Analysing structure changes due to sony in restructuring mode

As directed by the Board of Directors of Sony, this report will analyse the structure of Sony Corporation from 1999-2005, the problems faced together with its responses and underlying rationales and recommendations for the benefit of the future directions of Sony. Being a multinational corporation in the electronics business, the company faces significant macroeconomic challenges. The decreasing trend in profits could be seen since 1998, possibly the main reason that prompted the need for an organisational restructuring. Whether the organisation's strategy influences its structure or vice versa, the structure of Sony has to be evaluated first. In 1999, after the restructuring, the company became a tall hierachical structure with three main business areas – electronic, entertainment and insurance and finance. Alongside with the " unified dispersed" model to face the constant market demands, the company became a divisionalized form with decentralization of dispersion of power to ease decision-making. The divisional structure of the electronics business is divisionalised due to its low interdependency level, adhocracy in entertainment business and professional bureaucracy in the insurance and finance business. In 2003, Transformation 60 saw a more centralised structure of Sony – management-wise and financial-wise . It was found that Transformation 60 still had the company in a divisionalised form but a stronger pull to formalize in its technostructure. One of the problems faced include rapid evolution of technology causing top management to respond by investing heavily and restructuring of the organisation using a Value Creation Model and Transformation 60. Stiff market competitions resulted to partnership and takeovers for off-shoring purposes and to benefit the AV industry. The election of Howard Stringer as CEO will cause the problem in management style due to the differences in national culture. It can be concluded that Sony's management and business strategies affect its organisational structure as it was the drop in profits that had the shareholders to pressurised the change of top management. Recommendations include the need to combine both Western and Eastern cultures under Stringer and comprehensive considerations in investment strategies.

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1. 0 Introduction

As directed by the Board of Directors of Sony Corporation, this report will analyse the company's situation from 1999-2005. Sony, a world class consumer electronics makers, was facing serious concerns since the late of 1990s, such as Asian financial crisis in 1997, the tech bubble and the terrorist attacks in America in 2001. Besides, the ever increasing competition from competitors and rapid market changes are eroding the market shares of Sony. The top management confront their difficulties bravely and executed a series of actions to respond to those difficulties.

This report focuses on the structure of Sony in 1999 and the restructuring in 2003, as well as the analysis of difficulties faced by Sony and how the management responded to those issues. The structure of the report starts with the business description and the corporation strategy which has significant relationship with the following sections. Then, the focus will move to structure 1999 follow with the restructuring of Sony in 2003 called " Transformation 60". After the discussions about the business structure, the report will concentrate on analysing the issues associated with Sony and state the responses taken by the management and its underlying principle before concluding and with appropriate recommendations.

2. 0 Business Description and Corporation Strategy

Sony is one of the world's top consumer electronics makers and employs over 167900 workers (Sony, 2010). The business operates in over 200 countries and covers the games, electronics, financial services, entertainment markets and others (ibid.). After 65 years of growth, today, the group has established a world class brand and the strong brand image can benefit its bargaining power and make the business move into new markets easily.

2. 1 Key Figures

Some key figures of Sony from 1997 to 2010 are listed below (Graph1&2). The Sales figure remained in the reasonably floating level before 2007. Unfortunately, the management and shareholders are unsatisfied with the profits, since 1998 the profits reduced nearly every year, this might have been the trigger to ignite the restructuring of Sony.

Graph 1 Source: Sony Annual Report 2001, 2006, 2010- Five-Year Summary of Selected Financial Data

Graph 2 Source: Sony Annual Report 2001, 2006, 2010- Five-Year Summary of Selected Financial Data

2. 2 Correlation between Organisation Strategy and Organisation Structure

Strategy and organisation structure are correlated to each other, even the debate of whether strategy or structure comes first is still in existence (Lynch, 2006). Therefore, to understand Sony's corporation strategy (Graph3&4) is significantly important before discussing the structure and restructuring of Sony. Besides, an essential portion of the study of Sony's actions is an understanding of the nature of business strategy for the Sony corporation as a whole (Mullins, 2010).

Graph 3 Source: Sony Annual Report 1998 pp6, 7 & Sony Annual Report 1999 pp26

Graph 4 Source: Sony Annual Report 2003 pp5-management discusses key issues

3. 0 Organisational Structure

This section is classified into two parts, 3. 1 focuses on the structure of Sony in 1999 while section 3. 2 concentrates on the restructuring in 2003.

3. 1 Structure of Sony in 1999

Sony as a world class player in a diversified high-tech market was challenged with the fierce competition during the late 1990s (Sony, 1999). Therefore, the restructuring was necessary for Sony to survive in the competitive market. The group announced the organisation's restructure plan in March 1999 to seize further growth opportunities in the new century and the Internet era (Sony, 1999). The structure of the organisation is determined by its age and size, technical system, power and environment (Mintzberg, 1979). Furthermore, in relation to the environment, the diversity of the environment will largely determine the structure of organization and directly affects the organisation functions into goal-seeking activities through the formal structure to achieve aims and objectives (Mullins, 2007; Mintzberg, 1979). In this diverse environment, different structures will be taken in specific department to meet different aspects of situation for Sony.

3. 1. 1 Internal Structure of Sony as a Whole

The internal structure of Sony is a tall hierarchical structure as Sony consists of three main business areas which are electronic business, entertainment business and insurance and finance business (Graph 5). Besides, the setting up of the " unified dispersed" management model is to face the rapid change in market in the aforementioned pillars of Sony (Ravi, 2005). As a result, the overall structure of Sony in 1999 was divisionalized form. Schwartz and

Thompson (1986) suggested that the divisionalization form can facilitate the various divisions to compete fiercely among them, with effective operations to face rapid changes in external environment.

Graph 5 Source: www. Sony. net, Press Archive, March 29, 1999

Besides, centralization and decentralization depends on how organisational power is dispersed and is determined by the organization structure for decision-making and problem-solving (Schmidt, 2006). The structure of Sony in 1999 displayed Sony's trend to be decentralization to distribute the power yield. For example, Sony set up a " unified dispersed" management model which facilitates more functional and operational autonomy (Ravi, 2005).

3. 1. 2 Divisional Structures of Sony

After the discussion above, the focus now moves to the structure of different divisions. The electronic business consists of various subsidiaries (Graph 6). Each subsidiary is responsible for its own different products and makes business decisions in different markets. There is little interdependence that exists between each other. Thus, the structure of electronic business was divisionalized form. Entertainment business displayed adhocracy due to its little formalisation of behaviour. Insurance & Finance business displayed a Professional Bureaucracy structure due to its complex environment with highly trained skills and knowledge to offer standardisation of products and services (Mintzberg, 1979).

Graph 6 Source: www. Sony. net, Press Archive, March 29, 1999

Each business division has the autonomous to make decisions in its daily operation. The Group headquarters concentrated on coordinating these business divisions to make a long-term business strategy. Nevertheless, under the complex, diverse and dynamic environment, perhaps the more organic and decentralized structure is more suitable for Sony.

3. 2 Structure of Sony in 2003

Indeed, Sony restructured its organisation in 1999 into a more divisionalized and decentralised form using the “ unified dispersed” model as a means of a Value Creation Model. Transformation 60 saw some changes in the architectural structure of the organisation with it becoming more centralised, management-wise and financial-wise. It was aimed to refining the organisational responsibilities in carrying out the operating strategies and restructuring the marketing strategies in profitable niches. The goals are to achieve more profit margins, reducing annual cost, and component outsourcing (Sony, 2003).

3. 2. 1 Divisional Structure of Transformation 60

Transformation 60 saw the convergence of the three pillars of Sony – electronics, entertainment and financial – as opposed to the “ unified dispersed” model. The following are the divisional changes:

In the electronics business, the management combined the Semiconductor Network Company, Home Electronics, Mobile Electronics and Information Technology (Sony, 2003).

The entertainment business saw the joint of assets of pictures, music, game, electronics and services to enhance its position as a worldwide media company.

The constructed financial holding company absorbed Sony Life Insurance Company Ltd, Sony Assurance Inc. and Sony Bank Inc.

By these convergences, Sony clarified the operational structure and concentrated on the engineering, innovation and financial resources. According to the converging strategy, the new operation structure of Sony seems like a basic Machine Bureaucracy structure (Mintzberg, 1983). Although it is less dispersed than the structure in 1999, the pull to formalize by the technostructure of Sony could be seen in Transformation 60 (Mintzberg, 1981). The restructuring of Sony in 2003 was more centralised than before as a result of the serious convergences of several businesses. The tactical and strategic plans were permitted to each sectors, which points that the divisionalized form still existed. However, the power on personnel issues was controlled by the top management, as well as the supportive finance and the ultimate goal were allocated and formulated by the headquarters (Ravi, 2005). Moreover, the restructured Sony in 2003 did not belong to any specific structure of Mintzberg's pentagon theory but the combined one (Graph 7).

Graph 7 Sony organisational chart: electronics-related business (as of 1 April 2001) Source: www. sony. net, Press Release, 29th March 2001(a)

3. 2. 2 Financial Structure of Transformation 60

In the light of improving its fiscal position, the consolidation of fixed costs and the combining of assets reflected the change of a more centralized structure in Sony. The company aims to achieve an annualized cost reduction of approximately ¥300 billion (Ravi, 2005). The cut in employees due to the off-shore strategy to China establish the " Contribution equal to Compensation" principal of paying for performances, as Schein (2004) stated that employees " have worked well enough to be considered valid". Deactivating employees from Sony had cost the company financially and it might have explained the poor financial performance of Sony after the transformation was done.

4. 0 Problems and Responses

This section will discuss the problems associated with Sony alongside with the responses taken and its rationale. The difficulties faced by Sony have been separated into different categories mainly the rapid evolution of technology, competition in the market and the differences of national culture.

4. 1 Rapid Evolution of Technology

The rapid evolution of technology as pointed out by Idei (Ravi, 2005) has affected the electronics, entertainment and insurance and finance sectors of Sony. The constant improvements in technology have caused the company to respond to the demand of the market. The following are the responses made by the company alongside with its underlying rationale:

Investments: Sony invested heavily in R&D, capital equipment and facilities in order to meet demands and improve profitability. ‘ Technology for Inspiration and Shared Experience’ and ‘ Creating New Value’ are Sony’s R&D missions (Sony, 2011). The company believes that technology is capable of linking ‘ inspiration’ and ‘ shared experiences’ on top of creating new values and capturing emotions of customers (ibid.). Investment strategies link to the capability of top management of Sony.

Organisation restructuring: The Company believes that the new group architecture can help gain market share besides increasing shareholders’ value (Sony, 1999). In this Value Creation Model, the “ unified dispersed” management method saw changes in the electronics operations, establishment of Digital Network Solutions (DNS), changes in composition of workforce which could ultimately affect the morale of employees, implementation of new value-based performance measurement system and the separation of headquarters into two distinct functions (Ravi, 2005; Sony, 1999). Indeed, the model brings competitive advantage to Sony (Jayaranam & Luo, 2007). In such a stiff market, it is understandable as to the measures taken to seize every opportunity. Unfortunately, in 2001, the September 11 attacks caused the consolidated drop in sales, affecting the fiscal position of the company (Sony, 2001b). This has proven that the Value Creation Model had loopholes, hence Transformation 60 took course. Severe cost saving measures were taken but by 2005, as a result of pressure from shareholder, a top management reshuffling with Howard Stringer as CEO (Ravi, 2005). This proves that investors of Sony began to lose confidence of the previous management team therefore it was necessary for the company to overhaul its board.

4. 2 Market Competition

Among Sony's competitors are LG, Samsung, Sharp, Dell and Canon. Each competitor seemed to have an advantage over Sony in different products. Below are among the steps taken by Sony to beat the competition in the market:

Partnership with Solectron Corporation in year 2000 and off-shoring to China were to aid the outsourcing process of production of electronics was a step to help the company meet fluctuations in demands, cost reduction, quality improvisation and customer satisfaction (Sony, 2003; Sony, 2000). Outsourcing may be beneficial to the company as a whole but it could ultimately decrease the motivational level of employees, as there is a tendency of decrease of power of managers, and failure rate is between 40%-70% (Purse, 2009). This may explain the ' Sony Shock' (Ravi, 2005) incident that happened in 2003 despite the laborious process of organisation restructuring. The cost-benefit consideration was not given much thought before the outsourcing was done.

The takeover of Aiwa Co. Ltd. as a wholly owned subsidiary in 2002 was for the benefit of the electronics business of the company, particularly the audio and visual (AV) industry (Sony, 2002). The takeover became part of Transformation 60. It helped accelerate the structural reform of the electronics business of Sony on top of the creation of synergy as a result of the merger.

4. 3 Differences in National Culture

As Howard Stringer took over as the CEO of Sony in 2005, a major problem he would experience would be the differences in organisational culture. Culture refers to " the way we do things around here" (Sanchez, 2004). Being one of the few foreigners to be part of the top management in a Japanese company, Stringer has the responsibility of considering whether to impose the Western culture in a Japanese company. Azumi & Mcmillan (1975) found that both the U. S. and Japanese culture are quite highly centralized and company's rules and procedures are abided. In Sony, although divisionalization form can be seen, the Headquarter still plays its role as a coordinator, meaning that ultimately, the decision-making process will need approval from the top management.

Also, in Japan, traditional values that emphasises on hard work and details are a common practice due to its religion influences but in the U. S., creativity and innovation are the common values (Webster & White, 2009). Hence, in U. S., risk-taking is very much observed. The open management style of Stringer, his understanding towards Sony's tradition and his international viewpoints could be the key to influence the cultural organisation (Sony, 2005). This can explain Stringer's successes in streamlining Sony's movie and music businesses.

5. 0 Conclusion

Due to the external environment effect such as the Asian financial crisis, the ever increasing competition, as well as the internal business issues like the low efficiency, the profits of Sony has been reduced dramatically since 1998. Therefore the management had to execute some restructuring plan to respond to those concerns. According to the restructuring plan announced in March 1999, the structure of the group was divisionalized and more decentralization, in order to seize further growth opportunities in the 21st century. Besides, the group launched a “ unified dispersed” management model to ensure that the business operate more efficiently and to be able to survive the rapid change of environment. Sony did a mass of changes to adapt to the market changes; unfortunately, the pace of the latter was overtaking the management’s expectations. Consequently, Sony had to accelerate the reform plan and announced another restructuring plan called “ Transformation 60” in 2003. The change in 2003 saw a stronger pull to formalize in the technostructure although it can be seen that there is a mixture between the machine bureaucracy and divisionalized forms. Convergences in the three sectors saw power being more focused at the top management. The change of technology, market competition and the differences in organisational culture, especially after the takeover of Stringer, were the main concerns of Sony. Organisational restructuring and investment strategies were among the solutions in coping with technological changes. Market competition forced Sony to deal with vast partnerships, joint ventures and mergers with other companies for outsourcing purposes. Finally, the change to a foreigner to lead a Japanese company spark concerns on the future of Sony’s organisational culture.

Nevertheless, based on the analysis that has been done, it can be concluded that Sony’s management and business strategies affects its organisational structure. It was the drop in profits that led investors to force the overhauling of top management, as a result, the “ unified dispersed” model and

Transformation 60. Unfortunately, both measures failed to bring positive impacts to the company's fiscal positions. In light of the situation above, the new team led by Stringer with the probable change in organisational culture could probably help turn things around.

6. 0 Recommendations

Two main recommendations should be taken into account:

Firstly, the future of the organisational culture of Sony has to be determined from two aspects – based on the organization structure and the differences in national culture since the takeover of Stringer as CEO. Perhaps, Stringer could consider integrating the Eastern and the Western cultures to obtain the best of both worlds.

Next, investment strategies of Sony may have to be re-evaluated again, as after the study of the company was done, there are hints of possibilities that failures in the company's fiscal position may have been caused by past investment decisions. Outsourcing may be beneficial but a thorough cost-benefit analysis has to be done. Investment decisions will reflect the capability of top management to stakeholders.

Appendices

Value Creation Model refers to the combination of intangible assets and monetary items to create additional value of the business for stakeholders, particularly shareholders (Qureshi, Briggs & Hlupic, 2006; Haksever, Chaganti & Cook, 2004).

2 The performance measurement system is capable of reflecting the current cost of capital of Sony

3 Before being elected as the CEO of Sony Corporation, he was the Chairman and CEO of Sony Corporation of America.

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