HARVARD | BUSINESS | SCHOOL

9-910-410

DECEMBER 11, 2009

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Philips versus Matsushita: The Competitive Battle Continues

Throughout their long histories, N.V. Philips (Netherlands) and Matsushita Electric (Japan) had followed very different strategies and emerged with very different organizational capabilities. Philips built its success on a worldwide portfolio of responsive national organizations while Matsushita based its global competitiveness on its centralized, highly efficient operations in Japan.

During the first decade of the 21st century, however, both companies experienced major challenges to their historic competitive positions and organizational models. Implementing yet another round of strategic initiatives and organizational restructurings, the CEOs at both companies were taking their respective organizations in very different directions. At the end of the decade, observers wondered how the changes would affect their long-running competitive battle.

Philips: Background

In 1892, Gerard Philips and his father opened a small light-bulb factory in Eindhoven, Holland. When their venture almost failed, they recruited Gerard's brother, Anton, an excellent salesman and manager. By 1900, Philips was the third largest light-bulb producer in Europe.

Technological Competence and Geographic Expansion

While larger electrical products companies were racing to diversify, Philips made only light-bulbs. This one-product focus and Gerard's technological prowess enabled the company to create significant innovations. Company policy was to scrap old plants and use new machines or factories whenever advances were made in new production technology. Anton wrote down assets rapidly and set aside substantial reserves for replacing outdated equipment. Philips also became a leader in industrial research, creating physics and chemistry labs to address production problems as well as more abstract scientific ones. The labs developed a tungsten metal filament bulb that was a great commercial success and gave Philips the financial strength to compete against its giant rivals.

Holland's small size soon forced Philips to look aboard for enough volume to mass produce. In 1899, Anton hired the company's first export manager, and soon the company was selling into such diverse markets as Japan, Australia, Canada, Brazil, and Russia. In 1912, as the electric lamp industry began to show signs of overcapacity, Philips started building sales organizations in the United States, Canada, and France. All other functions remained highly centralized in Eindhoven. In many foreign countries Philips created local joint ventures to gain market acceptance.

Professor Christopher A. Bartlett prepared the original version of this case, "Philips versus Matsushita: A New Century, A New Round," HBS No. 302-049. This version was prepared by the same author and is a continuation of a series of earlier cases by Professor Bartlett including "Philips versus Matsushita: Preparing for a New Round," HBS No. 399-102, "Philips and Matsushita: A Portrait of Two Evolving Companies," HBS No. 392-156, and "Matsushita Electric Industrial (MEI) in 1987," HBS No. 388-144. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

In 1919, Philips entered into the Principal Agreement with General Electric, giving each company the use of the other's patents, while simultaneously dividing the world into "three spheres of influence." After this time, Philips began evolving from a highly centralized company, whose sales were conducted through third parties, to a decentralized sales organization with autonomous marketing companies in 14 European countries, China, Brazil, and Australia.

During this period, the company also broadened its product line significantly. In 1918, it began producing electronic vacuum tubes; eight years later its first radios appeared, capturing a 20% world market share within a decade; and during the 1930s, Philips began producing X-ray tubes. The Great Depression brought with it trade barriers and high tariffs, and Philips was forced to build local production facilities to protect its foreign sales of these products.

Philips: Organizational Development

One of the earliest traditions at Philips was a shared but competitive leadership by the commercial and technical functions. Gerard, an engineer, and Anton, a businessman, began a subtle competition where Gerard would try to produce more than Anton could sell and vice versa. Nevertheless, the two agreed that strong research was vital to Philips' survival.

During the late 1930s, in anticipation of the impending war, Philips transferred its overseas assets to two trusts, British Philips and the North American Philips Corporation; it also moved most of its vital research laboratories to Redhill in Surrey, England, and its top management to the United States. Supported by the assets and resources transferred abroad, and isolated from their parent, the individual country organizations became more independent during the war.

Because waves of Allied and German bombing had pummeled most of Philips' industrial plant in the Netherlands, the management board decided to build the postwar organization on the strengths of the national organizations (NOs). Their greatly increased self-sufficiency during the war had allowed most to become adept at responding to country-specific market conditions—a capability that became a valuable asset in the postwar era. For example, when international wrangling precluded any agreement on three competing television transmission standards (PAL, SECAM, and NTSC), each nation decided which to adopt. Furthermore, consumer preferences and economic conditions varied: in some countries, rich, furniture-encased TV sets were the norm; in others, sleek, contemporary models dominated the market. In the United Kingdom, the only way to penetrate the market was to establish a rental business; in richer countries, a major marketing challenge was overcoming elitist prejudice against television. In this environment, the independent NOs had a great advantage in being able to sense and respond to the differences.

Eventually, responsiveness extended beyond adaptive marketing. As NOs built their own technical capabilities, product development often became a function of local market conditions. For example, Philips of Canada created the company's first color TV; Philips of Australia created the first stereo TV; and Philips of the United Kingdom created the first TVs with teletext.

While NOs took major responsibility for financial, legal, and administrative matters, fourteen product divisions (PDs), located in Eindhoven, were formally responsible for development, production, and global distribution. (In reality, the NOs' control of assets and the PDs' distance from the operations often undercut this formal role.) The research function remained independent and, with continued strong funding, set up eight separate laboratories in Europe and the United States.

While the formal corporate-level structure was represented as a type of geographic/product matrix, it was clear that NOs had the real power. They reported directly to the management board,

which Philips enlarged from four members to 10 to ensure that top management remained in contact with the highly autonomous NOs. Each NO also regularly sent envoys to Eindhoven to represent its interests. Top management, most of whom had careers that included multiple foreign tours of duty, made frequent overseas visits to the NOs. In 1954, the board established the International Concern Council to formalize regular meetings with the heads of all major NOs.

Within the NOs, management structure mimicked the legendary joint technical and commercial leadership of the two Philips brothers. Most were led by a technical manager and a commercial manager. In some locations, a finance manager filled out the top management triad that typically reached key decisions collectively. This cross-functional coordination capability was reflected down through the NOs in front-line product teams, product-group-level management teams, and at the senior management committee of the NOs' top commercial, technical, and financial managers.

The overwhelming importance of foreign operations to Philips, the commensurate status of the NOs within the corporate hierarchy, and even the cosmopolitan appeal of many of the offshore subsidiaries' locations encouraged many Philips managers to take extended foreign tours of duty, working in a series of two- or three-year posts. This elite group of expatriate managers identified strongly with each other and with the NOs as a group and had no difficulty representing their strong, country-oriented views to corporate management.

Philips: Attempts at Reorganization

In the late 1960s, the creation of the European Common Market eroded trade barriers and diluted the rationale for independent country subsidiaries. New transistor-based technologies demanded larger production runs than most national plants could justify, and many of Philips' competitors were moving production of electronics to new facilities in low-wage areas in Asia and South America.

Simultaneously, Philips' ability to bring its innovative products to market began to falter, and in the 1960s it watched Japanese competitors capture the mass market for audiocassettes and microwave ovens, two technologies it had invented. A decade later, it had to abandon its V2000 videocassette format—superior technically to Sony's Beta or Matsushita's VHS—when North American Philips decided to outsource a VHS product which it manufactured under license from Matsushita.

Over the next four decades, seven chairmen experimented with reorganizing the company to deal with its growing problems. Yet, in 2009, Philips' financial performance remained poor and its global competitiveness was still in question. (See **Exhibits 1** and **2**.)

Van Reimsdijk and the Yellow Booklet

Concerned about what one magazine described as "continued profitless progress," newly appointed CEO Hendrick van Riemsdijk created an organization committee to prepare a policy paper on the division of responsibilities between the PDs and the NOs. In 1971, their report, dubbed the "Yellow Booklet," outlined the disadvantages of Philips' matrix organization in 1971: "Without an agreement [defining the relationship between national organizations and product divisions], it is impossible to determine in any given situation which of the two parties is responsible. . . . As operations become increasingly complex, an organizational form of this type will only lower the speed of reaction of an enterprise."

On the basis of this report, van Reimsdijk proposed rebalancing the managerial relationships between PDs and NOs—"tilting the matrix towards the PDs" in his words—to allow Philips to decrease the number of products marketed, build scale by concentrating production, and increase the

product flows across NOs. He proposed closing the least efficient local plants and converting the best into International Production Centers (IPCs), each supplying many NOs. In so doing, van Reimsdijk hoped that PD managers would gain control over manufacturing operations. Due to the political and organizational difficulty of closing local plants, however, implementation was slow.

Rodenberg and Dekker: "Tilting the Matrix"

In the late 1970s, van Riemsdijk's successor, Dr. Rodenburg, continued his thrust. Several IPCs were established, but the NOs seemed as powerful and independent as ever. He furthered matrix simplification by replacing the dual commercial and technical leadership with single management at both the corporate and national organizational levels. Yet the power struggles continued.

Upon becoming CEO in 1982, Wisse Dekker outlined a new initiative. Aware of the cost advantage of Philips' Japanese counterparts, he closed inefficient operations—particularly in Europe where 40 of the company's more than 200 plants were shut. He focused on core operations by selling peripheral businesses such welding, energy cables, and furniture making, while simultaneously acquiring an interest in Grundig and Westinghouse's North American lamp activities.

He also continued to "tilt the matrix," giving PDs product management responsibility, but leaving NOs responsible for local profits. And he allowed NOs to input into product planning, but gave global PDs the final decision on long-range direction. Still sales declined and profits stagnated.

Van der Klug's Radical Restructuring

When Cor van der Klugt succeeded Dekker as chairman in 1987, Philips had lost its long-held consumer electronics leadership position to Matsushita, and was one of only two non-Japanese companies in the world's top ten. Its net profit margins of 1% to 2% not only lagged behind General Electric's 9%, but even its highly aggressive Japanese competitors' slim 4%. Van der Klugt set a profit objective of 3% to 4% and made beating the Japanese companies a top priority.

As van der Klugt reviewed Philips' strategy, he designated various businesses as core (those that shared related technologies, had strategic importance, or were technical leaders) and non-core (stand-alone businesses that were not targets for world leadership and could eventually be sold if required). Of the four businesses defined as core, three were strategically linked: components, consumer electronics, and telecommunications and data systems. The fourth, lighting, was regarded as strategically vital because its cash flow funded development. The non-core businesses included domestic appliances and medical systems which van der Klugt spun off into joint ventures with Whirlpool and GE, respectively.

In continuing efforts to strengthen the PDs relative to the NOs, van der Klugt restructured Philips around the four core global divisions rather than the former 14 PDs. This allowed him to trim the management board, appointing the displaced board members to a new policy-making Group Management Committee. Consisting primarily of PD heads and functional chiefs, this body replaced the old NO-dominated International Concern Council. Finally, he sharply reduced the 3,000-strong headquarters staff, reallocating many of them to the PDs.

To link PDs more directly to markets, van der Klugt dispatched many experienced product-line managers to Philips' most competitive markets. For example, management of the digital audio tape and electric-shaver product lines were relocated to Japan, while the medical technology and domestic appliances lines were moved to the United States.

Such moves, along with continued efforts at globalizing product development and production efforts, required that the parent company gain firmer control over NOs, especially the giant North American Philips Corp. (NAPC). Although Philips had obtained a majority equity interest after World War II, it was not always able to make the U.S. company respond to directives from the center, as the V2000 VCR incident showed. To prevent replays of such experiences, in 1987 van der Klugt repurchased publicly owned NAPC shares for $700 million.

Reflecting the growing sentiment among some managers that R&D was not market oriented enough, van der Klugt halved spending on basic research to about 10% of total R&D. To manage what he described as "R&D's tendency to ponder the fundamental laws of nature," he made the R&D budget the direct responsibility of the businesses being supported by the research. This required that each research lab become focused on specific business areas (see **Exhibit 3**).

Finally, van der Klugt continued the effort to build efficient, specialized, multi-market production facilities by closing 75 of the company's 420 remaining plants worldwide. He also eliminated 38,000 of its 344,000 employees—21,000 through divesting businesses, shaking up the myth of lifetime employment at the company. He anticipated that all these restructurings would lead to a financial recovery by 1990. Unanticipated losses for that year, however—more than 4.5 billion Dutch guilders ($2.5 billion)—provoked a class-action law suit by angry American investors, who alleged that positive projections by the company had been misleading. In a surprise move, on May 14, 1990, van der Klugt and half of the management board were replaced.

Timmer's "Operation Centurion"

The new president, Jan Timmer, had spent most of his 35-year Philips career turning around unprofitable businesses. Under the banner "Operation Centurion," he lost no time in launching an initiative that cut headcount by 68,000 or 22% over the next 18 months, earning Timmer the nickname "The Butcher of Eindhoven." Because European laws required substantial compensation for layoffs—Eindhoven workers received 15 months' pay, for example—the first round of 10,000 layoffs alone cost Philips $700 million. To spread the burden around the globe, Timmer asked his PD managers to negotiate cuts with NO managers. But according to one report, country managers were "digging in their heels to save local jobs." Nonetheless, cuts came—many from overseas operations.

To focus resources further, Timmer sold off various businesses including integrated circuits to Matsushita, minicomputers to Digital, defense electronics to Thomson and the remaining 53% of appliances to Whirlpool. Yet profitability was still well below the modest 4% on sales he promised. In particular, consumer electronics lagged with slow growth in a price-competitive market. The core problem was identified by a 1994 McKinsey study that estimated that value added per hour in Japanese consumer electronic factories was still 68% above that of European plants.

After three years of cost-cutting, in early 1994 Timmer finally presented a new growth strategy to the board. His plan was to expand software, services, and multimedia to become 40% of revenues by 2000. He was betting on Philips' legendary innovative capability to restart the growth engines. He hired Hewlett-Packard's director of research and encouraged him to focus on developing 15 core technologies. The list, which included interactive compact disc (CD-i), digital compact cassettes (DCC), high definition television (HDTV), and multimedia software, was soon dubbed "the president's projects." Over the next few years, Philips invested over $2.5 billion in these technologies. But the earlier divestment of some of the company's truly high-tech businesses and a 37% cut in R&D personnel left it with few who understood the technology of the new priority businesses.

By 1996, it was clear that Philips' analog HDTV technology would not become industry standard, that its DCC gamble had lost out to Sony's Minidisc, and that CD-i was a marketing failure. And

while costs in Philips were lower, so too was morale, particularly among middle management. Critics claimed that the company's drive for cost-cutting and standardization had led it to ignore new worldwide market demands for more segmented products and higher consumer service.

Boonstra's Reorganization

When Timmer stepped down in October 1996, the board replaced him with a radical choice for Philips—an outsider whose expertise was in marketing and Asia rather than technology and Europe. Cor Boonstra was a 58-year-old Dutchman whose years as CEO of Sara Lee, the U.S. consumer products firm, had earned him a reputation as a hard-driving marketing genius. Joining Philips in 1994, he headed the Asia Pacific region and the lighting division before being tapped as CEO.

Unencumbered by tradition, he announced strategic sweeping changes designed to reach his goal of increasing return on net assets from 17% to 24% by 1999. "There are no taboos, no sacred cows," he said. "The bleeders must be turned around, sold, or closed." Within three years, he had sold off 40 of Philips' 120 major businesses—including such well known units as Polygram and Grundig.

Promising to transform a structure he described as "a plate of spaghetti" into "a neat row of asparagus," he then initiated a major worldwide restructuring. "How can we compete with the Koreans?" he asked. "They don't have 350 companies all over the world. Their factory in Ireland covers Europe and their manufacturing facility in Mexico serves North America. We need a more structured and simpler manufacturing and marketing organization to achieve a cost pattern in line with those who do not have our heritage. This is still one of the biggest issues facing Philips."

Within a year, 3,100 jobs were eliminated in North America and 3,000 employees were added in Asia Pacific, emphasizing Boonstra's determination to shift production to low-wage countries and his broader commitment to Asia. And after three years, he had closed 100 of the company's 356 factories worldwide. At the same time, he replaced the company's 21 PDs with 7 divisions, but shifted day-to-day operating responsibility to 100 business units, each responsible for its profits worldwide. It was a move designed to finally eliminate the old PD/NO matrix. Finally, in a move that shocked most employees, he announced that the 100-year-old Eindhoven headquarters would be relocated to Amsterdam with only 400 of the 3000 corporate positions remaining.

By early 1998, he was ready to announce his new strategy. Despite early speculation that he might abandon consumer electronics, he proclaimed it as the center of Philips' future. Betting on the "digital revolution," he planned to focus on established technologies such as cellular phones (through a joint venture with Lucent), digital TV, digital videodisc, and web TV. Furthermore, he committed major resources to marketing, including a 40% increase in advertising to raise awareness and image of the Philips brand and de-emphasize most of the 150 other brands it supported worldwide--from Magnavox TVs to Norelco shavers to Marantz stereos.

While not everything succeeded (the Lucent cell phone JV collapsed after nine months, for example), overall performance improved significantly in the late 1990s. By 2000, Boonstra was able to announce that he had achieved his objective of a 24% return on net assets.

Kleisterlee's Refocusing

By the time the Boonstra stepped down in May 2001, however, a global "tech wreck" recession had begun, resulting in what Fortune described as "a tidal wave of red ink" to greet the new CEO, Gerard Kleisterlee, a 54-year-old career Philips man. With the share price in free fall from $60 in $2001 to $13 in 2002, Kleisterlee faced what he described as "the biggest losses in the history of the company."

Moving quickly, the new CEO began restructuring the company, announcing the outsourcing of Philips mobile phone production to CEC of China, and the production of VCRs to Japan's Funai Electric. But it was not sufficient to prevent a 2001 loss of €2.6 billion compared to a €9.6 billion profit in 2000. So, over the next few years, he continued to outsource production of TVs, CD players, and components, while simultaneously moving the remaining in-house production to low-cost countries like China, Poland, or Mexico. He also sold off several businesses including most components, mobile phones, audio, and even the core semiconductor business. Within four years he had removed more than one in four Philips employees, reducing headcount by 60,000.

But Kleisterlee felt he faced a bigger challenge. "Phillips never really had any kind of strategy," he conceded. "If our engineers could make it, we would try to sell it... In 2001, we were still focused on a broad range of volatile, high-volume products like consumer electronics, semiconductors, and components. Now we are trying to create a company that generates value in a more predictable way with a portfolio that is less volatile."

The shape of that new portfolio soon became clear. Using funds generated by selling businesses, Kleisterlee began acquiring companies in the high-growth medical and lighting segments, and began referring to Philips as "a lifestyle company" centered on health and well-being. "We came to the conclusion that the thing that holds everything together is not the fact that we made our own components and semiconductors. It's the fact that we have a common mission," he said.

A business once at the center of Philips portfolio now had a new role. "Consumer electronics is a very, very small leftover part in our lifestyle portfolio," he explained. "That business is too big a battle to fight now. We plan to be the Dell of consumer electronics, making less and marketing more. That means that we will be focused on product development, brand, and channel management."

So while Phillips continued to create innovations for its TVs, it focused them on its high-definition plasma and LCD sets with breakthroughs like Pixel Plus 2, a digital technology that refined the incoming signal to produce sharper pictures with more vivid color. But in addition to technological breakthroughs, R&D was also focused on more basic products for developing markets – hand-crank radios, high powered mixers designed for exotic foods, and irons with dust tolerant thermostats.

Phillips approach to marketing was also changing. In the developed world, it slashed the number of retail chains it serviced from 600 to 200, focusing particularly on seven giants like Wal-Mart, Tesco, and Carrefour. But in developing countries, it took a different approach. For example in India, its strategy was to sell its adapted low-end products through 35,000 village stores.

Kleisterlee explained how his adaptive product-market strategy worked: "In India, we have vans with diagnostic and lab equipment, equipped with a satellite video link to a top hospital. Instead of making long trips to a city hospital, people can now get cheaper, more convenient treatment where they live." With 700 million people in rural India, the company felt it had a great opportunity.

By 2008, Kleisterlee was ready to confirm his new focused strategy in the organization structure. Having earlier cut the number of divisions to five (there have been 14 as recently as 1995), in early 2008, he defined just three -- healthcare, lighting, and consumer lifestyle. "We have to organize around markets," he said. "We're going to organize from the outside in."

But competition in consumer electronics remained brutal, especially in a growing global recession. In late 2008, Philips licensed Funai to make and market TVs under the Philips name in North America. A few months later, it extended that license to cover other markets as well as products such as DVDs, home theater, Blu-Ray, and other products. "We spent the 1980s and 1990s restructuring

and trying to find our way," Kleisterlee said. "My goal is to leave behind a company on a successful part to steady, profitable growth." Some wondered whether he had found that path.

Matsushita: Background

In 1918, 23 year old Konosuke Matsushita (or "KM" as he was affectionately known), invested ¥100 to start production of double-ended sockets in his modest home. The company grew rapidly, expanding into battery-powered lamps, electric irons, and radios. On May 5, 1932, Matsushita's 14th anniversary, KM announced to his 162 employees a 250-year corporate plan, broken into 25-year sections, each to be carried out by successive generations. His plan was codified in a company creed and in the "Seven Spirits of Matsushita" (see **Exhibit 4**), which provided the basis of the "cultural and spiritual training" all new employees received on joining the company.

In the post-war boom, Matsushita introduced a flood of new products: TV sets in 1952; transistor radios in 1958; color TVs, dishwashers, and electric ovens in 1960. Capitalizing on its broad line of 5,000 products, the company opened 25,000 domestic retail outlets -- 40% of appliance stores in Japan in the late 1960s. These not only assured sales volume, but also gave the company direct access to market trends. When post-war growth slowed, however, product line expansion and an excellent distribution system no longer insured growth, and the company looked to export markets.

The Organization's Foundation: Divisional Structure

Plagued by ill health, KM began to delegate more than was typical in Japanese companies. In 1933, Matsushita became the first Japanese company to adopt a divisional structure. In addition to creating a "small business" environment, the structure generated internal competition that spurred each business to drive growth by leveraging its technology to develop new products. But after the innovating division had earned substantial profits on its new product, the "one-product-one-division" policy was to spin it off as a new division to maintain the "hungry spirit."

Management provided each division with funds to establish largely self-sufficient development, production, and marketing capabilities. Corporate treasury operated like a commercial bank, reviewing divisions' loan requests for which it charged slightly higher-than-market interest, and accepting interest-bearing deposits on their excess funds. Divisional profitability was determined after deductions for central services and interest on internal borrowings. Each division paid 60% of earnings to headquarters and financed working capital and fixed asset needs from the retained 40%. Transfer prices were based on the market and settled through the treasury on normal commercial terms. KM expected uniform performance across the company's 36 divisions, and division managers whose operating profits fell below 4% of sales for two successive years were replaced.

While basic technology was developed in a central research laboratory (CRL), product development and engineering occurred in each of the product divisions. Matsushita intentionally under-funded the CRL, forcing it to compete for additional funding from the divisions. Annually, the CRL publicized its major research projects to the product divisions, which then provided funding for CRL to develop technology for marketable applications. Rarely the innovator, Matsushita was usually very fast to market—earning it the nickname "Manishita," or copycat.

Matsushita: Internationalization

Although the establishment of overseas markets was a major thrust of the second 25 years in the 250-year plan, in an overseas trip in 1951 KM had been unable to find any American company willing

to collaborate with Matsushita. The best he could do was a technology exchange and licensing agreement with Philips. Nonetheless, the push to internationalize continued.

Expanding Through Color TV

In the 1950s and 1960s, trade liberalization and lower shipping allowed Matsushita to build a healthy export business with its black and white TV sets. In 1953, the company opened its first overseas branch office—the Matsushita Electric Corporation of America (MECA). With neither a distribution network nor a strong brand, the company had to resort to selling through mass merchandisers and discounters under their private brands.

During the 1960s, pressure from national governments in developing countries led Matsushita to open plants Southeast Asia and Central and South America. As manufacturing costs in Japan rose, the company shifted more basic production to these low-wage countries, but almost all high-value components and subassemblies remained in its scale-intensive Japanese plants. By the 1970s, political pressure forced Matsushita to establish assembly operations in the Americas and Europe. In 1972, it opened a plant in Canada; in 1974, it bought Motorola's TV business in the United States; and in 1976, it for him built a plant in Wales to supply the European Common Market.

Building Global Leadership Through VCRs

The birth of the videocassette recorder (VCR) propelled Matsushita into first place in the consumer electronics industry during the 1980s. Recognizing the potential mass-market appeal of the professional broadcast VCR first developed in 1956 by Californian company Ampex, Matsushita began developing the technology. It launched its commercial broadcast video recorder in 1964, and two years later, introduced a consumer version.

Subsequently, a battle over VCR format developed. In 1975, Sony introduced the technically superior "Betamax" format, and in 1976, JVC launched a competing "VHS" format. Under pressure from MITI, Japan's industrial planning ministry, Matsushita agreed to give up its own format and adopt the VHS standard. During its 20 years of development, Matsushita's research team lived the VCR product cycle, moving from CRL to the product division's development labs, and eventually to the plants producing VCRs.

Between 1977 and 1985, Matsushita increased VCR capacity 33-fold to 6.8 million units, not only to meet its own needs, but also those of OEM customers like GE, RCA, Philips, and Zenith, who decided to forego self-manufacture and outsource to the low-cost Japanese. Increased volume enabled Matsushita to slash prices 50% within five years of launch. In parallel, the company licensed the VHS format to other manufacturers, including Hitachi, Sharp, Mitsubishi and, eventually, Philips. By the mid-1980s, VCRs accounted for 30% of Matsushita's sales and 45% of its profits.

Changing Systems and Controls

In the mid-1980s, Matsushita's growing number of overseas companies reported to the parent in one of two ways: wholly owned, single-product global plants reported directly to the appropriate product division, while overseas sales and marketing subsidiaries and overseas companies producing a broad product line for local markets reported to Matsushita Electric Trading Company (METC), a separate legal entity. (See **Exhibit 5** for METC's organization.)

Throughout the 1970s, product divisions maintained strong operating control over their offshore operations. They had plant and equipment designed by the parent company, followed manufacturing procedures dictated by the center, and used materials from Matsushita's domestic plants. By the

1980s, increased local sourcing gradually weakened the divisions' direct control, so instead of controlling inputs, they began to monitor output -- quality and productivity levels for example.

Headquarters-Subsidiary Relations

Although METC and the product divisions set detailed sales and profits targets for their overseas subsidiaries, they told local managers they had autonomy on how to achieve them. But as "Mike" Matsuoko, president of the European source in Cardiff, Wales emphasized, failure forfeited freedom: "Losses show bad health and invite many doctors from Japan who provide advice and support."

In the mid-1980s, Matsushita had over 700 expatriate Japanese managers and technicians on foreign assignment for four to eight years, primarily to play a "vital communication role." Explained one senior executive, "Even if a local manager speaks Japanese, he would not have the long experience that is needed to build relationships and understand our management processes."

Expatriate managers were located throughout foreign subsidiaries, but there were a few positions that were almost always reserved for them. The most visible were subsidiary general managers whose main role was to translate Matsushita philosophy abroad. Expatriate accounting managers were expected to "mercilessly expose the truth" to corporate headquarters; and Japanese technical managers were sent to transfer product and process technologies and provide headquarters with local market information. These expatriates maintained relationships with senior colleagues in their divisions, who acted as career mentors, evaluated performance (with some input from local managers), and provided expatriates with information about parent company developments.

Subsidiary general managers visited Osaka at least two or three times each year—some as often as every month. Corporate managers reciprocated these visits, and on average, major operations hosted a headquarters manager each day of the year. Face-to-face meetings were considered vital: "Figures are important," said one manager, "but the meetings are necessary to develop judgment." Daily faxes and nightly phone calls from headquarters to offshore expatriates were considered vital.

Yamashita's "Operation Localization"

Although international sales kept rising, growing host country pressures caused concern about the company's highly centralized operations. In 1982, Matsushita's newly appointed president Toshihiko Yamashita launched "Operation Localization" to boost offshore production from less than 10% of value-added to 25%, or half of overseas sales, by 1990. To support the target, he set out a program of four localizations—personnel, technology, material, and capital.

Over the next few years, Matsushita increased the number of local nationals in key positions. In the United States, for example, American became presidents of three of six local companies, while in Taiwan the majority of division heads were replaced by Chinese managers. In each case, however, local national managers were supported by Japanese advisors who maintained direct links with the parent company. To localize technology and materials, the company developed local subsidiaries' expertise in sourcing equipment locally, modifying designs to local requirements, incorporating local components, and adapting corporate processes and technologies to accommodate the changes. And by the mid-1980s, offshore production subsidiaries were free to buy minor supplies from local vendors, but still had to buy key components from internal sources.

One of the most successful innovations was to give overseas sales subsidiaries more choice over the products they sold. Each year the company held a two-week internal merchandising show and product planning meeting where product divisions exhibited the new lines. Here, foreign subsidiary managers negotiated for changes in product features, quantities, and even prices for products they

felt would better meet their local needs. Product division managers, however, could overrule the sales subsidiary if they thought introduction of a particular product was of strategic importance.

President Yamashita's hope was that Operation Localization would help Matsushita's overseas companies develop the innovative capability and entrepreneurial initiatives that he had long admired in the NOs of rival Philips.[1] Yet despite his four localizations, overseas companies continued to act primarily as the implementation arms of Japanese-based product divisions. Unusually for a Japanese CEO, Yamashita publicly expressed his unhappiness with the lack of initiative at the TV plant in Cardiff. Despite the transfer of substantial resources and the delegation of many responsibilities, he felt that the plant remained too dependent on the center.

Tanii's Integration and Expansion

Yamashita's successor, Akio Tanii, expanded on his predecessor's initiatives. In 1986, in an effort to integrate domestic and overseas operations, he brought all foreign subsidiaries under the control of METC, then merged METC into the parent company. Then, to shift operational control nearer to local markets, he relocated major regional headquarters functions from Japan to North America, Europe, and Southeast Asia. Yet still he was frustrated that the overseas subsidiary companies acted as little more than the implementing agents of the Osaka-based product divisions.

Through all these changes, however, Matsushita's worldwide growth continued, generating huge reserves. With $17.5 billion in liquid financial assets at the end of 1989, the company was referred to as the "Matsushita Bank." Frustrated by their inability to develop innovative overseas companies, top management decided to buy them. To obtain a software source for its hardware businesses, in 1991 the company acquired MCA, the U.S. entertainment giant, for $6.1 billion. Within a year, however, Japan's bubble economy had burst, and almost overnight, Tanii had to shift the focus from expansion to cost containment. Despite his best efforts, the problems ran too deep. With 1992 profits less than half their 1991 level, the board took the unusual move of forcing Tanii to resign in February 1993.

Morishita's Challenge and Response

At 56, Yoichi Morishita was the most junior of the company's executive vice presidents when he was tapped as the new president. In a major strategic reversal, he sold 80% of MCI to Seagram, booking a $1.2 billion loss on the transaction. Over the following 18 months, under the slogan "simple, small, speedy and strategic," he then moved 6,000 staff to operating jobs.

Yet the company continued to struggle. Japan's domestic market for consumer electronics collapsed—from $42 billion in 1989 to $21 billion in 1999. And the rise of new competition— from Korea, then China—created a global glut, then a price collapse. With a strong yen making its exports uncompetitive, Matsushita's product divisions shifted production offshore, mostly to low-cost countries like China and Malaysia. By the end of the decade, its 160 factories outside Japan employed 140,000 people—about the same number of employees as in its 133 plants in Japan. Yet management seemed unwilling to close inefficient Japanese plans or lay off staff with the commitment of lifetime employment. Despite Morishita's promises, internal resistance prevented his implementation of much of the promised radical change.

In the closing years of the decade, Morishita began emphasizing the need to develop technology and innovation offshore. Concerned that only 250 of the company's 3,000 R&D scientists and

[1] Past efforts to develop such capabilities abroad had failed. For example, when Matsushita acquired Motorola's TV business in the United States, the U.S. company's highly innovative technology group atrophied as American engineers resigned in response to what they felt to be excessive control from Japan's highly centralized R&D operations.

engineers were located outside Japan, he began investing in R&D partnerships and technical exchanges, particularly in emerging fields. For example, an 1998, he signed a joint R&D agreement with the Chinese Academy of Sciences, China's leading research organization. Later that year, he announced the establishment of the Panasonic Digital Concepts Center in California. Its mission was to act as a venture fund and an incubation center for the new ideas and technologies emerging in Silicon Valley. To some it was an indication that Matsushita had given up trying to generate new technology and business initiatives from its own overseas companies.

Nakamura's Transformation

In June 2000, Kunio Nakamura, the 38-year veteran who had headed MEI's North American operations was named president. Operating profits were 2.2% of sales, with consumer electronics generating only 0.4% due to losses in the TV and VCR divisions. Just as Morishita had promised seven years earlier, the new CEO vowed to raise operating margins to 5% in three years.

By December, Nakamura was ready to announce his first three-year plan dubbed "Value Creation 21" or VC 21. Its main objective was to build a "super manufacturing company" on three foundations: a strong technology-based components business, a flexible and responsive manufacturing capability, and customer-oriented, solutions-based businesses. The new CEO emphasized the need to retain Matsushita's fully integrated value chain, justifying it with a "smile curve" which promised high returns in both upstream components and downstream services and solutions to offset lower returns in the highly competitive consumer electronics products in the middle of the value chain.

At the core of VC 21 was a plan to close inefficient scale-driven plants and concentrate production in Manufacturing Centers, facilities transformed from old mass production assembly lines to modern flexible manufacturing cells. The transformation would be implemented first in Japanese mother plants, and then rolled out to the 170 plants it had worldwide.

Furthermore, as part of a plan to replace Matsushita's historic fragmented and compartmentalized structure with a "flat web-based organization", Nakamura separated plants from product divisions which now had to source their products from non-captive and non-exclusive Manufacturing Centers. Sales and marketing was also stripped from the once powerful product divisions, and absorbed in one of two global marketing organizations, one for appliances and the other for consumer electronics. "It was a cultural revolution," said one manager.

But the strong financial performance Nakamura had assumed would support his plan, disappeared with the "tech wreck" recession of 2001, resulting in Matsushita's first quarterly loss in its history. The CEO and immediately announced five emergency measures to reverse the situation. In one bold move, the company dropped its lifetime employment practice and offered early retirement to 18,000 employees. Over 13,000 accepted, not only reducing costs, but also allowing a new generation of managers to emerge. In total, the domestic workforce was cut by 25,000, and 30 inefficient plants were closed.

Despite these efforts, in March 2002 Matsushita announced an operating loss of ¥199 billion ($1.7 billion), and an even more shocking loss of ¥428 billion ($3.7 billion) including restructuring charges. Calling the situation "an intolerable social evil", Nakamura committed to delivering profit of ¥100 billion the next year. He told his executives that because implementation of his emergency measures had not been satisfactory, he was launching a management improvement initiative. He challenged them to deliver "a V-shaped recovery" driven by V-Products – innovative, customer-focused products launched rapidly into global markets, at competitive prices. He focused 70% of investments on consumer electronics and semiconductors, urging his managers to move past Matsushita's reputation for slow innovation and imitation. "In the digital age, there is no room for imitators," he said.

To eliminate the internal competitiveness he felt that had constrained the turnaround, he grouped all businesses into one of three closely linked domains -- Digital Networks (primarily consumer electronics, mobile phones, and telecom), Home Appliances (including lighting and environmental systems), and Components (with semiconductors, batteries, and motors.)

In March 2004, at the end of the three year "VC 21" plan, the company reported a profit of ¥185 billion ($1.9 billion) on sales of ¥7,500 billion ($72 billion). As impressive as the result was, it was still less than half of the promised 5% operating margin. So Nakamura announced a new three-year plan called "Leap Ahead 21" with a 5% objective for 2007 as an interim step on the way to 10% by 2010.

Ohtsubo's Inheritance

In April 2006, after announcing operating profits of $3.6 billion, Nakamura announced that he would step down as CEO in June. Spontaneously, analysts at the presentation gave him a standing ovation, a unique event in reserved Japan. His successor, Eumio Ohtsubo, previously head the consumer electronics business, embraced Nakamura's commitment to surpass Samsung's 9.4% operating margin by 2010.

Having led effort making Matsushita the world's leading plasma TV maker, Ohtsubo committed to dominating the fast-growing flatscreen market by investing Its $1.3 billion cash balance in focused R&D and more efficient global production. He wanted to build an ability to develop, manufacture, and launch superior new products twice a year, globally. "We will absolutely not be beaten in the flat-panel TV business," he said.

In January 2008, he surprised many when he announced the change in the company's name from Matsushita to Panasonic, reflecting the name of the company's best-known brand. It was part of Ohtsubo's efforts to grow overseas revenues from less than 50% to 60% by 2010. Still, with Panasonic in 78th place on the Interbrand survey of the world brand recognition, he had a way to go.

But any talk about foreign sales growth evaporated when the global financial crisis struck in 2008. In the December quarter, company sales slid 20%, while operating profit plunged 84%. Immediately Ohtsubo initiated a review of the company's 170 overseas plants, vowing to shut down any with operating profit of less than 3%, or declining sales over three years. The review resulted in the closure of 27 plants, and the lay off 15,000 workers. But the global crisis hit hard, and with restructuring charges and write-offs, the company projected a $4.2 billion loss for the full year ending in March 2009. The carefully laid plans for $90 billion in revenues and 10% operating margin by 2010 were vanishing dreams.

Exhibit 1 Philips Group Summary Financial Data, 1970-2008 (Reported in millions of Dutch Guilders (F) to 1996; Euros (€) after 1997

	2008	2000	1990	1980	1970
Net sales	€26,385	€37,862	F55,764	F36,536	F15,070
Income from operations (excluding restructuring)	NA	NA	2,260	1,577	1,280
Income from operations (including restructuring)	551	3,022	-2,389	N/A	N/A
As a percentage of net sales	2.1%	8.0%	-4.3%	4.3%	8.5%
Income after taxes	NA	NA	F-4,447	F532	F446
Net income from normal business operations	(178)	9,577	-4,526	328	435
Stockholders' equity (common)	16,267	15,847	11,165	12,996	6,324
Return on stockholders' equity	-1.0%	60.4%	-30.2%	2.7%	7.3%
Distribution per common share, par value F10 (in guilders)	€0.7	€0.36	F0.0	F1.80	F1.70
Total assets	33,048	38,541	51,595	39,647	19,088
Inventories as a percentage of net sales	12.8%	13.9%	20.7%	32.8%	35.2%
Outstanding trade receivables in month's sales	1.9	1.6	1.6	3.0	2.8
Current ratio	1.2	1.2	1.4	1.7	1.7
Employees at year-end (in thousands)	121	219	273	373	359
Selected data in millions of dollars:					
Sales	$36,868	$35,564	$33,018	$16,993	$4,163
Operating profit	770	2,838	1,247	734	NA
Pretax income	155	9,587	-2,380	364	NA
Net income	(260)	9,078	-2,510	153	120
Total assets	46,169	35,885	30,549	18,440	5,273
Shareholders' equity (common)	22,697	20,238	6,611	6,044	1,747

Source: Annual reports; Standard & Poor's Compustat®; Moody's Industrial and International Manuals.

Note: Exchange rate

Guilder/Dollar	1970	3.62
	1980	2.15
	1990	1.68
Euro/Dollar	2000	0.94
	2008	1.40

Exhibit 2 Philips Group, Sales by Product and Geographic Segment, 1985-2003 (Reported in millions of Dutch Guilders (F) to 1996; Euros (€) after 1997

	2003		2000		1995		1990		1985	
Net Sales by Product Segment:										
Lighting	€4,634	16%	€5,051	13%	F 8,353	13%	F 7,026	13%	F 7,976	12%
Consumer electronics	9,415	33	14,681	39	22,027	34	25,400	46	16,906	26
Domestic appliances	2,183	7	2,107	6	--				6,664	10
Professional products/Systems	--	--	--	--	11,562	18	13,059	23	17,850	28
Components/Semiconductors	3,984	14%	10,440	28	10,714	17	8,161	15	11,620	18
Software/Services	--	--	--	--	9,425	15	--	--	--	--
Medical systems/Health care	6,138	21	3,030	8	--	--	--	--	--	--
Origin	--	--	716	2	--	--	--	--	--	--
Miscellaneous	4,455	15	1,831	5	2,381	4	2,118	4	3,272	5
Total	28,627		37,862	100%	64,462	100%	F55,764	100%	F 64,266	100%
Operating Income by Sector:										
Lighting	591		668	16%	983	24%	419	18%	F 910	30%
Consumer electronics	254		374	9	167	4	1,499	66	34	1
Domestic appliances	407		287	7	--	--	--	--	397	13
Professional products/Systems	--		--	--	157	4	189	8	1,484	48
Components/Semiconductors	-336		1,915	45	2,233	55	-43	-2	44	1
Software/Services	--		--	--	886	22	--	--	--	--
Medical systems	441		169	4	--	--	--	--	--	--
Origin	--		1,063	25	--	--	--	--	--	--
Miscellaneous	-845		-113	-3	423	10	218	10	200	7
Increase not attributable to a sector	--		-82	-2	(805)	(20)	-22	-1	6	0
Total	513		4,280	100%	4,044	100%	2,260	100%	F 3,074	100%

Source: Annual reports.

Notes:

Totals may not add due to rounding.

Product sector sales after 1988 are external sales only; therefore, no eliminations are made; sector sales before 1988 include sales to other sectors; therefore, eliminations are made.

Data are not comparable to consolidated financial summary due to restating.

Exhibit 3 Philips Research Labs by Location and Specialty, 1987

Location	Size (staff)	Specialty
Eindhoven, The Netherlands	2,000	Basic research, electronics, manufacturing technology
Redhill, Surrey, England	450	Microelectronics, television, defense
Hamburg, Germany	350	Communications, office equipment, medical imaging
Aachen, W. Germany	250	Fiber optics, X-ray systems
Paris, France	350	Microprocessors, chip materials, design
Brussels	50	Artificial intelligence
Briarcliff Manor, New York	35	Optical systems, television, superconductivity, defense
Sunnyvale, California	150	Integrated circuits

Source: Philips, in *Business Week,* March 21, 1988, p. 156.

Exhibit 4 Matsushita Creed and Philosophy (Excerpts)

Creed

Through our industrial activities, we strive to foster progress, to promote the general welfare of society, and to devote ourselves to furthering the development of world culture.

Seven Spirits of Matsushita

Service through Industry
Fairness
Harmony and Cooperation
Struggle for Progress
Courtesy and Humility
Adjustment and Assimilation
Gratitude

KM's Business Philosophy (Selected Quotations)

"The purpose of an enterprise is to contribute to society by supplying goods of high quality at low prices in ample quantity."

"Profit comes in compensation for contribution to society. . . . [It] is a result rather than a goal."

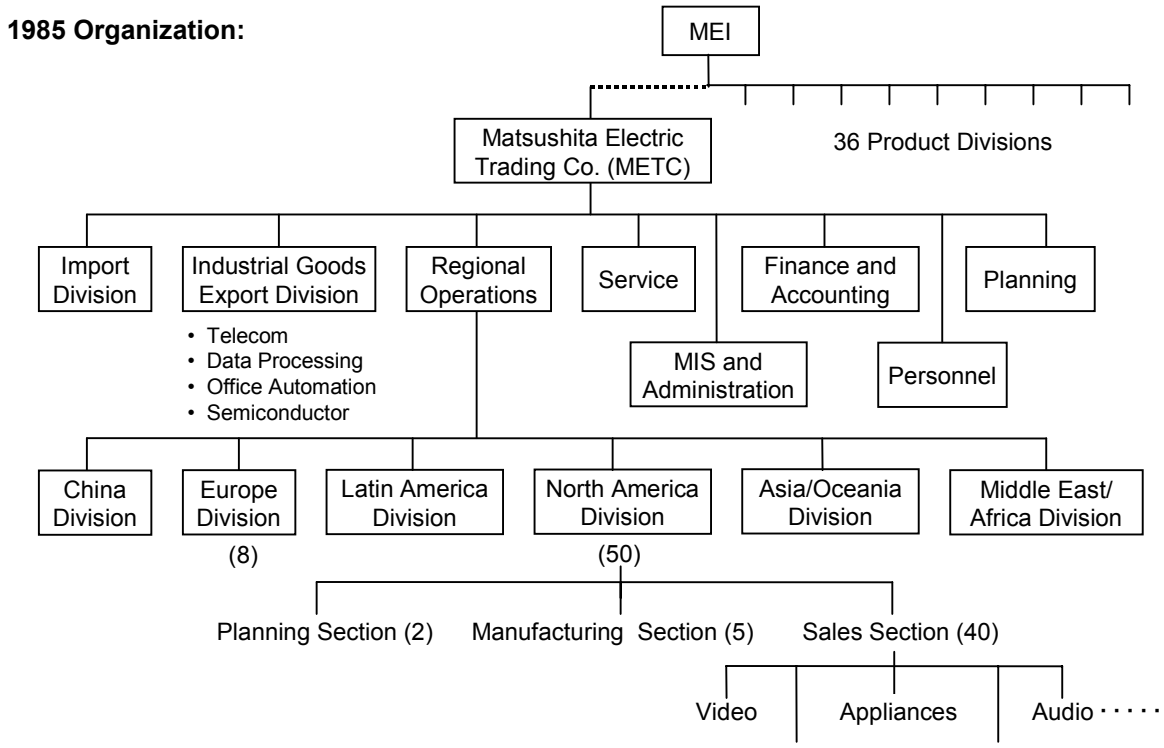
"The responsibility of the manufacturer cannot be relieved until its product is disposed of by the end user."

"Unsuccessful business employs a wrong management. You should not find its causes in bad fortune, unfavorable surroundings or wrong timing."

"Business appetite has no self-restraining mechanism. . . . When you notice you have gone too far, you must have the courage to come back."

Source: Christopher A. Bartlett, "Matsushita Electric Industrial (MEI) in 1987," HBS No. 388-144 (Boston: Harvard Business School Publishing, 1988) p. 17.

Exhibit 5 Organization of METC, 1985



Source: Christopher A. Bartlett, "Matsushita Electric Industrial (MEI) in 1987," HBS No. 388-144 (Boston: Harvard Business School Publishing, 1988) p. 23.

Note: ( ) = number of people.

Exhibit 6 Matsushita, Summary Financial Data, 1970-2000[a]

	2008	2000	1995	1990	1985	1980	1975	1970
In billions of yen and percent:								
Sales	¥9,069	¥7,299	¥6,948	¥6,003	¥5,291	¥2,916	¥1,385	¥932
Income before tax	527	219	232	572	723	324	83	147
As % of sales	5.8%	3.0%	3.3%	9.5%	13.7%	11.1%	6.0%	15.8%
Net income	¥282	¥100	¥90	¥236	¥216	¥125	¥32	¥70
As % of sales	3.1%	1.4%	1.3%	3.9%	4.1%	4.3%	2.3%	7.6%
Cash dividends (per share)	¥35.00	¥14.00	¥13.50	¥10.00	¥ 9.52	¥7.51	¥6.82	¥6.21
Total assets	7,443	7,955	8,202	7,851	5,076	2,479	1,274	735
Stockholders' equity	3,742	3,684	3,255	3,201	2,084	1,092	573	324
Capital investment	503	355	316	355	288	NA	NA	NA
Depreciation	320	343	296	238	227	65	28	23
R&D	554	526	378	346	248	102	51	NA
Employees (units)	305,828	290,448	265,397	198,299	175,828	107,057	82,869	78,924
Overseas employees	170,265	143,773	112,314	59,216	38,380	NA	NA	NA
As % of total employees	56%	50%	42%	30%	22%	NA	NA	NA
Exchange rate (fiscal period end; ¥/$)	100	103	89	159	213	213	303	360
In millions of dollars:								
Sales	$90,949	$68,862	$78,069	$37,753	$24,890	$13,690	$4,572	$2,588
Operating income before depreciation	8,424	4,944	6,250	4,343	3,682	1,606	317	NA
Operating income after depreciation	NA	1,501	2,609	2,847	2,764	1,301	224	NA
Pretax income	4,263	2,224	2,678	3,667	3,396	1,520	273	408
Net income	2,827	941	1,017	1,482	1,214	584	105	195
Total assets	74,648	77,233	92,159	49,379	21,499	11,636	4,206	2,042
Total equity	37,530	35,767	36,575	20,131	10,153	5,129	1,890	900

Source: Annual reports; Standard & Poor's Compustat®; Moody's Industrial and International Manuals.

[a]Data prior to 1987 are for the fiscal year ending November 20; data 1988 and after are for the fiscal year ending March 31.

Exhibit 7 Matsushita, Sales by Product and Geographic Segment, 1985-2000 (billion yen)

	2008	2000		1995		FY 1990		FY 1985	
By Product Segment:									
Audio, Video, Communications Networks	¥4,319	--	--	--	--	--	--	--	--
Video and Audio Equipment	--	¥1,706	23%	¥1,827	26%	¥2,159	36%	¥2,517	48%
Electronic components	--	--	--	893	13	781	13	573	11
Home appliances and household equipment	1,316	1,306	18	--	--	--	--	--	--
Home appliances	--	--	--	916	13	802	13	763	14
Communication and industrial equipment		--	--	1,797	26	1,375	23	849	16
Batteries and kitchen-related equipment	--	--	--	374	4	312	5	217	4
Information and communications equipment	--	2,175	28	--	--	--	--	--	--
Industrial equipment	--	817	11	--	--	--	--	--	--
Components	1,399	1,618	21	--	--	--	--	--	--
Others	123	--	--	530	8	573	10	372	7
Total	¥9,069	¥7,682	100%	¥6,948	100%	¥6,003	100%	¥5,291	100%
By Geographic Segment:									
Domestic	¥6,789	¥3,698	51%	¥3,455	50%	¥3,382	56%	¥2,659	50%
Overseas	5,404	3,601	49	3,493	50	2,621	44	2,632	50
Corporate	(3,120)								

Source: Annual reports.

Notes: Total may not add due to rounding.