The transnational corporation is a nationally based company with overseas operations in two or more countries. What distinguishes the transnational media corporation (TNMC) from other types of TNCs, is that the principle product being sold is information and entertainment. The following paper is a case study analysis of the Sony Corporation; a leading TNMC in the production and sale of consumer electronics, music and film entertainment and videogame technology. There are two main parts to this study. Part I. examines the history and development of the Sony Corporation. It builds on the theoretical work of Schein, (1984, 1983), Morley, Shockley-Zalabak (1991) and Gershon (2002, 1997) who argue that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission.

Second Part examines the Sony Corporation from the standpoint of business strategy. Special attention is given to the subject of organizational culture and strategic decision-making. A second argument of this paper is that while Sony is a transnational media corporation, the organization is decidedly Japanese in its business values. This is beginning to change in the face of global competition and the need to improve business performance. This study combines elements of historical and economic research in approaching the questions under investigation. Primary resource information includes company reports and 10-K filings with the US Securities Exchange Commission, internal memoranda and other documents pertaining to the management and function of the Sony Corporation. The most important aspect of the data collection stage were the series of 11 interviews conducted with senior and middle level managers at Sony’s Tokyo headquarters and New York operations. This forms the basis for the case study approach as well as supplying subtlety and depth to those portions of the study having to do with strategic planning and new product development. The significance of this research lies in its revelations concerning the complex changes facing a company that was once historically Japanese in its origins but is becoming increasingly transnational in scope and operations.

The Sony Corporation: A Case Study in Transnational Media Management

by Richard A. Gershon, Western Michigan University, U.S.A. and Tsutomu Kanayama, Sophia University, Japan

Abstract

The following paper is a case study analysis of the Sony Corporation; a leading transnational media corporation in the production and sale of consumer electronics, music and film entertainment and videogame technology. There are two main parts to this study. Part I. examines the history and development of the Sony Corporation. This paper argues that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission. Part II. examines the Sony Corporation from the standpoint of business strategy. Special attention is given to the subject of organizational culture and strategic decision-making. A second argument of this paper is that while Sony is a transnational media corporation, the organization is decidedly Japanese in its business values. The significance of this research lies in its revelations concerning the complex changes facing a company that was once historically Japanese in its origins but is becoming increasingly transnational in scope and operations.

Richard A. Gershon
(richard.gershon@wmich.edu)


Tsutomu Kanayama
(kanaya-t@hoffman.cc.sophia.ac.jp)

is an Associate Professor in the Department of Journalism (Faculty of Humanities) at Sophia University in Tokyo, Japan. Dr. Kanayama was the recipient of the Hoso Bunka Foundation award in 2000 for his research in on-line sports media management in the United States.

Historical Overview

The Sony Corporation was founded by Masaru Ibuka in the aftermath of Japan’s defeat during WWII. In September 1945, Ibuka left the countryside, where he had sought refuge from the bombings, and returned to the war-torn capital of Tokyo to begin a new business. Shortly thereafter, Ibuka established the Tokyo Tsushin Kenkyujo (or Tokyo Telecommunications Research Institute). At the time, the fledgling company was nothing more than a narrow switchboard area on the third floor of Shirokiya Department Store (now Tokyo Department Store) in Nihonbashi. It became the workshop for Ibuka and his newly founded group. Having barely survived the fires during the war, the building had cracks all over its concrete exterior. Without windows, the new office was small and bleak (Genryu 1988, p. 22).

In the days and months that followed WWII, Japan’s citizens had an urgent need for news information. During its initial start-up, Ibuka’s shop was primarily in the business of radio repair. Ibuka and his small group of engineers also made shortwave adapters that could convert medium-wave radio receivers into superheterodyne (or all-wave) receivers. The shortwave adapters caught the attention of the public and a feature article appeared in the Asahi Shimbun newspaper. We have welcome news that even the most ordinary radio sets can be modified to receive shortwave broadcasts with a simple adjustment. Mr. Masaru Ibuka, formerly a lecturer in the Department of Science and Engineering at Waseda and Minister of Education Tamon Maeda’s son-in-law, has gone into business under the name of the Tokyo Telecommunications Research Laboratory (Kaiji 1945, Editorial).

One of the articles’ readers was Akio Morita who had returned home to Kosugaya in Aichi Prefecture. Morita knew Ibuka from their past association inside Japan’s Wartime Research Committee. During the war, Ibuka worked as a radio engineer for the Nissoku munitions factory specializing in submarine detection systems. Morita served as a navy technical lieutenant in thermo optical weapons. The article prompted Morita to write to Ibuka who replied at once. Ibuka urged Morita to come to Tokyo and join him in the start-up of his new business venture (International Directory 1990).

On May 7, 1946, Ibuka and Morita officially incorporated the new company as the Tokyo Tsushin Kokyo (“Totsuken”) or the Tokyo Telecommunications Engineering Corporation with a capital investment of ¥190,000 (or $500). The founding of Totsuken spoke directly to the challenges of post war Japan and the need to rebuild. At the time, Ibuka was 38 and Morita was 25. Both were knowledgeable and enthusiastic engineers. And both recognized the importance of what high-technology meant to the future of Japan. In his dedication address, Ibuka noted:

We must avoid the problems which befall large corporations, while we create and introduce technologies which large corporations cannot match. The reconstruction of Japan depends on the development of dynamic technologies (Sony 1996, p. 24).

As a start-up company, Totsuken’s most immediate problem was financing. The company was able to secure loans but it routinely suffered from rising costs and inflationary spirals. The problem of cash flow was compounded by the government’s new currency policy which placed restrictions on the withdrawal and use of old currency. In order to meet payroll, Totsuken manufactured both communication and noncommunication devices, including electric rice cookers and heat cushions.

One of Totsuken’s first important communication contracts was issued by Japan’s NHK television service which had an urgent need to restore its national broadcasting network. This included the repair of its many studios and transmitters. It would mark the beginning of a longstanding business relationship between the future Sony Corporation and NHK. Throughout the late 1940’s, the engineers at Totsuken concentrated on the development of consumer electronic goods, including Japan’s first ever tape recorder (Sony 1986, p.3).

The initial demand for the tape recorder remained quite low until Ibuka accidentally came across a U.S. military booklet entitled Nine Hundred and Ninety-Nine Uses of the Tape Recorder. The booklet was translated into Japanese and became an effective marketing tool for customers who did not understand the tape recorder and its many potential uses. The first significant order for the G (government) type tape recorder came from Japan’s Supreme court. Among Totsuken’s many other customers was the Academy of Art in Tokyo. The academy was responsible for purchasing many of the new recorders. Norio Ohga, a music student at the academy, wrote several letters to Morita criticizing the sound quality of the recorders. Morita was impressed with the detailed comments and suggestion and invited Ohga to participate in the development of a new recorder as a consultant. Before long, Ohga became a familiar figure at Totsuken. He was invited to attend technical meetings, impressing everyone with his technical grasp of audio equipment and tape recorders in particular. Years later, reflecting on that time, the future Sony President commented, ‘They actually treated me as an equal and that was an attitude you would never have found in any normal Japanese business executive’ (Nathan 1999, p. 121).

Establishing the Sony Name

During the early 1950’s, Japanese products suffered from a public perception of poor quality. The description “made
in Japan” evoked an impression of inferior product quality in design and manufacturing. American made products, on the other hand, had a reputation for high quality. US products were available worldwide and sales by American companies skyrocketed as a result. At the time, Morita reasoned that if Sony was going to enter into the manufacturing and sales of electronic equipment, it was necessary to establish a market presence in the US (Morita, Shimomura & Reingold 1986). In 1952, Morita made the first of two trips to America to examine how US companies manufacture and market tape recorders. He also wanted to examine potential market opportunities for future Totsuken exports. During Morita’s second trip in 1953, he acquired the licensing rights to the transistor patent which was invented at AT&T’s Bell Laboratories. Due to Morita’s effort, Totsuken was the first company in the far east to be licensed by AT&T to manufacture and use the transistor in new product designs. In 1955, Totsuken developed the TR-55 transistor radio in Japan and introduced it to the US market that same year (Sony 1988).

A year later, Totsuken was able to successfully improve on the transistor radio and produced the TR-63; the world’s smallest pocket radio. The newly developed radio had the name “Sony” (derived from the Latin word ‘sonus’ for sound) affixed to it. The name Sony soon became more familiar in the world of international electronics than the parent company. At the time, Morita believed that Totsuken was not a name that would be easily understood overseas. Thus, despite much internal disagreement, the company’s name was officially changed to Sony in January 1958.

Sony’s Entry into World Markets

Most companies do not set out with an established plan for becoming a major international company. Rather, as a company’s exports steadily increase, it establishes a foreign office to handle the sales and services of its products. In the beginning stages, the foreign office tends to be flexible and highly independent. As the firm gains experience, it may get involved in other facets of international business such as licensing and manufacturing abroad. Later, as pressures arise from various international operations, the company begins to recognize the need for a more comprehensive global strategy (Robock & Simmonds 1989; Gershon 2000, 1997).

Early on in his tenure, Akio Morita developed the kind of business skills that allowed him to successfully enter into foreign markets. He did not initially have a global strategy in mind. Morita tended to operate in those markets that he believed were important and where Sony’s products would be most readily accepted. The U.S. clearly fulfilled both sets of objectives. The first phase of Sony’s globalization plan was the formation of Sony Corporation of America in 1960. The company established its first showroom in New York City. During the next few years, Sony established Sony Switzerland, Sony U.K. Ltd., Sony Deutchland and Sony France.

Broadcast Equipment

All during the 1960’s, the Sony Corporation achieved a number of firsts in product design and innovation, including: the portable videotape recorder, the transistor condenser microphone and the integrated radio circuit. One of the more notable discoveries came in 1968 when Sony engineers unveiled a new approach to color television technology. The Trinitron TV set was the culmination of a ten year effort to find a better way to produce a color television set (Sony 1988). What is sometimes forgotten is the level of experimentation and failure that began with an early forerunner to the Trinitron set called Chromatron. Nathan (1999) writes:

It was a dark time, the more unsettling to everyone because tension between Ibuka and Morita was manifestly in the air. No one ever witnessed an argument, but people were aware that Morita urgently wanted to cut losses while Ibuka would not budge...The physicist, Susumu Yoshida, remembers a meeting when Morita angrily accused the engineers of taking advantage of Ibuka’s commitment to the technology to indulge their curiosity in the problem solving process, costing the company money it couldn’t afford...In the autumn of 1966, Ibuka finally announced that he personally would lead a team to search for an alternative to Chromatron (p. 45).

That alternative would be the Trinitron television set. The Sony Trinitron required an altogether different approach to television design. The Trinitron used one electric gun, for more accurate beam alignment and one lens for better focus. The result was a clearer television image than had been produced to date using the conventional three gun - three lens set approach. Today, the Sony Trinitron is the most successful display monitor of its kind worldwide, outperforming rivals both in terms of sales and the versatility of applications. For Sony founder, Masaru Ibuka, the Trinitron TV set proved to be a real turning point in the history of the company. Says Ibuka, ‘We bet the company on that basic technology’ (Schlender 1992, p. 82).

Through the years, the Sony name had become closely aligned with broadcast studio equipment. During the 1970’s, a large percentage of U.S. broadcasters used videotape recorders as part of their electronic newsgathering effort. The CBS network, in particular, experimented with Sony’s U-matic Video Tape Recorder (VTR). They found the equipment potentially useful, but it was heavy and inconvenient to use. Sony was approached with the idea of designing similar equipment that could provide picture quality equal to film and that was more portable to use. Thus began Sony’s serious entry into the field of broadcast equipment.
In 1976, Sony introduced its U-matic BV series of electronic newsgathering equipment which became an immediate success. In 1981, Sony made another important breakthrough by introducing its Betacam half-inch broadcast camcorder which combines both the camera and recorder into one unit. Recognition would one day come in the form of an Emmy award that was presented to the Sony Corporation for “Outstanding Technological Development.” The real sign of acceptance, however, was the industry’s wholesale adoption of Sony’s term “ENG” to describe a new category of electronic newsgathering equipment.

Building the Sony Brand

A successful brand name creates a resonance or connection in the consumer’s mind toward a company’s product or service. Through the years, Sony has introduced a number of firsts in the development of new communication products. In some cases, the products were truly revolutionary in terms of a planning and design concept (Beamish 1999). Words like Trinitron, Walkman, and Playstation have become part of the public lexicon of terms to describe consumer electronics. Yet several of these products are more than just products. They have contributed to a profound change in consumer lifestyle. This, more than anything else, has contributed to Sony’s brand identity. It is beyond the scope of this paper to consider the many kinds of products that have been introduced by Sony over the years. Instead, let us consider three: The Sony Walkman portable music player, the Sony/Philips audio CD player, and the Sony Playstation videogame.

The Sony Walkman

The creation of Sony’s highly popular Walkman portable music player was highly serendipitous in its origins. From 1966 onward, Sony and other Japanese manufacturers began the mass production of cassette tapes and recorders in response to a growing demand. At first, cassette tape recorders could not match the sound quality of reel-to-reel recorders and were mainly used as study aids and for general purpose recording. By the late 1970s, audio quality had steadily improved and the stereo tape cassette machine had become a standard fixture in many homes and automobiles.

It so happened that Masaru Ibuka (who was then honorary Chairman of Sony) was planning a trip to the US. Despite its heaviness as a machine, Ibuka would often take a TC-D5 reel-to-reel tape machine when he traveled. This time, however, he asked Norio Ohga for a simple, stereo playback version. Ohga contacted Kozo Ohsono, general manager of the tape recorder business division. Ohsono had his staff alter a Pressman stereo cassette by removing the recording function and had them convert it into a portable stereo playback device. The problem at that point was to find a set of headphones to go with it. Most headphones at the time were quite large. When Ibuka returned from his US trip he was quite pleased with the unit, even if it had large headphones and no recording capability.

Ibuka soon went to Morita (then Chairman) and said, ‘Try this. Don’t you think a stereo cassette player that you can listen to while walking around is a good idea?’ (Sony 1996, p. 207). Morita took it home and tried it out over the weekend. He immediately saw the possibilities. In February 1979, Morita called a meeting together that included a number of the company’s electrical and mechanical design engineers. He instructed the group that this product would enable someone to listen to music anytime, anywhere. It was understood that the target market was to be students and young people and that it should be introduced just prior to summer vacation of that year.

Akio Morita was the quintessential marketer. He understood how to translate new and interesting technologies into usable products. Pricing was an important consideration since it had to be affordable. They agreed on a sale price of ¥33,000. After rejecting several names, the publicity department came up with the name “Walkman.” The product name was partially inspired by the movie Superman and Sony’s existing Pressman portable tape cassette machine (Sony, 1996). The Walkman created a totally new market for portable music systems. By combining the features of mobility and privacy, the Walkman has contributed to an important change in consumer lifestyle. Today, portable music systems have become commonplace ranging from major urban subways to health and recreation facilities worldwide.

The Sony/Philips Compact Disc

In the early 60’s, the general junction laser was developed at MIT’s Lincoln Labs and later improved at Bell Research Labs. But it was Sony and the Philips Corporation that would refine the idea into the modern compact disc (CD). In 1975, the optical and audio teams at both Sony and Philips began collaborating on the digital recording of information on to a laser disc. Sony President Norio Ohga, a former student of music, was enamored with the possibilities of digital recording. He designated a small group of Sony engineers to give the laser disc top priority. In the spring of 1976, the team of audio engineers proudly presented Ohga with an audio laser disc 30 centimeters wide (approximately the size of an LP record). It was capable of providing the listener with 13 hours and 20 minutes of digital sound. As Nathan (1999) writes:

For their pains, they received a withering lecture on the folly of engineering for its own sake and the importance of developing a business sense (p.138).

In the meantime, Philips audio division in Eindhoven, Holland was busy at work on their own version of the op-
tical laser disc. From August 1979 to June 1980, both teams of engineers would alternate visits to both sets of laboratories in Tokyo and Eindhoven. At a June meeting of the Digital Audio Disc conference, both Sony and Philips presented a set of recommended standards. In the weeks and months that followed, both teams of engineers worked together toward refining the CD player.

Demonstrations of the CD were being made worldwide in preparation for the planned launch of the CD in October 1982. Norio Ohga, for his part, was convinced that CDs would eventually replace records given the technology’s superior sound quality. That said, however, Ohga recognized that the development of the CD would meet with fierce resistance from many in the recording industry (including even some at CBS Records) who felt threatened by CD technology. It should be noted that in 1968, Sony had entered into a joint partnership with CBS records to form CBS/Sony records. That partnership would prove vital in promoting the cause of CD technology.

In one such product demonstration, executives stood up in an auditorium in Athens, Greece and began chanting “The truth is in the groove. The truth is in the groove.” (Nathan 1999, p. 143). To them, the CD format was an unproven technology made by hardware people who knew nothing about the software side of the business. Worse still, the conversion to a CD format would require enormous sums of money while possibly destabilizing the entire music industry.

On August 31, 1982, an announcement was made in Tokyo that four companies, including Sony, CBS, Philips and Polygram had jointly developed the world’s first CD system. In time, the Sony/Philips CD became the de facto standard throughout the industry. By 1986, CDs had topped 45 million titles annually, overtaking records to become the principal recording format. CD technology would ultimately redefine the field of recording technology and spawn a whole host of new inventions, including the portable CD music stereo, the digital video disc (DVD) and the CD based videogame console.

The Sony Playstation

The Sony Playstation was the brain-child of an engineer named Ken Kutaragi, who was fascinated with designing an entertainment device that could combine the power of a computer workstation with high resolution graphics. For two years, Kutaragi operated without a sponsor until his friend, Teruo “Terry” Tokunaka, a senior executive at Sony, interceded on his behalf. Tokunaka took Kutaragi to see Norio Ohga in order to discuss his idea. Ohga was sufficiently impressed that he authorized Kutaragi to begin building a working prototype of his videogame console (Asakura 2000).

According to Fujishima (2000), not everyone at Sony was enamored with the idea of videogame technology. The management at Sony did not view themselves in the business of videogame technology which was seen as a toy (Fujishima, S. 2000, pers. comm., 23 March). Worse still, companies like Nintendo and Sega were the established leaders in videogame technology and software. Nevertheless, Sony’s Executive planning committee approved $50 million in start-up costs in order to allow Kutaragi and his design team to develop the basic computer chip necessary for a future videogame console.

One of Sony’s major challenges was to convince the larger software developers to create innovative games to support the new platform system. Sony’s future success in videogame technology would depend on high quality software games. In November 1993, Sony Computer Entertainment (SCE) was created for the purpose of marketing and licensing videogame consoles and titles. The new company was drawn from various parts of Sony (Asakura 2000). Tokunaka was given responsibilities for overseeing the new group.

One of the most critical elements to the new Sony videogame platform was the use of CD technology instead of the existing 16 Bit cartridge. It was recognized that the CD possessed greater storage capacity than a videogame cartridge and was much cheaper to produce (Fujishima, S. 2000, pers. comm., 23 March). On December 3, 1994, the Sony Playstation was launched in Japan with eight game titles. Sony sold some 300,000 units in the first month alone, more than three times what company strategists had expected. The Playstation was launched a year later in the US and achieved immediate success. By 1998, Playstation had sold 33 million units worldwide and had become the international leader in videogame consoles (“The Games Sony Plays” 1998).

Organizational Structure and Business Operations

The Sony Corporation was led by Akio Morita until 1989. It was during his tenure as CEO, that Sony achieved international recognition for many of its consumer electronic products, including the transistor radio, the Trinitron television set and Walkman portable stereo. For his own part, Morita, became internationally recognized as one of Japan’s foremost business men. Morita’s hand-picked successor as CEO was longtime friend Norio Ohga who came up through the ranks of the tape recording division and assumed the Presidency of Sony in 1982. Ohga was the man behind the development of the compact disc. He was also responsible for moving Sony into the business of media entertainment. It was during Ohga’s tenure as President, that Sony purchased CBS Records and Columbia Pictures. In 1995, Ohga assumed the title as Chairman and CEO and selected Nobuyuki Idei as President and Co-Chief Executive Officer.
In a business culture that places a high premium on consensus building and longevity, the selection of Idei was somewhat unusual given the fact that he leapfrogged a dozen or more senior managers in order to become Sony’s President. Idei’s background was in marketing where he held a number of positions in Europe and Japan. As several interviewees noted, what Sony needed was a global manager as well as someone who fully understood the implications of digital communication. The selection of Idei was premised on his ability to run a worldwide organization as well as his background in international marketing (Sakaguchi, K. 2000, pers. comm., 23 Feb.).

Organizational Structure

The Sony Corporation is a leading TNMC in the production and sale of consumer electronics, music and film entertainment and videogame technology. The company consists of five primary business areas that include: 1) Electronics, 2) Music, 3) Film, 4) Game and 5) Insurance. (Table 1)

Financial Performance

During the years 1997-2001, the Sony Corporation has seen a steady increase in sales and operating revenue from $45,670 million in 1997 to $58,518 million in 2001. In contrast, the company experienced inconsistent growth in net revenues evidenced by a noticeable decline for the years 1998-2001. A review of Sony’s financial performance for the years’ 1997-2001 can be seen in Table 2.

International Operations

As Gershon (2000, 1997) notes, very few transnational media corporations operate in all markets of the world. Instead, the TNMC tends to operate in preferred markets with an obvious preference (and familiarity) toward one’s home market. Sony is indicative of this trend. The company divides its worldwide operations into four geographic zones, including Japan, the United States, Eu-

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**Table 1: The Sony Corporation: Organizational Structure and Primary Business Areas**

<table>
<thead>
<tr>
<th>Electronics</th>
<th>Select Products and Primary Business Areas</th>
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<tbody>
<tr>
<td>Audio Equipment</td>
<td>CD Players, MD systems, DAT recorders, stereo components, car audio etc.</td>
</tr>
<tr>
<td>Video Equipment</td>
<td>DVD players, digital still cameras, broadcast and professional use video equipment</td>
</tr>
<tr>
<td>Televisions</td>
<td>Trinitron and Wega color televisions and monitors, HDTV-related equipment, personal LCD monitors, professional use monitors and projectors</td>
</tr>
<tr>
<td>Information</td>
<td>Vaio personal computers, computer peripherals etc.</td>
</tr>
<tr>
<td>Electronic Components</td>
<td>Semiconductors, LCDs, CRTs, Optical pickups, Batteries</td>
</tr>
</tbody>
</table>

**Music**

The music business is conducted mainly through Sony Music Entertainment Inc. (SMEI) and Sony Music Entertainment (Japan) Inc. (SMEJ). Several of the company’s more notable labels include Columbia Records, Epic Records, and Sony Classical.

**Film**

The motion picture and television business is conducted mainly through Sony Pictures Entertainment Inc. (SPE). It consists of Columbia Tristar Motion Picture Group, Columbia Tristar Television Group and Sony Pictures Digital Entertainment.

**Game**

The game business is represented by Sony Computer Entertainment (SCE) and is responsible for Playstation I & II, videogame consoles and software.

**Insurance**

The insurance business provides financial services as well as automobile and life insurance.

Source: Sony Corporation 2000, 2001 Annual Reports

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**Table 2: Financial Performance: 1997 - 2001 (In $ Millions)**

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<tbody>
<tr>
<td>Sales &amp; Operating Rev.</td>
<td>$45,670</td>
<td>$51,177</td>
<td>$56,621</td>
<td>$63,082</td>
<td>$58,518</td>
</tr>
<tr>
<td>Net Income</td>
<td>$1,124</td>
<td>$1,682</td>
<td>$1,491</td>
<td>$1,149</td>
<td>$134</td>
</tr>
</tbody>
</table>

Source: Sony Corporation 1999, 2000 and 2001 Annual Reports
ere and other international areas. Figure 1 provides a comparison of sales and operating revenue for the years 1995 and 2001 respectively based on a percentage of revenues by geographical location. In 1995, the percentage of sales revenue was fairly well divided with Japan accounting for 28%, the US 28%, Europe 23% and other areas at 21%. Since then, the percentage of sales by geographic segment has increased in both Japan and the U.S. In 2001, Japan accounts for 32.8%; the USA 29.8%; Europe 20.2% and other international areas at 17.2% respectively. The combined overseas markets accounts for approximately 67.2% of Sony’s sales and operating revenues (Sony 2001).

**Strategy Formulation**

The success of any business is dependent upon its ability to plan for the future. A competitive business strategy is the master plan, including specific product lines and approaches to be used by the organization in order to reach a stated set of goals and objectives. Porter (1985) argues that a firm’s competitive business strategy needs to be understood in terms of scope; that is, the breadth of the company’s product line as well as the markets it is prepared to serve. Strategy formulation presupposes an ongoing willingness to enlarge and improve the flow of a company’s products and services.

### Consumer Electronics

The term core competency describes something that an organization does well (Hitt, Ireland & Hoskisson 1999; Daft 1997). A core competency demonstrates an area of expertise that clearly distinguishes one’s company from the competition. While Sony is committed to becoming a highly diverse media and electronics company, consumer electronics remains central to the company’s long term growth and development. This is evidenced by the fact that 68.4% of Sony’s worldwide revenues are derived from electronics (Sony 2001). According to Nobuyuki Idei, ‘Sony is a champion of audio and video electronics. This is our core’ (“Atoms Versus Bits” 1997, p. 34). At the same time, the challenge for Sony over time is to lessen its reliance on electronics and to develop its other areas of expertise.

### Music and Film Entertainment

The first step in any strategic planning process is environmental scanning whose purpose is to monitor, evaluate and disseminate information from both the internal and external business environments to the key decision-makers within the organization. Researchers like Wheelen & Hunger (1998) argue that the need for strategic
planning is sometimes caused by a triggering event. A triggering event can result from changes in the competitive marketplace, changes in the management structure of an organization as well as changes associated with internal performance and operations. Developing a strategic response to a triggering event can be both formal and informal in the approach taken by a company (Mintzburg 1979, 1978).

The Sony Corporation’s entry into music and film entertainment was a direct response to a triggering event. By the late 1970’s, the Videocassette Recorder (VCR) for home use was beginning to take off. In the US, there was no industry standard for home VCR use. As early as 1975, Sony had already begun promoting its own standard with the introduction of its half-inch Betamax VCR. In the meantime, several of Japan’s other major consumer electronics companies, most notably Panasonic and Japan Victor, rallied around a different standard called VHS. After several years of competition, VHS became the defacto standard largely due to cost and widespread availability.

In retrospect, Sony made two critical errors in planning. The first was the lack of film and television programming that was exclusively available on the Betamax format. The second mistake was to propose Betamax as an industry standard, while insisting that every Betamax VCR set carry the Sony name. JVC, by contrast, promoted the VHS standard and let others manufacture its system under license. As the VHS format became more commonly accepted, several of Hollywood’s premiere film studios would no longer release films using the Betamax format (Compaine & Gomery 2000; Smith 1991). By 1984, VHS had acquired 90% of the world market.

The resulting failure cost the Sony Corporation millions of dollars in lost revenue and time (Muneshige, 1991). It also caused a major management shake-up at the top. Masaru Ibuka stepped down as chair and was replaced by Akio Morita as the new Chairman of the board. Norio Ohga was named as the new President of the company. The lessons of the Betamax experience, however, proved very instructive. In the future, Sony would make a firm commitment to software development as a critical leverage for selling its technical equipment. To that end, Sony entered the world of music and film entertainment with the $2 billion purchase of CBS Records Inc. in 1988 and the subsequent $3.4 billion acquisition of Columbia Pictures Entertainment in 1989. The Columbia purchase included two film studios, a television unit and the Loews theater chain (”Media Colossus” 1991). Today, Sony firmly believes that ownership of music and film entertainment provides a critical leverage in promoting its technical business.

Videogame Technology

The successful introduction of PlayStation in December 1994, underscored the importance of research and development (and videogame technology in particular) to the future of the company. By 1998, PlayStation had sold 33 million units worldwide and had become the international leader in videogame consoles (Asakura 2000). PlayStation was also responsible for 10% of Sony’s worldwide revenues for that year (”The Games Sony Plays” 1998). Since then, company strategists recognize the importance of growing the market in videogame technology. On March 4th, 2000, Sony unveiled its PlayStation II videogame console. PlayStation II combines elements of computer and videogame entertainment all in one device. At the heart of the PlayStation II is the Emotion Engine, a fast high powered chip set that is designed to generate polygons, the building blocks of 3-D graphics (”Sony’s Risky Game” 2000).

The PlayStation II is being positioned as a multipurpose information platform capable of playing audio CDs, DVDs as well as accessing the Internet (Asakura 2000). More importantly, PlayStation represents the critical gateway in defining Sony’s future broadband strategy to the home (Katsurayama, K. 2000, pers. comm., 6 April). In 2002, PlayStation and PlayStation II account for a combined 57% of worldwide market share in comparison to other leading videogame consoles.

The Changing Sony Culture

Organizational culture (or corporate culture) refers to the collection of beliefs, expectations and values shared by an organization’s members and transmitted from one generation of employees to another. As Pilotta, Widman & Jasko (1988) point out, organizations (even large ones) are always human constructions; that is, they are made and transformed by individuals. Culture is embedded and transmitted through both implicit and explicit messages such as formal statements, organiza-
tional philosophy, design of physical space, deliberate role modeling and teaching by leaders (Schein 1983; Pilotta et. al. 1988). Deal & Kennedy (1982) suggest that the more highly successful companies are those that exhibit a strong organizational culture. They identify several component parts to a strong organizational culture, including: 1) values, 2) heroes, and 3) rites and rituals. Values are the intrinsic beliefs that members hold for an organization. It can be said that Sony displays many features of a traditional Japanese company. There is a sense of family and/or missionary zeal that is decidedly Japanese in approach. Most of Sony’s top officials are Japanese and together they share in the company’s collective mission. Sony carefully grooms its future leaders over many years of service. Loyalty to the company is a value that is cultivated at all levels of the organization.

There is no secret ingredient or hidden formula responsible for the success of the best Japanese companies. No theory or plan or government policy will make a business a success; that can only be done by people. The most important mission for a Japanese manager is to develop a healthy relationship with his employees, to create a family-like feeling with the corporation, a feeling that employees and managers share the same fate (Morita et. al. 1986, p. 130).

Heroes are the individuals who come to represent the organization at its best. Often, the heroes are the founders of the company who either established the business and/or were responsible for its successful development. Researchers like Schein (1983, 1984), Morley, Shockley-Zalabak (1991) and Gershon (2002, 1997) argue that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission. Accordingly, Sony is a company that was largely shaped and developed by its founders Masaru Ibuka and Akio Morita. Together, they formed a unique partnership that has left an indelible imprint on the company’s worldwide business operations.

Writers like Bennis (1986) contend that the single most important determinant of corporate culture is the behavior of the chief executive officer. The CEO is the person most responsible for shaping the beliefs, motivations and expectations for the organization as a whole. The importance of the CEO is particularly evident when it comes to the formation of business strategy. CEO Nobuyuki Idei, for one, has embraced the principle that digital communications must be at the center of Sony’s competitive business strategy (“Digital Dream Kid” 1996).

Rites and rituals are the traditions through which an organization celebrates its values. Working at Sony Japan is different than working at one of Sony’s many international subsidiaries. This is partly due to the importance of cultural networks; that is, the formal and informal system of communication through which organizational values are transmitted and reinforced. Workers in Sony Japan are expected to work late hours much as they would in other Japanese companies. A high premium is placed on the Japanese principle of Nemawashi; which means dedicating oneself to the advancement of the team. Inside Sony Japan, management and staff adhere to formal hierarchical relationships, including the mentoring of junior subordinates by senior level staff.

As Sony grows and evolves as an organization, the once historically Japanese cultural network is giving way to a diversity of cultures at the international level. Each of Sony’s worldwide subsidiaries operates within the business parameters and cultural norms of the host nation. The day-to-day business operations are left up to the management and staff of the foreign subsidiary. That said, Liguori (2000) acknowledges that several of Sony’s foreign owned subsidiaries feel a strong cultural connection to Sony Japan and its founders.

I am sometimes surprised at how traditional some of our foreign subsidiaries are. As an example, you’ll sometimes see a picture of the company founders in the board rooms of some of these companies. Or they will display gifts in the lobby given to them from senior managers from Sony’s central headquarters (Liguori, A. 2000, pers. comm., 7 April).

Organizational Decision-making

Organizational decision-making refers to the ability of the said company and its management structure to make well informed and timely decisions that provide strategic advantage. In short, does the organization foster an entrepreneurial spirit that encourages innovation and new ideas or does it adhere to a rigid bureaucracy that kills initiative and creative thinking? Traditional Japanese decision making is often characterized by a strong sense of organizational hierarchy and consensus building. Decisions are made very slowly and carefully by a management committee (Ouchi 1981).

The Spirit of Invention

The question can be rightfully asked – where do the ideas for new projects come from? While exhibiting many features of a traditional Japanese company, Sony both past and present displays a unique appreciation for the entrepreneur and the value of a good idea. From the very beginning, Sony co-founder Masaru Ibuka was the consummate optimist who believed that a good idea should be allowed to flourish with little organizational interference as possible. He despaired at the prospect that Sony might one day become too bureaucratic in nature (Wakao 2001). Accordingly, many of Sony’s best known products (e.g. Trinitron, Walkman, CD and Playstation) were not the result of a management committee typical of many Japanese companies. Instead, the
The field of consumer electronics exacts a high demand on a company to invent or innovate products at a faster pace than is true with other products and services. Through the years Sony has maintained a steady commitment to R&D with approximately 6% of sales being used to support on-going research. This is important when one considers that Matsushita (Sony’s nearest competitive rival) devotes only 4% (Haruyama, S. 2000, pers. comm., 6 April). Sony’s research and development group are among the most prolific in the world. In past years, Sony’s R&D groups have exhibited a high degree of entrepreneurship in terms of new product development. This is beginning to change in the face of increased worldwide competition.

It has been suggested by some observers that the spirit of neyaka (open mindedness), once the hallmark of Sony’s R&D groups, has given way to increased pressure to upgrade and expand existing product line. In sum, today’s Sony runs the risk of trying to imitate some of its larger competitive rivals (i.e. Matsushita, Toshiba etc.) by trying to make products to fit all categories and levels of consumer electronics. As a consequence, some engineers feel that Sony has sacrificed engineering prowess in favor of marketing which is said to dominate research budgets.

Management/Subsidiary Relationships

One of the difficult challenges for an international company is the ability to properly coordinate and oversee projects and goals throughout a company’s multiple worldwide subsidia-

ies. During the 1980’s, Sony adhered to Morita’s philosophy of global/localization. In principle, the foreign manager was selected based on a presumed knowledge of local business conditions. The idea, while correct in principle, proved difficult to implement in practice. A telling example of what can go wrong in terms of managing a foreign subsidiary can be seen with Sony’s 1989 purchase of Columbia Pictures Entertainment for $4.9 billion (Compaine & Gomery 2000). Throughout the early 90’s, Sony sustained repeated losses. Wall Street was highly critical of Sony’s performance. In 1994, Sony was forced to take corrective action, but not before writing off an estimated $3.2 billion in losses through its foreign investment in Columbia Pictures. The Columbia Pictures debacle was the result of poor performance at the box office combined with excessive spending on the part of then Columbia Pictures CEO, Peter Guber and his associate partner Jon Peters. In the end, it came down to bad management oversight and poor communication between Sony’s Tokyo headquarters and its Hollywood subsidiary (Nathan 1999; Gershon 1997).

According to Sony Corporation of America President, Howard Stringer, the Sony culture was scarred from the Columbia Pictures disaster.

Neither the music nor the electronics unit wanted anything to do with the studio, which itself was politicized by the failures. Can you blame Idei for falling out of love with the entertainment business and for wanting to keep a tight handle on all the goings-on in the U.S. for awhile (Gunther 2001, pp. 104-115)?

Corporate Reorganization

Starting in 2001, Sony has undergone a corporate reorganization that is built on what the company calls its five pillars of operation. This includes 1) Electronics, 2) Entertainment, 3) Financial Services, 4) Game and Internet Services. The objective is to build a transnational organizational structure involving the transfer of day-to-day management responsibility from Sony’s Tokyo headquarters to the company’s foreign operations. To that end, Sony’s Tokyo headquarters has been reorganized into two areas called the Global Hub (GH) and the Electronics Headquarters. The purpose of the GH is develop cor-

![Figure 4: The Sony Corporation: Integrated/Decentralized Management](image-url)
porate wide strategy and to promote strategic intra-group alliances among the five pillars of business operations. The Electronics HQ serves as the strategic center for Sony’s electronics business and focuses on strategy development as well as strengthening ties with the company’s other business areas. The new organizational model can be seen in Figure 4 and has been identified as “integrated/decentralized management.”

Sony Managers in a Transnational Economy

Sony officials recognize that in order to be more globally competitive the company has to promote greater responsibility and autonomy in the field. Today’s Sony manager is expected to rely less on corporate headquarters and display more individual initiative.

There is one kind of manager who feels a strong attachment almost an umbilical cord between himself and Sony HQ or his former division. He feels the constant need to check his decisions. I would like to think that this kind of manager represents a dying breed...
The other kind of manager uses consensus building (and keeping people informed) but makes his/her own decisions. It depends on the business and business group (Liguori, A. 2000, pers. comm., 7 April).

Another related change is that more and more emphasis is being given to the value of individual performance. Sony has moved to a position where local management means finding the best person regardless of nationality. As Liguori (2000) explains, ‘the best person is the best person. It doesn’t matter whether the person is Italian, Japanese or American’ (pers. comm., 7 April). One indication of this is the designation of Howard Stringer as Chairman and CEO of Sony Corporation of America. Mr. Stringer is a native of Wales, but has had extensive experience in the US media, having served as a former President of news at CBS.

The Blending of Consumer Electronics and Media Entertainment

Research on organizational culture suggests that technology-producing companies are culturally very different from information and entertainment companies. Cheng’s (1991) research on the combined effects of national and corporate cultures on research and development (R&D) suggests that a strong science and engineering professional culture is a key influence on the organizational behavior of technology driven companies like Sony. In contrast, an entertainment company would be expected to have an artistic/creative tone as the dominant professional culture. As an organization comes to embrace both kinds of subcultures, it can be expected that such changes do indeed create cultural schisms.

As many company officials readily acknowledge, the major change to Sony’s organizational culture occurred when the company entered into music and film entertainment. Sony moved beyond its historic roots as a consumer electronics company and embraced the complexities and diversity of media entertainment (Sato, R. 2000, pers. comm., 29 March). Today, there is a clear recognition that people in the media and entertainment fields are quite different from the staid engineering culture of Sony’s Tokyo headquarters. The diversity in culture is readily apparent at Sony’s annual business meeting where some 1100 plus people attend representing the full spectrum of the company’s worldwide operations.

At the annual business meeting, open clashes are not uncommon. People are encouraged to state their opinions. People regularly send email to Ohga and Idei... What is most significant, however, is that Nobuyuki Idei is promoting a change in culture where conflict is ok. Disagreement is absolutely fine and internal competition is supported so long as it does not become destructive (Liguori, A. 2000, pers. comm., 7 April).

Discussion

Environmental Scanning

Strategic planning is the set of managerial decisions and actions that determine the long term performance of a company or organization. The first step in any strategic planning process is environmental scanning whose purpose is to evaluate and analyze both the internal and external business environments of the organization (Porter 1985, 1980; Power, Gannon & Schweiger 1986). The internal environment can include a number of different factors that can affect organizational performance, including: 1) Core Competency 2) Organizational Culture and 3) Organizational Decision making.

Scanning the Internal Environment

Schein (1984) argues that the real influence of culture on an organization will vary according to the age and experience of the organization. During the organization’s formative years, for example, the founder (or family) may dominate the organization. Later on, new realities in the marketplace may force a change in terms of key goals and assumptions. Such changes in organizational culture are inevitable for a company that seeks to operate internationally. For Sony, the challenges of staying globally competitive have indeed become more formidable. The need to be profitable and the fear of failure has made Sony vigilant in its attempt to reorganize the company’s worldwide operations. The consequence of such changes has had a profound effect on Sony’s organizational culture. The once family like atmosphere of the past will prove difficult if not impossible to maintain. The vast majority of Sony’s worldwide employees are not Japanese. They have not been part of the company’s cultural network and his-
tory. Today, Sony is steadily transforming itself into a transnational media corporation where more and more emphasis is being given to the value of local autonomy and individual performance.

Scanning the External Environment

The external environment can include a number of different factors that can affect organizational performance, including: changes in the competitive business environment, changes in the regulatory environment and changes in the technology. Researchers like Porter (1980) refer to this as the “intensity of competition.” There is a clear recognition among company strategists that consumers will always need an electronics’ product to access communication software be it music, television, videogames etc. Consumer electronics remains then and now Sony’s core competency. It is responsible for 64% of Sony’s worldwide revenues. Yet behind the dazzling array of Sony products is a tough financial reality that is distinct to the business of consumer electronics. Sony has to innovate ever faster to maintain any pricing power in a business where commodity prices swiftly devour margins. Such products as TVs, DVD players and digital cameras, once the hallmark of Sony, no longer provide the profit margins that they once did. This, in turn, has put a lot of downward pressure on the company’s R&D groups to upgrade and expand existing product line (Masayoshi, M. 2000, pers. comm., 27 June). In the meantime, Sony has become particularly dependent on its PlayStation II. videogame console for much of its profitability. Consequently, Sony’s business environment, for the short term, is expected to remain challenging. It should be noted that all of Japan’s leading consumer electronics companies, including Hitachi, Matsushita, NEC and Toshiba have experienced a similar decline in sales. The problem is made worse by increased competition from other Pacific rim nations, most notably China and Korea, who are producing such products at less cost.

Looking to the Future

The Sony Corporation firmly believes that the ownership of software entertainment provides a greater leverage in promoting its technical business. Sony will continue to expand and develop its music, film and videogame software capability while manufacturing the hardware delivery systems for such software products. Sony’s business imperative for the future will be media integration by combining media content with the power of high speed intelligent networking. The Internet is expected to figure prominently in several of Sony’s important growth strategies (Sato, R. 2000, pers. comm, 29 March). To that end, Masayoshi (2000) identifies what company strategists term the four gateways to the Internet future, including: 1) Digital TV and set top boxes, 2) Wireless communication, 3) PlayStation II. and 4) Vaio personal computer (pers. comm., 27 June).

Each of the above examples represents a distinct digital platform for accessing the Internet. A very promising avenue for the future lies in MP-3 file sharing utilizing the Internet to download film and videogame software from the company’s many Internet web sites. The Sony Corporation is neither the largest hardware or software producer of media products. But it is undoubtedly the most sophisticated in blending the two areas together. The strategic challenge before Sony is to bridge the gap between a past that no longer works and a commitment to a digital future that has yet to fully arrive.

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Endnote

A series of eleven interviews were conducted with middle and senior level managers at Sony’s Tokyo headquarters and New York operations. The interview lengths varied ranging from 30 to 90 minutes each. For purposes of organization, not all of the information provided could be used in this case study analysis. Only seven of the eleven people interviewed are cited in this paper. A complete listing of their names and titles are provided at the end of this paper.

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