

Sony

Back in Japanese hands

TOKYO

Kazuo Hirai's new strategy gives Sony's business a blurry future

IT IS too much to expect one man single-handedly to rescue Sony, the Japanese firm which formerly made world-beating electronic products but is now almost as well-known for making losses. Even so, Kazuo Hirai, who unveiled his outlook for the company on April 12th less than a fortnight after taking its management back into Japanese hands, has had a tumultuous start.

On April 10th the company predicted it would lose 520 billion yen (\$6.5 billion) in the fiscal year that ended on March 31st, the biggest loss in its 65-year history. The new forecast, twice as bad as had been expected as recently as February, clobbered its shares, which have fallen by 40% in a year. The increased losses stemmed largely from an accounting charge: in the company's fourth consecutive year of red ink, Sony decided it could no longer carry tax losses as an asset. "The news hit me hard," Mr Hirai admitted.

But paper losses aside, the underlying electronics business is also bleeding money. Mr Hirai laid out aggressive targets to improve performance, though he offered few concrete ideas on how to achieve them. Interestingly, he named three products as core to Sony: digital imaging, including cameras; gaming; and mobile phones. Conspicuous by their absence were televisions.

They are not just a problem for Sony,

which has lost money on the business for eight years. Sharp and Panasonic, its two main Japanese rivals, are also likely to lose money on TVs this year, as well as on other parts of their electronic businesses. (On April 10th, Sharp, too, issued a profit warning). What makes televisions such a millstone for these firms is that none has the guts to exit the business completely; nor are they aggressively revamping it. Instead they lean towards what Yoshiharu Izumi of J.P. Morgan, a securities firm, calls "managed decline".

Mr Hirai had already announced that Sony's TV production goal would be halved, from 40m units to 20m. There was little to suggest he has any higher hope for TVs than to turn a profit in the year ending March 2014. However, he left open the possibility of alliances with other Japanese

television makers: talk of such co-operation has grown since Sharp was part-sold to Taiwan's Hon Hai, Apple's main supplier, last month.

Analysts hope that, being Japanese, Mr Hirai will have more success than his Welsh-born predecessor, Sir Howard Stringer (now Sony's chairman), in uniting Sony's 168,000 employees behind a call for reform. But apart from repeating "Sony will change" any number of times in his opening presentation, there was not much evidence of new thinking. He mentioned 10,000 job cuts, but at least 3,000 of these will be accounted for by spinning off companies. To those worried about Sony's decline, it is whole divisions, not jobs, that need to be cut, in order to focus on what the company does best. Sadly, that message did not come through. ■

Honeywell International

From bitter to sweet

LINCOLNSHIRE, ILLINOIS

How one of America's most messed-up firms became one of its best

AT A factory in Lincolnshire, Illinois, of Honeywell International, an electronics giant, even the clock on the factory wall is not just on time but on message. At quarter past the hour, which is when all meetings begin, the big hand enters a green-shaded segment that turns red at half past. It is a small hint to keep meetings under 15 minutes. This is typical of the attention to detail apparent at the factory, where Honeywell makes systems for detecting toxic gas. On the floor of the main meeting room a dozen or so job titles are painted—thus to indicate at a glance where their holders should stand and which reckless employee has failed to show up.

Honeywell likes its meetings short but plentiful. Every production cell, as the smallest shop-floor unit is called, starts the day with one. The aim is to try to identify problems and ideas for improvements, which are then pushed up to senior managers. Even the lowliest worker is expected each month to come up with two implementable ideas for doing things better. As an illustration of the firm's devotion to "continuous improvement", this is one of the pillars of what has become known as the "Honeywell operating system" (HOS).

This new production system, introduced over the past eight years, has helped transform Honeywell from a troubled giant to one of America's most successful companies. Honeywell's sales in 2011 were 72% higher than in 2002, and its profits doubled to \$4 billion. A new emphasis on generating cash also means the firm has

more money in the bank for every dollar declared in profit.

At the Lincolnshire plant, a short drive from Chicago's O'Hare airport, managers credit the HOS with a huge improvement in productivity—without which, they say, it would have struggled to survive the recent downturn. It used to take 42 days to make and deliver a sophisticated toxic-gas detector, for clients including Intel and Samsung; now it takes ten. The production process used to consume the factory floor; now, it uses merely a quarter of it. This has freed up the rest of the factory to make lots of other products.

The factory therefore makes more stuff, generating more revenue, with essentially the same headcount, square footage and energy consumption. That has got it to the HOS's "bronze" level, along with another 100-odd of Honeywell's roughly 250 factories worldwide. Its denizens are now striving for silver (alas, according to one of many progress and performance reports posted on the factory wall, it failed to meet its goal of doing so by December and is now aiming for June). Product quality has also improved at the factory. So has safety, which its bosses concede had not been anywhere near good enough. Last month a sign on the wall declared that it was 232 days, and counting, since working time was lost to an accident (apparently a minor one). This may be one reason why surveys of employees report a continuous improvement in job satisfaction, notwithstanding all those meetings. ►►



No hurrahs for Hirai

► The factory has experienced a leap in productivity due largely to the successful application of management theories: including Six Sigma, which sanctifies an intense regard to quality, and Japanese “lean manufacture”, which is based on minimising waste, keeping inventories low and doing things “just in time”. These are both integral to HOS, which is a customised version of the celebrated Toyota operating system. It was indeed drafted, in 2004, after dozens of Honeywell staff spent two weeks at the Toyota plant in Georgetown, Kentucky.

The improvements at Honeywell are especially remarkable because of the troubles it was then suffering. It had been left disorientated by a 2001 ruling of the European Union, on antitrust grounds, to forbid its planned acquisition by General Electric (GE). That hoped-for sale had in turn represented something of an admission of defeat by Honeywell’s then bosses. The company emerged in 1999 after the original Honeywell, which was largely concerned with controls and aerospace, was bought by Allied Signal, an aerospace, automotive and engineering firm which, though twice the size, took the Honeywell name for its greater public recognition.

Melding the two firms proved hard. Under its legendary former boss, Larry Bossidy, Allied Signal had become obsessed with cost control, arguably at the expense of needed long-term investment. The original Honeywell, by contrast, had a reputation for being customer-centric and creative, but not terribly good at “execution” (which was, incidentally, the title of Mr Bossidy’s best-selling book on management). The acquisition, in 2000, of Pittway, a home-security and surveillance firm, worsened the culture clash. It was not until the appointment of a new boss, David Cote, in 2002 that the modern Honeywell began to emerge.

Mr Cote, who was running TRW, a smaller conglomerate, when Honeywell came calling, cut his executive teeth at GE under Jack Welch. But he is a humbler sort of boss than “neutron Jack”. His task was to instil a new Honeywell culture. Rather



Happy days at One Hon

than focus on values (which are “tougher to measure”), he identified 12 “behaviours” that he wanted to see throughout the firm, including customer focus, self-awareness and championing change. Employees were indoctrinated in these in a forthright retraining exercise, known as One Honeywell (“One Hon”). In addition, Mr Cote and his team proceeded to shuffle Honeywell’s portfolio, to be in businesses with stronger growth prospects; as well as introducing the HOS, to improve productivity.

Today, Honeywell remains a conglomerate, but a much less sprawling one. Mr Cote reckoned only 80% of the businesses he inherited met his benchmark of having a strong position in a strong industry, so he set about offloading the rest, while strengthening the 80% with a series of around 70 smallish acquisitions. Among the businesses sold were the consumer auto-products division, which made air filters and spark plugs. Honeywell now has four main business lines: aerospace, automation and controls, transportation, and materials and technologies that boost the performance of production processes.

Strikingly, many of its main competitors are American—firms such as United Technologies, Johnson Controls, Tyco and Emerson—reflecting the country’s continued strength in high-end manufacturing. But Honeywell now employs 12,000 people in both China and India, up from barely 1,000 in each a decade ago. And 54% of revenues now come from outside America, up from 41% in 2002.

Honeywell has become a cautious acquirer—understandably, given the difficult cultural legacy Mr Cote inherited. This, he says, required a “changed mindset

about how to do a deal.” As a result, Honeywell now only considers making an acquisition with the potential to deliver immediate cost savings worth at least 6-8% of sales revenues. Among the more successful purchases have been those of Novar, a building-controls firm in Europe, and the 50% Honeywell did not already own of UOP, a speciality-materials firm it set up jointly with Dow Chemical.

Mr Cote’s belief that it is better to get something right than to do it quickly also shaped the roll-out of HOS. After the initial template was created following the visit to Toyota, it was piloted in ten factories. After six months, it was found to work in half of them, so it was tweaked and tested in five more. Only when it was working well was it deployed more broadly. It is now in use in every Honeywell factory. It also took far longer than expected to get many factories to the bronze state of compliance; a lot have done so in the past two years. A big difference between bronze and silver seems to be the extent to which the factory is proactive in working with suppliers and customers to improve the production process. Quite what rising to the gold level might involve is a matter of debate.

One of the hardest asks in implementing the new theory was to get workers—many of whom had been doing the same job for decades—to adjust to a more decentralised power structure. “You have to get to the point where people say, ‘this is how I do my job now’,” says Mr Cote.

Hon for the money

Now Honeywell’s problems are of a different order. One of its biggest quandaries, in common with many booming American multinationals, is what to do with its growing cash pile. Its last share repurchase programme was poorly timed, just before the market crash in 2008, an error the firm seems wary of repeating. Mr Cote has also rebuffed suggestions that he might fancy doing a big transformational acquisition—which is just as well, given the market’s memory of the big deals that brought the current Honeywell into being.

According to Jeff Sprague, of Vertical Research Partners, an independent firm of analysts, although Honeywell’s share price has far outperformed the S&P 500 in the past ten years and is now close to its all-time high, many investors still cannot bring themselves to trust that the company “won’t make another mistake. These old reputations take a long time to die.” However, given its fine results, including hundreds of new products a year—up from a handful ten years ago—and a range of businesses well placed to benefit from global trends towards energy efficiency and safety and security, perhaps the time has come to let go of the bitter memories of the old Honeywell. The new version is much sweeter. ■

Sweet success

Share prices, January 31st 2002=100

