

# Samsung's next reinvention challenge: itself

REUTERS, Seoul

As its smartphone sales stutter and a generational leadership succession looms, Samsung Electronics Co Ltd is under pressure to reinvent itself—to be more innovative, but not lose the rigour and focus that made it a global powerhouse.

One effort this summer to foster a more worker-friendly environment and a more creative culture is to allow staff at its main Suwon campus south of Seoul to wear shorts to work at weekends. Working hours are more flexible, and female staff can take maternity leave without worrying about job security.

The flagship of South Korea's dominant conglomerate, or chaebol, is also trying to address shifting cultural values at home by curbing some of the excesses hardwired into corporate Korea. Forced late-night drinking sessions, long a staple of local office life, are out.

"It's 1-1-9 for evening company outings now: one type of alcohol, in one place and only until 9 p.m.," said a Samsung employee in his eighth year at the firm. "Younger staff are no longer forced to stay, and the senior workers will be careful not to upset their subordinates," he said, asking not to be named as he was not authorized to speak to the media.

Samsung last month posted an unexpectedly sharp drop in second-quarter earnings, squeezed by falling market share in smartphones, and with no obvious driver in sight to reverse the decline. Chairman Lee Kun-hee, 72, who has famously managed Samsung with a sense of "permanent crisis", remains hospitalized following a May heart attack.

The ascension of his son and heir-apparent, the Harvard-educated Jay Y. Lee, 46, could be a breath of fresh air, but effecting wholesale change in



A woman using her mobile phone walks past advertisements promoting Samsung Electronics' products in Seoul.

the way the sprawling company operates would be a Herculean task and could prove a mistake.

"The company is in somewhat of a Catch-22 when it comes to changing its culture," said Jay Subhash, a former senior product manager who left Samsung in April. "It desperately needs to adopt a culture that fosters openness, creativity and innovation. But doing so would jeopardise its greatest existing cultural asset, its militaristic hierarchy, which enables it to operate at lightning speed to outpace the competition."

Samsung has long emphasised the need for creativity while hiring more foreign talent as it operates in increasingly diverse markets. Along with

relaxed rules on work hours, it stresses a "Work Smart" philosophy to reduce unnecessary time spent at the office.

While it's hoped a looser environment will help stir new ideas, some insiders say progress is slow against what's often described as an entrenched culture of rigid, top-down management.

"Samsung's doing some soul searching right now, it's asking itself 'who am I, and what should I do next?'" said Chang Sea-jin, a business professor at Korea Advanced Institute of Science and Technology and author of "Sony Vs Samsung".

"In the long term, the company needs to become global and open. Giving employees more autonomy can lead to loss of control, but this will in

the long run benefit the company by developing talent that can run the business from a global perspective."

The drop in second-quarter profit triggered some symbolic belt-tightening at Samsung: Handset division managers gave up part of their bonuses and downgraded to economy class for shorter flights—acts of loyalty that are part of Samsung's culture, which emphasises urgency in action.

While the company is a market leader in smartphones, TVs, refrigerators and memory chips, it's saddled with a perception that it's a "fast-follower" and not an innovator like Apple Inc or Google Inc. Samsung is hardly alone in the culture struggle. Many Korean firms deal with the

same issues stemming from the legacy of the country's Confucian, conformist culture, which has also fueled its industrial success. Several Samsung employees interviewed by Reuters said that those who "stand out" from the norm struggle and often end up leaving.

"The core challenge for Korea is that as a Confucian culture that has deep respect for age, hierarchy is very important and so what you'll find is that it's hard to innovate in an environment where challenging your boss is not something you can easily do," said Shaun Cochran, head of CLSA Korea.

Samsung is making efforts to address that.

In July, Chief Financial Officer Lee Sang-hoon asked how Samsung can respond to rapid changes in the tech industry in the first "Grand Discussion", an initiative for more dialogue, through the company's newly launched Mosaic internal message board. The discussion generated 4,221 ideas and comments.

"Samsung takes pride in the creativity and diversity of its talented people and will constantly strive to create an environment where they have the opportunity to grow," the company said in a statement to Reuters. The company did not make an executive available for an interview, but provided Reuters with written material on various initiatives.

Under its "Creative Lab" program, employees can individually or in teams take a year to develop an idea they come up with if it's deemed worthy of pursuit. Samsung says it had some 14,000 ideas last year through this program and other company initiatives.

Employees and Samsung watchers say cultural change is inevitable as a younger generation of Koreans increasingly demands more than just high wages.

## Novo Nordisk reports profit rise, progress on US drug permit

AFP, Copenhagen

The world's top insulin maker, Novo Nordisk, reported rising quarterly profits on Thursday and said studies required to release long-acting insulin Tresiba in the US would be completed sooner than previously thought.

Net profit in the second quarter rose by four percent to 6.99 billion kroner (938 million euros, \$1.25 billion) as revenue grew one percent to 21.63 billion kroner.

Stated in local currencies, revenue was 7.0-percent higher than a year ago, driven by sales of Victoza, which controls blood sugar levels by mimicking an intestinal hormone called GLP-1, and modern insulins like the long-acting Levemir.

The US Food and Drug Administration (FDA) said in February last year that approval for the group's once-daily insulin Tresiba could not be granted until the company provided more cardiovascular data.

"Novo Nordisk now expects to have data to support the prespecified interim analysis of major adverse cardiovascular events around the turn of the year. Previously, this was expected mid-2015," the company said.

Last year, Novo Nordisk lost two contracts with US health benefit manager Express Scripts, which negotiates drug prices for millions of insured Americans.

Sydbank analyst Soeren Loentoft Hansen told Danish news agency Ritzau that revenue was slightly below expectations but that earnings were above his estimates due to lower costs for distribution and research and development.

The new completion date for the US Tresiba trial meant Novo Nordisk would enter "this hugely important market" earlier than thought, and "probably also earlier than some of the competitors," he said.

The Bagsvaerd-based group reiterated its full-year guidance, which it lowered in May to between seven and 10 percent sales growth in local currencies.

Novo Nordisk has almost half the global insulin market, which has grown rapidly in recent years following a rise in the number of people suffering from diabetes, estimated by the World Health Organization to stand at nearly 350 million.

## Deutsche Telekom says profits up in Q2

AFP, Frankfurt

German telecoms giant Deutsche Telekom said on Thursday that earnings rose sharply in the second quarter, driven by the strong performance of its US subsidiary.

"It's harvest time for Deutsche Telekom on both sides of the Atlantic," the group said in a statement.

Net profit rose by 34.2 percent to 711 million euros (\$951 million) in the period from April to June. Underlying or operating profit was up 9.5 percent at 4.417 billion euros, while revenues slipped by 0.3 percent to 15.114 billion euros.

"Our strategy so far has been to make bold and prudent investments, focus first on lifting customer numbers, and then on topping revenues and results. And we are now starting to reap the rewards," chief executive Tim Hoetges said.

The US unit, T-Mobile US, "continued its rapid growth of the last few quarters, passing the 50-million customer mark for the first time in mid-2014."

In the second quarter alone, 1.47 million new customers were recorded, Telekom said. The US unit "has once again revised its growth expectations upwards for the full year."

Taking the group as a whole, Deutsche Telekom confirmed its full-year earnings target, with underlying profit projected to

reach 17.6 billion euros for the whole of 2014. T-Mobile is being courted by potential takeover partners, notably French group Iliad.

But CEO Hoetges told journalists in a telephone conference that Deutsche Telekom had not received "a satisfying offer" for the subsidiary so far.

"We've always said that Deutsche Telekom was open to transactions with added value. At the moment, there is no such offer on the table," he said.

The future of T-Mobile US, in which Deutsche Telekom holds a 67-percent stake, has become the subject of feverish takeover speculation recently.

US rival Sprint, which is controlled by Japanese giant Softbank, has long been seen as a possible merger partner.

But last week, Iliad made a surprise \$15-billion bid for a controlling stake in T-Mobile, seeking to merge the US operator with the similarly aggressive brand Free, which provides discount Internet and wireless access.

The bid has been seen as too low by many observers. "Iliad's bid took us by surprise," said Telekom chief Hoetges, noting that there were "a number of other options" still open.

Deutsche Telekom was currently "extremely satisfied" with the way T-Mobile US was developing, he continued.

## India approves foreign investment hike in railways, defence

AFP, New Delhi

India's cabinet has approved plans to open its defence and railways industries to foreign investment as new Prime Minister Narendra Modi's right-wing administration moves to reform and revive the ailing economy.

The cabinet agreed late Wednesday to increase the limit on foreign direct investment in defence to 49 percent from 26 percent, and allow unlimited investment in railway infrastructure, officials said.

Railway Minister Sadananda Gowda said Thursday that foreigners would still be barred from investing in railway operations, amid uproar in parliament over the measures.

"As far as the operating portion of the railways is concerned, certainly we are not allowing FDI. (It is) only in infrastructure and other areas," Gowda told reporters.

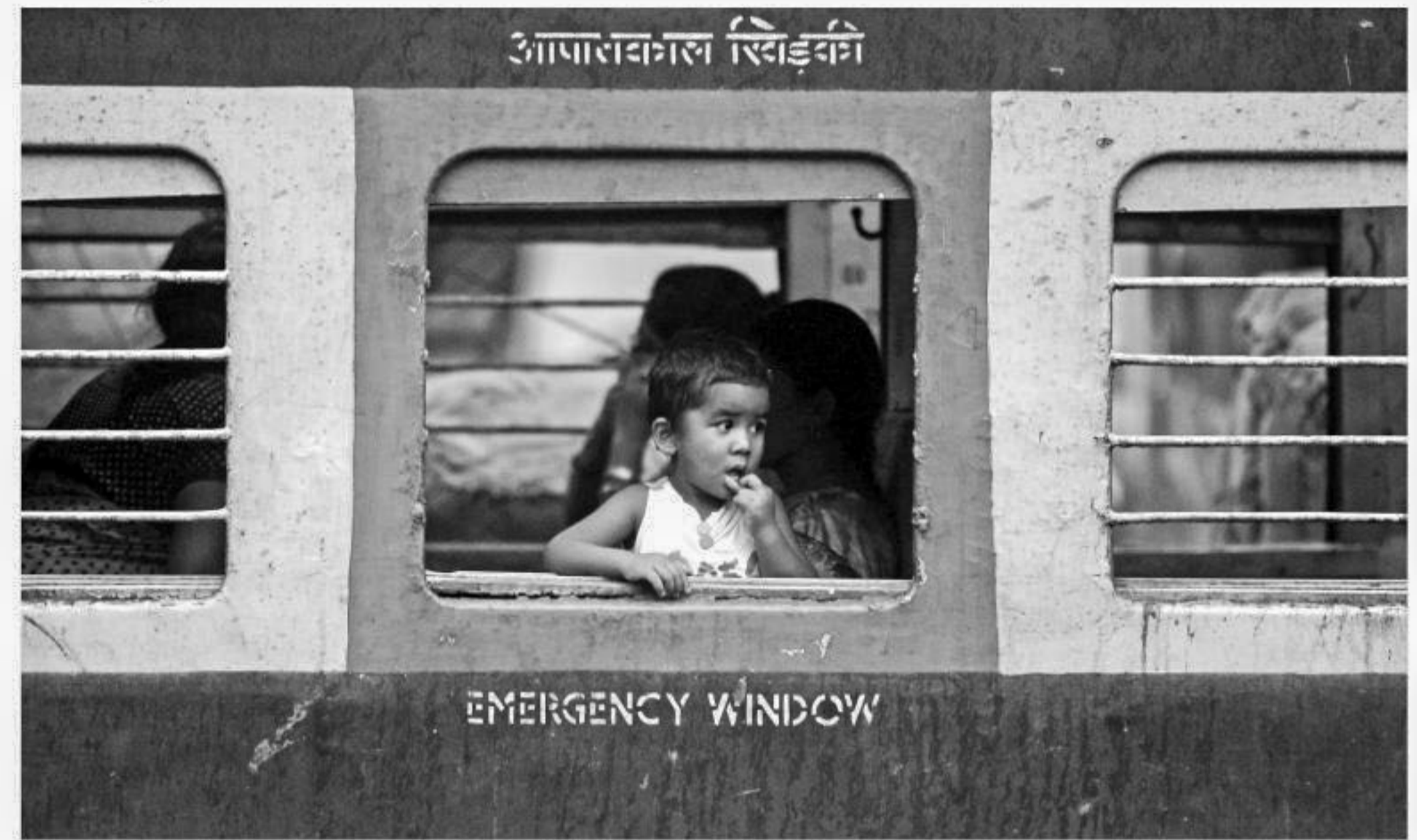
Left-wing parties accused the government of "selling off" national assets, while industry applauded the move as critical for modernisation of the sectors.

The government, which unveiled both plans in the budget last month, is attempting to push ahead with reforms after sweeping to power at elections in May with the biggest mandate in 30 years.

But its efforts hit a major hurdle this week, when the opposition blocked its attempts to introduce legislation to lift investment in the insurance sector.

Cabinet approval comes on the eve of US Secretary of Defence Chuck Hagel's visit to India to strengthen ties between the two militaries and to drum up defence deals.

Hagel, who arrives late Thursday, is expected to meet with top government ministers during the three-day visit. "The US recognises the immense potential for its companies in the Indian arms market" with the lifting of the invest-



A girl looks out through an open emergency window of a passenger train at a railway station in Kolkata.

ment cap, analyst Sameer Patil from Mumbai-based think-tank Gateway House said this week.

Modi's government wants to speed up modernisation of its Soviet-era military after years of slow procurement and the collapse of deals over corruption allegations.

India, the world's biggest arms importer, has traditionally relied on Russia but has turned to the United States in more recent years for equipment and other technology.

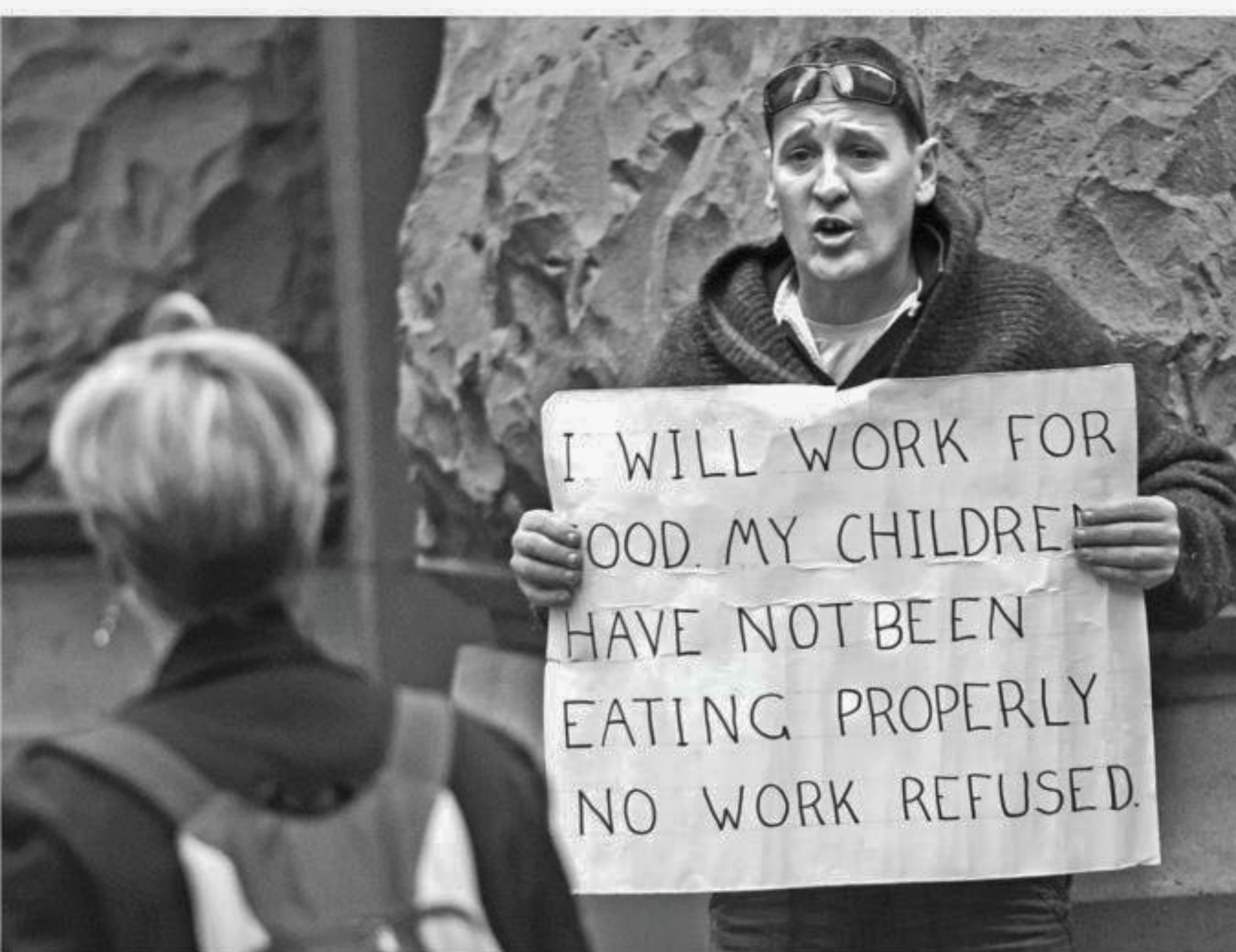
Investment in India's vast and crumbling state-run railway network, which carries 23 million passengers a day, is desperately needed after

years of neglect.

India struggles to fund upgrades of the network, partly developed under British colonial rule, because most of its revenues are spent on operating costs, and fears of a major public backlash if fares are lifted.

Railway and defence shares were mostly trading up on Thursday on the cabinet approvals, on the Bombay Stock Exchange.

Industry body FICCI said lifting the railway cap was critical "for introducing high-speed trains, suburban corridors and dedicated freight line projects" with public private partnerships.



A photo taken in Sydney on July 25 shows an unemployed man holding a sign offering to work for food for his children as Australia's unemployment rate spiked to a 12-year high of 6.4 percent in July, data showed yesterday, lowering expectations of a near-term hike in interest rates as the economy shows signs of weakness.

## Asia's most expensive home per square foot on sale in Hong Kong

AFP, Hong Kong

Asia's most expensive home per square foot is set to go on sale in Hong Kong, which boasts some of the world's costliest properties despite efforts to curb skyrocketing prices.

The 4,661 square-foot (433 square-metre) ultra-luxury home, located in the southern Chinese city's affluent Peak district, comes with a HK\$819 million (\$105.67 million) price tag.

This would make it Asia's most expensive home per square foot if a buyer matches the price sought by developer Sun Hung Kai Properties, according to analysts Thursday.

With four bedrooms the house is compact by luxury standards, but it comes with a swimming pool, jacuzzi, elevator and an

exclusive location on Victoria Peak, the central mountain on Hong Kong island that offers spectacular views over the city.

"It should be Asia's most expensive per square foot," if sold at the asking price, Joanne Lee, manager for Colliers International research department, told AFP.

Despite efforts by Hong Kong's government to curb property prices by boosting stamp duty for foreign residential property buyers, Lee said developers are still pricing property projects aggressively to tap into demand from wealthy buyers from mainland China.

"They are trying to attract mainland buyers instead of local buyers," she said.

"Some mainlanders, they are looking for this kind of thing -- like the biggest or the most expensive houses."

## Bharti Airtel raises \$350m from unit Bharti Infratel share sale

REUTERS, Mumbai

Bharti Airtel Ltd, India's top mobile phone carrier, on Thursday raised about 21.40 billion rupees (\$349.6 million) from a share sale in its unit Bharti Infratel Ltd to comply with a rule that requires listed companies to have a minimum 25 percent public shareholding.

Bharti Airtel, which as of end-June owned 79.4 percent of Bharti Infratel, was selling up to 85 million shares, or an about 4.5 percent stake, through the stock exchange.

The sale was covered 1.27 times at an indicative price of 251.71 rupees per share, stock exchange data showed.

Indian companies are riding on a surge in the stock market after a new government took power to raise funds by selling shares. Bharti Infratel, which went public in December 2012, had three years from the initial public offering date to pare its founders' holding to 75 percent.