

Samsung entered into the electronic industry management essay

[Business](#), [Management](#)



Introduction

Samsung was founded by Lee Byung-chull in 1938 as a trading company. Samsung entered into the electronic industry in the late 1960s and it established around 80 companies. Samsung diversified their business into construction, electronics, financial services, shipbuilding and medical services (" Samsung Website", 2013). In order to compete effectively with other companies, Samsung had increasingly expanded their market into other countries including Indonesia. There are some reasons for Samsung to enter into Indonesia such as high population, low cost labor advantages, and growth of GDP with high consumer demand. Indonesia is the world's fourth most populous country with 240 million people and comprising approximately 17508 islands. Indonesia's economy ranked as the 16th largest by nominal GDP around the world and 15th largest by purchasing power parity. The GDP of Indonesia was growth above 6. 5% in 2011 and projected to remain above 6% for the next five years. According to OECD economist Francois Lequiller (2010), if GDP is high, then production is high; this means that people have more money to purchase goods. According to Industry Minister MS Hidayat, he said that Samsung is interested to build HP factory in Indonesia due to the high consumer demand in Indonesia. He also said that Indonesia imports 50 million units of cellular phone per year (Indonesia Today News, 2012). Moreover, Indonesia also considered as a low-cost country with lower labor costs and production costs which can help to cut its operating expenses (Till, Ted, Uwe, & Varma, 2005). Samsung have invested heavily in Indonesia due to the benefits of low costs as well as proximity to large consumer markets (" Where is Manufacturing Going",

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2012). It is high opportunity for Samsung to achieve economies of scale and increase efficiency as well as their profits.

2. 0 Analysis

2. 1 Gains of Samsung in Indonesia.

By entering into Indonesia, Samsung are able to gains some advantages in term of saving cost of production, increase market shares and improve corporate image at the same time gain more skilled work force.

2. 1. 1 Reduce costs

Indonesia government has made some reform on its regulation of doing business to attract more foreigner investors. For example, in the area of starting a business, improvement reduced the start up time by 70%, from 151 days in 2006 to 45 days in 2011 and the number of procedures from 12 to 8. Besides that, the total tax rate was reduced from 37. 3% of profit in 2006 to 34. 5% in 2011, while online systems for filling taxes cut the time it takes to pay taxes by more than half, from 560 hours in 2006 to 266 hours in 2011 (Doing Business in Indonesia, 2012). The changes of government regulation bring a lot of advantages to foreign investors. Samsung are able to save a lot of costs in term of times and capital by entering into Indonesia. The cost to entry Indonesia would be drop about 10 percent due to the new regulation that mainly aim for foreign investment (Doing Business in Indonesia, 2012).

2. 2. 2 Increase Samsung's market share

Samsung is holding 80 percent of Indonesian Android smart phone market and 50 percent of tablet market (Zdnet Website, 2013). By entering Indonesia, Samsung are able to provide lower price smart phones for Indonesia market and at the same time increase their market shares to become the industry leader in Indonesia. Besides that, the share of Samsung's Android smart phone is expected to drop in this year due to Window 8 smart phones entering the market (Zdnet Website, 2013). Competition from Nokia and RIM Blackberry will also affect the shares of Samsung in Indonesia (Zdnet Website, 2013). Therefore, entering Indonesia market can help Samsung to maintain its shares by providing lower cost smart phones to local market, at the same time building good relationship to local consumers. In year 2012, the market leader of smart phone is lead by RIM's Blackberry, which is 37 percent of the market (Bloomberg Businessweek, 2012). Therefore, Samsung have to do something if they want to take over the leader of the industry.

2. 2. 3 Increase Samsung's reputation

As a global company, Samsung has utilize its resource in both monetary and technology in helping society of Indonesia and building corporate social responsibility. Samsung realize that, successfulness of a company is not only about the performance of business, but also in term of how the company treat the society, protecting resources of the planet and provide changes to people's life. Samsung had launched a program- " Samsung Hope For Children" in Indonesia with cooperate of Yayasan Cinta Anak Bangsa (YCAB).

Youth will be taught of the way to repair Samsung mobile phone for a year so that they have skills to join working world. Samsung also claims that this program also help the education of Indonesia. Most of the youth who come from low income family are able to enjoy this program in order to join better working life in future (Corporate Social Responsibility PT. Samsung Electronics Indonesia, 2012). By doing this, Samsung's are able to build good corporate image in Indonesia and at the same time, Samsung also gain a lot of skilled worker from the program it launched. Samsung can make use of the gains that it acquires by entering Indonesia market as its competitive advantages compare with other corporate in the same industry.

2. 2 Shortcomings of Samsung in Indonesia

Shortcomings that Samsung would face after entering Indonesia market are difference in language, labor and labor relationship or human resource management and the local community of Indonesia.

2. 2. 1 Communication difficulty - Language

Language is always a big issues for foreign corporate to enter Indonesia.

Although English is fairly understood by educated Indonesian, but the level is not very high. Having ability to speak English is a point of pride for Indonesian which indicated their educated status. It often happened that, although an Indonesian is listening and understanding to what being said in English, but sometimes, critical detailed may be missed. Saying 'yes' by Indonesian does not mean that they understand and agree what being said, it just means that they are listening. (Doing Business in Indonesia, 2001).

According to Deputy Education and culture minister Musliar Kasim (2012), he

announced that the teaching of English in Indonesia's primary school will end next year because the government attempts to reverse falling standards in Bahasa Indonesia. The Government wants to omit English from primary school because omission aimed to give ample time for students to master the Indonesia language first before diving into foreign languages (The Jakarta Post, 2012). This situation will create a challenging for future generation who able to speak English. Moreover, Huawei, a company of China has faced this problem when they entering a different country. Huawei Netherlands's HR department has made a survey and found that there are lots of communication problems in the office which already lead to negative consequences, such as high turnover rate, etc. (Wu, 2010). This would be a potential shortcoming that might be face by Samsung in communication in future when they hire employees in Indonesia.

2. 2. 2 Weak management and shortage of skill workers

Although labor cost in Indonesian is very low, but it's often not very productive compare to other economies. Skill levels are not very high by most standards. Besides that, labor force in Indonesia also facing shortage in skilled workers. Education system in Indonesia is a main cause to this issue. Quality of education in Indonesia is low and probably will remain for some years to come. Companies frequently need to train workers to the job to make up deficiencies in formal skills or education. Basic skills such as computing and report writing are also quite poor and very less graduates have prior workplace experience. Moreover, recruiting workers in Indonesia must be undertaken with care because termination of employment can be

problematic. Reason such as incompetence or unsuitability for some job is not a good reason to terminate a Indonesia worker. By technically, a employee only terminated for misconduct after receiving three separate warning letter three months apart. This means that, it might take a year to terminate a worker. However, in practice, those procedures can be skip if management is attuned to culturally acceptable ways of handling such problems, which involve negotiation, face-saving exit or sometimes, money. Others than that, absenteeism also can be a serious issue for companies in Indonesia. The main reason might be management failure. A poor or inappropriate social environment in workplace can lead to productivity problem. A factory that lack of 'family' atmosphere is more likely to face absenteeism problems. From Indonesians' perspective, working is an extension of their social life, and they like to being noticed about their place and role with their complany. (Doing Business in Indonesia, 2001). Problem such as lacking of skilled workers has once happened at Samsung at Suzhou, China. Samsung has facing skilled labor shortage of 15, 000 only in the ICT sector in 2005 (Hubei Daily, 23 June 2005). This problem might potentially happen again in Samsung Indonesia. The reason behind is because both China and Indonesia's labor does not enjoy high education and they will face problem when learning in manufacturing electronic products (Chang, 2006).

2. 2. 3 Influence power of local community

Indonesia's local community could be a shortcoming for Samsung in entering Indonesia. The reason behind this is because rule-of-law, the police, and the court system in Indonesia are all together very weak. The Indonesian legal

system cannot be relied to secure property rights or secure contractual commitments. The law is an instrument to secure rights, but in Indonesian context, it should be considered secondary to another more important instrument, which are Javanese's neighborhoods. Neighborhoods in Java are generally very controlled environments. A group of 5-40 houses are aggregated to form an 'RT' (Rukun Tetangga), or roughly translated, a neighborhood council. Group of RT then aggregated into a 'RW' (Rukun Warga), and so on. Informal meeting will be held by RT and RW on monthly basis. People moving into neighborhood are expected to report to Pak RT, as are houseguests or people staying overnight. Not reporting to the RT is considered arrogant. Naturally, new business establishing themselves in any area of Indonesia will invariably come under the 'jurisdiction' of an RT/RW, and relations should be established earlier rather than later (Doing Business in Indonesia, 2001). Newmount Minahasa Raya (NMR), a mining company which based in United States (US). The company did not maintain good relationship with the neighborhood community, Buyat village and do their mining activities nearby the village. Due to the company did not take much attention toward the environment issues, after few years of mining an activity, the environment nearby village is polluted and various health complaints being reported. The company closed the mine in 2005 after being wide spread by media. The case being brought to local court and NMR is alleged for causing pollution in Buyat (Ukessays Website, 2012). This case shows that Samsung might potentially face this kind of issues in Indonesia if the relationship with the nearby neighborhood is not well maintained. Samsung should take care of the environment issues to show their effort to

the local community and at the same time improve the reputation of the company.

3. 0Recommendation

3. 1 Benchmarking

The best recommendation for Samsung enters into Indonesia market is benchmarking. Benchmark is defined as a set of standards that an organization used as a point of reference for evaluating performance or level of quality (Benchmark, n. d.). . The company that Samsung should benchmark is Apple. There are several elements that Samsung should benchmark Apple to resolve the shortcoming faces when expands their business into Indonesia's markets. Firstly, Samsung should increase the educational level and train the workers to be more skillful. Samsung should provide training to the workers and managers throughout their supply chain in Indonesia. According to Apple (n. d.), they provides adequate training for all the managers and workers throughout the supply chain whereby the training includes understanding of local laws, the rights as a workers, occupational health and safety and also Apple's Supplier Code of Conduct. However, the managerial level is trained to be effective on their management practices which include worker-management, anti-harassment policies and workers protections. Since year 2007, Apple had trained 2.3million of workers and managers. Thus, as the recommendation, Samsung should also set a target of the number of workers and managers have to be trained in a year (Apple, n. d.).

3. 2 Provide free education opportunity

Furthermore, to increase the number of talented employees, Apple also offers free educational opportunities for their workers. Supplier Employee Education and Development (SEED) program is an Apple-designed program which offers workers classes in technical and software skills, life skills, social and environmental responsibility, language skills, management skills and engineering. For Samsung, they should also offer free educational opportunities for their workers and also offers the similar classes as what Apple did. Moreover, Apple partner with universities to give workers quality education and access to advanced degree. Same to Samsung, they can also partner with the local universities in Indonesia and set the quality standards for the universities so that the workers are able to train to be a quality employee. In addition, Samsung can imports a group of expertise or specialist from home country into Indonesia. The expertise are responsible to share their knowledge, experiences, and skills to the local university to ensure that all the lecturer in the local university are able to learn something new from the expertise and educate the students in the university.

3. 3 Increase corporate social responsibility

Besides that, Samsung can increase their corporate social responsibility by improving employee welfare, labor right as well as corporate image. According to Apple (2013), " if companies want to do business with us, they must act fairly and ethically at all times". In other words, Apple does not allow their suppliers to act unethically or in the ways that threaten the rights of workers for example, working for excessive hours, unethical hiring policies

and hiring workers who are underage are strictly prohibited. The supplier code of conduct limits weeks to 60 hours only except in some unusual circumstances, or else all the overtime must be voluntary by the workers. In order to keep track with the results, Apple tracked workers' work hours weekly and fix the problems quickly with supplier if there is any problem occurred.

3. 4 Not allow underage workers

Furthermore, Apple strictly does not allow underage workers in order to improve labor right as well as corporate image. By improving social welfare and corporate image, Samsung should benchmark Apple by not tolerate any underage workers in Samsung company as well as suppliers. A corrective action is taken immediately as part of Apple's Underage Labor Remediation Program. Suppliers must return underage workers to school and finance their education at a school chosen by the family and children must continue to receive income as same as what they received during they been employed. For example, in January 2012, Apple discovered a supplier Guangdong Real Faith Pingzhou Electronics Co., Ltd. (PZ) (广东现实平洲电子有限公司), this supplier was hired 74 underage workers, which is underage of 16. This had been violated Apple's code of conduct; as a result, Apple immediately terminated business relationship with PZ (Apple, 2013).

3. 5 Provide safety environment

Moreover, Samsung may benchmark Apple to have a better corporate image, labor welfare and labor rights. Samsung should make sure that labors are working in a safe and healthy workplace. In order to have a safer working

environment, Samsung should provide proper protective gears, guardrails, safety harnesses, and any other safety equipment. In addition, a comprehensive and up to date training for workers is a must for new workers or any new materials and machinery are introduced in the factory. This is very important for production line because inappropriate use of machinery or materials may cause injury during the processing.

3. 6 Commit in environmental responsibility

Lastly, it is very important for Samsung to commit in environmental responsibility as part of the social responsibility. Apple invests heavily to reduce environmental pollutions during production as well as using recyclable materials for their product but maintain the standard quality of the product. Apple's products are free from many toxic materials such as lead-free, BFR-free, PVC-free, Mercury-free and Arsenic-free glass for their entire product lines. It is good for Samsung to benchmark Apple by using toxic free materials in their product as this will improve their corporate image. Other than that, materials used for products have been reduced, Apple is currently pioneer for developing smaller, thinner and lighter product but it is more powerful than before. Due to the smaller, thinner and lighter product developed, they required fewer materials to produce and generate fewer carbon emissions, for example, although today iMac is more powerful and have a much screen size than the 1st generation iMac, but it is designed with 50% fewer emission and 50% less materials. Moreover, the use of Apple's product has been qualified Energy Star qualification, unlike other manufacturer who only have one or two product that are qualified for Energy

Star product, but all Apple's products not only meets Energy Star Qualification but it's still exceeds the United States Environmental Protection Agency's strict ENERGY STAR guidelines for efficiency. Apple is the only company in the industry that can make this claim (Apple, 2013). This is extremely fantastic scenario that done by Apple, therefore Samsung should benchmark with Apple for their future improvement as well as part of the social responsibility. By benchmarking Apple's technology, Samsung may lower down their cost of production and increase economic of scale as lesser materials were used in each product produced. Besides that, society may view Samsung as a good social responsibility company and having a good corporate image and eventually customers will make purchase that lead to increase in sales and market share.

Conclusion:

To put a conclusion to this assignment, Indonesia, is a very attractive market and a great country for multinational company to set up their factory or business with. Although there is some potential shortcomings, but it would not highly influence the businesses, but Samsung also have to be more careful in running their business in Indonesia because the culture differences could easily bring out problems. The electronic industry in Indonesia will continue to growth and more competitors would enter the industry in future. Samsung should get ready to facing more and more challenges in future at Indonesia. The best way to increase the shares or profit is make sure the company's reputation is good enough by doing more activities that would help in Indonesia's social problem. By doing this assignment, we had learned

that doing international business is never an easy job, although for some top company such as Samsung or Apple. A slightly mistakes when dealing with other country can easily bring high damages towards the company.

Company must be very careful when they choose a country to enter and make sure that they are able to handle any social or culture issues that will arise after they enter the market. Moreover, the company needs to do market research and analysis the opportunity before they going into other country. New market can create the opportunity for company but it also can create the challenges or problems for company. Therefore, company can develop joint venture or partnership with local company to create competitive advantages.

Appendixes:

Figure 1: Evolution of GDP per capita and trade as a share of GDP in Indonesia

Figure 2: Training Participation

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