Georgia Institute of Technology

Case Study

Philips vs. Matsushita

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Question 1

How did Philips become a successful organization, i.e., (i) what organizational capabilities did they build to drive their competitiveness, and (ii) what were their distinctive strategic competencies/strengths? Also, what were their (i) organizational disabilities, and (ii) resulting strategic incompetencies?

Philips built its success in the post-war period through a very decentralized strategy: the firm created local entities called National Organizations (or NOs) in several countries, with as first purpose the market expansion. These facilities (autonomous on marketing and production), gave the company an ability to respond to local market environment, such as consumer preferences or economic conditions. In other words, as Philips could respond exactly to what the customer wanted, it gave the company flexibility and responsiveness.

As a consequence, NOs developed their own technical capabilities and the development of products tended to become a function of local markets. Therefore, Philips created product divisions (PDs) in Eindhoven to supervise and lead development, production and global distribution.

Philips also used technological competence as a competitive advantage. The firm placed innovation in the center of its strategy through the creation across Europe and the US of several physics and chemistry labs dedicated to R&D. Even though this strong industrial research was autonomous and independent, the innovation was also a result of NOs presence on each market (first color TV developed by the Canadian division, first stereo TV by the Australian division and first teletext TV from the British division for example).

Moreover, the firm put in place a particular management structure, creating a shared and competitive leadership between commercial and technical functions. This duality was a subtle way to give the company a boost through individual performance. For example, commercials wanted to sell more than what technical managers could produce and vice-versa.

Nonetheless, in the late 1960's or mid 1970's, these strategy and organization began to run into difficulties. First, from a production point of view, the firm struggled to adapt itself to a changing competitive global environment. Indeed, the invention of the transistor and the emergence of related technologies required an increasing production that Philips had difficulties to answer to due to multiple local production facilities, whereas its competitors had recourse to productions in low-wage countries. The decentralized organization of the company implied higher costs than rival companies which led to the successive cost reduction campaigns and restructurations undertaken by the different CEOs (cf. question 3).

On the managerial perspective, the matrix organization of the company resulted in a low speed of reaction and coordination. Philips struggled to manage as a whole independent NOs, between which the coordination was very weak, and which were too autonomous. It led first to a difficulty to overcome the increasing production needs as we detailed above, but also to bring a common response to the market expectations. Actually, National Organizations had informal power over Product Divisions which couldn't impose orders and directives. As an example, the Eindhoven headquarters couldn't stop the American division to outsource a product under the license of Matsushita, a main competitor. Again, and as we will see in the third part of this paper, restructurations were undertaken thereafter to try to "tilt the matrix" towards PDs and put an end this conflict.

Question 2

How did Matsushita succeed as an organization, i.e., what were their (i) key organizational capabilities, (ii) strategic competencies, (iii) organizational disabilities, and (iv) strategic incompetencies?

Matsushita built its success on a very centralized structure where the most of its operations took place in Japan. The firm started to produce double-ended sockets and rapidly expanded into the electronics market (TVs, radios, recorders...). One of the keys of its success was the "one-product-one-division". Matsushita adopted a divisional structure that led each business to develop new products. This divisional structure advocated internal competition between both divisions and enabled Matsushita to become a leader on the electronics market. This organization in different divisions allowed the company to be very fast to market.

During the 1960's, Matsushita started to open plants in low-wage countries such as Southeast Asia or South America. Even if the firm kept all high value components and subassemblies in Japan, most of its production was relocated in these low-wage countries. As manufacturing was cheaper in these countries, it enabled Matsushita to reduce considerably its costs of production.

Then, the company launched a program called "Operation Localization" which was based on four core principles : personnel, technology, material and capital. This program aimed at improving offshore production from 10% of value-added to 25%. It allowed local nationals to become presidents of local companies. At that moment, Matsushita sent 700 expatriate Japanese managers on foreign assignment to play communication roles. Their goal was to act as career mentor and convey the Japanese firm's values to local managers. Thanks to this strategy, local managers had a better understanding of the Japanese management processes. Matsushita's overseas organization were very obedient to the parent company, and this is one of the reasons the firm succeeded.

Nonetheless, Matsushita had some distinctive incompetences that explained their slowdown downturn.

First, Matsushita was a very high centralized company that was lacking innovation. The firm had the ability to produce in mass at a low cost. They tended to produce a similar product rather than develop a new product. Although Matsushita adapted quickly to the market, this strategy of relying on the competitors' products can be hazardous.

Then, the centralized firm had the particularity to be less flexible and less responsive compared to decentralized firms such as Philips. Matsushita had difficulties in getting used to local markets. Contrary to Philips, Matsushita did not have the ability to quickly adapt to countries' markets needs.

Finally, Matsushita was a very high centralized company where different foreign subsidiaries were too dependent towards the headquarters. That is why Matsushita suffered a lack of innovation from these international branches.

Question 3

Summarize your overall analysis of the key strategic changes attempted by each company over the years, and if the changes worked or didn't work, as well as the impact of these changes.

Even though Philips and Matsushita both grew in the same period, they faced different challenges that led them to attempt different strategic changes. These changes were mainly of three categories: on a product line, managerial or international perspective. We will analyze strategic changes in each of these categories and their impact on the company.

On the product line perspective, both companies started small with a simple product. Philips was only making light bulbs and Matsushita double-ended sockets. Both companies rapidly extended and broadened their product line in order to create diversification and reach different markets. For both of them, this decision allowed them to grow significantly at the beginning, but in the later years, they had to drastically reduce the number of owned companies. It was harder to use R&D and create innovative products when they did not have a clear goal.

Later in time, both companies cut their number of owned businesses by selling the non-profitable ones. They preferred to focus on core attractive markets and put more investments on precise technologies rather than broaden their product line without real aim. This decision allowed Matsushita to turnaround and generate profits. However, as Philips had previously made cut in R&D personnel, technologies were not understood well enough and investment in these technologies was a failure.

Still on the product line perspective, both companies invested in the digital trend in the early 90s. Philips planned to expand software, services and multimedia to become 40% of revenues and Matsushita invested in consumer electronics and semiconductors. But the unexpected "tech wreck" recession of 2001 created losses in both companies who had to react by closing non-profitable sectors and reduce the number of employees.

On the managerial perspective, both companies had significant differences. After the creation of NOs at the end of the war, Philips struggled for a very long time to create a balanced position of power between PDs and NOs. Since neither PDs nor NOs were responsible for a situation, there was a longer speed of reaction. Philips' CEOs gave more responsibility to PDs, and gave them the final decision on long-range direction. These efforts were not very successful as NOs were still very powerful.

Finally, in order to eliminate the PD/NO matrix, the CEO had to replace all 21 PDs by 7 divisions and create business units each responsible for its profit worldwide. On the contrary, Matsushita's overseas organization were very obedient to the parent company. When they started to diverge a bit from the core values, Matsushita sent 700 expatriate Japanese managers on foreign assignment to play communication roles. Their goal was to act as career mentor and teach the core Japanese culture and values.

Thanks to this policy, international companies were very obedient to the core company. However, they were so obedient that Matsushita suffered a clear lack of innovation from these international branches. In order to counter this phenomenon, Matsushita had to give more choice to overseas sales subsidiaries in the product they sold and drastically invest in innovations. These efforts worked as important profits were generated and current strategy of Matsushita, now Panasonic, is still on the R&D side.

Finally, on the international perspective, both companies started to build local production facilities in order to avoid trade barriers and high tariffs. However, they later had to outsource production and hire low-wage employees in order to fight against the rising competition, from Japan for Philips and from Korea for Matsushita.

Consequently, Philips invested significantly in the Asia market and in marketing operations in order to develop the brand. Jobs were eliminated in North America and added in Asia. These efforts were rewarded as the objective of a 24% return on net assets was achieved. Matsushita management were more unwilling to close Japanese plants and move them to China but they had no choice as the competition from other emerging countries was strong. Finally, Matsushita's plan to change its name to Panasonic in order to grow its international presence was a success as it is now a well known brand.

Question 4

What recommendations would you make to the organizational leaders of both companies?

As of 2009, both companies found themselves trying to re-invent their businesses in order to compete with new leaders in the electronics manufacturing market (especially new competitors form Korea and China). Moreover, it is important to point out that most of the world's economies were suffering from the effects of the global financial crisis originated in the collapse of the housing industry in the United States.

Here are some charts and statistics to better illustrate the financial situation of both companies in the beginning of the year 2009. On Figure 2, Philips is in Blue and Panasonic in Green:

- • Philips (PHG) in 2008:
  - Total Revenue: $36.86 USD
  - Stock Price: $19.87 USD
  - % increase since 1980: 909.27%
  - Market Cap: $17.45B USD
  - Net income: - $260M USD
- Panasonic (PCRFY) in 2008: :
  - Total Revenue: $79.58B
  - Stock Price: $12.44 USD
  - % increase since 1980: 343.7%
  - Market Cap: N/A
  - Net income: $2.82B USD

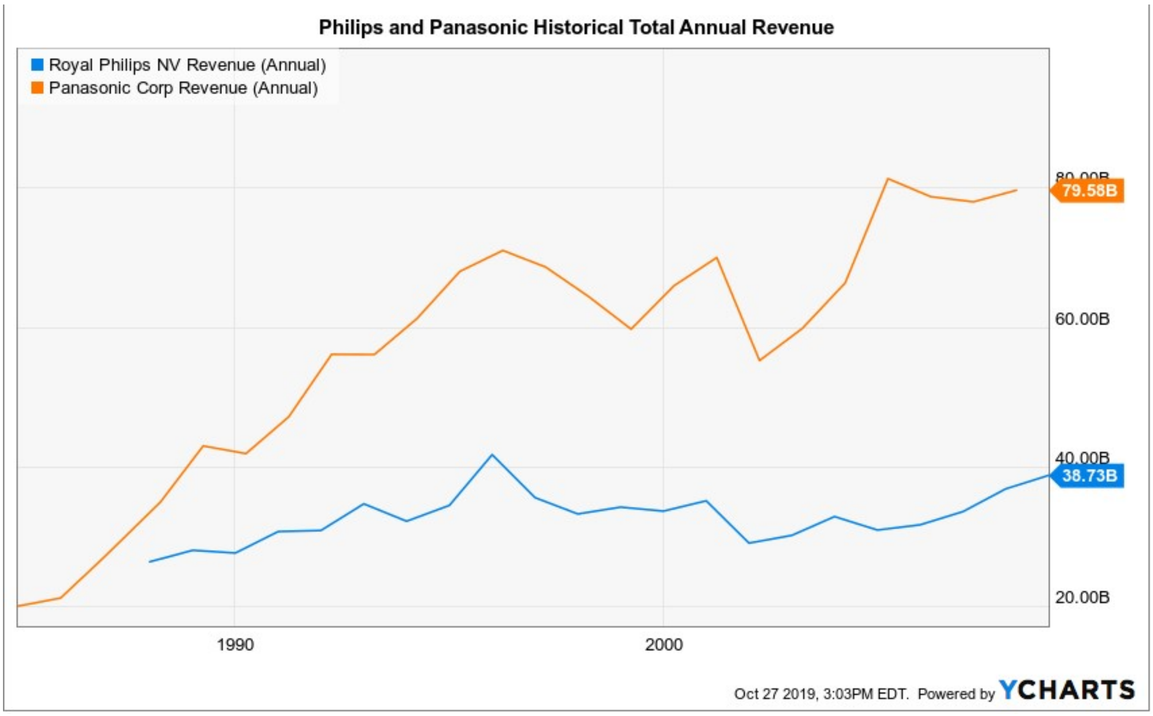

Figure 1: Historical Total Annual Revenue of Philips and Panasonic

Figure 2: Historical stock prices adjusted for stock splits from 1980 to 2008

- Philips :
  - Centralization: The once beneficial geographic/product matrix has clearly become a source of incoherence across different markets and lack of a unified vision across the company. Philips should keep putting effort into increasing the power of the PDs over the NOs and the overall influence of the global headquarters. If a good balance is reached, the company would benefit from understanding the local markets while maintaining a coherent overall structure.
  - Cost-reduction: Philips should keep focusing on closing unprofitable plants and outsourcing manufacturing to developing countries with cheap labor.
  - Innovation: Philips greatest advantage has always been their ability to innovate. They should make full use of their numerous labs and research facilities across the world to come up with new exciting technologies.
  - Marketing: Despite its success in developing new products, Philips has repeatedly failed in introducing them in new markets. Thus, they should revisit their marketing strategies so that they improve their communication with the customers.
  - Simplifying their product line: For many decades Philips has expanded into virtually all fields involving consumer electronics. However, extreme competition from newer companies has made it much harder for Philips to succeed in all areas. Thus, they should focus on the areas where they have a competitive edge and larger market share and abandon areas where they are losing money. This was addressed in the 'Vision 2010' project where Philips decided to reduce their focus to three key sectors: Consumer Lifestyle, Lighting and Healthcare.

- Matsushita :
  - De-centralization: The extremely centralized structure of Matsushita has come at the cost of slow reaction to local market changes. By giving more autonomy to their subsidiaries they will be able to better adapt to their economic scenarios which are often very different from Japan's.
  - Integrating production facilities: While the "one-product one-division" philosophy of Matsushita has resulted in a healthy competition across departments, it also comes at the price of productivity. Similar products should be able to be produced in the same factories to reduce costs. This would also improve the communication across different divisions.
  - Hiring local managers for their subsidiaries: Matsushita's policy of primarily sending Japanese employees to manage foreign subsidiaries has proven to be counter-productive. Not only is this another evidence of the extreme control exerted by the headquarters, the Japanese managers often lack the necessary knowledge of the local culture and economic reality. This has generated high rates of employee dissatisfaction. An experienced local upper manager staff could have the power to increase productivity of overseas production plants.