

It will take more than this to turn Sony around

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New York Times & International Herald Tribune Op-ed March 9-10, 2005

<http://www.ihf.com/articles/2005/03/09/opinion/edclark.html>

The service challenge

NEW YORK That a foreigner is taking the helm of a proud Japanese company like Sony is of great symbolic importance. From a practical standpoint, however, the appointment of Sir Howard Stringer as Sony's new chairman and chief executive is decidedly less significant.

Symbolism has meaning, and by naming Sir Howard, Sony has shown that it means to change - a message that its domestic employees, shareholders and customers need to hear.

Yet seen from a distance, Sir Howard's ascension is neither surprising nor especially relevant: In most ways Sony Corp. is already an international company, and in some ways it is already past its prime.

Sony has always been a likely candidate to choose an "outsider" as its leader. As Sony's current chairman and chief executive, Nobuyuki Idei, said this week, two-thirds of Sony's 150,000 employees are non-Japanese. Most customers think of Sony as a global corporation, and many consumers outside Japan may not know or care about the company's nationality.

But they do care about Sony's products and services, and in this respect the company faces challenges that would try any chief executive - regardless of nationality. The company faces turmoil as it makes the transition from hardware to software, from products to services. This is a change in orientation as much as in organization, a change that confronts not only Sony but also Japan itself.

In industries like health care, finance, real estate and, yes, even information technology, Japan's domestic companies fall dangerously short of what the rest of the world has to offer.

Squeezed by both Chinese competitors and the relentless commoditization of the electronics industry, Japan's giants have been struggling to stay ahead through cost cutting and technological innovation.

Nothing can bring back the double-digit annual growth these companies once enjoyed. In Japan, whose wealthy but rapidly aging population is poised to start declining next year, the big opportunities are no longer in manufacturing but in services.

To its credit, Sony already does services better than most of its Japanese competitors. But that's because Sony's domestic rivals are so inept.

Competing internationally in the service industry - providing compelling content as well as reliable support - is an entirely different matter. Sir Howard is a former executive at CBS News and currently the chairman and chief executive of Sony's American division, which is responsible for film and television. So he has experience in creating marketable content and is a foreigner to boot.

As such, he may ride in the positive draft created by the spectacular success of Carlos Ghosn, the Brazilian-born French executive who took over Nissan six years ago.

But it's not likely. Sony's choice of Sir Howard, an employee since 1997, may be less bold than it looks. Although widely admired for his diplomacy, Sir Howard must now integrate Tokyo's hardware-focused engineering culture with the media-driven sensibilities of New York and Los Angeles.

An American company in similar straits might have looked outside for fresh vision to bring about a true transformation. Aside from the novelty that Sir Howard is not Japanese, the appointment hardly seems radical.

Now the question is, after a decades-long run, and despite its many strengths, can a company as large as Sony regain its agility by fusing the Japanese focus on the product with the American obsession with the customer? And is Sir Howard the best man to lead the change? Sony doesn't have much time to find out.

Meanwhile, the next great company to come out of the Japanese archipelago could well be hatched by a foreigner. It may begin life as a cellphone-based medical management service run by a Canadian, a sales-support software firm run by a Chinese engineering whiz, or as any of a dozen other services started by outsider entrepreneurs.

While the Japanese understand the importance of quality hardware, outsiders seem to understand better that success in the service-oriented economy requires speed, flexibility, specialization and focus.

Who knows? Twenty years from now, one of these companies may make news when it decides to name a Japanese national as its new chief executive.

Tim Clark and Carl Kay are the authors of "Saying Yes to Japan: How Outsiders Are Reviving a Trillion-Dollar Services Market."