Investigative Synopsis of Sony Inc.’s Strategic Management Issues / Failures and How to Overcome Them

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Abstract

This report is commissioned to analyse strategic position of Sony in market with brief history analyses, core competencies analyses along with strategic recommendations for Sony. Several key models like SWOT, Bowman's Strategy Clock and other related concepts are discussed, the data used for this research paper data gathered from secondary data sources i.e. Annual reports, Journal articles, Book, newspaper articles etc. which are properly declared in “Reference” section. The rational decision for choosing Sony as a research study for this paper is that they have been market leaders and pioneered many markets, however due to lack of ambition and strategic planning failure the company is now on verge of bankruptcy. Towards the end this research paper has given some strategic direction recommendations for the board of directors of Sony Inc. which will help Sony to revive themselves from current position and restore their brand to former glory.

Keywords: Strategic management, Customer value, Core competency, Strategy making, Sony Inc., Strategic misalignment.


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Introduction

The word Sony is driven from two Latin words sonus and sonny, the precise meaning of sonus and sonny is sound and little son, the word Sony itself is effortlessly pronounce and can be read in any language. The name “Sony” itself is perfectly aligned with the scope and vision if its founders i.e. to be free and diverse and can operate in any industry. This venture of Sony came into being in 1946 when a small highly dedicated group of 8 people worked together comprising of Mr. Akio Morita and Mr. Masaru Ibuka with a total initial capital of $530 in an electronics shop in a department store in Tokyo, Japan. Initially the company was named “Tokyo Tsushin Kogyo” which they later changed to “Sony” in 1958 i.e. when they build Japan’s 1st tape recorder known as “Type-G”. The core objective of founders of Sony was to design and produce ground-breaking innovative products which would enhance the standard of living of people and benefit them. This unique idea was the kick starter for the company which evolved from one shop to Multi-national Corporation as we know Sony today.

Sony Inc. background analyses

The swift and tremendous growth of Sony was due to visionary leadership of it forefathers, the co-founder of Sony Mr. Akio Morita always kept a keen eye toward adaption of new technology innovations and spend great amount of time to creatively find advancements which will improve lives of people, due to this aggression toward innovation and growth, Sony became pioneer of consumer electronics, the series of events which lead to this are mentioned below.

- In 1955 Sony refined transistor technology for radios
- In 1968 Sony was able to invent Triniton TV tube which vividly enhanced quality of colour TV
- In 1975 Sony developed videotape recorder technology
- Sony pioneered and engineered camcorder technology allowing common people to be movie makers
- In 1979 Sony pioneered mobile entertainment system known as Walkman which allows people to listen anytime, anywhere via cassettes.
- Furthermore, in 1982 in addition to Walkman Sony created compact discs a.k.a. CD for music and also introduced CD Walkman.
- In 1994 Sony developed gaming console known as Play Station for in-house gaming market.

Very handful companies where able to develop and introduce such stream of successful products, documented report states that Sony’s executives spend 85% of their time in R&D and its market application, 10% on human capital challenges and 5% for
finance, the Sony executive Mr. Morita stated that financial performance will be obvious and does not need any intention as they were doing exceptional job in new product and market development which will automatically lead to good financial performance.

Mission and vision statement analysis

Various researchers has implied that mission and vision statement has a positive effect on companies performance, the findings of Rarick & Vitton (1995) stated that companies with dignified mission statement has twice the return on shareholders’ equity with relation to those who don’t have Bart & Baetz (1998) also reported an affirmative relationship between mission statement and organizational performance, in the book David (2011, p. 47) he also stressed the importance of mission and vision statement and gave outline of ideal mission and vision statement, he also explained the core components of mission and vision statement. Vison and Mission statement are interconnected and must be aligned with each other to provide company’s long term strategic direction. By concluding the finds of (Rarick & Vitton, 1995), (Bart & Baetz, 1998) and guide by (David F. R., 2011, p. 47) the research as inspected Sony’s mission and vision statement as follows:

Mission Statement of Sony Inc.

“A company that inspires and fulfills your curiosity”

All the secondary source of input this paper has gone through, there is not even one book for management which does not emphasis on significance of mission statement, as stated by Tankovića (2013) a Mission statement defines company’s distinctiveness, product, market and the specific practise or technology they emphasise on. Many authors like (David F. R., 2011, p. 49) also stated that mission statement is a declaration of attitude and outlook.

The current mission statement focuses only on customers and evokes emotions in them that inspire customers, the current mission statement of Sony is lagging some key characteristics of mission statement, analysing the statement via recommendations dictated by (David F. R., 2011), the Sony’s mission statement only states general description about what the business does for its customers and stakeholders. However, the statement is unable to enclose sufficient evidence to visualise strategic direction formulation, ideally the statement should contain precise details about how company will realise its vision. The article exceedingly suggests that Sony should modify current mission statement and incorporate information about company approach towards the business and also add details like concern for growth, philosophy, self-concept, concern for employees & customers and reveal the companies social and environmental responsibilities.

Vision Statement of Sony Inc.

“Using our unlimited passion for technology, content and services to deliver ground-breaking new excitement and entertainment, as only Sony can”
A clear and aligned vision is acute for strategy development and its implementation, unlike mission statement, vision statement acts as an agenda for companies operational, business and strategic development. Furthermore, it helps companies to stay focused on a path and motivate internal stakeholders of company towards success, it also demonstrates that where the company wanted to go and then help strategy builders purposefully map a route to get there. An ideal vision statement is drafted on back of flawless mission statement and should be balanced i.e. have equal portions of mission and value of company with addition to visionary direction of company (AchieveIt, 2012).

The current vision statement of Sony is very product oriented and focuses towards the declaration of product development via innovation and clams themselves to be superior to competitors and ensure its customers that they will continue to develop innovative products, it also states a clear direction/statement of purpose for employees. However, as stated guideline by (David F. R., 2011) the vision statement of Sony is not up-to the standard/good practice, as the current vision statement does not express the desired future of the company in coming years. This research paper suggests that Sony should revise the current vision statement and imbed information about where they want to see the company in future.

Competency Analyses of Sony Inc.

The below discuss are various models to analyse Sony’s core competencies and key primary factors which allow them to have competitive advantage over competitors and ensure long term sustainability of company.

Bowman's Strategy Clock

Bowman's Strategy Clock (Bowman & Faulkner, 1996) is a tool which can be used to analyse the company’s competitive position in comparison to offerings of competitors, the current stance of Sony is plot no. 5 according to diagram as follow:
As the name suggests the differentiation strategy allows Sony to provide customers with products which are better and/or new in market, this approach of Sony lead them to a position where buyers widely value the brand e.g. Play Station, Blue Ray technology etc. this also allowed Sony to demanded high prices (high profit margins). Generally, this strategy is adapted by luxury brands like Louis Vuitton. However, this position is very difficult to hold as markets are getting more and more saturated day by day and eventually a competitor will offer a product in market with similar benefits at a relatively cheaper cost, e.g. Nintendo vs play station, once customer find an alternative they will switch abandoning the current brand.

This paper concludes that this is one of the many factors which lead to failure of Sony, as they were unable to realise the competition in market and always positioned themselves at high level (high price) which translated into uncompetitive strategy.

**Porters 5 forces Analysis**
• **Bargaining power of supplier**: Sony has very vast range of suppliers, as their business portfolio is very diverse so the procurement process is also very extensive. This puts Sony at an upper hand in negotiation process with suppliers as there are more than one supplier of required raw material(s) they need, due to this high saturation of suppliers the bargaining power of suppliers in broadly low.

• **Threat of new competitors**: Analysing the brief corporate history of Sony and its target market, the threat of new entrance in Sony’s target market has always being high. As this target market segment i.e. Consumer Electronic is a very attractive market, it dragged many companies to enter the market e.g. Samsung, HP, Toshiba etc. Moreover, there are no technological and/or legal barriers to enter in market, brands like Changhong Ruba are selling the similar LCD as of Sony but for at-least 1/3rd of price.

Figure 2 - Porters 5 forces Analysis
Source: (Joan, 2012)
• **Bargaining power of customers:** As there is more than one brand in market who offer similar or additional value added products with similar benefits and are even catered to same geographic target markets, so the bargaining power of customer is high as they have multiple option available to choose from for related needs.

• **Threat of substitutes:** Technology is advancing in a very dramatic rate, products like Apple iPod, portable mp3 players, tablet PC, smart phone etc. has a very adverse effect on Sony. As almost every technology introduced by them has multiple substitutes now.

• **Competition from established rivals:** The consumer electronic market is a very harsh market, customers has very low brand loyalty as they will shift from brand to another if they perceived that the other brand is offering more value added products at a cheaper price. The treat from established rivals is very high for Sony as market is very saturated and very strong brands exist in market.

**SWOT analysis of Sony Inc.**

The SWOT analyses by (Piercy & Giles, 1989) is very distinct mean of categorise internal and external factors which are positive or wise versa for company. The SWOT of Sony is as follows:

**Strengths**

**Significant Brand Recognition**

Sony has been very well known for its new inventions like Walkman, PlayStation etc. due to this Sony the perceived value of brand equity is very high. However, according to (InterBrand, 2017) the name Sony has dropped from 25th to 29th in terms of name recognition.

**Inclining trend of Consumer Electronics Market**

The consumer electronics market is bombing every year, the demand of Consumer electronics is inclining. A growth at 7.2% annual is being reported for this market segment having accumulated value of $ 136,700Million. As Sony is one of the largest global company it has capability and resources to tap into the market and capture a healthy share of market for themselves. Sony is tech savvy and is familiar with global challenges, they can effortlessly position themselves to a position which may translate into maximization of shareholder equity.

**Global Reachability**

Sony is one of the largest company in market, they are in global market since 1955. The brand is widely target all across the global specially to BRIC economies i.e. Brazil, Russia, India and China which represent over 40% of world’s population. So the Sony has extensive accessibility options across the globe.
Weaknesses

Declining Revenues

Sony has been facing huge financial losses due to several reasons, four major division of Sony which were cash cows for them faced huge financial loss since 2009 i.e. Gaming division went down by 18%, Financial Services division went down by 7.4%, Electronics division went down by 17% and Pictures division went down by 16.4%. From Japan alone the revenue fell by 15.2% and form USD the revenues dropped by15.4%.

Proximity of Production across the Globe

Unlike competitors Sony’s is mostly production products within Japan i.e. approximately 60% of production. This puts Sony into weak position as the production facilities are far from target markets, which translates into high logistics costs and put them at disadvantage of not utilizing cheap labour solution due to globalization.

Opportunities

Strategic alliances and Joint Ventures

Sony has been very keen and flexible toward strategic alliances and entering into joint ventures. Sony executed a joint venture project with Sharp to manufacture large/oversize LCD’s, Sony also had alliance with “Hon Hai” a Taiwan precision industry company for product LCD’s. recently they acquired a purchase of TFT liquid crystal display (LCD) business from “Epson” which makes cohesive solutions.

Focus on handheld gaming devices and portable gaming

Sony should realise that now trend of gaming is shifting from console gaming to handheld device gaming, they should come up with such unique product which can cater this shifting demand of consumers.

Threats

The economic slump

The 2007 USA economic recession had very drastic effects on global markets, which directly impacted Sony. Sony use to receive 74% of its total revenue from USA and European markets, as the recession prevails the buying power of people decreased drastically and consumers’ confidence remained low, this was a huge setback for Sony as the people shifted to low cost products (Chinese) and remain intact with such brands even after the recession ended due to high uncertainly in economic conditions.

Foreign exchange risk

As discussed earlier Sony produce 60% of its final products in Japan, this leads to high forex exchange risk exposure, recently it has been observed that value of the Japanese
Yen appreciated significantly against Euro and USD. This lead to make Sony’s products appear expensive in comparison to other brands, apart from that minor fluctuation in currency exchange rates directly impacts on revenues of Sony.

**Strong Competitors and Chinese Brands**

Many Chinese company has engineered the art of reverse engineering meaning that big corporate brands like Sony itself invest Millions of dollars and time in inviting new and/or enhanced current technology, these copy cats copy the technology and would sell for very cheap price. Apart from that big corporate giants like Samsung, HP, Toshiba etc. have very aggressive strategies and would put all efforts to maintain the market share giving taught competition to Sony.

**BCG Matrix**

The following is the BCG matrix (Ionescu, 2011) representing the product portfolio of Sony Inc. according to the most fit category within matrix.

![BCG Matrix for Sony Products](image)

**Figure 3 - BCG Matrix for Sony Product Line**
Source: (Ionescu, 2011)
Origin of Sony Inc. Strategic Failures

In a board meeting in 1950 Mr. W. Edward Deming, an executive of Sony Inc. convinced board to shift focus towards manufacturing products which are not only better but should also be build faster and cheaper. The post war conditions lead Japanese markets to highly depend on foreign capital and foreign markets, which translated into heavy industrialisation shifting their focus from innovation towards number of units produced. This obsession with massive foreign market dependence and industrialization distracted the leaders of company barring them for recognizing the need of developing and implementing R&D and keep the true agenda of Sony alive i.e. pioneering new technology/markets.

Lack of long-term strategic ambition

Sony neglected the growing competition from rivals e.g. Lenovo, Dell, HP etc. and progressed toward a specifically industrial strategy i.e. strongly focused towards manufacturing volume instead of engineering different/new products which were competition worthy against established rivals.

When Sony acquired Ericsson, no new technology and/or any dramatic efforts were taken to add value to mobile phone technology, Sony only incorporated Walkman trademark concept into mobile phone which was not as good as compare to competitors’ products i.e. Android. Sony was playing number game trying to dumb huge quantity of similar product(s) in target market only trying to keep the market share stable via measuring total number of units sold, this inability to developing new technology allowed competitors to take over markets by surprise i.e. Samsung incorporated android platform in mobile phone and defeat Sony Ericson in number game by developing value added product at a cheaper cost via non-Japanese manufacturing unit adaption (manufacturing in china).

Recently when Sony pioneered and introduced Blu-Ray technology due to lack of strategic ambition this was also lost to industrial strategy of mass production i.e. also documented in (Meredith, 2008). Moreover, Sony didn’t sell to the Blu-Ray software technology conspiring that people would use it, and reserved the proprietorship to themselves so that only Sony could sell the Blu-Ray products like Blu-Ray DVD players etc. Despite of learning from past i.e. frailer of MP3 product line due to reserving it to Sony only, Sony again repeated the one failed strategy of keeping technology Sony exclusive which translated into Blu-Ray into money losing product line. Unlike the competitors who were making technology which supported each other and was inter plug and playable e.g. android platform for everyone, not only Samsung.

Moreover, due to rigid and non-visionary of Sony’s leadership the company lost over $10 Billion in 8 years in TV industry only. Initially Sony had a competitive edge over its competitor due to Trinitron Cathode Ray-Tubes which was incorporated in their flat screen TV series but soon this competitive technological edge turned into money losing factor as the Sony didn’t made any tremendous efforts to further enhance the technology and foresee future demands of market (as can be observed in Figure 4), instead they forced
on volume and starved to reduced production cost on same technology which gave the competitors free hand to freely come up with more better technology with value added features. It was just a matter of time that R&D of competitors came up with better and far more efficient technology for immersive TV experience, and this market gap was very efficiently tapped by aggressive and intelligent competitors i.e. Samsung which left Sony in dark.

![Figure 4 - Global market share by LCD TV manufacturers (2008-2016)](source: Statista, 2017)

There was a clear strategic misalignment in Sony strategic direction, Sony was founded and was recognized for having innovative products not mass producing one technology advancement rather then that they had a very clear strategy of pioneering new technology but since 1950 the Sony was lead to wrong strategic path of industrialization rather than innovation. Furthermore, all above series of events lead company to this current weak position, this strategic frailer was due to changing the core reason of Sony’s existence and lack of visionary leadership which lead Sony to the position in which they didn’t made profits for 4 consecutive years, in year 2012 alone Sony lost up to $ 6.4 Billion and is left with only 15% of its capital and now its total net worth was (in 2012) \( \frac{1}{4} \) then compared to its value 10 years ago.
Discussion

In this part of the research paper the study will focus on those strategic options which could have been used by Sony Inc. in order to resolve the issues being faced by the company.

Route of strategic misalignment of Sony Inc.

Sony executive leadership compromises more than one person putting the strategic formulation on company to few different people. Mr. Akio Morita was an inventor and had concept of pioneering new technology and markets. The post WWII circumstance lead Sony to industrialization and cornered Sony to keep edge in market by mass production. But after this Mr. Morita’s ear, the follow up successors of company were trained as American MBA philosophy i.e. prioritise product over innovations. Sony successors ideology was to cut cost of current technology product which will eventually lead them to success without any innovation.

The poor performance of Sony enforced them to put company’s fait into hands of non-Japanese Person Sir. Howard Stringer. Mr. Stringer further implemented the American approach towards business of industrialization and failed to realise that innovation and technology advancements were actual need for Sony, due to deprived American MBA textbook thinking approach, he laid off 30% USA jobs i.e. 9,000 of 30,000 employees.

As also evidenced by (Emerald Group Publishing Limited, 2004) there was clear misalignment in upper hierarchy of Sony Inc. Mr. Stringer had a very aggressive and clear industrial strategy where as Mr. Morita’s meetings were all about innovation and market application of new technology. Mr. Stringer believed in numbers and financial projections and making too rational decision without considering the growing and aggressive competition in market, this number’s obsession of Mr. Stringer lead to production of very narrow set of products and cutting the cost of R&D. Clearly Mr. Stringer did corrupt practises to show short term profits while comprising long term strategic thinking and leading company to verge of bankruptcy. By seeking mass production of very narrow portfolio of products and to extend the product life cycle, utilizing the amortisation and running long lengths in finical projections and by continuously discovering ways to cut cost, he would show exceptional results in board meeting and get huge bonuses from them, but internally the company was wounded.

When the board realised that how much damage is done to company by Mr. Stringer they appointed Mr. Hirai as new CEO on February 2012. After assuming position of CEO he announced another round of layoff i.e. 6% from Sony total employment across the globe i.e. 10,000 employees. Mr. Hairai was trained under Mr. Stringer, so he carried his ideology i.e. failed strategy of Mr. Stringer which resulted in reporting of even greater losses then the tenure of Mr. Stringer.

Japan has very distinct and unique equity law compared to USA equity laws, which allows Sony to have higher debt levels, during past few years’ company has been operating in negative equity i.e. known as bankruptcy elsewhere in world.
This whole scenario allow lead to many other situations which put Sony at disadvantage, Sony had 3 waves of layoff which lead to fear and low motivation among employees which transforms into low productivity and low loyalty toward company. Moreover, due to this lack of believe in Sony Inc. there was a huge brain drain from company as shown in figure 6. The suppliers of Sony also lost their confidence and offered very short payment cycles. Apart from that there is a huge “Fat Cat” problem in Sony upper hierarchy in which the upper hierarchy enjoys numerous unjustifiable financial benefits i.e. despite the harsh time son Sony, the current CEO Mr. Hirai received a huge raise of $4.9Million (Blair, 2016) for the year end of March 2016, moreover the CFO (Chief Financial officer) of Sony MR. Kenichiro Yoshida also got $960,000 compensation in 2012.
Strategic Recommendations for Sony Inc.

The research endorses following discussed series of interconnected strategic direction recommendation for Sony to efficiently revive from current situation(s).

**Strategic Direction**

The following are 4 interlinked strategic recommendations for Sony which will lead them to sustainable growth.

**Industry Segment Emphasis**

Since 1946 Sony has entered into very diverse brand portfolio doing many related and unrelated expansions e.g. Music, Pictures, Game, Electronics and financial services sector. However, Sony was unable to maintain a competitive edge in either industry. Sony showed undergo a major organisational restructure and focus resources on most productive market segment e.g. Game industry. Sony should stop dragging the dead brands like Components industry (as shown in figure 7) and focus on market segments which can actually translate into profitable segments like Gaming Industry. The chosen segment should be flagship industry of Sony, this can be achieved effortlessly if done...
right as no other company in market has such rich and vast history of innovation and survival in market.

![Figure 7 - Sony's global revenue by industry segment (2012-2017)](image)

Source: (Statista, 2017)

This star product like gaming industry focus (as can be observed in figure 7) will not only set Sony to right direction but will also send a strong positive signal in market and help revive their brand image. However, this segment should not focus on short term goals rather this segment should ensure proper R&D is done on it so that Sony can leverage the best out of it and maintain the competitive edge over other intelligent competitors in market.

**Mergers and Acquisitions**

This article suggests that after defining the focused market division, they should do relevant mergers and acquisitions. This will allow Sony to ensure the gain in market share more aggressively and help them to utilize economy of scales, have access to distinct modern technology and reduced manufacturing costs. Which will clearly translate into aggressive approach toward development and allow them to equip themselves with unique competitive advantages which otherwise they would not attain. Sony could focus on Game industry and start accruing or merge with game developers like EA games, the cobranding of these gaming houses and Sony would ensure they sustain in suggested strategy.
**Enhanced Quality Control Management**

This research paper can evidently recommend that Sony need to emphasise on quality control management, since Sony came into being it was known for its newly engineered, reliable technology. However, Sony’s products are criticized i.e. in 2012 Sony itself acknowledged that over 535,000 VAIO laptops had a manufacturing defect and where overheating due to temperature gauge fault. In 2008 Sony recalled 8 different models of digital camera range due to “problematic image pick-up” which was followed by unjustifiable delays in launch of PlayStation3.

As this paper suggest, the Sony would undergo a mega organisational restructure and would be going through series of mergers and acquisitions, they should ensure that significant measures are taken to ensure that quality of products is up to the standards and that final products are defect free. Currently Sony has very centralised quality control authority as shown in figure 8, they should delegate this authority and have a very smart decentralised quality control system to ensure that routine check-ups are done on every step of production.

![Sony Business Process Outlay](source)

**Figure 8 - Sony Business Process Outlay**
Source: (Sony Incorporation , 2013)

**Hedging Money Markets & Macroeconomic Risks**

Considering the finding of Aretz, et al. (2007) and of Franke (1993) this article has concluded that Sony has enormous risk exposure from money markets. Sony has vast
international presence which means there are significant cash flows from various currencies. Money markets and international exchange rates are uncontrollable macroeconomic factors which cannot be influenced by Sony. However, Sony can utilize its Financial services division to assume control of this and try to reduce the risk to bare minimum. This can be achieved by implementing strategies like currency swaps, interest rates swap, natural hedging and application of derivatives or they can modestly take short positions in specific securities. Such advanced hedging techniques will ensure that the risk exposure is minimum and ensure true and predictable profitability of Sony Inc.

**Currency exchange rate analyses**

![Currency Charts: JPY to USD](https://www.xe.com/currencycharts/currency.png)

*Figure 9 - Currency Charts: JPY to USD*

*Source: XE Currency (XE, 2017)*

This figure shows the currency change fluctuations for Japanese YEN to USD, as we can observe the highest exchange rate recorded was on 20 Aug 2012 at 0.01259 per YEN for USD whereas lowest has been recorded on 6 Jun 2015 at 0.00796 per YEN for USD. As this research paper suggested before, hedging money markets is very critical as it can easily turn profitable business to total loss.

**Sony’s Strategy in Transition**

All above strategic recommendations can only be implemented by introducing very brilliant change agents in company which will ensure the transformation process is as smooth as can. There is a high chance of high resistance from current establishment of Sony as they would have to leave their comfort zone and work differently for company.
However, Lewin’s Change Management Model (Burnes, 2014) is an excellent strategy for current senior which is also reinforced (Calder, 2013) by as illustrated in figure below:

![Lewin's Change Management Model](image)

**Figure 10 - Lewin’s Change Management Model**  
Source: (Burnes, 2014)

**Integrated Model of transition**

The following figure (Figure 10) illustrates an incorporated model of the current (A) position of Sony and also shows the desired position of Sony (B) i.e. transaction of moving from low market coverage, high cost position and high differentiation towards high market coverage, low cost positioning, high differentiation and gaining a strategy competitive advantage.
Figure 11 – Suggested Sony's Transition Strategy

Conclusion

Sony Inc. could have avoided these strategic failures with implementation of self-correction management and focus on alignment of vision and mission across the board. Sony’s biggest framework failure was having 2 different school of thoughts among upper hierarchy i.e. one was focusing on mass production (volume game) and other was starving for excellent and new product development. However, this research paper clearly exhibits the corrective action(s) and precautionary measures which Sony Inc. can adapt and see themselves to former glory of being the market leader and having healthy, profitable market share across the entire product lines.

References


