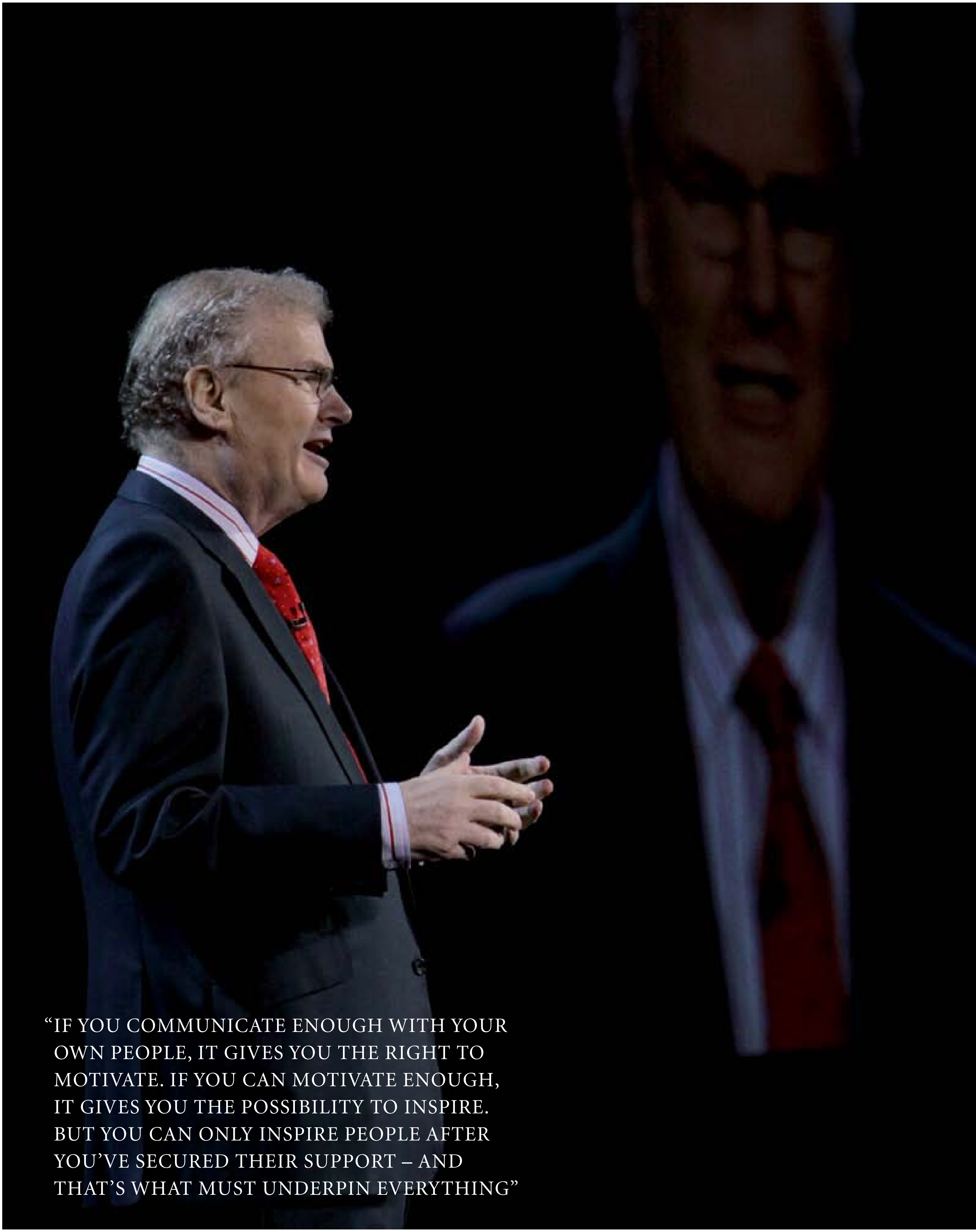


“IF YOU COMMUNICATE ENOUGH WITH YOUR OWN PEOPLE, IT GIVES YOU THE RIGHT TO MOTIVATE. IF YOU CAN MOTIVATE ENOUGH, IT GIVES YOU THE POSSIBILITY TO INSPIRE. BUT YOU CAN ONLY INSPIRE PEOPLE AFTER YOU’VE SECURED THEIR SUPPORT – AND THAT’S WHAT MUST UNDERPIN EVERYTHING”

HIGH FIDELITY

SIR HOWARD STRINGER, SONY CORPORATION'S FIRST NON-JAPANESE CEO, TALKS TO BRUNSWICK'S TIM BURT ABOUT THE NEED FOR IMAGINATION, VISION AND TRUST AS 'LEGACY COMPANIES' FACE NEW CHALLENGES AND NEW COMPETITORS

As the first non-Japanese head of consumer electronics and entertainment giant Sony Corporation, Welsh-born Sir Howard Stringer was going to have a tough job, no matter what. But his appointment as CEO in 2005 coincided with shrinking markets and increased competition, especially in consumer electronics. Then there was the matter of a global economic meltdown.

Over the past five years, Stringer has pushed through a radical restructuring and heavy cost-cutting as he moved to ensure the future success of the Sony business in a changing world. His work has paid off. Sony is predicting operating profits of Yen 180bn ($2.2bn) in 2011, as demand grows again for the company's products, from PlayStations and camcorders to recorded music and 3-D movies, and from cellphones to cameras and laptops.

Yet Stringer – a former award-winning journalist and President of CBS – is far from complacent. Speaking to Brunswick's Tim Burt, the Sony Chairman discusses the challenges of pursuing innovation while simultaneously containing costs and exploiting new markets with existing products. Above all, he says, you have to start from the bottom up, building trust within your company.

Tim Burt: Your five years at the helm of Sony Corporation have coincided with a major upheaval in the global economy, unhelpful exchange rates and a continuing technology revolution. How has that affected your attempts to secure management support for restructuring the business?

Howard Stringer: Our management team are optimistic. They still see opportunities globally, but they also know that it's very hard. As a company, we have accomplished quite a lot, given the challenges, especially when you consider that foreign exchange rates have been systematically tougher on Sony than almost any other company because we depend on exports for almost 75 per cent of our revenues. I worked it out: if the yen was where it was seven years ago, we would have had another billion dollars of profit added to our balance sheet. So, Sony has really taken it on the chin, and yet we did bounce back, and we continue to bounce back, because we've not become complacent.

Even when the yen deals us another blow, what's remarkable about the employees and management is that they respond quickly. There is a real understanding that this isn't about American restructuring methods or even my methods. This is about fighting an economic challenge that is tough and in your face. We have had to restructure the company, and at the same time, nurture the technological skills and the energy and enthusiasm for innovation that is characteristic of Japanese business. That's the cohesion of Sony.

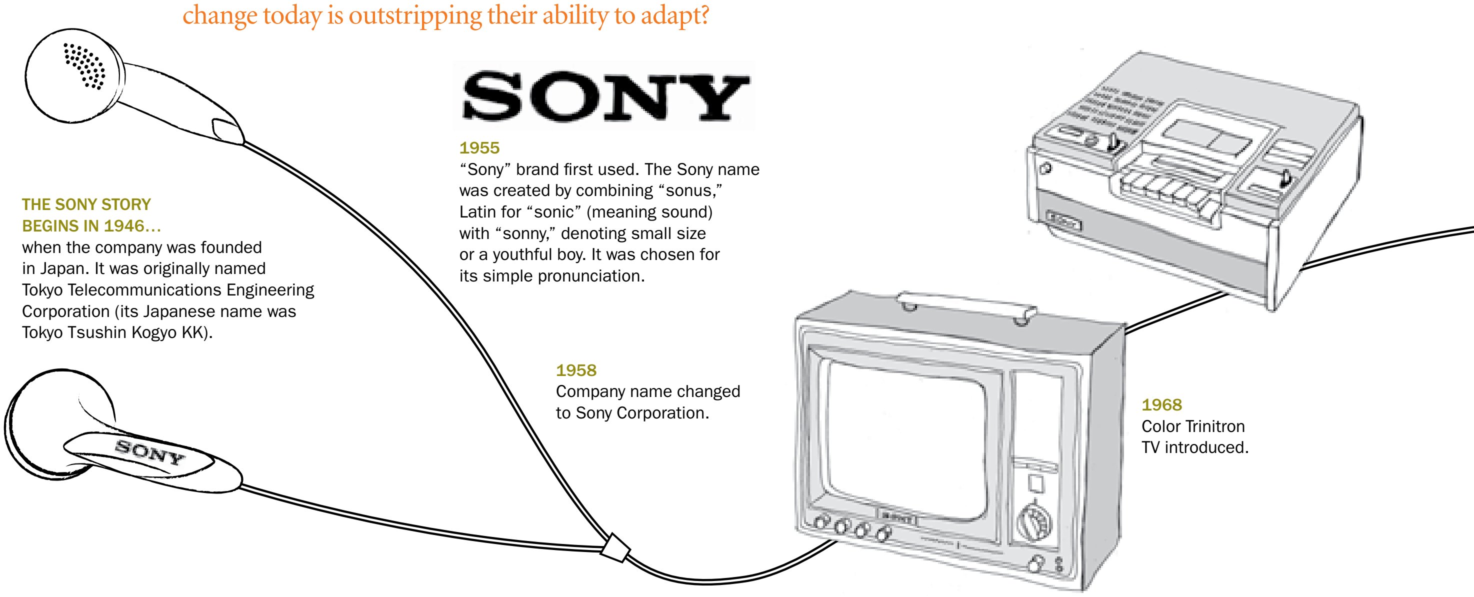
Is there a fundamental difficulty in what one might call "legacy companies" – whether in technology or car-making or aerospace – that the pace of technology change today is outstripping their ability to adapt?

Yes, of course. But it's compounded by size. As long as a company like Sony continues to grow or, indeed, if a country is growing – as China is today – you can keep absorbing your problems. You can hire more people, you can spread the wealth around a little bit; you can give people opportunity. But when you stop growing and you flatten out, you become less productive whether you like it or not. You have to adapt, and quickly. We have had to address this at Sony. And we are, by finding ways to give our promising executives opportunities around the world so that they are not frustrated by layers of management.

And can businesses, such as Sony, protect their brand appeal while managing those legacy issues, especially in a consumer climate where brand loyalty seems to have evaporated?

The brand erosion is less than you might think. We took a few hits three or four years ago. But there was a big brand study recently where Google came out number one and Sony came out number two. We have done a lot to repair our brand in advertising and presentation – as you saw during the World Cup finals. Nobody scored a goal in South Africa without passing in front of the Sony logo.

Polls will sometimes show that you're up or down in brand loyalty. I'm not worried about that. What's more important is to remember the global appeal and reach of our brand. Even if we are not the company behind the iPad, Sony still sells close to 25m TV sets every year; we have 50 per cent of the world market in camcorders; we've won awards for miniature phones; awards for cameras. I could go on because Sony is a giant place. It is not a boutique brand.



At Apple, by comparison, I think consumers are drawn to Apple software. I'm envious of Steve [Jobs] because he doesn't have to operate on the broad scale that we do. At Sony, our challenge is to be faster across a whole range of products and services. We compete in product segments spanning 3-D video, internet television, digital cinema, games, music – you name it.

We have to keep feeding the machine. But when Sony gets things right – with technology infrastructure and networked devices working together – it is a world beater. It's hard to get out of our way. I want to make it harder and harder to get out of Sony's way.

The issue for us at the moment is can we keep pace with the market opportunities around the world, while still navigating the foreign exchange situation? If you're not generating demand for goods and services – however big you are – you're not generating revenues and income. If you get it right and seize the opportunities from new markets and technology, and at the same time preserve innovation, quality and brand appeal, it represents a virtuous circle. In a way, I think it's forcing all of us to redefine virtue, which is particularly ironic at a time when the banking industry has demonstrated the opposite.

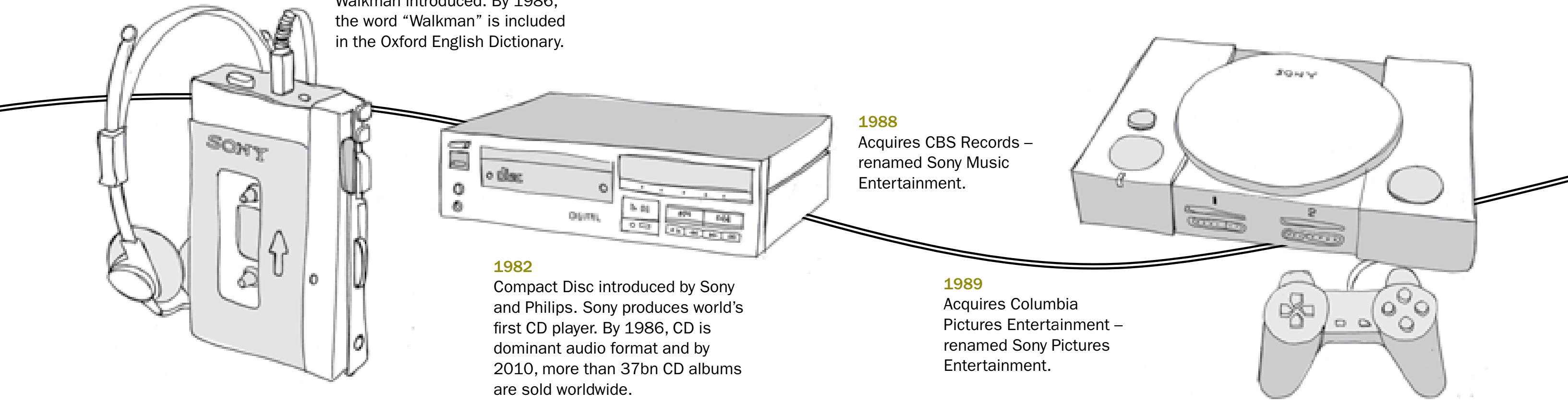
And I suppose virtue – in corporate terms – goes to the issue of trust. Given the size and complexity of the Sony organization, how do you instill that trust in the workers who must execute your strategy?

I don't think you can be an autocrat. You can micromanage a small company, but in a big company, you have to find disciples, spread them throughout the business, and take the whole organization with you. You have got to inspire trust. You have got to win support.

When I assumed this role, all sorts of people told me I should move faster. But the pace of what you can do is dictated by the culture. You can't impose yourself. Here at Sony, they weren't looking for General Patton; they were looking for Eisenhower – constantly encouraging everyone to work toward common goals. That meant building a consensus for change and instilling a sense of urgency. Success also depended on working effectively with the people around you. To do that, the single most important management tool was to communicate internally. People had to trust what I was doing.

Presumably, maintaining internal support for the turnaround has proved harder in the current skeptical media environment. Have you ever encountered a period where corporate reputations have been so much on the rack in the regulatory world, the political world and, because of that, in the media world?

I started my career in the middle of a crisis of trust. I was part of the lawsuit that General [William] Westmoreland filed against CBS over a documentary we produced – *The Uncounted Enemy* – which suggested he ignored military intelligence and exaggerated casualty numbers during the Vietnam War. It was about trust, and whether the General was misleading the American public. He sued us, and it went to trial. This was a pivotal experience for me, because we knew that if we lost that case, CBS News would be seriously damaged, and our careers would have been seriously damaged. For me, it shaped my understanding of what happens when you are under siege on the issue of trust.



1979
Walkman introduced. By 1986, the word "Walkman" is included in the Oxford English Dictionary.

1982
Compact Disc introduced by Sony and Philips. Sony produces world's first CD player. By 1986, CD is dominant audio format and by 2010, more than 37bn CD albums are sold worldwide.

1988
Acquires CBS Records – renamed Sony Music Entertainment.

1989
Acquires Columbia Pictures Entertainment – renamed Sony Pictures Entertainment.

1994
PlayStation introduced. By 2010, more than 349m sold worldwide.

So, is this current media environment just part of a cycle that ebbs and flows, and we're now back in a period where corporate reputations are much more in the line of fire?

In a crisis, the crisis news makes its own rules, and you don't know where it's going. In Japan, when Lehman went down, the initial response was that this was an American issue and their debacle. But now, the Japanese know that the fallout was global. That's probably the biggest single difference in the last four to five years. Any crisis in a global corporation has a global response. For every local action, there's a global reaction. I don't think most people understood that before. And I don't think bankers understood it either. With the banking crisis, the global impact kept on rolling, engulfing more nations than anyone expected – even Iceland found itself in the headlines.

The media reaction seems to have been that questionable conduct in the banking industry was symptomatic of bad corporate behavior in general. In that atmosphere, how do companies respond and prepare themselves for what is quite a venal approach from today's media?

I don't think you conduct your business with one eye on the media, because the one thing to remember about journalists – and I know this, having been one – is that the news will get you coming or going. That's always been especially true in the UK, where there are so many newspapers. If one newspaper says the world is black, the other will say white. You have to rely on the *Financial Times* and one or two other newspapers to consider the possibility that it's gray. So, what you're seeing now is a sort of retaliation from the press for being caught out for not spotting a story.

That was exposed by Michael Lewis, in his wonderful book *The Big Short*. He demonstrated there were specialists who knew what was going on in the market for sub-prime mortgage bonds, but they couldn't convince anybody something was wrong. An awful lot of people simply didn't understand what was going on – including the media. Now, we're seeing a sort of journalistic backlash against the financial world.

The reality of the sub-prime mortgage crisis was that it was a bubble, and a bubble will burst, as it did with the internet. Journalists want to be the ones who predict it. But journalists are also under stress at the moment. Newspapers are in trouble; advertising is in trouble; and people are worried. A *New York Times* columnist recently called it the "pessimism bulge," which is a good way of describing the current mood.

In that kind of febrile atmosphere, how do corporations defend and restate their core business proposition? Although the media may be peripheral, you still need to reach suppliers, dealers, customers and employees.

There is only one answer and that is communicate, communicate, communicate. I used to say that the three elements of leadership for a CEO are, at the high end: inspiration, second level: motivation, and at the third level: communication. Actually, that's upside down – it should be communication first. If you communicate enough with your own people, it gives you the right to motivate. If you can motivate enough, it gives you the possibility to inspire. But you can only inspire people after you've secured their support – and that's what must underpin everything.

How do you maintain that support inside a company that is facing multiple challenges, such as having to address shrinking margins in the core electronics business and fighting off new, low-cost competitors?

1997
Howard Stringer named President and COO, Sony Corporation of America. He initiates cross-company collaboration across US operating companies. Named Chairman and CEO of Sony Corporation of America the following year.

1999
Howard Stringer receives the title of Knight Bachelor in the New Year's Honors list of Her Majesty Queen Elizabeth II.

2001
Stringer launches wide-ranging restructuring initiative, called Project USA, across Sony's US operating companies (Sony Electronics, Sony Music and Sony Pictures). Results include:

- More than $700m in annualized cost savings
- Some 9,000 positions eliminated
- Creation of numerous shared service platforms
- Sony Pictures uses its savings to continue to digitize its film library.

2004
Sony Music and BMG, the music business of German media company Bertelsmann, create 50-50 joint venture, named Sony BMG. In 2008, after restructuring, streamlining and establishing digital partnerships, Sony acquires Bertelsmann's 50 per cent share of Sony BMG – now named Sony Music Entertainment.

Sony United

2005
Sir Howard Stringer named Chairman and CEO, Sony Corporation. He introduces concept of "Sony United" to drive collaboration and break down silo walls between different parts of the company.

It goes back to the issue of people trusting your warnings about economic reality. In a global world, if you are too comfortable with low margins you lose to somebody else. Japan, as a whole, is adjusting to that. Smart people in Japan and elsewhere realize you can't turn your back on the global business environment. At Sony, our customers are global, and we have to adjust to a world where China and Korea have emerged as producers of low-cost competitive goods.

So, the turnaround at Sony is as much about changing the mindset in the company as the physical turnaround of shedding jobs, closing plants and refocusing the product portfolio?

It's absolutely both. We have to change the mindset *and* cut costs. We face an environment in which South Korea and China have lower costs and are copying Japan's innovation culture as fast as they can. We developed backlit LED televisions and the world's thinnest television, but we didn't get them to market fast enough because we couldn't make them economically enough. Our dilemma is that it's now much easier for Korea or China to duplicate what we do. No one has the product lead-time that we all used to enjoy.

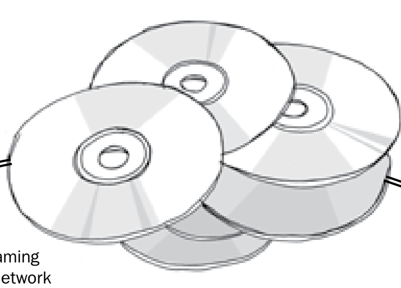
The management team at Sony gets it. The younger generation of managers knows that if we're going to be competitive, we have to change. Two years ago I thought I might be losing this battle. At the height of the crisis, everybody was telling me I couldn't lay off people. And I said: "If I'm the captain of the ship, of course I have to worry about the crew, but first and foremost, I have to worry about the passengers – they're the customers. And then, ultimately, I have to worry about the ship. If the ship goes down, it's all over."

When we lost money for the first time, people here saw the scale of the threat. Then, our management stopped looking backward, particularly the younger generation of executives. A competitive instinct to survive kicked in. Now things are better, but we absolutely cannot afford to be complacent. Sony people love their relationship with quality. They love their relationship with being the best, and that's the competitive spirit you have to constantly urge and demand.

The switch from analog to digital mirrors the shift that corporations have to make. Mature companies – like mature industrial countries – have to have the imagination and vision to make another great leap forward. They have to recognize that markets such as Brazil, Russia, India and China represent new opportunities. Everybody knows this is a turning point. But everything needs leadership, and that comes down to where you started – an issue of trust.

Howard Stringer was born in Cardiff, Wales, in 1942. He has been a US citizen since 1985. Educated at Oxford University, he had a distinguished 30-year career as a journalist, producer and executive at American broadcaster CBS, where he supervised the award-winning *CBS Reports* and was executive producer of the *CBS Evening News* with Dan Rather. As president of CBS News and later CBS, he was responsible for all the broadcast activities of the company and persuaded David Letterman to bring his late night show to his network. He left CBS in 1995 to lead TELE-TV, a new television company formed by the US's biggest phone firms. He joined Sony in 1997, initially leading the company's US business before being promoted to the role of Chairman, Chief Executive Officer and President of the whole of Sony Corporation in 2005, the first non-Japanese citizen to hold the position in the company's 60-year history.

Tim Burt is a Partner in Brunswick's London office specializing in media, technology and telecoms. He worked previously at the *Financial Times*, where he held several senior editorial roles including Media Editor, Motor Industry Editor and Nordic Bureau Chief.



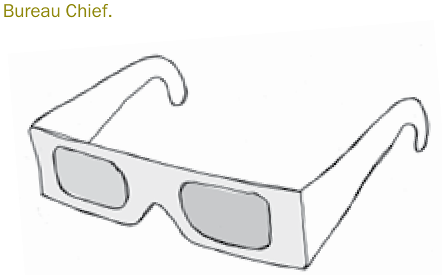
2006
Online multi-player gaming service PlayStation Network launched. In 2010, there are more than 52m registered accounts worldwide, with online storefronts in 36 countries, 12 languages and 22 currencies.

2008
Sony-supported Blu-ray format defeats HD-DVD; becomes sole high definition optical disc standard and enables expansion of 3-D video into the home.

2008
Company announces further expansion in the BRIC countries (Brazil, Russia, India, and China) and other growth areas.

In India, for example:

- Sony Entertainment Television is now ranked the #4 channel in very crowded market
- Sony TVs had #1 market share in second quarter 2010
- Sony Electronics has more than 5,000 dealers and distributors, 240 exclusive Sony outlets and 19 direct branch locations.



2010
"Video on Demand Powered by Qriocity" launched. Service enables consumers to purchase and stream more than 700 films directly to select Sony Bravia TVs and Blu-ray players in US and Europe.

3-D TVs launched into the global market.

Sony Internet TV Powered by Google TV launched in US market in October.