How Samsung Electronics’ Organizational Structure and Culture Affect Its Innovation

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Introduction

Samsung Electronics is a subsidiary of the South Korean multinational conglomerate company, Samsung. It produces various electronic products such as smartphones, tablet PCs, or televisions, and it has been world’s biggest information technology company by revenue since 2009 (Song & Oliver, 2010). Although it is a multinational company that employees 370,000 people in over 80 countries, its organizational culture and structure is strongly influenced by the South Korean organizational culture, where the company’s managerial decisions take place. Samsung is a giant conglomerate—chaebol—that accounts for 17 percent of South Korea’s GDP, and it has a dominant presence in South Korea not only in its economy but also in people’s life in general. Korean people are born in Samsung Medical Center, are insured by Samsung Life insurance, shop at Shinsegae department store (which is a Samsung subsidiary), check Facebook and Twitter with their newest Samsung Galaxy S6, and watch movies produced and/or distributed by CJ E&M (also a Samsung subsidiary) (Grobart, 2013). Hence, it is not entirely a joke when South Koreans mockingly call themselves as “the Samsung Republic”.

Despite its strong position in the global market, Samsung Electronics has been facing some strong external criticism against its lack of innovation. It had been sued by its rival, Apple, for patent infringement in 2011 (Kane & Sherr, 2011), and even after the patent war between the two giant companies was dropped, Samsung Electronics’ products have been constantly criticized by consumers for its lack of innovation. Its reputation for not being innovative is critical for the organization as innovation is the major competence for an IT firm. Price, Samsung Electronics’ previous competence, can no longer be its competence either as cheaper Chinese brands such as Xiaomi surpassed Samsung’s market dominance in the Chinese smartphone market in 2014 (Kwak, 2014). Therefore, in order for Samsung Electronics to maintain its dominant presence in the global market, it is essential for the organization to face this challenge and scrutinize the company in order to find explanations for its lack of innovativeness. This paper aims to investigate possible explanations for its lack of innovativeness, focusing on analyzing its
organizational structure and culture. Hence the following research question will be answered: “How does Samsung Electronics’ organizational structure and culture impact its organizational innovation?”

According to Van de Ven (2005), an innovation is an idea that is “perceived as new and entails a novel change for the actors involved”, and an organizational innovation is “when the people working on a new idea are members of an organization, ... in contrast to efforts undertaken by independent individuals (entrepreneurship) or by organizations working collectively (joint ventures or networks).” In an attempt to investigate the causes of innovation, he refers to the work of Amabile (1996), Angle (2000) and Damanpour (1996) that summarizes how individuals are more likely to be innovative in organizations that enable and motivate innovation, and suggests that the organizational structure and practices influences such innovation. That is the reason why this paper is focusing on organizational structure and culture of Samsung Electronics, in an attempt to investigate the explanations for its lack of innovation.

A few theoretical and analytical frameworks will be employed in order to answer the research question for this paper. In order to investigate the impact of organizational structure to its innovation, the theoretical framework of structural contingency theory will be explored with the analytical tool of Burns and Stalker’s mechanistic and organic organizations. In order to investigate the impact of organizational culture to its innovation, the theoretical framework of Hofstede’s theory of dimensions of culture will be utilized. Empirical evidences such as the organizational structure chart or Lee’s (2001) article will be used in order to provide credible resources to the theoretical analyses. At the end of this paper, a conclusion for the investigation will be drawn, hence providing with a final answer to the research question.

**Structural Contingency Theory**

Structural contingency theorists such as Donaldson (1996:57) believe that an organization needs to fit its structure to the contingency factors of the organization in order to be effective. Burns and Stalker (1961) maintained that designing organizational
structure to fit the demands of the environment is the key to the organization’s effectiveness. Also, Lawrence and Lorsch (1967) studied how contingencies created by environment influenced an organization’s patterns of differentiation and integration. (Hatch & Cunliffe, 2006:110) In the theoretical framework of structural contingency theory, how effectively does Samsung Electronics’ organizational structure fit to the demand of its environment? The question will be answered by the scrutiny of the organizational structure of Samsung Electronics, employing the mechanistic and organic management systems framework by Burns and Stalker (1961).

Burns and Stalker (1961) identified two organizational structures to be at opposite ends of a continuum—mechanistic organizations and organic organizations. They explained mechanistic organizations to be hierarchical and formalized, whereas they explained organic organizations to consist of more lateral communication and coordination. As the difference between mechanistic organization and organic organization should be understood as a spectrum rather than a classifying box, organizations always combine mechanistic and organic characteristics. Mechanistic organizational structures are characterized by: high horizontal and vertical differentiation—a hierarchical structure; high formalization—stable definition of roles, responsibilities, instructions and job methods; centralization—decision made at the top of the hierarchy; standardization through written rules and procedures; close supervision with authority and prestige based on position; vertical (superior-subordinate) communication in the form of instructions. On the other hand, organic organizational structures are characterized by: high/complex horizontal and vertical integration—a network of authority and control based on knowledge of the task; low formalization—tasks and responsibilities are redefined depending on the situation; decentralization—decisions made by those with knowledge; mutual adjustment and redefinition of tasks and methods through joint problem-solving and interaction; personal expertise and creativity without supervision; frequent lateral communication, often in the form of consultation between people from different departments. (Hatch & Cunliffe, 2006: 110-1)
Burns and Stalker (1961) explains that Innovation is limited in mechanistic organizations as their high levels of hierarchy, specialization and centralization hinders flexibility and creativity. (Hatch & Cunliffe, 2006:111-2) For instance, when an individual’s daily tasks consist of routines and instructions from above, and when her work is closely supervised by her superior, it is difficult for her to come up with creative and innovative ideas. On the other hand, organic organizations are more likely to be innovative since employees have the flexibility to experiment and solve problems as they arise under lower levels of hierarchy. (Ibid) For example, it is much easier for individuals to come up with creative and innovative ideas when he can perform with his own expertise without close supervision, and be exposed to better Communities of Practice (CoP) (Wenger, 2000) by frequent lateral communication and consultation between people from different departments. Kanter (1983) also explains how organizational segmentation and bureaucratic procedures can lead to organizational complexity and hence constrain innovation. (Van de Ven, 2005)

Figure 1. Organizational Structure Chart of Samsung Electronics (Jeong, 2013)
Hence the question arises: which of the mechanistic and organic organizational structure does Samsung Electronics lean towards? As seen in Figure 1, the organizational structure of Samsung Electronics is highly differentiated into a hierarchal structure both vertically and horizontally. Lee (2002) compares the researches on the characteristics of the organizational structure of Samsung carried out by Samsung Economy Research Center (1994) and Shin & al (1995), and concludes the consistency of these two researches by identifying the following characteristics of the organizational structure of Samsung. First, they observed the members of the organization to be detailed and disciplined. Second, they noticed that there was a strong preference for formalization within the organization. Third, in terms of decision-making, Samsung emphasized high importance in procedures and consensus. Fourth, the management style of the organization was highly bureaucratic. Fifth, the organization exhibited strong exclusiveness within each department with strong reluctance of outsourcing, high preference for internal procurement and a possessive perception of its technology and capital.

These empirical evidences of the organizational structure chart (Figure 1) and the research carried out by Lee (2002) display a strong consistency in describing the organizational structure of Samsung Electronics. The organization demonstrates an exemplary behavior of Burns and Stalker’s (1961) mechanistic organization: strong preference for formalization, procedures, bureaucracy and a high level of differentiation. The high level of formalization and bureaucracy discourages individual members of the organization from coming up with creative and innovative ideas. The high level of differentiation and exclusivity within each department prevents lateral communication and CoP within the organization. Lee (2002) interprets such exclusive and possessive tendency of the organizational structure to be Samsung’s attempt to increase organizational stability and certainty by minimizing the contingency from the external environment and internalize the contingency factors. However, such traditionally mechanistic organizational structure is proving its ineffectiveness in terms of meeting the demand of innovation from its environment. IT industry is one of the
most rapidly changing and highly uncertain industry of all, and in order to meet its demand of innovation, an organization must be more quickly responsive to the change of the environment and hence more organic. Therefore, within the theoretical framework of the structural contingency theory, Samsung Electronics’ inapt mechanistic organizational structural design limits its organizational innovation and hence its effectiveness.

**Hofstede’s Theory of Dimensions of Culture**

But what could have influenced the organizational structure of Samsung Electronics to exhibit such mechanistic characteristics that hinders the innovation? Could culture have caused such mechanistic organizational structure to form? In order to answer this, this paper employs Hofstede’s (2001) dimensions of culture as a theoretical framework. Hofstede’s approach to organizational culture is derivative of the idea that organizations are subcultures of larger cultural systems, for instance the national culture. He identified four dimensions of national cultural difference: power distance, uncertainty avoidance, individualism vs. collectivism, and masculinity vs. femininity. Power distance is how much the members of a culture are willing to accept an unequal distribution of power, wealth and prestige, whereas uncertainty avoidance is the level of intolerance for uncertainty. Individualism vs. collectivism refers to the degree to which individuals are expected to act independently of other members of the society, whereas masculinity vs. femininity refers to the degree of separation between gender roles in a society. (Hatch & Cunliffe, 2006:181-4)

The dimensions that are discussed in Hofstede’s work can be significantly influential to organizational innovation as well, as they can heavily influence a firm’s organizational structure. For instance, power distance can determine the degree of hierarchical differentiation within a firm and the uncertainty avoidance can determine the flexibility and responsiveness of the organization. Also, individualism vs. collectivism can determine the members’ ability to behave beyond expected and become more innovative, whereas masculinity vs. femininity can determine how much members can
act beyond the expected norms of social constructs such as patriarchal gender roles, hence become more innovative. Thus, organizational culture that scores highly on power distance, collectivism, uncertainty avoidance and masculinity are likely to fit into the characteristics of mechanistic organizational structure, hence performing limited organizational innovation. On the other hand, organizational culture that scores low on power distance and uncertainty avoidance and highly on individualism and femininity are likely to fit into the descriptions of organic organizational structure, hence becoming more innovative.

Then how does South Korea fit into the theoretical framework of Hofstede’s dimensions of culture? In Hofstede’s (1998:13) research, South Korea scored 60 on the power distance index, identifying Korea as a country with a bigger power distance, and scored 18 on the individualism index, identifying Korea as quite a collective country. South Korea scored 85 on the uncertainty avoidance index, identifying Korea as exhibiting a significant tendency of avoiding uncertainty, and 39 on the masculinity index, which identified Korea as more of a feminine country.

Hofstede (1998:8) suggested that Confucianist values could be an explanation for such performance of South Korea and other East Asian countries on the dimensions of culture, such as: the stability of society is based on unequal relationships between people; the family is the prototype of all social organizations; and it is virtuous to work hard and be perseverant. The Confucius teaching that emphasizes the importance of unequal relationships in achieving the stability of society could be an explanation of Korean people’s acceptance and tolerance towards larger power distance. Also, the teaching that a person is not primarily an individual but rather a member of a family can explain the collectivity of the Korean culture. The teaching that the family is the prototype of all social organizations could be an explanation upon the femininity of the Korean culture—in contrast to masculine culture that values assertiveness and career ambitions, individuals are more encouraged to be nurturing towards its family.

Lee’s (2002) research and observation upon the organizational culture of Samsung supports Hofstede’s study upon South Korean culture. According to his
observation, Samsung Electronics exhibits high tendency of uncertainty avoidance by its attempts to minimize external environment contingency and stabilize the organization. Also, the both vertically and horizontally differentiated organizational structure of Samsung Electronics as shown in its organizational structure chart in Figure 1 implies the large degree of power distance within Samsung Electronics. Shin (1995) noted that the behavioral norms of Samsung were: rules and regulations, procedures, intolerance to resting during working hours, neat personal attires and appearance, and detailed planning. These behavioral norms of Samsung Electronics support the collectivism dimension of Hofstede’s theory where members have to abide by strict rules and there is little room for individual creativity and innovation.

Hofstede’s dimensions of culture provides us with an insight upon how the Confucius culture of South Korea, where Samsung Electronics’ was founded and its HQ is located in, could affect the organizational culture of Samsung Electronics and hence its organizational structure and innovation. Confucian culture, which is a regional and national culture of East Asia and South Korea, affects its subculture, which is the organizational culture of Samsung Electronics. National and organizational cultural dimensions such as collectivism, power distance and uncertainty avoidance can influence the organizational structure and shape it into a mechanistic organization. As aforementioned, mechanistic organization hinders the organizational innovation. Therefore, we can see how the Confucius culture can inhibit the organizational innovation of Samsung Electronics within Hofstede’s theoretical and analytical framework.

**Conclusion**

In summary, we have investigated the impact of the organizational structure and culture to its organizational innovation in Samsung Electronics. First, in order to investigate the impact of organizational structure upon its innovation, we employed the theoretical framework of structural contingency theory and the analytical framework of Burns and Stalker’s mechanistic and organic management systems. The organizational
structural chart and the research article of Lee (2001) provided empirical evidences for the analysis. Second, in order to investigate the impact of organizational culture upon its innovation, we employed the theoretical and analytical framework of Hofstede’s theory of dimensions of culture, with explanations of how Confucianism affected Samsung Electronics’ organizational culture.

From the investigation of the impact of organizational structure upon innovation, we drew a conclusion that Samsung Electronics’ was a mechanistic organization and hence its mechanistic organizational structure hindered the organizational innovation. Then, from the investigation of the impact of organizational culture upon innovation, we could analyze that South Korea belonged to the dimensions of collectivism, high power distance, high uncertainty avoidance and femininity according to Hofstede. We could also make a link between some specific cultural dimensions of Hofstede also influencing the organizational structure to be mechanistic or organic. Consequently, we concluded that the Confucian culture of South Korea influenced the organizational structure of Samsung Electronics to be a mechanistic one, hence inhibiting its organizational innovation. Thus we arrive to answering the research question that was asked in the beginning of this paper: “How does Samsung Electronics’ organizational structure and culture impact its organizational innovation?” The answer to the question is: The Confucius South Korean national culture influenced its subculture, the organizational culture of Samsung Electronics, to be a collective, uncertainty-avoiding and power distant one. Such dimensions of Samsung Electronics influenced its organizational structure to become a mechanistic organization, which discourages individual members to come up with creative ideas hence further inhibiting the organizational innovation of Samsung Electronics. In other words, the Confucius organizational culture and the mechanistic organizational structure hinder the organizational innovation of Samsung Electronics.

Samsung is in its dangerous days today. The health of the chairman, Lee Gun-Hee, has become so bad that it put the old man on the deathbed several times. The seemingly everlasting glory of chaebols in South Korea is beginning to fade away and
slowly demolish and deconstruct, letting SMEs take away their market dominance. In the premium smartphone market, Apple took away Samsung’s smartphone market dominance in Samsung’s home ground, South Korea, with its latest release iPhone 6. On the other hand, Samsung’s latest release Galaxy S6 is once again evaluated to look exactly like the design of iPhone 6. In the cheaper affordable smartphone market, newer Chinese brands such as Xiaomi and Huawei are surpassing and closely catching up with Samsung’s market dominance in not only in China but in the global market. Innovation is key to the survival of the giant now. If Samsung fails to innovate, the long history of the biggest conglomerate in South Korea will turn into a mere history in a near future. However, if Samsung overcomes its existing challenges of its organizational structure and culture and succeed in a sustainable and a feasible innovation, it will evolve into an even stronger company that is almost invincible.
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