Philips versus Matsushita: A Critical Review and Comparison

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Abstract

This paper examines the rise of two global companies Philips and Matsushita. The aim is to identify factors that contributed to the companies becoming the most successful in the industry. Furthermore, it evaluates and analyses the strategic choices the companies have made from the start of the establishments until the beginning of the new millennia. This paper aims to analyze how these strategies helped Matsushita overtake Philips as number one in the consumer electronics industry. However, the evolved organizational structure also creates disadvantages for the company to speed up growth. Finally, in the last part of this report, recommendations are made for Matsushita about appropriate strategies that can be adopted in the new millennium.

Keywords: Philips and Matsushita comparison; centralization and decentralization in management

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1. How did Philips become the most successful company in this industry?

1.1. Introduction

In 1892, Philips was founded as a small establishment producing light-bulbs in Eindhoven, Holland. Early innovations and efficient management of resources and capabilities contributed to increased revenues, which eventually led to the company expanding abroad and efficiently adapting to country-specific market needs. Philips started out by adopting a simple centralized structure. As the size of the company increased, national organizations were established in order to respond to local demands. As an effect, the structure of Philips went from being centralized to increasingly decentralized. The extensive reformation of the organization, however, created certain disadvantages for Philips. The regional divisions increased independence combined with the less defined relationships between entities led to confusion about where power and decision making was centralized. Our recommendations encourage an increased focus on the development and rebuilding of the R&D while becoming more centralized to become more aligned.

Matsushita was established in 1918 and was initially an electric socket manufacturer. Matsushita developed quickly into a multi-product electrical company. In the post-war boom, the company grew fast in the electronics industry by adopting a one-product-one-division structure and encourage self-sufficiency. In the 1960s, Matsushita transformed into a multinational company with many plants overseas. The overseas subsidiaries were single product plants with foreign product lines for local markets. During the 1980s, Matsushita exercised tight control over divisions and the highly centralized organization structure was a main strategic issue, which in some way hampered Matsushita's ability to innovate.

1.2. Philips resources and capabilities

The capabilities of Philips refer to their capacity to effectively perform different tasks which made them successful (Grant, 2016; Teece and Pisano, 1994). From the start, Philips developed a tradition of caring for workers where they, for example, embraced education and gave the employees very generous wages, which represent an intangible asset. Another culture implemented early was the leadership shared between the two brothers within the commercial and the technical function which came to influence the future of Philips.

Philips focused on developing one product; the light-bulb, compared to other large companies within the same industry, hurried to diversify (Davids, 2004). The brothers early agreed upon that research (R&D) was crucial for Philips's continuance. Even their policy stated that Philips should always be up to date using new machines or factories and getting rid of old plants to be up to date, which serves as physical resources. Their embrace of innovation led to Philips becoming a leader in industrial research of which the tungsten metal filament bulb was a huge success and gave rise to global expansion, which is an intangible asset within the technological department. Therefore, instead of creating a cost advantage, Philips created a differentiation by developing a unique product, which in turn lead to a competitive advantage (Grant, 2016). According to the Industry Lifecycle, which has four stages; introduction, growth, maturity and decline, the growth stage is characterized by increasing market acceleration, technical improvements and increasing production (Phillips, 2012; Tidd and Bessant, 2018), which all resemble Philips the invention of the filament light-bulb. The growth stage is also acknowledging by successful selling in a specific market compared to the total market, which also is comparable to Philips due to its success expanded globally (Bartlett, 2009).

1.3. Adaption to the upcoming markets

Further local ventures were created to gain market acceptance and they also formed an agreement with General Electric (GE), which gave the companies the rights to each other patents. Up until this time, 1919, Philips kept most of its businesses highly centralized. Though the decentralization derived while expanding their product line from their one product, the light-bulb, into different products. During the 1930s, trade barriers and high tariffs were introduced, which lead Philips building local production facilities and transferring assets, research laboratories and top management abroad. This resulted in national organizations (NOs) becoming more independent and self-sufficient. The market evolved and customers had different preferences (Bartlett and Ghoshal, 1990). Therefore, the NOs developed the capability of fast response, adaptation and differentiated to the national markets, which acts as an intangible asset. This was feasible as the NOs were closer to their customers, which also became a considerable advantage (Grant, 2013). The structure of the brothers shared leadership between technical and commercial leadership was later resembled within the NOs management structure, which shows that the tradition is successfully infused within the whole organization. By investing in the culture, they create a crucial resource to maintain both capabilities and effectiveness within the organization. Culture has extensive influence on the capacity for intended action, which proved to be a success in Philip's case (Hitt et al., 2011; Grant, 2016).

2. How did the initial strategy of Philips relate to the organization of the corporation?

2.1. The beginning: centralization of organization structure

The initial strategy of Philip when the company was founded in 1982 was to have a single-product focus, the light-bulb. The one-product focus enabled technological development and innovation for the product and Phillips became market leaders within industrial research. Philips was during this period very centralized, managed by two brothers taking all decisions based in Eindhoven in Holland. Even when Philips started to go abroad looking for mass-producing opportunities and exporting its products to global markets, the company was still highly centralized to Eindhoven, where all functions remained. According to Mintzberg (1981), the organizational structure of Philips was in the initial phase, formed as a simple structure since Philips was a young, small company with centralized control.

2.2. Matrix structure: Becoming more decentralized

The starting point to a more decentralized structure came with the development of the filament bulb, which forced Philips to go global searching for expanding opportunities as well as the product line was broadening. The decentralized organization then evolved due to various reasons. Sales organizations were established around the world to gain access to new markets and trade barriers and high tariffs were settled, which forced Philips to build local production facilities. Further, the independent National Organization (NO) was established due to the war (Bartlett, 2009). The movement from a centralized to a decentralized organization takes form as a matrix structure (see Figure 1) where multiple products, locations and functions are coordinated (Grant, 2016). The NOs were located in different countries, responding to different consumer preferences and market conditions took care of e.g., financial and administrative matters. This meant that the NOs acted as individual entities. The Product Divisions (PD's) located in Eindhoven were responsible for example, product and global distribution. This is a kind of product/geographic matrix where the employees reported to cross-functional managers while the NOs reported directly to the management board. The movement from a national company operating in Holland to acting internationally Philips with its decentralized localization strategy where the NOs are highly self-sufficient responding and adapting to local environment shows that Philip is a multinational company (see Figure 2 for further information) (Bartlett, 2009; Grant, 2016).

There was a power shift with the evolved organizational structures. Initially, Philips was vertically controlled by two brothers taking all decisions. When the decentralized structure evolved, the NOs had the power to a much great extent. The shared management was also evident within the NOsthe initial strategy of Philips followed the same arrangement until 1960 when environmental factors affected Philips's ability to bring new products to the market.

3. How did the evolved strategy create a disadvantage for Philips?

3.1. The downfall of the decentralization

At first, decentralization was a smart strategic choice to overcome barriers and high tariffs and worked out post-war, becoming more adaptable to the market. Though the ongoing decentralization and when the Common Market was created in 1960s, which removed trade barriers, eventually led to the expansion of the distance between the NOs and the top management in Eindhoven, which led to the NOs becoming more focused on their respective markets. The relationship between the PDs and NOs was not defined, which led to the NOs doing what suited them the best. The complex, decentralized organization structure led to problems with coordinating the different dimensions due to different interests and a lack of strategic alignment. Challenges in coordinating and aligning the goals creating a common strategy for Philips, is a prevalent problem with matrix structures (Grant, 2016).

Further, Philips could not produce the amounts needed due to the small size of the plants and at the same time, competitors started to move their manufacturing to low-wage areas to streamline production. The matrix structure also contributed towards slow decision-making; by the time, respectively CEO implemented their idea it was time for the next cut-back. Decentralized production facilities and a growing range of products without coordination led to that Philip could not keep up with the changing external environment or with the cost-effective Japanese rivals (Ernst, 1997). Philip still came up with new innovative products. For example, they developed the microwave and audio cassette, but the developments were competed by other firms with the ability for mass-productions. This shows that Philips's organizational structure became their disadvantage since it was highly ineffective, too slow in responding to changing competing international circumstances. The consumer electronics industry also went from an introductory stage to a growing phase where the critical challenge is the ability to scale up the production (Grant, 2016), which Philip did not manage to tackle.

4. How did Matsushita overtake the position as number one?

4.1. Matsushita's resources and capabilities

Matsushita was established in 1918 at the heart of Japan, Osaka. By 1987, Matsushita had become the new leader in the consumer electronics market, overtaking the lead from its competitor Philips. Matsushita's ability to establish itself as the number one on the consumer electronics market can be related to the efficient organization management of resources and capabilities as well as its influential culture. Similar to Philips, Matsushita's initial business strategy revolved around the production and distribution of a single product, the double-ended sockets (Bartlett and Ghoshal, 2002). This focus eventually allowed the company to develop capabilities within product development, which further boosted the expansion of Matsushita's extensive product range. Matsushita continued to expand its business by increasing their domestic retail outlets and developed a strong distribution capacity, which not only increased its sales but also granted them access to current market trends. The company also invested significantly in the underlying technology, which was developed in the central research laboratory (CRL). However, product development and engineering were created in separate divisions (Bonaglia, Goldstein and Mathews, 2007).

In 1933, Matsushita adopted a divisional structure that enforced decentralized decision making, something which, according to Grant (2016), is a significant advantage. The divisional structure supported Matsushita as it created internal competition between divisions, which drew attention to new ideas and innovations. The emergence of the divisional structure, as well as the management's decision to keep the CRL function underfunded, was a deliberate strategic move to keep the internal competition running, maintaining a "hungry spirit."

Backing the expansion was also the Matsushita's financial resources, where corporate management supported the individual divisions with funds, enabling them to develop independent competencies. By 1960, the company had established a strong position; however, when the post-war growth slowed, Matsushita realized that they had to start looking beyond its current market. According to lessons from leading papers, a consistent pattern of failure is the inability for companies to stay on top of their industries (Hambrick and D'Aveni, 1988; Christensen and Bower, 1996). The focus on the current market and customers may sometimes act as a blinding factor as the development and commercialization of new technologies in emerging markets potentially go unrecognized (Bower and Christensen, 1995). Matsushita understood at an early stage that it had to look beyond its current product lines and distribution systems to achieve growth. In response to this knowledge, they began to focus on exports.

4.2. Internationalizing through expansion

As the common market emerged in the 1950s and 60s, Matsushita started to increase by establishing plants, manufacturing and assembly operations abroad. Due to external pressures, the company began to open plants and relocate the more basic production to low-wage countries in order to take advantage of the low costs. The high-value components, however, still produced in Matsushita's plants in Japan. This construction was highly centralized as most decisions were made by top-managers at the headquarters and production divisions. The control enabled the company to speed up the process of bringing products onto the market.

5. How did the initial strategy of Matsushita relate to the organization of the corporation?

5.1. The beginning: Divisionalized structure

In the beginning, Matsushita was established as a small company producing double-ended sockets. Matsushita first set up various distribution outlets in the local market, which enabled Matsushita to have direct access to market trends and the consumer product reaction (Bartlett and Ghoshal, 2000). The company also benefited from having a wide range of products and executed the "one-product-one-division" model. The headquarters functioned as banks that could lend money to the divisions, and each division then paid a portion of the earnings to the headquarters. This organization structure enhanced the degree of competition within the company and among divisions. Moreover, the divisional structure represented an idiosyncrasy of the company being successful in Japan and had created an adaptive structure with low costs and also created an inter-competitive environment for product development (see Figure 3).

5.2. Centralization of organization structure

Additionally, Matsushita adopted a centralized structure in which it called for a hierarchical method of making decisions where the final decisions were strictly reviewed and handled by the senior management team. Managers at the regional level had a limited right of speech and were also unable to execute new processes without prior approval from senior managers (Kodama, 2007; Kono, 2016). When the company further internationalized and when it had overseas branches, Matsushita would tend to neglect the needs and preferences of consumers in the international market by allowing the management team at the parent company to make final decisions. However, over time this centralization management approach became the foundation for Matsushita's success. This strategy provided the opportunity for product control while simultaneously keeping the company's global image (Verbeke, 2013).

5.3. Hierarchical Structure & Localization

Hierarchy is one of the most fundamental features of an organization and it is the primary means through which companies achieve coordination and specialization (Grant, 2001). Matsushita had changed from a global functional model with a centralized-decision making power to a decentralized international division model, in which each division had more profit responsibilities in each geographical location. However, most crucial decisions were made by the headquarters and the product division in Japan as the company built their global competitiveness, while local overseas subsidiaries mainly dealt with sales and marketing. Besides, the sub-division in each regional market could respond better to customer demand and preferences. In the 1980s, Matsushita launched the "Operation Localization" aimed at balancing the allocation of responsibilities. The employment of non-Japanese in positions worldwide and assigning more resources to the local division developed and enhanced technological and functional capabilities.

6. How did the evolved strategy create a disadvantage for Matsushita?

6.1. The disadvantages of a Divisionalized structure

The Divisionalized organizational structure of Matsushita created positive incentives such as the establishment of the internal competitive environment, which further spurred the appearance of new inventions and innovations. However, it also featured negative aspects which in Matsushita's case mainly refer to the foreign subsidiaries' strict accountability to headquarters, which according to Grant (2001, 2016), is a common adverse effect of the Divisionalized structure. Matsushita's firm centralized control over its foreign subsidiaries in combination with the Japanese culture and management style leads to multiple disadvantages for Matsushita. The power exerted by the central organization limits regional innovations. Local managers of the divisions were told that they had the autonomy, but in reality, they were still controlled by the central establishment. For instance, profit and sales targets were set by the product divisions and by the Matsushita Electric Trading Company (METC). Plants, equipment, materials and manufacturing procedures were sourced from the central organization. In addition, Japanese managers were relocated and stationed in high positions in the different divisions and maintained a direct link with the parent company. There was also excessive control over R&D due to the centralization and divisional structure, which was inefficient in creating new technologies.

Even though measurements had been taken to become more decentralized during the company's internationalization process, the strong influences from central management and the established centralized structure made it challenging to seclude the primary power over local operations. In effect, the remote units were mostly dependent on the managerial capabilities and they acted little more than implementing agents, which limited the ability for innovation and entrepreneurial mind-sets in its offshore subsidiaries. As such, the company was unable to assess the requirement of the target market; thereby, the central division made decisions without much consideration of the international division's value and market behaviors (Hollensen, 2007). In addition, under Japan's strongly-held commitments to lifetime employment, there was resistance to cutting back on workforce and production plants. Thus Matsushita was challenging to compete with other companies that outsourced to low-cost Asian countries as the company was unwilling to restructure some of its inefficient production facilities in Japan.

7. Recommendations to the CEO's

7.1. Recommendations to Philips CEO

In the last decades, the strategy of Philips has been characterized by cost-cutting and lack of a consistent strategy alignment. Another issue Philips has struggled with is that it has taken a long time to implement strategic decisions. During the attempts from the different CEOs to reorganize the company, large parts of the R&D department has been cut back. The R&D of Philips has traditionally been their strength and a great advantage for them as they have been able to foresee what technological innovations will be imperious in the future. First, we suggest Philips rebuild their R&D department and take advantage of their technical knowledge that they possess. Focusing on R&D and prioritize the development of new technologies and products while outsourcing the manufacturing process will give them a position where they benefit from differentiation creating a premium brand, being a technology leader. Secondly, it further implies limiting their vertical scope and cutting costs by outsourcing the manufacturing of the products. Philips, as a European company, won't be able to compete with economies of scale, such as Matsushita, since other companies will be able to imitate at a lower cost than creating cost advantage benefits.

Thirdly, we recommend Philips to continue taking a more centralized approach to avoid being "stuck in the middle." Earlier, Philips has encountered a more decentralized transnational approach, which proved to be highly inefficient, where the NOs acted as their own companies (Bartlett and Ghoshal, 2002). Therefore, we recommend Philips to become a multinational corporation. Philips will still have factories and offices spread around the world. Still, they will have centralized management, which will contribute to speeding up the decision-making process and also enhance their response to the changing international circumstances. They will also be able to integrate the advantages of being a global integration with the benefits of national differentiation and, therefore, can meet consumer needs in each domestic market while expanding globally (Grant 2013). Philips has not acted as an aligned company. Still, as a multinational corporation where the management makes decisions, this will change, and the entire organization will be able to benefit from resources and capabilities each national unit possess. One crucial advantage Philips would acquire is the fact that they can maintain more excellent responsiveness to local markets where facilities are maintained while still having a centralized and aligned organization.

Finally, looking at Philips Net Sales by product segment, lightning consists of 13% of the total and consumer electric 39%, which makes this the majority of their net sales in 2000. Although this only generates 16% (lighting), respectively, 9% (consumer electric) operating income compared to components that create 45%. Therefore, it is essential to complement their core business, lighting and consumer electrics, with complementary elements that increase customer value and make Philips more competitive. At the same time, it is crucial for Philips to continue the innovative technical improvements on its core products, which will e.g., make it harder to imitate and create a competitive advantage. This will enable the customers paying a price premium for Philips products increasing the rate of return (Grant, 2016).

7.2. Recommendation to Matsushita's CEO

Firstly, it is recommended that Matsushita continue the efforts to rationalize production processes further even if it might face stiff resistance from Japanese managers. Combined with the rising labor cost in Japan and the appreciation of Japanese yen, the company could transfer more of the production divisions to other places that could guarantee cost-efficiency and reap benefits from the economies of scale.

Secondly, Matsushita is also recommended to draw more attention to their inability to develop technological capabilities. If subsidiaries do not develop capabilities, then they still would be highly dependent on the parent company. In this case, Matsushita would not benefit from knowledge exchange or from innovation that might emerge from localization to customer's preferences. Therefore, Matsushita should allocate more resources to its subsidiaries also delegate more administrative powers to boost innovative value-creation. Thirdly, Matsushita should also evaluate the suitability of their investment strategy. Matsushita should not invest in countries that suffered from the economic recession. The company should avoid de-valuating or over-valuating the local currency as this could take a toll on price setting. Thus, it is recommended that Matsushita should not limit the investment decision in a few regions only, but to invest around the world to avoid the impact of the regional economic recession.

Fourthly, Matsushita should also study the role that the influential traditional Japanese culture plays in the company. The corporate culture exerts limitations for subsidiaries to become independent from the parent company. It is recommended that through strengthening the process of transferring executives from the headquarter to the subsidiaries and vice versa, then a network of expatriates can be developed that could promote communication and collaboration among different business divisions. Additionally, it is anticipated that each division could share the knowledge and form a new corporate culture, which would be more flexible with a global orientation and more acceptance of different cultures. This strategy, however, requires exquisite planning, while it could only take effects in the long-run.

Finally, it is worth noting that, like every other company, Matsushita could gain a competitive edge by sensing the needs in one market and respond with capabilities located in a second market, and later diffuse the innovation to the markets all over the globe. Matsushita should study local designs and produce differentiated products in various diverse locations for the different global market segments.

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10. Appendix

Figure 1: Philips Organizational Structure

TOP Management

Geographic

Product

Philips Matrix Structure	NO X	NO Y	NO Z
PD X			
PD Y			
PD Z			

Figure 2: Summary of Philips' Organizational Development

(i)

Leadership	**G. Philips (1892)**	**Van Reimsdijk (1970s)**	**Rodenberg (1970s)**	**W. Dekker (1982)**
Action taken	National Organizations (NOs) possessed real power	International Production Centres (IPCs) Yellow Booklet	Exercised single management	Exercised closed inefficient operation
Results	Had ability to deal with country-specific condition	Had power struggle between the Product Divisions and National Organizations	Still power struggle between Product Divisions and National Organizations	Sales volume still dropped

(ii)

Leadership	**Van der Klugt (1987)**	**Jan Timmer (1990)**	**Cor Boonstra (1996)**	**G. Kleisterlee (2001)**
Action taken	Established four core businesses; Downsized R&D spending;	Cut job opportunities;	Shifted production to low wage countries;	Outsourcing; Closed European plants;
Results	Financial losses	Inadequate innovation	Improved performance	Increased shareholder pressure

Figure 3: Summary of Matsushita's Organizational Development

Leadership	K. Matsushita 1918	T. Yamshita 1982	A. Tanii 1986	Y. Morishita 1993	K. Nakumura 2000
Goals	Strive for a being a successful company	Assist overseas company with their initiative capability	Continue the predecessor's goal	Reduce headquarter staff; Decentralize responsibilities;	Concretely raise profitability by 5%;
Action taken	One-product-one-division; Product line extension	Operation Localization; Exercised more control on local divisions	Integrate domestic and overseas operations	Shift production facilities offshore; Increase R&D investments	Headquarter has key functions
Results	Created good relationships with other divisions.	Overseas productions divisions depend highly on the headquarter;	Generated cash reserves; Overseas divisions still dependent on headquarter;	Resistance within the organization that prevents changes	In deep financial trouble