

Strategic management: sony – change of ceo essay sample

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“ Inside the Shakeup at Sony,”: Sony replaces Nobuyuki Idei, its departing CEO with Sir Howard Stringer in 22 June 2005. The public previously had the impression that either Kunitake Ando (Idei’s previous nomination) or Ken Kutaragi (Mr. Norio Ohga’s favourite) would take over this position. Though Norio Ohga has given his title in 1999 to Nobuyuki Idei, he stills hold the title of Chairman and interferes with daily operation and influenced directors’ board decision. Ohga was first jealous of Idei’s success when Idei gloating launched the PlayStation severely wounding Nintendo and all but exterminating Sega. However, things took an unexpected turn when Sony business plunged facing fierce competitors such as Apple, Samsung. Idei announced his successor as Sir Howard Stringer. The board has consensus that six other insiders, including Ando (President and COO), Idei (CEO) and Kutaragi (PlayStation mastermind) resigned after Howard takes over the helm and Howard would be given authority to nominate his own people.

In March 2005, Nobuyuki Idei named non-Japanese and non-engineer Sir Howard Stringer as the next chairman and CEO of the media giant.

Previously responsible for U. S. operations, Stringer has demonstrated his leadership ability, having worked with other Sony executives to slash \$700 million a year in U. S. overhead costs. Despite his success in the U. S. market, Stringer has a tough road ahead, as he tries to bring Sony into the era of convergence and open communication – without being able to speak the language himself. Nobuyuki Idei said that “ Howard’s job is to communicate better and to symbolize that convergence is for real at Sony”. Howard will need to seek consultation from other prominent CEOs such as Carlos Ghosn and Lou Gerstner to fight the battle for the better.

NEWSWEEK MARCH 21, 2005 “ Sony is not Japan,”: Sony new CEO is a non Japanese named Howard Stringer. It elaborated that Sony has business has fallen drastically in company growth measurement. Sony has fallen from first to near last in company measurement of growth in Japan’s top 10 exporting multinationals. Sony suffered huge setback when Apple launched its hot digital music player market replacing Sony electronics consumer gadgets. Nobuyuki Idei announced his decision to pass his role to Howard Stringer implied that the company performance is in much deficit than it previously thought. The value of Sony’s shares has dropped almost 75 per cent in the last five years. The value of Sony brand has slipped from \$16. 4 million in 2000 to \$12. 8 billion in 2004 while rivals like Panasonic and especially Samsung were raising fast. From Sony history, founder Akio Morita saw Sony as a global company and it is not regarded as a Japanese company. Yet, the management style still very much of the Japan culture.

It described Sony as being too “ complacent” and has resulted it own set back. Its lingering stagnation bred when there isn’t much innovation or changes to counter attack its rivals. Price war is one of factors that caused the company to lose its market share even faster. Another major bad blow is Sony failed to spot the potential of flat-panel TVs, ceding leadership to Samsung and Sharp. All hopes are in Howard Stringer to turn the company around. Howard wants every Sony employees to understand their roles and shared responsibility to make sure the company will not be resulted in hostile acquisition.

Introduction

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Sony, whose core business is the manufacturing of electronics consumer goods, currently oversees many subsidiaries and affiliates that are responsible for particular business sectors such as movies, music content, video games and financial services.

Sony Corporation's current management team proposed the creation of a new management structure designed to expand upon its core strengths as a global electronics, entertainment and technology company.

Sony announced that the new CEO is a non-Japanese, non-engineer named Howard Stringer, 63 years old. Stringer is a corporate diplomat and media guy who charmed outgoing CEO (and former PR man). He will lead Sony on 22 June 2005.

Today the value of Sony's brand name has slipped drastically with the fierce competition in the industry including Panasonic, Apple etc. Unknowingly, Sony has fallen first to last, or near last, in many measures of growth in Japan's top 10 exporting multinationals.

Nobuyuki Idei announced his decision to hand over the rein to Howard hoping that he will be able to turn the company into a profitable growth. Six corporate officers who are directors of the board will join him in resigning. Many stakeholders are waiting for Howard to bring the company into new heights.

SWOT analysis

The SWOT analysis provides information that is helpful in matching the firm's resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection.

(Bradford, Robert W., Duncan, Peter J. Tarcy, Brian (2000) Simplified strategic planning)

Sony SWOT analysis as follows:-

Strength Weakness

- * Broad range of products
- * Internal sourcing of key components
- * Strong strategic alliances
- * Weak exposure to consumer electronics' segment
- * Bureaucratic
- * Culture conflict

Opportunity Threat

- * Moving into new market segments that offer improved profits
- * Faster respond to market needs
- * Related diversification
- * Lack of innovation

- * Strong competition
- * Piracy
- * Price wars with competitors

Key areas pertinent to effective Strategy Management

Price Wars

The once unthinkable decline of many of the world's largest corporations has become all too common in recent years. There is intense competition between competing firms in electronics consumer products. The inability to adapt to the speed and turbulence of technological change has proved to more critical danger. Price wars for electronics products like flat-screen TVs and other consumer electronics gadgets have caused the financial results in red for Sony as it fail to keep up with the fast changing market environment. The problem of Sony is that it fails to formulate a successful business level strategy, which is the lack of sustainable competitive advantage like achieving cost leadership and product differentiation.

Firms that are in the technological industry should position itself in a direction that practice radical change in order to achieve first mover advantage, competitive advantage, and also to achieve above average returns in current highly competitive era. Price is one of the four important factors that formed up a successful marketing mix. Organization that adopts successful marketing mix tends to cover a higher percentage of the market share. Sony should conduct quarterly market opportunity analysis to identify

consumer electronics markets and market factors in the economy and the industry that will affect the demand for and marketing of a product. (John A. Pearce II and Richard B. Robinson, Jr. (2000) Strategic Management.

Formulation, Implementation and Control)

No Product differentiation

Electronic products such as CD player, TVs, refrigerator, digital camera, and washer in most electrical store like Harvey Norman, Courts, and Best Denki do not have a clear product differentiation between rivalries. Firms like to benchmark its competitors in manufacturing the same product range in order to obtain a market share in that industry. For example, Sony CD player is more or less the same as the one that Panasonic has. Therefore, in order to achieve competitive advantage in product differentiation. Sony should make research in developing new core product such as playstation that stormed and wipe out Sega and Nintendo in the videogame market. The product must be complex, unique, and interesting in order to achieve comparative advantage as compare to its rivals. For instance, the new Apple iPod music player that looks trendier and user-friendlier hit Sony mini disc player before its mini disc can even reach the stage from stars to cash cow in the BCG matrix. The reason is that consumers that use iPod are not required o purchase additional memory gadget.

They are able to download music from either legalize music website or music CD as iPod provides built-in memory by default. As a result, consumers can

save the cost in purchasing extended memory card in order to get started with the use of the player. Whereas, Sony mini disc player does not come with default memories for download, consumers that wish to record or download music to the mini disc player are required to purchase an empty mini disc before they start the use of it. Eventually, by creating new core product, it helps to create certain barrier of entry to its competitors when the product is not easy to imitate. Furthermore, as a first mover, Sony has an advantage of introducing price skimming strategy for the early innovator stage.

Cost Leadership

In most electrical store, Sony products are categorized as one of those premium brands that consumers trust because it provides high product quality and assurance as compared to other brands. Although Sony had achieved cost efficiency through economies of scale in its production level, it had not achieved cost leadership in terms of its plasma and LCD TVs and other electronic gadgets as compared to its competitors from various brands like TCL, Enzer, and Hyundai etc. For example, Sony is retailing a 32" plasma TV at \$2999 whereas Hyundai is retailing the same 32" plasma TV at \$1399 which is equivalent to half of the price cheaper. However, as the economy is bad, most consumers will tend to go for products that are cheaper in price although they may not have the kind of trust in that product. Therefore, in addressing this issue, Sony must first cut down its cost to the minimum which new Sony chief Howard Stringer says that "if you don't act, you will kill the company" For example, by resizing the firm's internal structure,

change of distribution methods, and search for new raw material that are cheaper in costs.

Acquisitions & Restructuring

In January 1988, Sony acquired CBS Records and formed Sony USA Inc. (now known as Sony Corporation of America (“SCA”)) as a holding company to hold Sony’s investment in the acquired company, which was then, renamed Sony Music Entertainment Inc. (“Sony Music”). In November 1989, Sony USA acquired Columbia Pictures Entertainment, Inc. for \$3.4 billion and Guber-Peters Entertainment Company for \$200 million. These companies, which are now known collectively as Sony Pictures Entertainment Inc. (“Sony Pictures”), included two movie studios (Columbia and TriStar), a theatrical exhibition company (Loews Theaters) and certain television production facilities. In connection with these acquisitions, Sony assumed debt of approximately \$1.2 billion and allocated approximately \$3.8 billion to goodwill.

When Sony acquired its motion picture operations, Sony internal projections for those operations showed losses for a period of 5 years after accounting for amortization and the costs of financing the acquisitions. However, Sony’s business plan was based on the premise that, in the long term, as the means for electronic distribution of entertainment multiplied, Sony Pictures and its inventory of motion pictures would become an increasingly valuable source of entertainment content. As things turned out, Sony Pictures sustained significant and mounting losses (after accounting for amortization and the

costs of financing the acquisition) in its first four years under Sony's control. These losses consistently exceeded Sony's internal projections. Although these losses were reflected in the consolidated financial results reported by Sony, neither the projected losses nor the actual losses from Sony Pictures were separately disclosed to investors.

In the aggregate, by the close of Sony's fiscal year ended March 31, 1994, Sony Pictures had contributed net losses of approximately \$967 million to Sony's consolidated results.

Sony currently announced abolishes the existing company system (known as " Network Companies") and will introduce reorganized operational units called Business Groups, for specific product categories. Corporate Executive Officers will be given clear responsibilities at the Electronics Headquarters level to oversee cross divisional functions relating to product planning, technology, procurement, manufacturing, and sales & marketing and will directly support the Electronics CEO. This significant structural change is designed to eliminate the corporate silos that have prevented Sony from focusing their vast resources on their most competitive products and to foster coordinated, efficient and rapid decision making.

This new structure will also enable to prioritize Sony's R&D, putting resources where they will maximize growth and avoid duplication. Sony will reorganize the current laboratory structure accordingly.

Management

Sony needs to change its management style. Sony has long thrived on a hyper-competitive culture, where engineers were encouraged to outdo each other, not work together. Different groups within Sony handled different parts of the service, and they didn't work well together. Some employees still boast they don't follow orders with which they don't agree. People in Sony agree that they need to change but 90% of them don't want to change themselves because of the company kindness and all the generous qualities example lifetime employment.

Strategic Leadership

The rivalry between Norio Ohga between Nobuyuki Idei is uncalled for. They do not have the same mission to make Sony a strong company. Norio Ohga kept insisting to promote Ken Kutaragi to president and interferes with Sony's operation. It sent the wrong message that they can bypass Idei through Ohga support. This has made Idei's position to be more difficult than ever. To be fair, former CEO Nobuyuki Idei did start moving the company in the right direction with his leadership of Sony's three year major restructuring effort, but the focus is wrong. Aimed at reducing fixed costs by over \$3 billion by "rationalizing" production, streamlining procurement and cutting jobs, Sony should instead be focusing on regaining its leadership position and creating world-class products.

Howard leadership in Sony Electronics U. S. – Howard's strategic move to recruit Robert Wiesenthal as his Chief Strategy Officer and thereby starting buying and selling stakes in a variety of businesses has shown Idei his

capabilities. Sony Electronics U. S. during Howard's tenure has saved \$700 million a year overhead. Howard will need to seek advice from Carlos Ghosn (Nissan CEO) and Lou Gerstner on how they turn around their company.

With Sony appointed a new foreign CEO, Howard Stringer. Sony's leadership will change accordingly. Hence, leadership will change the Sony culture in a positive light. From a start, Stringer will face the culture's conflict and company's management politics. Refer to the article of Newsweek; "Stringer says Sony has become too bureaucratic, and that the key to regaining its place as the premier manufacturer of consumer electronics is to once again make the engineers the stars. But he also concedes that he is no engineer himself." According Stringer speech that makes it very difficult for the insider who has to attack the problems of too much management, and trying that around.

Operational business structure

The growth strategy in electronics, resources will be focused on HD products, mobile products and the semiconductors/key component devices that can further differentiate Sony's products from the competition. When Sony strengthened their electronics business, they will leverage all their resources including motion pictures, music, games and their brand recognition to deliver more appealing products and services as the world's leading electronics and an entertainment company.

Sony abolishing the existing company system and will introduce reorganized operational units called Business Groups, for specific product categories. This

significant structural change is designed to eliminate the corporate silos that have prevented Sony from focusing their vast resources on their most competitive products and to foster coordinated, efficient and rapid decision making. This new structure will also enable them to prioritize other R&D, putting resources where they will maximize growth and avoid duplication.

Conclusion

Sony must change and adapt as their customers and market change and as their competitors evolve. In my view leadership is the essence of successful change. It's not only the company's innovative use of technology that wins favorable reviews. It's also the company's mind-set and culture.

Different organizations face differing problems with regard to reducing organizational behavior variability. An organization with geographically dispersed employees possesses challenges that are different from those of an organization with employees functioning in close physical proximity to one another. Cultural change is difficult and can have ambiguous effects. It should be conducted cautiously and phased over time.

The timing of strategic change is essential. Companies which enjoy long-term strategic success change proactively whilst they are still successful. If they wait too long they will be forced on to the defensive. Not only must companies be able to manage a programme of change, they should look to develop a culture which is responsive to perpetual change pressures. Strategic change implies a corporate juggling act. The expectations of shareholders and customers must be considered alongside the pressures

placed by competitors. Trade off may be required. Some organizations are faced with powerful, discontinuous change pressures. Gradual, emergent change will be inadequate. They need to change strategies, structures and style of management simultaneously. This constitutes a major challenge which few organizations will truly relish.

References:

1. Bradford, Robert W., Duncan, Peter J. Tarcy, Brian (2000) Simplified strategic planning. Chandler House Press, USA.
2. John A. Pearce II and Richard B. Robinson, Jr. (2000) Strategic Management. Formulation, Implementation and Control. McGraw-Hill, USA.