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Comparing the innovation processes of two East Asian companies concerning economic success in nowadays world according to a Schumpeterian framework: The cases of Huawei and Samsung Electronics.

Topic and Research Question

This thesis compares the South Korean company Samsung Electronics with the Chinese firm Huawei considering the enterprises' economic success through innovation and their ability to produce revenue and profits and attract new customers. My research question is: "Comparing the innovation processes of two East Asian companies concerning economic success in nowadays world according to a Schumpeterian framework: The cases of Huawei and Samsung Electronics." So the focus of this master thesis will be put on the factor of innovation in economics to boost company growth, namely on the different tactics and methods these two firms apply in the sectors of human resource management, supply chain management, corporate social responsibility and in their respective research departments. An overview over the economic successes of the recent years will be given to better consider the efficiency of these described methods in a comparison of the actual economic numbers. The time frame will cover the past seven years, so concretely beginning from about 2010 up until today, 2017.

State of the Art

The most significant scientific researches concerning the described companies in this thesis will be presented in a short manner.

Zhang used to work for Huawei in the company's customer advisory services and depicts his own view of the firm, connected to its economic successes. (Zhang 2013, 1-339.) Tao and Chunbo take great lengths to explain the core values of Huawei which are dedication to the company, great customer service, adaptability and compromises as well as many more. (Tao and Chunbo, 2015, 1-150, 243.) Hussain explains Korea and basic Korean economic happenings and curiosities to foreign scholars or readers. He specifically describes the problems as well as opportunities coming up with the neighboring China making its way to become an economic world leader. (Hussain 2006, 21-250.) Lee analyzes Samsung's way to power in the Korean economy as well as the company's success and economic development. Also the former chairman's path and philosophies find mention in Lees work. (Lee 2006, 9-202.)

Methodology and Approach

The research was conducted in a comparative way and the thesis is built on a qualitative research with an inductive approach relying on already available data and secondary literature. Only a small sample of two cases will be described; however these are very representative for today's economic situation and for East Asian firms which successfully sell their products in their home markets as well as globally. The aim is to find deeper understanding and knowledge about the methods and developments of the companies. This might lead to general assumptions for the countries or even the Asian region.

The thesis is built on a Schumpeterian analytical framework, a method that has not been used in the field of comparing East Asian companies before albeit many scholars already researched the catching-up processes and innovativeness of Asian newcomers.

Schumpeter's main theory in use here describes that some companies manage to lengthen their profits and not let them diminish, as the market, with the entry of more firms which also want to cut in, usually regulates itself, the "creative destruction" as Schumpeter called it. Schumpeter is of the opinion that only a constant flow of innovations and new creations can fabricate "never-ending" profits. (Bullen et al. 2006, 60-61.)

From this theory five indicators were deducted, namely: Innovation tactics and productivity growth, entrepreneurial aspect, competitors and competition, imitator tactics as well as company intern and external research. These indicators are used to research the firms more thoroughly as well as provide factors for comparison between the companies.

Main Facts

Innovation is the most important factor to improve a firms' production function however innovation does not only mean creating an entirely new product but also new kinds of production facilities or techniques. Being innovative is particularly important for companies in highly competitive fields such as Huawei and Samsung Electronics are in to convince customers of their product quality and feature timeliness in the face of numerous similar products on the market. The firms' backgrounds and home countries are superficially similar but actually quite different which

makes a comparison hard however the companies' successes in economic indicators can be compared more directly. (McDaniel 2000, 278; Schumpeter 1939, 228.)

Numbers in Thousands US-\$	Huawei	Samsung Electronics
Revenues 2016	75,103,000	174,047,940
Net profits 2016	5,335,000	19,594,260
Current assets 2016	63,880,000	26,044,667
Current total liabilities 2016	46,571,705	59,673,438
Total equity 2016	20,178,000	166,371,229
Employees 2016	180,000	308,745
Facilities 2016	?	220

(Huawei 2017, 8, 19, 50-52, 58, 77; Samsung 2017, 8-9, 110-114; Huawei 2017 A, 10; The Money Converter, webpage (for the value of Huawei's liabilities in US-Dollars, 12.9.2017).)

One can see from the table that Samsung generates more revenues and profits than Huawei but holds fewer assets and more liabilities and equity than the Chinese firm. It furthermore has to have higher expenditures considering the large amount of staff. Unfortunately it is unclear how many facilities Huawei has to uphold, however the firm is active in 170 countries and most likely also holds at least as many facilities. Samsung however holds about 220 facilities worldwide. (Huawei 2017, 8, 19, 42-43, 50-52, 58, 77; Samsung 2017, 8-9, 110-114; Huawei 2017 A, 5, 10; Huawei 2017 B, homepage.)

In general the numbers from these financial indicators were rising constantly over the past three years for Huawei, only the net profits stagnated for the last two years. In the case of Samsung Electronics so is the revenue slightly on decline: it used to be higher in 2014, fell in 2015 and rose again slightly in 2016 but stayed under the value of 2014, same with the net profits of these years. This indicates that the comparison between the two companies is relatively equal for the past three years. (Huawei 2017, 8, 19, 50-52, 58, 77; Samsung 2015, 40-42, 77, 79; Samsung 2016, 10, 199204; Samsung 2017, 110-114.)

Both companies spend significant sums and employees on research and development and are involved in competition as of which firm applies and receives the most patents per year. (Samsung 2016, 125, 130; Huawei 2016, 42.)

Results

Considering key indicators from the two firms' financial reports it can be seen that Samsung generates significantly more revenue and profits than Huawei but holds less assets and more liabilities and equity than the Chinese company. (Huawei 2017, 8, 19, 42-43, 50-52, 58, 77; Samsung 2017, 8-9, 110-114; Huawei 2017 A, 5, 10; Huawei 2017 B, homepage.)

Huawei holds an employee-owned company structure and has more checks and balances which help it achieve long-term goals without wasting resources. It also has a more transparent hiring process and offers its workers a labor union in contrast to Samsung Electronics. (Tao and Chunbo 2015, 44-48, 80-97, 107-111, 144, 180-181; Huawei 2017, 99-100.)

Samsung has more ambition in achieving a first-mover innovation and it is also in the position of selling its competitors its intermediate products. (Samsung 2016, 9, 124-130, 138; Kenney 1998, 4-5; Glowik 2016, 150.)

Both firms put an emphasis on further employee training and see the customers and their wishes as the most important factors. Huawei and Samsung both try to support their sector and fellow companies in it to create more efficient and innovative markets. Both enterprises voluntarily and involuntarily reach for a state of entrepreneurship which does not require a human being to be in the role of the entrepreneur but allows the company and its divisions to take up this job. (Huawei 2017 B, homepage; Samsung 2016, 24, 40-48, 87-88, 132-133.)

References

All references can be found in the full version of the MA thesis available at <http://othes.univie.ac.at/>.

About the Author

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