

# A Research on the Evolution of Politic-Business Network, Relational Embedded and Family Enterprise Value: Regarding SAMSUNG Group as Example

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## Abstract

Globally, it is very common that many companies are keen to embed in the center of political-business (abbreviations with P-B) network [1]. The influence of government on enterprise is greatly important for it controls a large numbers of scarce and key resources and holds the power of approval on market access's qualification and making regulations [2]. Then can close political-business network always bring positive benefits for enterprises value? Based on this, the paper takes the typicality and representative of cases as the standard and selects the case of SUMSANG to analyze the evolution relationship between P-B network, relational embedded and family business value. This paper puts forward that it is unreasonable to illustrate the positive correlation or negative correlation between them. The relationship between politics and business network is not simple or static, but is dynamic and nonlinear. The value of the enterprise is constantly changing with the degree of embedding in P-B network. There is a reasonable embedded threshold. Before reaching the "embedding threshold", the value is increasing with the deepening of embedding degree; after the "embedding threshold", the value is decreasing with the deepening of embedding degree. This is "inverted U" model of Uzzi [3].

## Keywords

Politic-Business Network, Family Business, Dynamic Evolution, "Inverted U" Mode

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## 1. Introduction

From a global perspective, it is very common that enterprises are embedded in business network [1]. Especially, it is more important to maintain good relations with the gov-

ernment for family business. The embedded of political-business can bring much benefits and risks. The benefits include financing facilities, government subsidies, market access and property protection, etc. [4]. The risks are political rent-seeking cost, deterioration of corporate governance and blind diversification, etc. [4]. In order to break the development bottleneck, enterprises are embedded in P-B to get all sorts of key scarce resources and get bigger in size and value. Indeed, it plays a positive role on the expansion of enterprise scale. Depending on “good inertia” and “strengthening”, the enterprises spend more energy and time to embed in P-B network, rather than to innovate their technology and management to improve its core competitiveness. As embedded degree strengthens, it will seriously distort enterprises’ behavior and make enterprises lock in relationship and resources. As a result, the core competitiveness loses and the enterprise value fall down.

Based on this phenomenon, this paper selected SAMSUNG Group as case, combining case background and events, extracted its evolution path between P-B network and enterprise value, at the same time trying to inductive reasoning out the mechanism of evolution path. The author concluded that the relationship between P-B network and enterprise value was not simple positive correlation or negative correlation, but a dynamic and nonlinear relationship.

## 2. Literature Review

### 2.1. Political-Business Networks

P-B network represents the relationship between enterprise and government, which is powerful tool to obtain “political rent” [5]. Faccio (2007) [1] refers to the invisible political relations between enterprises and people of political power and influence. For instance, executives had worked in government sector or have relatives and friends with government officials.

P-B network brings many benefits. The first is financing convenience [6]. The enterprises embedded in business network can get twice as many loans of those without. The enterprises providing political donation can get higher loans as this is the way of the winners return enterprise [7]. The second is to enjoy low tax-collection rate. The third is lower barriers to market access. There is a big obstacle for entry into the government regulation industry for family private enterprises, especially monopoly industries such as oil, real estate and bank. The last is to enjoy government subsidies. The world’s largest insurance company AIG, escaped bankruptcy because the U.S. government aid and subsidies. However, Lehman Brother Company was forced to go bankrupt because they can’t get the government loan.

So far, researches are mostly based on the governments “support hand-plunder hand” to expand. It only changes the research sample or research methods and did not deepening P-B network research. In addition, some scholars begin to pay attention to in business network embedded degree problem. On one hand, it provides a theoretical basis for this study. On the other hand, the data is only objective, explicit and official background comes from the annual report but without contact data of personal rela-

tionship. Due to P-B network has higher sensitivity and obscure, it is one-sided only to obtain explicit objective data.

## 2.2. Embedding Theory

The concept of “embedded” was put forward by Polanyi (1944) [8] for the first time who pointed out that the economic activities embedded in social institutions and can’t exist as an independent field. Granovetter (1985) [9] pointed out that people’s decisions and actions were not divorced from social relations and social structure, but were “embedded” in a specific environment conditions. Embedded network can bring enterprise many benefits which formed embedded motives [10]. By embedding, it can realize resources complement each other, sharing of advantages and risk-sharing and reducing cost [11]. The mechanism of embedded in P-B network is based on trust which can reduce the transaction cost [12]. Moreover, gaining competitive advantage also constitutes the embedded motivation. In total, the motivation of embedded in P-B network can be expressed as winning the core competitive advantage, realizing the complementary resources and sharing and dispersing risk, etc.

However, anything and behavior, there is a “degree”, so do the embedded behavior. The first research of excessive embedding began begins with Uzzi [3]. He selected a United State clothing factory as a case to study. The research showed that the enterprise performance was related to the embedding degree which was an “inverted U relationship” [3]. In the beginning stage, the enterprise performance improved with the strengthening of embedded degree. Beyond a certain threshold, the performance decreases with the strengthening of embedded degree. There is a best embedding level. Less than “critical threshold”, it belongs to the lack of “embedded” while more than “critical threshold”, it belongs to the embedded excessive. Embedded excessive can produce a closed system, leading to the corresponding “convergence”, innovation inert and “locking risk” [13].

## 2.3. The Relationship between P-B Network and Enterprise Value

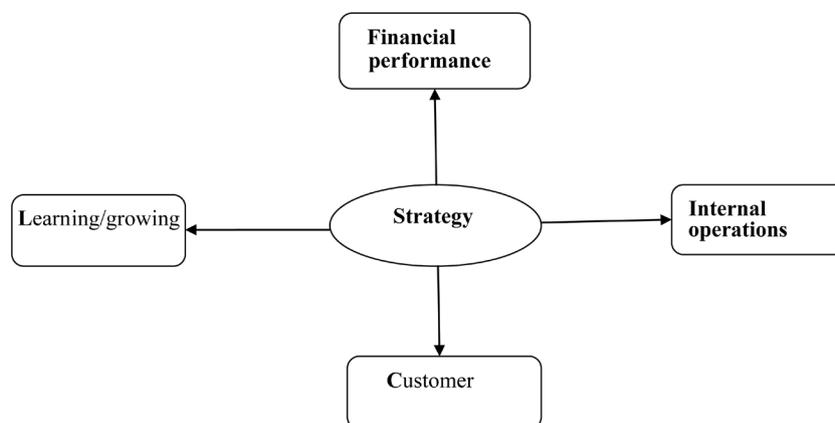
Enterprise value is the sum of current profitability and future development potential which is a system. Enterprise value is derived from the labor, capital and customer. Among of them, customer satisfaction has been referred to a strategic height.

Enterprise value is often adopted by academic objective quantification of financial data. Actually, it also includes future development potential, brand advantage, company reputation and corporate culture. In existing research, enterprise value mainly includes objective financial condition (Table 1), Tobin’s Q and balanced scored card (Figure 1).

The relationship between P-B network and enterprise value has not yet been agreed. Some researches indicated it is positive correlation between P-B network and enterprise value. Good P-B network can improve enterprise’s good reputation, thereby increasing the government’s support for enterprise including government subsidies, financing convenience and market access. Robert (1990) [14] firstly affirmed the value of “P-B network”. When the news of Jacsion senator died was announced, the related company

**Table 1.** The financial situation analysis.

Primary indicators	Secondary indicators	Three-grade indicators
Financial situation analysis	Profitability	Net profit rate
		ROA
		ROE
		EPS
	Debt paying ability	Asset-liability ratio
		Liquidity ratio
		Quick ratio
	Profit growth	Sales revenue growth
		Net profit growth rate
		Growth rate of total assets

**Figure 1.** The balanced scorecard model.

market value fell immediately while the company's market value was rising rapidly which was linked to the successor. In Indonesia, rumors about deterioration of the disease had serious influence on market [15]. The negative impact of rumors on the company associated with the President was much bigger than unrelated company. In addition, the more severe of rumors are, the more serious of company's stock declining is. This demonstrated that P-B network was positive correlation with enterprise value [15].

One opposite view insisted the government was only plundering hand for enterprises. Government departments only gain interests from P-B network to realize their own political goals. Relevant scholars focus on enterprises action in election years. In order to increase the probability of the current official winning, enterprises blindly increased the post settings and caused redundancy, bloated. The cost was much higher than the benefits (Bertrand, 2007) [4]. More scholars pointed out that the value of owning political background companies was lower than those without. The reason was the executives with political background trained subordinates lacking of professional business ability (Fan, Wong & Zhang, 2007) [16].

The relation between P-B network and enterprise value did not reach agreed conclusion from different research perspectives. The research methods are mainly based on event study and empirical research. Existing research is only repetitive verification while do not mine and discuss the mechanism of lead to this result. This research selects SAMSUNG Group as case, connecting embedding theory and P-B networks to explain the cause of inconsistent conclusion which is “embedded degree”. It expanded the research areas of P-B network in certain degree.

### **3. Research Design**

#### **3.1. Case Study**

Case study is a method of in-depth description and analysis for a particular problem based on a lot of qualitative data [17]. It helps us understand the mechanism behind phenomenon, particularly applicable to explore longitudinal evolution mechanism [18]. So, case study is suitable for the research. By reading past reviews, the embedded degree of P-B network was completely objective and explicit data or information which were entrepreneurs or executives political background from annals or official website. However, political tie has strong sensitivity. Whether entrepreneurs gain government support by private relationship or their relatives have political background cannot seek from official channels. But it can catch the hidden data by detailed description and characterization of key events from case studies.

#### **3.2. Choosing Case**

The article chooses the research case according to following criteria. Firstly, the case should be the representative of the family business [19]. Secondly, it has profound relationship with government. Besides, it is try to make sure the availability of collect the data.

Based on above standards, the article chooses South Korea’s Samsung Group for the case. Firstly, it is a typical family business management pattern. Besides, at first, it grew gradually under government support and assistance. Later, it made significant contribution to country’s development including participating in the election of congress members and signing Olympics cooperation agreement. Now, its influence beyond of government and it controls the entire South Korean academics, financial supervision industry, journalism and law. These demonstrate it has close relationship with government. Moreover, the relationship is changing from shallow to deep. Lastly, as a world-class multinational company, there is much authoritative information from media, websites and books. It provides convenience for acquiring diversified data.

#### **3.3. Variable Definition**

This study argues that P-B network is the way of establishing good P-B relationship.

It includes not only the dominant political data, but also contact political relations by personal or friend relationship. In this article, it is defined as all activities between the government and enterprises. The embedded degree was measured by their status and

influence.

This study adopts the balanced score card to measure family enterprise value. Due to the limitations of information and data at first stage, it measure its value by expansion speed and current performance.

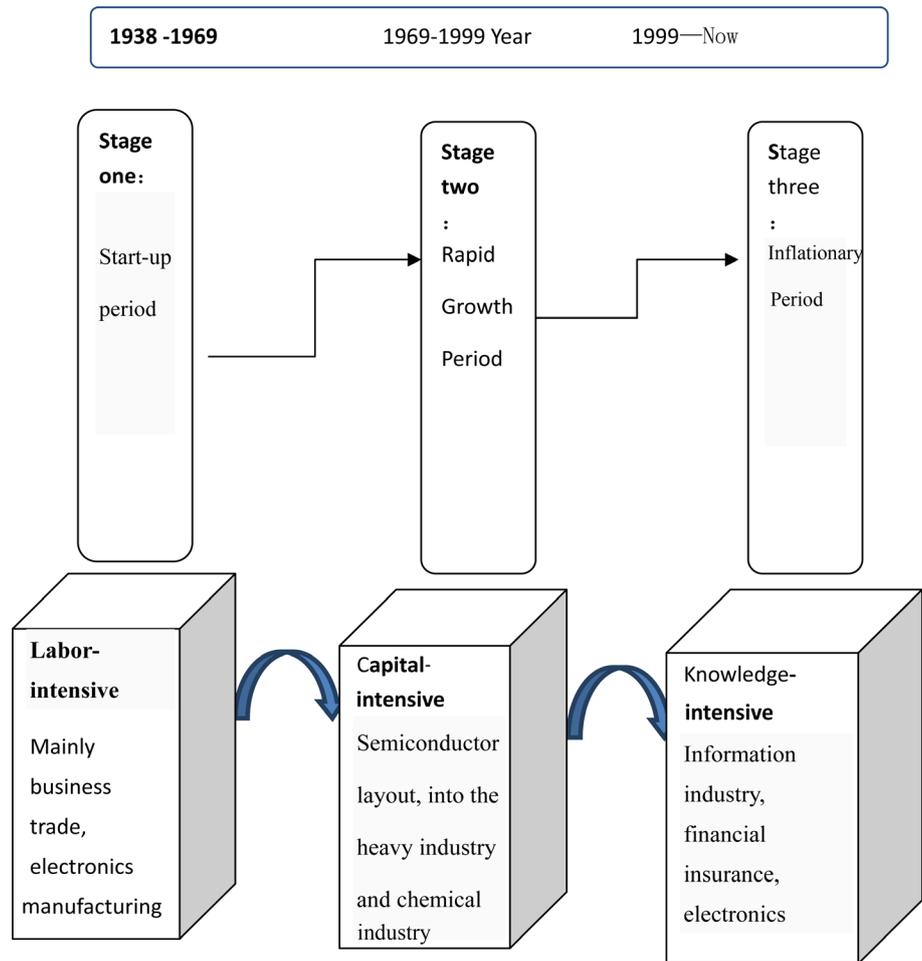
#### 4. Case Descriptions

Samsung is South Korea's most powerful group which belongs to the international well-known multinational companies. Up to now, it has 76 years of history with a total of 196,000 employees. It is a group with collection of electronic, mechanical, chemical industry, finance, and trade and life service. By 2008, the Group's business scope reached 67 countries and it owns 60 subsidiaries, including 15 listed companies [20]. Global Finance reported that: the real GDP of South Korea is more than 6 trillion yuan (RMB) in 2012, with Samsung electronics' contribution accounting for about 20% [20]. It is the world's largest producer of memory chips, the third largest mobile phone maker and the third largest digital television producer [20]. However, the global well-known group only was a small shop initially. Former President Byung-Chull Lee founded the "Samsung chamber of commerce" on March 1, 1938 by 30,000 won (about 200 Yuan) in South Korea Taegu. At first, the business is mainly output the dried fish, vegetables and fruit to the three provinces in northeast and Beijing. It insisted on family control and management in claim kinship, relative and geographical relations. Under the government support, the Samsung group constantly changes and adheres to innovation whose contribution to the development of South Korean economy is irreplaceable.

There was an indispensable comments focus no matter in the professional website, sina finance and economics, global financial or Samsung books. Samsung group has closely relationship with government, whatever legitimate political diplomacy, social donation and political contributions and improper political bribery. Recently, South Koreans, public opinion and foreign media showed more resentment and fear on the Samsung group influence. From this logic, the study explores the relationship between P-B network and family business value and further tries to extract the mechanism behind this evolutionary relationship. According to research purpose and Samsung group's critical incident, the paper divides into following three key stages (Figure 2) [21].

##### 4.1. The First Stage: Start-Up Period

Byung-Chull Lee established the "Samsung chamber of commerce" by 30,000 won On March 1, 1938 whose business was mainly to output the dried fish, vegetables and fruit to the three provinces in northeast and Beijing [20]. It achieved good results. Next, he bought "north Korea brewery" managed by Japanese by 120,000 won [20]. At that time, the government provided so big support and protection to private brewing that individual owners can enjoy many subsidies and preferential policies. In 1945, Japan announced officially ended rule and aggression against Korea. In 1947, the United States



**Figure 2.** The development process of Samsung group [21].

government transferred nearly 2600 companies owned by Japan to Syngman rhee government [21]. Byung-Chull Lee's father being Syngman rhee's friend, naturally he would receive "special care". Due to the Korean War in 1950, it made Samsung chamber of commerce and "north Korea brewing" suffered heavy hit [20]. In this case, the government gave strong support and assistance and provided preferential bank loans to resume production. Then, he founded "the first sugar industry co., LTD" and "the first wool spinning industry co., LTD". After the war, the black and white television was rare in South Korea which was out of date for United States and Japan. Byung-Chull Lee found the opportunity, moving into electronics and founded Samsung electronics in January 1969 which became historical turning point.

#### 4.2. The Second Stage: Rapid Growth Period

After 1970, the government began to vigorously support and advocate shipbuilding, chemical industry, heavy industry, electronics and financial with preferential in loans and tax. Samsung group accumulated capital to grow rapidly by enjoying huge subsidies, preferential in loan rates and taxes. It insisted diversification expansion and ex-

panded to electronics, shipbuilding, construction and chemical industry, etc. After a series of reform, the global market share in semiconductor, display and color picture tube were top five [20].

### 4.3. The Third Stage: Inflationary Period

After 2000, Samsung paid attention to brand and posited in fashion and the high-end market. In 2000, Samsung mobile phone was rated as the Sydney Olympic Games official phone. In 2012, the brand value and influence of the Samsung group won the ninth in global rankings. To date, the Samsung group represents South Korea's economy. The Wall Street journal called Samsung group as the "republic of Samsung". Kun-Hee Lee was dubbed "economic President" by the South Koreans. He coughed, and South Korea would have a fever [22].

At present, the Samsung group, have been above business warning lines. The whole country and the South Koreans feel fear and frighten [22]. On June 30, 2005, the Korean national Labor MPS Shen Xiang in CBS radio said "forcing normal discussion to a dead end, making the meeting cannot go on; usually the Samsung group is present". Nowadays, its influence has penetrated into public opinion, media and culture class [20]. The right of Samsung in South Korea is more and more big that has been above the procurator ate and court.

In fact, the Samsung group performance fell down. From the 2014 second quarter figures released by the end of July, its operating income fell by 8.9% and profit dropped 24.6%.

## 5. Case Discussions

From above case descriptions, it is easy to find that Samsung group built invisible P-B network with the government. Moreover, the relationship experienced a subtle change. At first, for its own development, Samsung group positively responded the government policies and guidelines, meeting basic domestic needs, and assisted the government to stabilize the economy and society. With the diversified expansion of Samsung group, on one hand, it provided political donation, social donations for the South Korean government and made significant contribution to the GDP and employment. On the other hand, the government gave it preferential treatment, including bank credit, low tax rates, policy support, and property right protection. Later, the Samsung group was enough to affect the normal congress convened and was above the law. In this view, this section conducts case discussions and analysis with related theory. First of all, it analyzed the double effects: economic benefit and efficiency loss led by P-B network. Secondly, it is to discuss the evolution path of P-B network between Samsung group and the South Korean government. Lastly, it deduces the mechanism hidden behind the evolutionary relationship.

### 5.1. The Dual Effects of Embedded in P-B Network

Embedding in P-B network can bring enterprises a lot of key tangible and intangible

resources with scarcity, difficult to imitation. It can bring enterprise financing facilities, property rights and government subsidies as well as can reduce the threshold of market access to enter high profitable industry [23]. This is called economic benefit effect. Meanwhile, building and maintaining P-B network needs to spend huge time, effort, reputation political costs and “non-production cost”. It also can inhibit innovation and lead to excessive investment and irrational behavior. This is known as efficiency loss effect (Figure 3).

### 5.2. The Evolution Path Embedding in P-B Network and Enterprise Value

The P-B network is not static, but as time going on, the relationship and location of organizations is constantly changing. Through case description, it is not hard to find that the relationship between Samsung group and the government is in a constantly evolving.

At Start-up period, the South Korean government played a role of strong support and intervention in the economy. The father of Byung-Chull Lee (founder of the Samsung group) was old friend with President Syngman rhee [20]. With strong business relationship, he obtained “state-owned assets”. At that time, the power and scale were all limited and it was completely passive dependent on the government [20]. The author refined into “attachment type”.

With the accumulation of time, in addition the Samsung group leader management talents, the Samsung group increasingly developed and became South Korea’s top consortium. It not only helped candidates to pull the vote, but also can offer a lot of political capital to win. At the same time, the Samsung group enjoyed financing convenience,

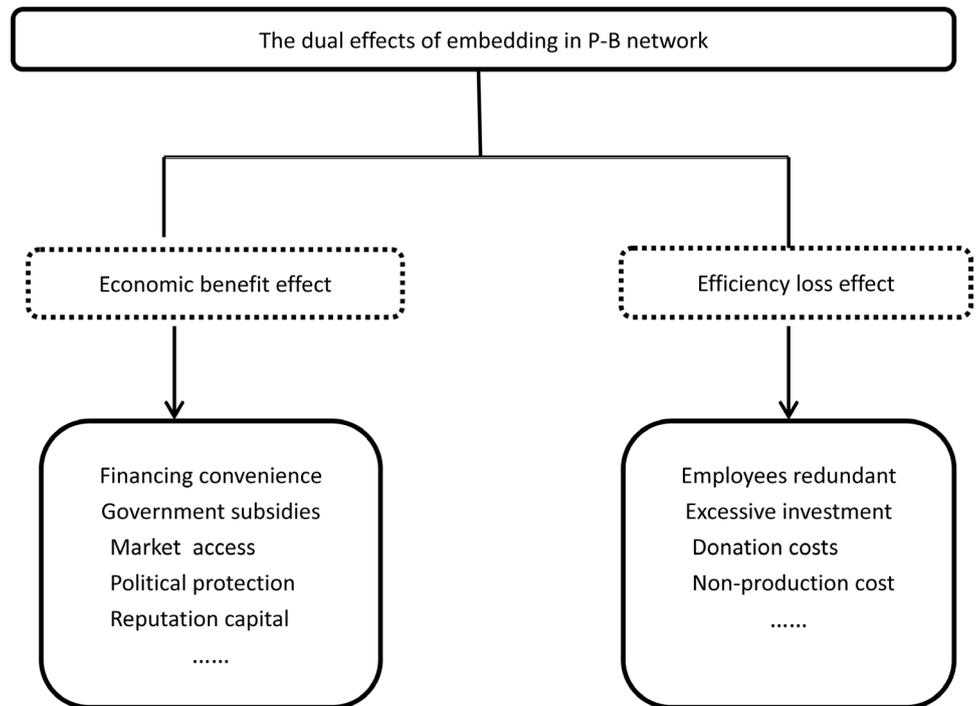


Figure 3. The dual effects of embedding in P-B network.

tax breaks, subsidies and market access. The relationship between them was “peer-to-peer” with the result of mutual benefit and win-win.

With continuously embedding in P-B network, the impact of the Samsung group had penetrated into the national boundaries, including journalism, law, media and public opinion, etc. Kun-Hee Lee was given the title of “economic President” while Samsung group was called “the republic of Samsung”. It is called as “penetration control type” (Figure 4).

### 5.2.1. “Attachment Style”, Fully Using of Resources, Rising in Value

Byung-Chull Lee, founder of the Samsung group, was born in a wealthy family. His father was a member of the association of independent as well as with South Korean President Syngman Rhee was vast amounts [20]. With its “light” P-B network, the original Samsung received many benefits. After the war ended in 1945, the government had a focus on fostering a few big business to maintain the economic order which advocated the policy of “the government controlling the Chaebol and Chaebol adjusting the market” [20]. The government transferred heavy industry and financial industry to state-owned enterprises while other industries were transferred private owner at very low prices and big discount. Moreover, it regulated that buying ownership bourgeois can pay by installment for 15 years and can get a lower interest rate of loan [22]. If taking inflation and reimbursement deadline into consideration, the ownership of property was almost complimentary. With the great aid and support of the government, the Samsung group received preferential tax, industry access, government subsidies and the latest information of industrial policy. Samsung was completely passive dependent on the government. By fully using of and integrating scarce resources provided by the government, Samsung made its value and scale improved which can be seen following data (Table 2 and Table 3).

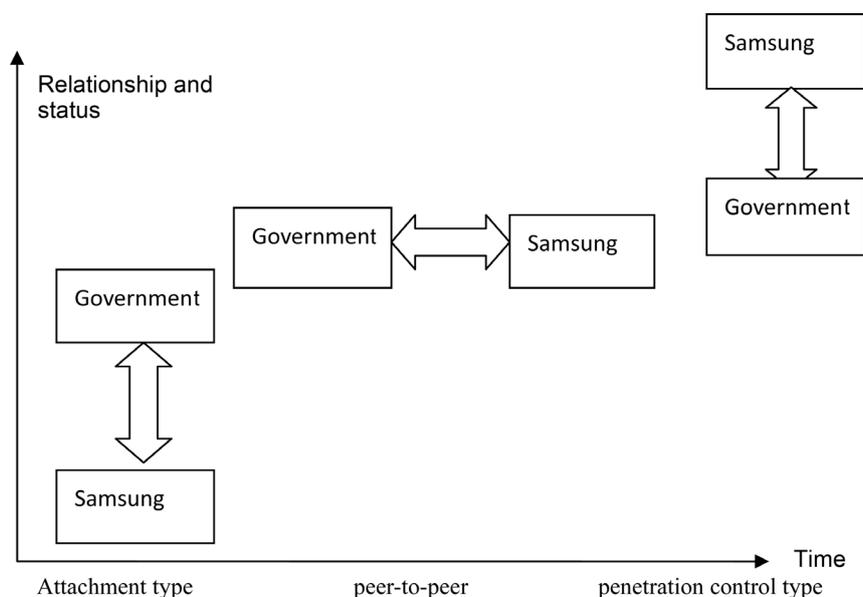


Figure 4. The evolution path of Samsung group P-B network.

**Table 2.** Start-up period: the scale expansion of Samsung [21].

The year	The scale expansion of Samsung
1938	Setting up “Samsung chamber of commerce”
1948	Setting up “Samsung products”
1951	Setting up “Samsung products co., LTD”
1953	Establishing “the first sugar”
1954	“The first wool spinning industry co., LTD”
1964	Setting up “South Korea fertilizer co., LTD”
1965	“Samsung culture consortium” and “Samsung culture fund”
1966	Setting up Joong-Ang Development
1969	Setting up “Samsung SANYO”

**Table 3.** Start-up period: the performance of Samsung [21].

The year	The company	The performance
1945	North Korea brewing	The annual output of ten thousand stone, as the “large taxpayer”
1945	Samsung products	The first year’s profit of two billion won
1954	The first sugar	Sales for 722 million won, profits 162 million won
1960	The first wool spinning	Capital increased from 100 million won to 3 billion won
1968	Samsung company	The tax payable accounts for the total 4%

**Learning and growth dimension:** The company established the “people first, people-oriented” beliefs and ideas [20]. In terms of incentives, it promoted staff care measures including creating a relaxed and pleasant working environment, solving the family health, children education and pension plans [20]. In terms of training talents, it spent more than 80% energy to agglomeration and training talents which quite paid attention to human capital investment [20]. An employee satisfaction survey about Samsung showed that “being Samsung, so very happy”. Samsung employees in private never said to speak ill of Samsung group.

**The customer dimension:** In start-up period, it provided to the consumer by the best service levels and the fastest speed. It followed the idea of “coexistence” with customers of meeting customers’ needs to the greatest extent [21].

**Internal operational dimension:** In terms of talent acquisition and management, it took the lead in openly hire exam and became the first enterprise of open recruitment staff. On technology, it learned and introduced Japanese technology to achieve creative products. In management idea, it paid attention to business philosophy of quality management, self-innovation, customer management, cultural management.

### 5.2.2. “Peer-to-Peer”, Maximize Resource Integration, Value to Soar

In the mid 1970’s, the government decided to provide key support on iron and steel, electronics, financial, shipbuilding and machinery ten strategic industries. On one hand,

with the development of era, Samsung largely invested steel, chemical, biological engineering, electronics, financial and other sunrise industry. On the other hand, in order to maintain a good and mutual benefit, mutual support relations with government, the Samsung group intentionally was interested in politics penetration through marriage to establish in-law relations. Lee Kun-Hee was married with the daughter of Hong Jin Ji who was legal-interior minister [22]. At this point, the embedded in P-B network “equivalent”, which was equality dialogue, mutual benefit. The pay of Samsung was to donate political capital. South Korea had a lot of political election including the election of president, congress members and local parliament. Successfully elected needs huge amounts of money and the enterprise will provide candidates with a lot of political capital at all costs. Once the candidate came to power, he would give huge returns to the enterprises supporting the votes and providing political contributions including convenient financing, tax breaks and policy guidance [24]. It was reported that during presidential campaign of Roh Moo-Hyun, his camp accepted 7.2 billion won among which 1 billion won belongs to Samsung [22]. In addition, before a big political figure was elected, each subsidiary of Samsung built factories and aggressively recruited employees to support him win. In turn, it also obtained corresponding returns including dynamic policy guidance, Interpersonal trust and market access.

At this stage, Samsung group and government were mutual benefit, mutual support which made them realize their interests on “win-win”. Politicians realized his elected political purposes while Samsung achieved business benefits. Under “peer-to-peer style”, Samsung made full use and integrated resources leading the value to soar.

**Financial performance dimensions: (Table 4, Figure 5 and Figure 6)**

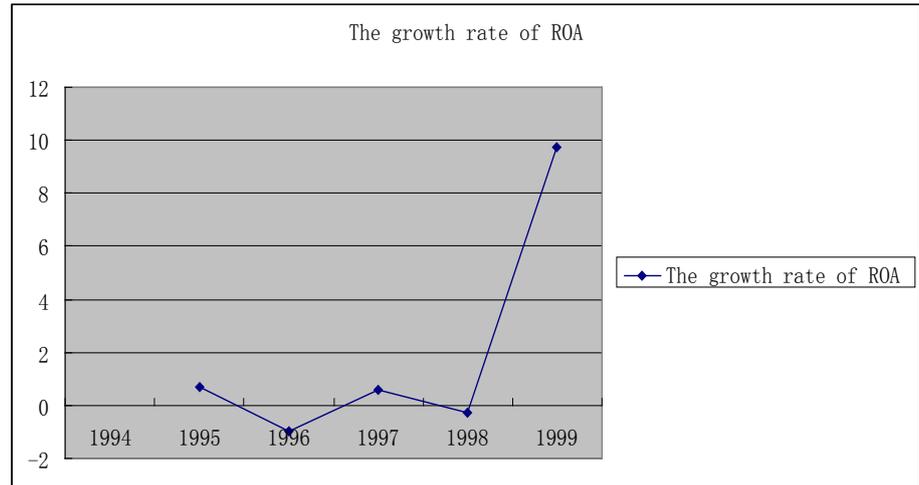
**Learning and growth dimension:** “New business” awakened sense of crisis of all Samsung groups all sense of crisis. In order to catch up with the world’s most powerful multinational enterprises, it actively constructed of learning organization and advocated open benchmarking study. It learned sales management of IBM and P&G, the inventory management of Apple, the production operation management of HP and so on.

**Customer dimension:** Samsung pursuit of customer satisfaction management and emphasize to listen to the customer’s voice. It kept the atmosphere of sharing with customers. In 1992, it put forward the spirit of “coexistence with the customer” that created value for customers standing in the perspective of the customer.

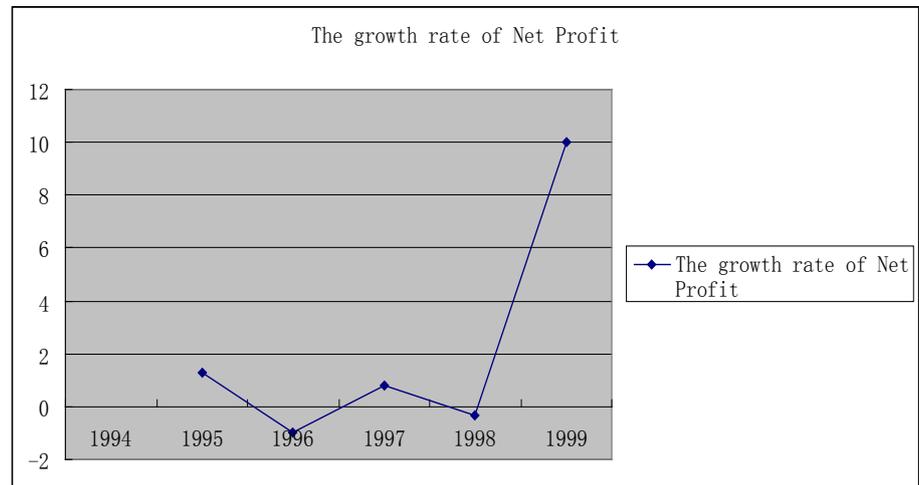
**Table 4.** The financial data of Samsung group billions of dollars.

	1994	1995	1996	1997	1998	1999
Net profit	1.681	3.802	0.164	0.291	0.2	2.2
Total assets	57.3	75.55	92.75	105.1	101.65	104.1
ROA	0.02933	0.05032	0.00177	0.00277	0.00197	0.02113
Growth rate of ROA	0.7153	-0.9648	0.5658	-0.2893	9.7411	
Growth rate of net profit	1.2617	-0.9568	0.7743	-0.3127	10	

Sourcing from: <http://www.samsung.com/cn/aboutsamsung/samsung/history.html>.



**Figure 5.** The growth rate of ROA.



**Figure 6.** The growth rate of net profit.

**Internal operational dimension:** Samsung pursue scientific and technological innovation to form core competitiveness. It always kept technological innovation and product research and development and achieved remarkable achievements. It advocated “quality management” that “quantity is zero while quality is best”.

### 5.2.3. “Penetration Control Type” Convergence Locking, Value Falling

On one hand, thanks to the support of the government, on the other hand, by its own efforts, Samsung group grew stronger. In 2006, Samsung group had realized the brand value of \$ 16.2 billion which ranked 20th in the world by Interbrand [22]. In 2007, its TV market share is the world’s largest which created a record [22]. Due to Samsung’s economic status, economic contribution, it had important impact on the political. There was delight in the development of the Samsung group, at the same time, as well as panic. Living in the only world of Samsung is more and more possible. The South Korean citizens can born in Samsung hospital, studied in university of Samsung, use

mobile phone and television, wed in Samsung hotels and die in Samsung hospital. “The government has been controlled in hand by Samsung” said by one president who was no chance of winning. “You can say the power of the South Korean President may be inferior to the chairman of Samsung”, said by a famous economic “podcast”. Nowadays, Samsung group makes public opinion, media powerless to resist. The daily economic newspaper, at the request of Samsung group, deleted the reports of the son of Kun-Hee lee stock trading and printed again.

At this stage, the scale and economic strength of Samsung group was enough to affect the whole Korea involving public opinion, media, court and bank. In fact, its excessive influence and control on the government affected its value to a certain extent.

#### **Financial performance dimensions (Table 5)**

From the point of financial data, the growth rate of net profit appeared a negative growth. Second quarter results released at the end of July 2014, its operating income fell by 8.9% while operating profit dropped 24.6% (Figure 7) [22].

**Learning and growth dimension:** This phase, the Samsung group advocated to establish a perfect information management system to realize the sharing of learning. In 2002, it built customer relationship management (CRM), supply chain management (SCM), the value orientation management (VBM) and knowledge management system (KMS) ERP system and SAP system to share resources [21].

**The customer dimension:** Samsung group pursued of “customer first” philosophy. But some of its actions did not consider the interests of customers as early. In 2002, Samsung group illegally established price alliance and seriously damaged consumer’s rights and interests. In 2005, Samsung admitted damaging consumers’ rights and interests by manipulating monopoly memory prices. What’s worse, Samsung was rated as

**Table 5.** The financial data of Samsung 1999-2012. Unit: billion dollars.

The year	Net profit	Total asset	Growth rate of total asset	Growth rate of NP
1999	2.2	104.1	9.741114313	10
2000	7.3	115.2	1.998461174	2.318181818
2001	4.5	119	-0.40324623	-0.383561644
2002	8.9	140.2	0.67871295	0.977777778
2003	5.6	163.25	-0.459627992	-0.370786517
2004	11.8	189.9	0.811432709	1.107142857
2005	9.4	221.6	-0.317345347	-0.203389831
2006	12.9	257.3	0.181930192	0.372340426
2007	13.9	291.85	-0.050040307	0.07751938
2008	10.7	277.7	-0.190992039	-0.230215827
2009	13.8	273.5	0.309525193	0.289719626
2010	21.2	319.1	0.316701411	0.536231884
2011	18.3	364	-0.243270527	-0.136792453
2012	26.2	427.25	0.219746313	0.431693989

the worst effect in taking pictures.

**Internal operational dimension:** Samsung took the concept of “quality as core” to enhance customer satisfaction. The measures included introduction of international quality standards, innovating production mode and PDCA cycle.

Summary: the evolution of embedding in P-B network changed from “attachment style”, to “peer-to-peer” and to “penetration control type” (Figure 8).

In the process of business network development, enterprise’s value is also constantly dynamic changing. It is consistent with the theory “relational embedding paradox” of Uzzi [3]. At first, the value raised with the embedded degree strengthening. But after a certain point, the enterprise value was instead of falling as the embedded degree strengthened. So, the paper next discusses the mechanism behind the evolution path.

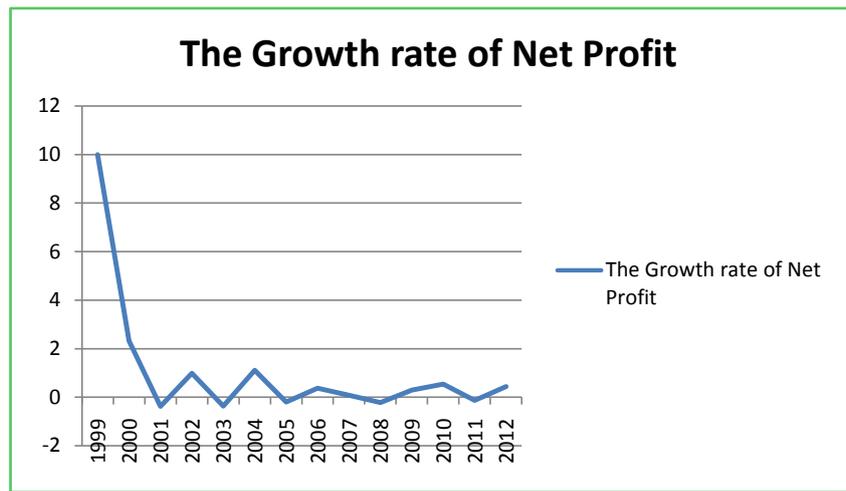


Figure 7. The growth rate of net profit.

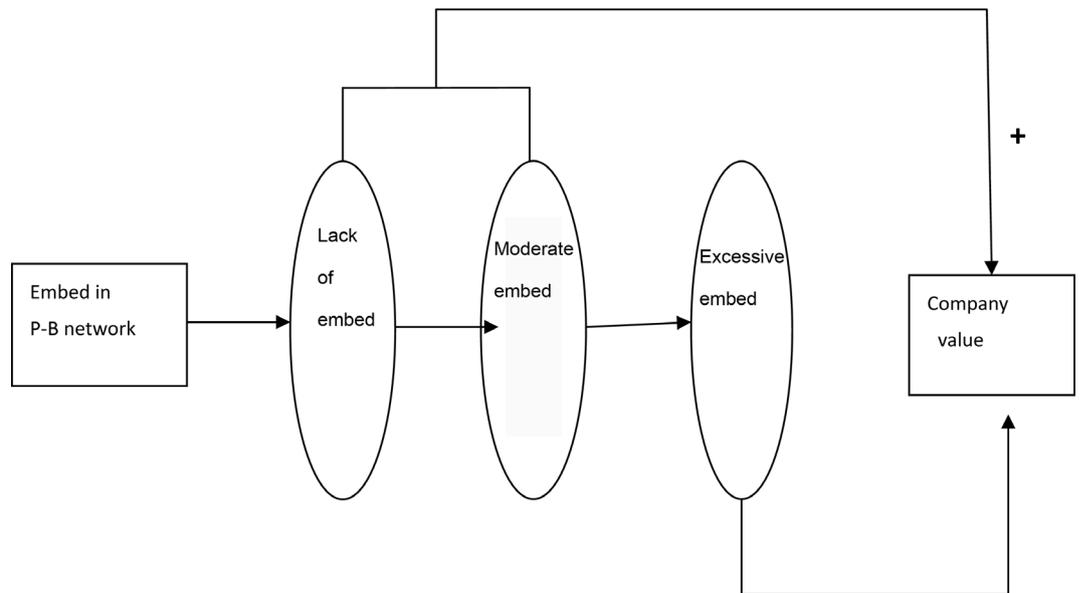


Figure 8. The evolution process of P-B network and Samsung value.

### 5.3. The Evolution Mechanism of P-B Network and Samsung Group

#### 5.3.1. The Motivation of Embedded in P-B Network of Samsung

##### 1) To realize resources complement and sharing advantages

One enterprise may not have strong competitiveness in each area. Any enterprise can't get all the resources that it needs. More and more enterprises realize properly embedded in P-B network can achieve the complementary and sharing in resources [11]. By providing political contributions, solving the employment and voting for candidate, Samsung successfully embedded in government. While the government provides subsidies, bank loans, land, market access qualifications and policy support which achieves the complementary and sharing of resources. Network can achieve coordination and realize the result of the  $1 + 1 > 2$  [25]. It won advantages which cannot achieve by only a single enterprise.

##### 2) To realize risk diversification and cost reducing

Because the embedded itself is built on the basis of mutual trust, it can reduce the cost including information gathering cost, negotiation cost, contract cost and supervision cost, etc. Based on trust, the first President of Samsung group, Byung-Chull Lee, was directly park for advice by Chung-Hee which reduced the huge negotiation costs.

In addition, embedding in P-B network can also achieve risk-sharing [11]. The government provides Samsung group the guarantees in finance and loans which reduces the risk in financial and liabilities.

#### 5.3.2. The Embedded in P-B Network in Former Period

It refers to the evolution process of Samsung having embedded in P-B network from the "attachment" to the "peer-to-peer" (Figure 9).

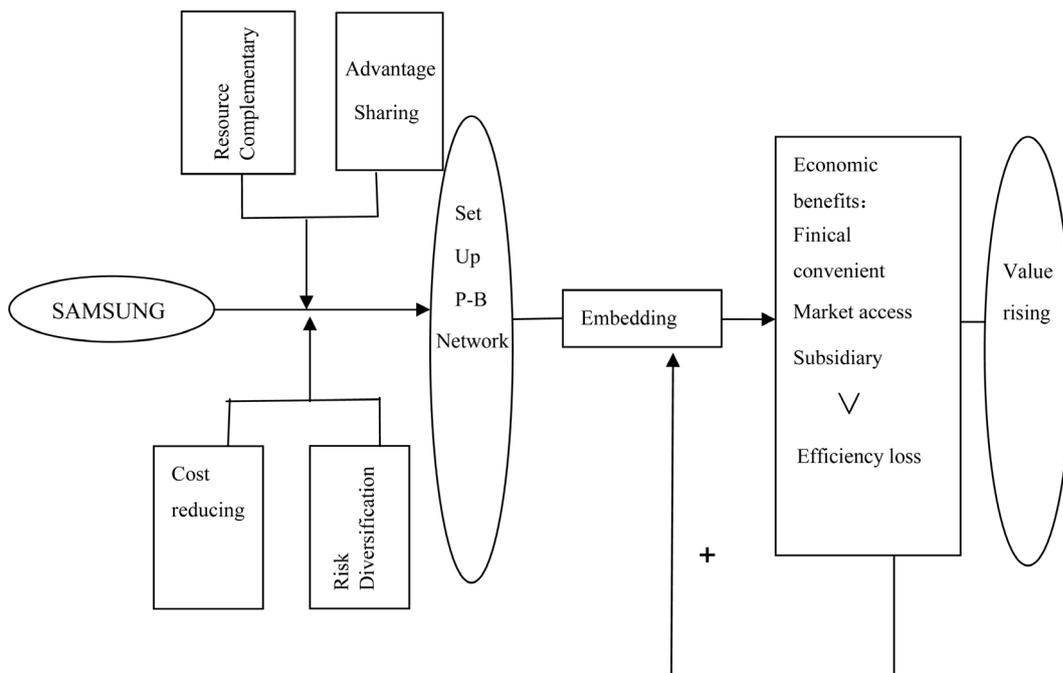


Figure 9. The evolution mechanism in former period.

Embedding in P-B network has dual effects including economic benefits and efficiency loss. Economic benefits mainly refer to financing facilities, government subsidies, market access, the political protection and reputation capita. Efficiency loss refers that, in order to maintain good relations with government, enterprise needed to put into huge costs such as employee redundancy, excessive investment and deterioration of corporate governance. At early, it does not spend so much cost because mainly relies on family and friendship. The good is superior to the harm. The economic benefits effect is dominant. Combined with reinforcement theory, when people or organization receives favorable external stimulation, it will increase the frequency of the behavior which is called positive reinforcement.

As what shows in above figure, under the motivation of complementary resources, reducing the cost, advantage sharing and risk diversification, Samsung sets up P-B network. By the frequent close contact, the trust and reciprocal exchange opportunities increases. The government gives Samsung group many economic interests including tax breaks, market access and national development policy information and government subsidies. Under the good being superior to the harm, it will stimulate the Samsung group to continue and deepen the embedding degree of P-B network. According to Skinner’s reinforcement theory, the positive incentive will constantly strengthen its own behavior. It further deepens the embedding degree until “the best embedding threshold”.

**5.3.3. The Embedded in P-B Network in Later Period**

With the accumulation of time, the embedded degree is continuously deepening which exceeds the so-called “best embedding threshold” by Uzzi and formed the “excessive embedding”. The paper summarized as locking risk, employees redundancy and excessive investment (Figure 10).

**1) Locking risk**

Past success may be molded future failure, which known as the “path dependence” [26]. Appropriate embedding in P-B network has brought many economic benefits to the development of the Samsung group which makes the value to increase. The positive feedback, in turn, strengthens the existing mode of thinking and behavior choice, which

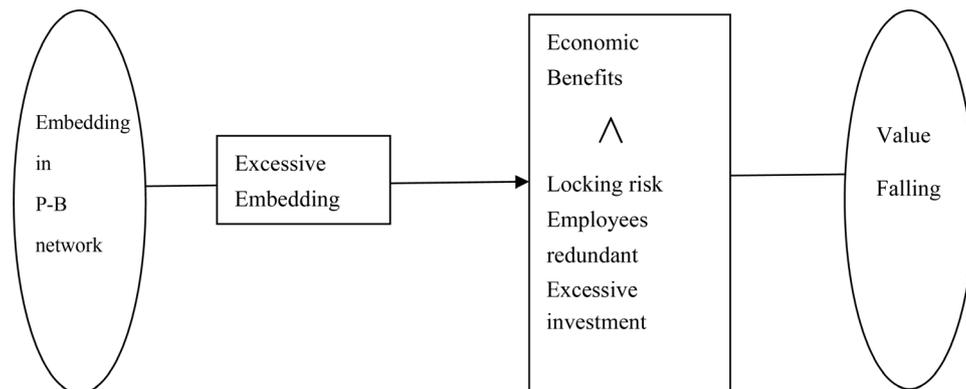


Figure 10. The evolution mechanism in later period.

gets into a serious locking state and hinders its development. The excessive embedding makes Samsung fully to focus on how to maintain good P-B network to financing convenience, government subsidies and other privileges and monopoly resources such as land, policy information, rather than focus on the change of market demand, product development and the innovation and technology. Samsung group blindly pursued pluralism and expanded as octopus type which had the characteristics of “convergence”, lacking of innovation and market research [26]. The government bullish on which industry and Samsung would blindly large-scale invested. The correlation degree between industries is low which has formed a lot of “department store” and loses core competitiveness.

## 2) Employees redundant

In order to win the good political prestige and political status, enterprises will actively conform to the policies of the government and meet its objectives and hire more employees as much as possible. Besides, they try not to fire the redundant employees which sacrifice their own interests for the satisfaction of the government. In order to support the candidate winning, it will be set up new factories and recruit large temporary staff to woo more votes. According to the Samsung website, its number of employees in 2012 was rising to soar. From following chart, the employee in 2008 and 2009 remained in a stable and even reduced state. It kept 7.26% growth rate between 2010 and 2011 while by 15.17% growth rate between 2011 and 2012. A large part of the reason was the presidential election of 2012 to support Park Geun-Hye election success (Figure 11).

## 6. Conclusions

By selecting the typical family business-Samsung group as the research object, the paper mainly focuses on the relationship between the embedded in P-B network and family business value.

Firstly, the relationship of them is not linear positive correlation or negative correlation,

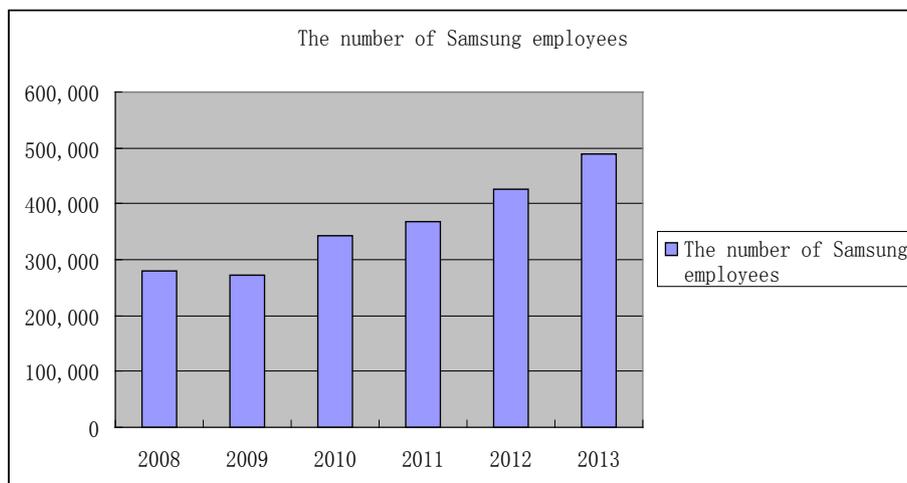


Figure 11. The number of Samsung group employee.

but a kind of curve relation which is consistent with “relational embedding paradox” by Uzzi. In the beginning stage, the enterprise performance is improved with the strengthening of embedded degree. Beyond a certain threshold, the performance decreases with the strengthening of embedded degree. There is a best embedding level.

Secondly, based on case descriptions, the paper induces the evolution path between P-B network and Samsung group. It analyzed the theory basis of dual effects of P-B network including economic benefit and efficiency loss. Then, by connecting case actual, it inductively deduced the evolution path from “attachment style” to “peer-peer style” and finally to “penetration control style”.

Thirdly, it concluded the mechanism of above evolution. Under the motivation of complementary resources, reducing the cost, advantage sharing and risk diversification, Samsung sets up P-B network. In the early days of the embedded; it brings many economic benefits including government subsidies, reputation capital, market access, low loan and political protection which lead to the increase of enterprise value. Along with the positive feedback strengthening, it constantly strengthened both thinking and behavior patterns which deepened the embedded degree. With the accumulation of time, it led to “excessive embedding” which brought negative effects such as risk locking and redundant and excessive employee investment and led to the dropping in value.

Lastly, it suggests that family business should create a good political image and keep appropriate distance with government for closely P-B network may not bring positive benefits of the enterprise value.

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