LEADER (U.S.)

Howard Stringer, Japanese CEO

Caught between two worlds, the Sony chief tightens his management grip. Will it work?

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TOKYO -- Howard Stringer is annoyed. Since becoming Sony Corp.'s first foreign chief executive almost two years ago, he has been slammed by Japanese financial analysts and Sony employees for being disconnected from the company's daily operations, especially during two big crises. Investors in the U.S., meanwhile, have put him under constant pressure to fix Sony's problems more quickly. And he was hearing conflicting advice from both sides.

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Above: Howard Stringer and his predecessor as Sony CEO, Nobuyuki Idei, in Tokyo.

"Look, in America, I was told to cut costs," Mr. Stringer says. "In Japan, I was told not to cut costs. Two different worlds. In this country, you can't lay people off very easily. In America, you can."

In a series of interviews at the end of a tumultuous year for Sony. Mr. Stringer says he balanced those competing demands to squeeze 4% growth out of Sony's electronics business and beat earnings estimates for four successive quarters. Sony's stock price has risen 44% since he took over in June 2005. He bristles at criticism, mostly from Japanese, that he lives in a hotel when in Tokyo and spends too much time in New York and London to run the company effectively.

Says Mr. Stringer, sitting in a conference room in Sony's Tokyo headquarters: "If I'm not running the company, who the hell is?"

Fixing this iconic Japanese company is one of the biggest challenges in business. Mr. Stringer's dilemma is that he is caught between different management styles and cultures. He says he recognizes the risk of falling behind amid breakneck changes in electronics. But he says there's an equal risk in moving too aggressively.

"I don't want to change Sony's culture to the point where it's unrecognizable from the founder's vision," he says. "That's the balancing act I'm doing."

Whether he can pull it off is still an open question. For the Welsh-born executive, the task is complicated by having to navigate a sea of obstacles, from uncommunicative top executives -- one surprised Mr. Stringer with bad news at a board meeting -- to poor public-relations advice. The risk to Sony from his management-through-persuasion is that the company could fall further behind nimbler and more aggressive rivals. Mr. Stringer has already shifted gears once, adopting a more assertive stance after his softly-softly approach faltered.

When he became CEO, Mr. Stringer started cautiously. He knew that despite its global brand name, Sony remained a traditional Japanese company, full of employees with

THE CULTURE BARRIER

Nissan Motors -- Carlos Ghosn

Considered the most successful Western manager in Japan

In 1999, France's Renault bought a controlling stake in the troubled Japanese carmaker, and put Ghosn in charge. He slashed headcount, suppliers and debt, pledging to return Nissan to profit in 2001. He beat his target.

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Shinsei Bank -- Masamoto Yashiro

Perseveres and pushes Shinsei to a profit in 2001

U.S. private-equity fund Ripplewood bought failed lender Long-Term Credit Bank of Japan in 2000. Former Citibank Japan head Masamoto Yashiro vowed to run the bank like a Western lender. He was castigated in Japan's parliament after pulling loans to troubled borrowers.

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Vodafone Japan -- Darryl Green

Quit in 2004

Vodafone Japan replaced Green, hired in 2001, after sales declines and complaints that the unit wasn't paying attention to local customs. It hired a British manager, then a Japanese executive, then another American, before selling the unit to Japan's Softbank in 2006.

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Mitsubishi Motors -- Rolf Eckrodt

Resigned in 2004

Controlling shareholder DaimlerChrysler dispatched German Rolf Eckrodt to turn around the struggling Japanese auto maker. Eckrodt became CEO in 2002. After a restructuring plan failed to stem losses, DaimlerChrysler sold in 2005.

lifetime tenure who were suspicious of change. Japan had opened up to the idea of having foreign managers run Japanese companies, notably Carlos Ghosn at Nissan Motor Co. , but it hadn't necessarily embraced the Western style of management.

Mr. Stringer, 65 years old, stuck with the executive team he inherited. He tried gently persuading managers to cooperate with one another and urged them to think about developing products in a new way.

The dangers of that approach quickly became clear. Two big missteps -- a delayed launch of the PlayStation 3 videogame console and an embarrassing battery recall -- tarnished Mr. Stringer's first years in charge. In both cases, managers tried handling problems in the traditional Sony way: quietly and without informing top executives.

Last fall, Mr. Stringer put together an executive team more to his liking. The reshuffle included moving an uncommunicative star executive, Ken Kutaragi, from his position running Sony's videogame unit. Mr. Stringer now receives every report about manufacturing problems -- "more emails than I care to read," he says.

In one of the interviews, Mr. Stringer counseled patience to his critics, noting that his turnaround of Sony's U.S. operations took five years to complete. "You can't go through a Japanese company with a sledgehammer," he said.

In another interview, conducted just after the battery-recall crisis, Mr. Stringer's forbearance was wearing thin. "I'm going to do what I want to do now," the chief executive said. "I'm not going to be following everybody's suggestions. I've got to be true to myself in some ways.

Mr. Stringer says nothing has changed in his management style. The perception of him as a hands-off manager, he says, was fueled by his decision to live in a Tokyo hotel. The CEO says he now regrets that decision, but also rejects as "insane" the notion that he wasn't firmly in control. He says his response to the crises wasn't a change of heart but a quickening of his long-term plans. He adds that his record has been obscured by the battery crisis, "which took too long for bizarre Japanese reasons that I don't want to spend the rest of my life discussing."

Mr. Stringer started life as a TV reporter. He spent nearly three decades at CBS Inc. -- he became a U.S. citizen in 1985 -- eventually rising to become head of broadcasting. He made his name at Sony leading a turnaround of its U.S. entertainment operations, including streamlining its movie and music businesses, slashing hundreds of jobs.

Engineers in Charge

When he was named CEO, Sony was in a poor state, a company built on hardware engineering that was floundering in the age of software. For decades, Sony had produced the gold standard of consumer gadgets such as televisions and tape players. Sony made products the old way, first developing hardware, then, almost as an afterthought, adding software to make it run. The Walkman, the epitome of the company's success, was a triumph of electronics engineering; ever since, Sony's innovations have focused largely on hardware design -- making products smaller, thinner and lighter.

As Apple Inc. has shown, most spectacularly with its iPod music player, nifty software is the ticket to creating hit gadgets these days. In 2005, it wasn't only the iPod that was vexing Sony. Competitors such as Microsoft Corp. -- a software company -- were eating into Sony's gadget business, especially its famed PlayStation.

One of Mr. Stringer's goals was to encourage Sony's hardware engineers to treat software seriously when developing products. But Sony's culture celebrates proud innovators who do what they want. Many still quote an admonition by one Sony veteran: If you have the misfortune to be under a clueless boss, don't tell him about new ideas -- just execute them.

For example, last summer, more than 100 Sony colleagues attended a mock funeral thrown by famed engineer Toshitada Doi. He had resigned after his pet project, the Aibo robotic dog, was axed, one of many activities Sony deemed superfluous. At the ceremony, the 42-year Sony veteran recalls saying that the Aibo was a symbol of a risk-

'WE'RE ALL CRISS-CROSSING'

Howard Stringer spoke with The Wall Street Journal's Yukari Iwatani Kane on several occasions between late November and early January. **See edited excerpts from those discussions.**

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STRINGER'S SONY

Track Sony's stock price and see key dates since Mr. Stringer took the reins.

taking spirit that was now dead.

Mr. Stringer didn't know much about electronics, Sony's core identity, when he took over. His careful approach, a hallmark of his time in the U.S. as well, was evident from his first days, notably when he decided to keep -- and defer to -- the Japanese executive team chosen for him by his predecessor, Nobuyuki Idei. The executives were electronics veterans familiar with Sony's operations in Japan.

But soon after, Mr. Stringer was upset he couldn't unveil cuts in the company's product line because his top executives had not finalized their plans.

The executives "were all put in place," says Mr. Stringer. "What was I supposed to do? Show up on Monday and say, 'I don't like who you've given me?'"

Sony President Ryoji Chubachi emerged as Mr. Stringer's right-hand man. Mr. Chubachi, 59, was promoted at the same time as Mr. Stringer after having spent his career overseeing components such as videotape. His primary experience in software was the programs Sony embedded in hardware devices, not the kind of modern outlook Mr. Stringer was after.

"To be honest, it didn't click with me at first when Howard first talked about the importance of software," Mr. Chubachi says in an interview.

One casualty of Mr. Stringer's early hands-off style was Connect, a unit set up before his arrival that he nonetheless championed as an example of collaboration between hardware, software and services. Connect's task was to create a portable music player and online music service under the Walkman and Connect brands to challenge Apple's iPod and iTunes.

Connect had two presidents -- Sony hardware veteran Koichiro Tsujino in Tokyo and Philip Wiser, an online music pioneer, in New York. The two clashed. Mr. Tsujino wanted to build a new type of software from the ground up, while Mr. Wiser wanted a more conventional approach. As the feuding intensified, they complained to Mr. Stringer about the dual-president system, say people familiar with Connect. Mr. Stringer declined to intervene, asking the two to work out the problems on their own, the people say.

The new software packaged with the Walkman, a compromise solution, was so error-prone that U.S. executives refused to sell it. Sony eventually abandoned the software in Japan, too. By mid-2006, Messrs. Tsujino and Wiser had both quit Sony, and the Connect unit had been disbanded.

Mr. Stringer concedes backing off. But he says Connect was a vestige of the old Sony way of doing business, where executives ran independent fiefs. "We learned from the lesson that we are not developing software that way anymore," Mr. Stringer says.

After the Connect unit was disbanded, the entire business, including hardware, software and services, was moved to Sony's audio devices group under the control of Yutaka Nakagawa, an executive who was openly skeptical of the Connect music service, according to Sony managers. He told colleagues that Sony should concentrate on its strengths in hardware.

Mr. Nakagawa declines to comment, other than to say that Connect "didn't seem quite right."

Hard Work on PlayStation

Another stumbling block was Mr. Kutaragi, the renegade head of Sony's videogames division who invented the PlayStation videogame consoles, the company's most successful marriage of cutting-edge electronics technology and software. Mr. Stringer hoped Mr. Kutaragi would come up with similar hit ideas for Sony's other products.

Mr. Kutaragi was notorious within the company for his reluctance to communicate with his bosses or other units. In 2005, Mr. Kutaragi hosted an event at a big electronics conference in Las Vegas to celebrate the U.S. launch of the PlayStation Portable handheld game machine -- one of the company's biggest products that year. He didn't invite executives from Sony's electronics division, which provided the parts.

In developing the PlayStation 3 console, the device's latest iteration, Mr. Kutaragi went over budget on development costs without informing Mr. Stringer, according to a person familiar with the situation. When Mr. Stringer urged Mr. Kutaragi to have dinner with the heads of the electronics division, he did so just once a year, this person said. A spokeswoman for Mr. Kutaragi declined to comment.

Mr. Stringer tried to win Mr. Kutaragi's cooperation with patience. "I've had dinner with [Mr. Kutaragi] more times than I've had dinner with my wife, and that's not really healthy," Mr. Stringer says.

In September, Mr. Kutaragi announced Sony was halving shipments of the new PlayStation to the U.S. and Japan and was pushing back its European launch. At a news conference, Mr. Kutaragi blamed Sony's electronics group for failing to produce enough of a critical component, exposing his tense relationship with the division.

"If we're asked whether Sony's quality of manufacturing has declined, I would have to say 'yes,'" Mr. Kutaragi told reporters.

At a board meeting a few weeks later, Mr. Kutaragi sprang another surprise on Mr. Stringer, suggesting he drop the price of the entry-level PlayStation 3 console by 20% to just under 50,000 yen (about $420) to make it more competitive.

"It wasn't financially one of my best moments," Mr. Stringer says. "The budget implications were self-evident. [But] I agreed because I wanted the launch to be successful."

The price cut will help double videogame-related losses for Sony's year ending March 31 to about $2 billion, erasing many of the efforts made by other units to boost profitability. "I think it's fair to say that any time you're aiming for the stars, you're running the risk of falling a bit short on your timetable," Mr. Stringer says.

A Battery of Problems

Meanwhile, another crisis was bubbling over. In August, Dell Inc. announced it was recalling 4.1 million laptop computer batteries made by Sony after the PC company decided they posed a danger of overheating and catching fire. Dell's recall triggered a stampede by other computer makers and prompted Sony to launch a voluntary global recall program in late September.

Mr. Stringer says he first heard about the magnitude of the problem not from his own managers but from Dell founder Michael Dell.

The problem: In Sony's typical independent fashion, the battery subsidiary, Sony Energy Devices Corp., tried solving the issue itself, says Mr. Stringer. Instead of treating the matter as a public-relations challenge, the battery executives saw it as one of engineering.

Mr. Stringer says he erred by deferring to his Japanese deputies' suggestion that he avoid public comments about the battery recall. The idea was to contain the problem in the components division, but Mr. Stringer's silence gave the impression among Japanese press and employees that he wasn't taking responsibility for one of Sony's worst public-relations disasters. The constant stream of reports about battery fires was "a kind of Chinese water torture," Mr. Stringer recalls, and prevented the company from putting a lid on the matter.

Within Sony, Mr. Stringer's silence disappointed some employees, several executives say. Some questioned Mr. Stringer's commitment to the electronics business because of his living arrangements in Tokyo, a complaint echoed among local financial analysts.

"Mr. Stringer has no background and he's not in Japan managing the day-to-day, so it's impossible" to run the company effectively, says Tatsuya Mizuno, an electronics analyst for Fitch Ratings. "Sony's DNA is in electronics...so the top management needs to understand what's going on there."

Home, Sweet Home

Mr. Stringer bristles at the idea that he isn't committed to Tokyo. "I have a home in England and I have a home in New York -- I'm already bloody cross-cultural -- and I just didn't want to be in a lonely apartment somewhere in Tokyo even for symbolic reasons."

At the same time, Mr. Stringer says he should have "faked it better -- I mean that seriously." He says Mr. Idei warned him about what might happen if he didn't establish a home here. "I should've put the flag up the flagpole and said here's my residence in downtown Tokyo -- I'm here! -- even if it's less practical than living where I live, and much less comfortable and friendly." He still lives in a hotel.

The two crises were a wake-up call. In videogames, Mr. Stringer says he persuaded Mr. Kutaragi to give up day-to-day control of the division in December; he remains chairman and chief executive, focused on next-generation games. Mr. Stringer replaced him with the U.S. head of the videogame unit, a longtime ally.

In electronics, Mr. Stringer moved Mr. Nakagawa, the executive who questioned the role of software, to a unit overseeing batteries, chips and other components. Messrs. Stringer and Chubachi receive daily emails alerting them about manufacturing problems companywide via a product-safety officer who was appointed in the fall.

Mr. Stringer also put all of Sony's consumer gadgets under Katsumi Ihara. Mr. Ihara played a key role in jump-starting the mobile-phone joint venture between Sony and Telefon AB L.M. Ericsson of Sweden, which has built a reputation for style.

Mr. Ihara has set up a task force, based in the U.S., to develop products that will allow users to download content from the Internet onto Sony products like the Walkman and PlayStation. He also created a center in Tokyo to develop software.

One early effort: a module for TVs that allows users to watch video from the Internet using a remote control. It uses some of the same software as the PlayStation 3 console.

Mr. Stringer says the rough experience of the past few months gave him an opening to speed up his plans. "All crises create opportunities," he says. "While we were being beaten up on the one hand, it was an opportunity to accelerate the transformation."

—Kate Kelly contributed to this article.

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