last stages of the value curve. Demand conditions may also have helped SEC - e.g. Korean users are known to be early adopters of advanced handsets. Being largely vertically integrated, the presence of related and supporting industries was not critical to SEC. The influence of firm strategy, structure and rivalry is not clear.

Clearly, by the early 1990s, SEC had built a strong absorptive capacity for diverse technologies and it was able to build on these in the next decade. The learning capabilities of the company were extended beyond technology and manufacturing to technology integration, supply chain management, intuitive understanding of user needs, product design, and brand-building.

As discussed in the preceding section, leadership has been crucial for the ascent at this later stage of the value curve. Given the influence of leadership in enhancing willingness, overcoming obstacles, eschewing lower risk (but distracting) options, building organizational capabilities, seizing opportunities, and re-designing the organization to make the effort succeed, this appears to be the most critical factor at this stage of ascending the value curve.

Product-market opportunities are obviously very important for a company seeking this late stage ascent of the value curve. Discontinuities in markets and technologies (competing standards, convergence, etc.) and the availability of knowledge to fill knowledge gaps were the two most important product market-related factors we could see in this case. By this time,



Korea had already established itself as a source of high-quality goods, and hence country-of-origin issues were not significant. SEC was actually able to take advantage of hypercompetition to position itself since it was able to manage product proliferation effectively, both from the product development and supply chain perspectives. At least in the case of SEC, we have no evidence regarding the importance of the ability to penetrate decision-making networks or that of restrictions to market access. However, the absence of the former is not surprising given that SEC was reaching out to retail customers through brand-pull and hence decision-making networks may not be relevant in this case.

### Conclusions and Agenda for further Research

This case suggests that our framework is fairly comprehensive in identifying the factors influencing the propensity of EMCs to ascend the value curve in international markets. However, the importance of different factors varies at different stages of the progression of ascending the value curve. The framework we proposed needs to be fine-tuned to these different stages. Further, we need to move beyond a single case to identify the relative importance of these factors. This single case does however suggest that at the late stage of ascent of the value curve, the most important factors will be leadership (largely to (1) overcome the temptation of lower risk options, (2) to keep the company firmly on the path to higher value addition, and (3) make the investments required in intangible assets), the availability of product-market opportunities that allow the company to re-position itself, the absorptive capacity of the company, and the occurrence of a trigger that can drive the effort.

### Note

<sup>1</sup> In this paper, any reference to an EMC is related to a company from emerging markets that has a presence in international markets. Value addition is looked at in the specific context of its internationalization.

<sup>2</sup> This case is based on secondary material. The key sources are given in the notes that follow.

<sup>3</sup> Source: [www.interbrand.com](http://www.interbrand.com) Also reported in *Business Week*, August, 2003.

<sup>4</sup> Seongjae Yu, "The Growth Pattern of Samsung Electronics," *International Studies of Management & Organization*, Vol. 28, No. 4, Winter, 1998-99, p. 59.

<sup>5</sup> Seongjae Yu, "The Growth Pattern of Samsung Electronics," *International Studies of Management & Organization*, Vol. 28, No. 4, Winter, 1998-99, p. 65.

<sup>6</sup> Seongjae Yu, "The Growth Pattern of Samsung Electronics," *International Studies of Management & Organization*, Vol. 28, No. 4, Winter, 1998-99, p. 64.

<sup>7</sup> Ira C. Magaziner & Mark Patinkin, "Fast Heat: How Korea Won the Microwave War," *Harvard Business Review*, January-February 1989, pp. 83-92.

<sup>8</sup> Linsu Kim, *Imitation to Innovation: The Dynamics of Korea's Technological Learning*, Harvard Business School Press, 1997.

<sup>9</sup> Linsu Kim, "The Dynamics of Samsung's Technological Learning in Semiconductors," *California Management Review*, Vol. 39, No. 3, Spring 1997, pp. 86-100.

<sup>10</sup> Linsu Kim, "The Dynamics of Samsung's Technological Learning in Semiconductors," *California Management Review*, Vol. 39, No. 3, Spring 1997, pp. 86-100.

<sup>11</sup> Seongjae Yu, "The Growth Pattern of Samsung Electronics," *International Studies of Management & Organization*, Vol. 28, No. 4, Winter, 1998-99, pp. 57-72.

<sup>12</sup> Ira C. Magaziner & Mark Patinkin, "Fast Heat: How Korea Won the Microwave War," *Harvard Business Review*, January-February 1989, pp. 83-92.

<sup>13</sup> Alice Amsden, *The Rise of the Rest*, Oxford University Press, 2001.

<sup>14</sup> See, for example, Ira C. Magaziner & Mark Patinkin, "Fast Heat: How Korea Won the Microwave War," *Harvard Business Review*, January-February 1989, p. 86.

<sup>15</sup> "Samsung: A Korean Giant Confronts the Crisis," *Business Week*, Asia Edition, March 23, 1998, pp. 14-17.

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