



Provisional Translation

The 16th Corporate White Paper
Creating a New Style of Japanese Corporate Management

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Forward: The 16th Corporate White Paper

After the bursting of the economic bubble at the beginning of the 1990s, Japan's economy went through a long period of stagnation. Many Japanese enterprises suffered from excess equipment, employment, and debt; we were forced to give first priority to resolving these problems until the early 2000s. While the Japanese economy was passing through this long, dark tunnel, the global economy changed significantly. As the economy rapidly globalized, people, commodities, and money came to cross borders dynamically, and new growing markets and enterprises were born mostly in emerging nations. To take advantage of the growth in the global economy, American and European enterprises created a variety of business models and services in response to globalization and entered the markets. Having failed to satisfactorily handle the changes, Japanese enterprises could not recover the confidence they had in the past and sought the ideal of corporate management in the midst of increasingly fierce global competition.

On the other hand, structural reform was expected to realize a vibrant economic society in Japan. Although it seemed to accelerate under the Koizumi cabinet, the movement toward reform slowed later, as if walking away from the briskness of the global economy.

Two years ago in April 2007, when I assumed the position of chairman of Keizai Doyukai (Japan Association of Corporate Executives), Japan's economy was at a dead end. To break away from that feeling and revitalize the Japanese economy, it was essential to build a sound market economy and to promote the enhancement of global competitiveness of Japanese enterprises. From this belief, I proposed the idea: "Creating a New Style of Japanese Corporate Management."

Needless to say, Japanese enterprises have a sense of value and unshakable strength based on the culture and history of Japan. In this era of global mega-competition, today's Japanese enterprises want reconfirmation and maximum utilization of such strength - restart from strength, in other words. Or, Japanese enterprises want implementation of corporate management that will embrace the diversity of the world, or fusion management, and creation of a strong, gentle company that can win true confidence from international society. Based on the experience of managing a company abroad, I am confident. Our Committee on Corporate Management headed by Yasuchika Hasegawa took up this issue and started discussions in liaison with other related committees. Finally, the Committee compiled the "Creating a New Style of Japanese Corporate Management," as the 16th Corporate White Paper in response to the new era.

In the autumn of 2008, when they were writing this paper, the international financial crisis was spawned, triggered by the collapse of Lehman Brothers. It escalated in the twinkling of an eye to become the greatest global recession of the century. It cannot be denied that financial

and capital markets were out of control under the market fundamentalism of the United States and the U.K. There must be many people who felt the limit or harmful influence of corporate management that attached importance to short-term profit only.

Such an attitude must be the reason why the trend lies in the reevaluation of Japanese-style corporate management. It may be reaffirmed that the following factors are effective in a new economic society or new style corporations, including the strength of Japanese enterprises based on Japanese values, the sense of ethics of corporate leaders, their middle- and long-term viewpoints, multi-stake holders, customer orientation, a philosophy that attaches importance to “*Gemba-Genjitsu-Shugi* (Frontline-first and reality-based approach)” that inhibits separation of management and workplaces, and the focus on long-term relationships with clients.

Now is the time when we have to start innovating corporate management in anticipation of changes in the management environment that will continue even after we overcome the current crisis, while implementing measures against the global recession right now. Such global issues as expansion of globalization, combating global warming, and securing a stable supply of resources and energy have become evident; in addition, the declining birthrate and the growing proportion of elderly people and widening of the income gap must be tackled and overcome. In this way, the management issues confronting us are growing larger in scale and expanding into middle- and long-term problems. I believe that the companies operating in this new global era should have the following three important aspects:

First, implementation of corporate management based on a vision or philosophy. Many Japanese companies that arose from the devastation of the defeat in the war had a clear vision of serving society and showed remarkable growth.

The second aspect is to identify and polish the strengths to work even in the present day. After that, it is necessary to invent a completely new way and then try to merge the strengths and the new way.

Third, we have to earn the trust of international society. For this purpose, it is essential for society to be confident in the company.

It is our pleasure to issue the 16th Corporate White Paper at this time. This is the final integration of the realities based on the experiences of corporate leaders who have survived mega-competition. We hope this will be of some help to as many executives as possible not only in Japan but worldwide.

Of course, a unique style of corporate management makes a difference to competitors, enhances international competitiveness, and leads to trust by international society. It is also important, however, to look back on the strength that Japan extracted as best practices in the White Paper and to aim for corporate management that demonstrates distinctiveness and strength and is able to win the confidence of society.

Last, I would like to express my sincere gratitude for the tremendous help provided by corporate leaders who supplied the best practices, participants in the panel discussions and interviews, Yasuchika Hasegawa and the members of the Committee on Corporate Management, and the members of the related committees and the secretariat.

Masamitsu Sakurai
Chairman, Keizai Doyukai
(Japan Association of Corporate Executives)

Preface: Japanese-style management is now questioned

The fundamental philosophy underlying the 16th Corporate White Paper is to consider a new style of Japanese management by returning to the very essence of the way of thinking that formed the basis for prosperity in today's Japan: *Onko Chisin* and *Wakon Yosai*. The former means handling today's new things by studying facts from the past, and the latter means learning Western culture while not forgetting Japan's traditional spirit, and then skillfully combining the two different concepts.

In other words, Japanese enterprises have introduced and adapted the advantages of Western nations to Japanese culture, while retaining the nation's history, traditions, culture, and ethnic characteristics to form an original corporate culture, a spirit underlying management, and an approach to corporate management. We will extract the strengths of very successful Japanese companies. At the same time, global enterprises based in Europe and the United States have the strengths of their own management approach and systems, which have sometimes been implemented but have not yet become popular even in Japanese companies that have established their own method of globalization in an increasingly globalized business world. We will extract what we should introduce from them. Then, we will combine these two extracts to form the essence of the New Style of Japanese Corporate Management and the final integration of the efforts to determine whether they can be generalized, which will become the 16th Corporate White Paper.

The sub-prime loan issue emerged in 2007 and revealed an extreme form of American market fundamentalism, where everything was left to the movement of the market. The sub-prime loan problems triggered the collapse of the financial markets, which was instantly accelerated by the bankruptcy of Lehman Brothers on September 15, 2008. Thus, in the blink of an eye, the unprecedented global economic boom became an unprecedented global economic crisis. Under the most drastically changing circumstances that we had ever experienced, Japanese enterprises were forced to respond to the steadily progressing globalization and to unparalleled depression at the same time. Although we theoretically understand that we need a new approach to deal with the unprecedented situation, it is not easy to take specific steps. For Japanese enterprises, especially, which are not always good at implementing prompt, appropriate measures in response to major changes, it is even more difficult.

Under the circumstances where all enterprises are desperately seeking ways to respond and survive major changes, we should understand that the prolonged war of attrition against other Japanese companies in a dull domestic market with a dwindling birthrate and an aging population means the path to catastrophe, and such understanding should be immediately

reflected in specific corporate activities. Undoubtedly, now is the time when we should seriously consider mergers between large-scale companies, which could not have been imagined before. For middle and small-sized companies that do not have the strength and know-how to enter overseas markets alone, the necessity of preparing to open the door to the future using such methods as M&A is greater, in addition to improving productivity and efficiency.

Now is the time when Korea and China will quickly catch up to the technological innovations made by Japanese enterprises, as Japan did in the past. In order for Japan to survive, it is essential for management to develop the firm resolve to remain ahead of other nations and continue to lead in innovation by committing to the acquisition and development of human resources and continued investment to enable realization of the above. With the previously described perception, we edited this report entitled “New Style of Japanese Corporate Management.” We would be pleased if this report helps in any way those who are involved in difficult corporate management in the midst of the greatest transformation.

Yasuchika Hasegawa
Chairman, Committee on Corporate Management, FY 2008
Keizai Doyukai (Japan Association of Corporate Executives)

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The Current Financial Crisis Viewed from a Corporate Leader

1. Response of Japanese Companies to the Financial Crisis

Diagram 0-1 is an analysis of account settlements for fiscal 2008 (from April 2008 to March 2009) for 16 manufacturers (machinery, precision machines, and automobiles) representing Japan. We broke down the annual results for fiscal 2008 into two categories: the first to third quarters (April to December 2008) and the fourth quarter (January to March 2009). More than half of the companies were in the red in terms of operating income in the fourth quarter. For six out of the 16, the ratio of deficits vs. net revenue was more than 10%, which is very serious.

We presumed that one of the factors behind this problem was the strong yen and looked at the relationship between the ratio of overseas sales and the operating margin for the fourth quarter of each company to find a negative correlation (Diagram 0-2). For example, all companies with an operating margin of minus 15% or more have an overseas sales ratio of 70% to 90%.

Under the circumstances, it is necessary to stop the bleeding immediately, though it may be a stopgap measure. Most Japanese companies would begin by implementing the following three traditional countermeasures:

- Reduction in product costs and fixed costs
- Postponement and cancellation of capital investments
- Inventory reduction

Although a reduction in product costs and fixed costs is already a part of day-to-day improvement activities, no exceptions should be allowed in the event of an emergency. When we look at remuneration, reductions should first be applied to executives and then to managers.

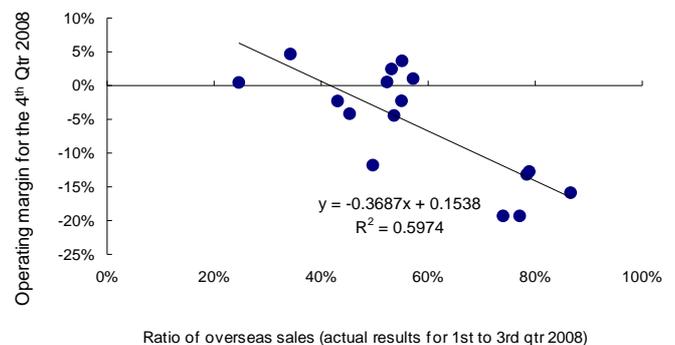
Diagram 0-1: Account settlement major Japanese manufacturers for fiscal 2008 : Actual results for the 1st to 3rd Qtr vs. 4th Qtr

	(1) Actual results for 1st to 3rd Qtr 2008 (Jan to Dec 2008)			(2) Actual results for 4th Qtr 2008 (Jan to Mar 2009)			Ratio of overseas sales of 1Q-3Q
	Net revenues	Operating Income	%	Net revenues	Operating Income	%	
Toyota	169,932	2,215	1.3%	35,363	▲ 6,825	▲19.3%	74.0%
Honda	82,273	4,727	5.7%	17,839	▲ 2,830	▲15.9%	86.6%
Hitachi	75,711	1,826	2.4%	24,292	▲ 554	▲2.3%	43.1%
Nissan	66,858	925	1.4%	17,512	▲ 2,304	▲13.2%	78.4%
Panasonic	62,237	2,545	4.1%	15,419	▲ 1,816	▲11.8%	49.6%
Sony	62,059	665	1.1%	15,241	▲ 2,943	▲19.3%	77.1%
Toshiba	49,830	▲ 1,762	▲3.5%	16,715	▲ 740	▲4.4%	53.6%
Fujitsu	35,077	134	0.4%	11,852	554	4.7%	34.3%
NEC	30,761	▲ 114	▲0.4%	11,395	52	0.5%	24.6%
Mitsubishi Heavy Industries	23,797	1,006	4.2%	9,960	53	0.5%	52.3%
Ricoh	15,680	864	5.5%	5,237	▲ 118	▲2.3%	55.0%
Komatsu	16,427	2,002	12.2%	3,791	▲ 482	▲12.7%	78.9%
IHI	9,326	6	0.1%	4,180	▲ 174	▲4.2%	45.3%
Kawasaki Heavy Industries	9,550	147	1.5%	3,836	140	3.7%	55.1%
Kubota	8,416	963	11.4%	2,658	65	2.5%	53.1%
Amada	1,766	182	10.3%	492	5	1.0%	57.2%

Unit: 100 million yen
* rounded off to the nearest hundred million

Source: Financial statement of each company

Diagram 0-2: Relationship between the ratio of overseas sales and the operating margin for the fourth quarter 2008



(Source: Announcement of financial statements of each company)

Only when such reductions are insufficient should they be expanded to non-management staff. The attitude is different from that of the United States, where labor is generally thought of as a cost. For employment, the hot issue is how we should handle non-regular employees and fixed-term employees, both of which were not popular in Japanese companies a decade ago. In today's business climate, where a number of large businesses have been forced to face fierce global competition, using them as a means of employment adjustment in the midst of an economic recession is inevitable to some extent. Because today's depression is extremely serious, it is not appropriate to accuse only employers. However, I would like to point out the undoubted fact that the strengths of Japanese companies—the endurance, cooperation, and integrity of employers—are being tested in this crisis from the viewpoint of employment.

Second, all companies referred to the postponement and cancellation of capital investments. For example, the size of the mine construction machinery market more than doubled in 2007 due to the growth of BRICs and other developing and resource-rich nations. To meet demand and to enhance productivity, most companies invested in facilities, including the construction of new factories. Demand, however, declined remarkably after the Lehman crisis in September 2008, and each company significantly reduced investments.

The third measure is inventory reduction. When sales fall due to a rapid drop in demand, even an appropriate inventory becomes excessive. In the current situation, the reduction was too sudden, and the speed of the response to the change varied enormously depending on the company and industry. The way to reduce inventory is to adjust input or output, or roughly speaking, reduce production or the expansion of sales of inventory. The headache underlying the latter choice is the condition of sales. A popular example is price cuts. However, price cuts should be avoided from the midterm viewpoint, wherever possible, because it will reduce brand value. Actually, a price once cut is not easily recovered. In addition, when a company is experiencing a downturn in the marketplace, even price reductions may not increase sales. In this sense, inventory reduction by immediate adjustments in output may be reasonable, although the success of both is dependent on the financial status of each company. We can do nothing about the inventory we already have, but it is important to learn from the crisis to deal with rapid environmental changes like this in the future. If we talk about inventory again, such companies that resort to extreme measures, including having no inventory of goods-in-process and completed products, would likely survive.

2. Positive Response Viewing the Crisis as an Opportunity

For medium and long-term development, we must regard the crisis as an opportunity. It's easier said than done. Under these circumstances, however, the crisis is a good opportunity to fundamentally reform the system or overcome weaknesses that have not changed. Here, we would like to roughly categorize the responses:

- Structural reform

- Selection and focus on business
- Development of strategic products

First, a typical example of structural reform is abolishment and consolidation of organizations and functions. Structural reform means streamlining by abolishing or consolidating production facilities and sales organizations to respond to market shrinkage or restructuring headquarters. For example, Komatsu reviewed its sales structure in Japan and integrated twelve domestic consolidated subsidiary dealers into one in April 2009. The company also plans to consolidate nine production plants in North America into five in 2009, while production capabilities in Asia and BRICs will not be reduced. Because obtaining and sharing local information has become easier thanks to advances in information technology, the functions of existing regional headquarters around the world tend to be omitted wherever possible, and each region, workplace, and the headquarters in Japan can be directly connected. Cost reductions are, of course, expected. Moreover, important decision-making and feedback of local and on-site information are accelerated; therefore, competitiveness is enhanced, which will be beneficial. Furthermore, the company promotes inventory reduction on a global scale, aiming at building an operation system with almost no inventory on the agency side. For this purpose, it is essential to visualize the market situation through to customers (shift from wholesale management to retail management). The company is also working to grasp retail sales beyond its agencies on a daily basis instead of a monthly basis as in the past, which is a change in company culture. The purposes are to increase flexibility in a changing market environment and to sharpen customer sensitivity worldwide.

The second response is selection and focus on business. This may include withdrawal from unprofitable business and entry into value-added business. As a means to achieve the goal, mergers and acquisitions of foreign companies will be significantly effective thanks to the strong yen.

Third, development of strategic products is an area that should be most reinforced for Japanese enterprises. Only a war of attrition with endless, relentless price cuts will be waiting for a company that fails to develop competitive new products.

3. Conclusion

On March 2 and 3, 2009, I attended an emergency European agency president meeting held at a very reasonable hotel near Charles de Gaulle International Airport, Paris, France. Presidents from approximately 30 agencies in Europe got together. I explained the strategy of management at headquarters, the aim of structural reform, and the growth strategy, and the agencies reported on measures to address a crisis and requests from each nation. We had a thorough discussion based on them.

Much to my surprise, almost all presidents were high-spirited and tough enough to deal

with the current crisis. The participants included the presidents of Iceland, where the state itself is on the brink of bankruptcy and all banks were nationalized; Spain; Britain and Ireland, where the housing and financial bubble burst; and Eastern European nations, which were hit by the currency crisis but were not exceptions.

The conclusion may be that Europe survived a number of wars and financial crises, so they consider this crisis as only one of many. In addition, as agents, they have an underlying trust in Japanese companies. They seem to believe that they can find a way if they continue to handle high-quality products from a Japanese company or that a Japanese company would not betray partners, including agents and customers. This trust is an asset that Japanese companies must place more importance on. As you know, it takes many years to earn trust but it takes only one hour to lose it.

Each company is grounded in the culture of each nation, and it is difficult to step over the boundary. I think people working on Wall Street in New York or in London seldom leave the city or industry. The industry may be weaker for a while because of government control but they will create new financial products or investment projects, fully utilizing new financial engineering. It doesn't matter anyway. In the end, it is necessary for Japanese companies to maintain the core competence with which we can avoid being confounded.

By the way, Iceland, which is experiencing a financial meltdown, is a nation where married couples use separate surnames and their children also have different surnames. When a son of Iver Peterson is named John, his full name will be John Iverson (son of Iver). I asked if there was any confusion with family members having different surnames. The answer was that the population of the nation is only 300,000 and people know who is who's son or daughter in a small area like a town or village. A daughter's name consists of her father's name and "dóttir." Was it unreasonable in the first place that such a small nation where people live in a close relationship tried to expand into global finance or the competitive jungle?

I made a digression but what I wanted to say was that each country, including Iceland, Japan, and the United States, has its own culture and customs. To win in the global competition, it should have a business model based on its own culture and customs. Otherwise, the country can only be an inferior imitator of other nations, in other words, a second-class nation. Unrealistic approaches will fail or end up with nothing after all.

Part 1

Reevaluation/Inventory Check of Strength of Japanese Enterprises - An Inductive Approach toward a New Style of Japanese Corporate Management -

In Part 1, we will reconfirm what has been recognized as the strength of Japanese enterprises and then we will clarify how successful enterprises make the most of their strengths. After this, we will try to identify the features and strengths of Japanese companies that should be maintained or enhanced hereafter, using an inductive approach based on the first two facts.

Part 1: Reevaluation/Inventory Check of Strength of Japanese Enterprises

- An Inductive Approach toward a New Style of Japanese Corporate Management -

I. What has been regarded as the strengths of Japanese Enterprises

Listed below are the generally regarded strengths of Japanese enterprises:

- High ethical standards/Sense of morality of corporate executives
Strict self-discipline, self-sacrifice, and self-governance
- Management from a long-term perspective
Mapping out and implementing strategy from a long-term perspective.
Consistency and continuity of the strategy.
- Thoroughgoing pursuit of productivity and efficiency in all aspects of business
Ability to skillfully adopt foreign excellence and to further reform or improve it.
High productivity and efficiency in manufacturing
- Highly precise implementation based on consensus management
Good communication between divisions and processes. It takes time to build consensus. Once built, however, it will be implemented for sure.
- Ability to create environmentally friendly technologies and products
Harmony with the environment is valued. Sensitive to subtle changes in nature and the environment.
- Outstanding skill at exchanging ideas to obtain an integrated whole
Ingenuity in the workplace. Skillfulness in harmonizing opinions. Optimization by delicate mutual adjustment.
- Strong collaboration with suppliers and affiliated companies
Robust trustful relationships with suppliers of materials and components and subcontracting companies.
- Process innovation
Processes are constantly innovated not only by the production sites but also by other departments within the company. The results are shared with subcontracting companies.
- Ability to select
Advanced culture and technologies have been imported from overseas and modified to meet the needs of Japan, realizing greater sophistication than the original.
- Strong sense of ownership in the field
Historically, Japan has been a less class-conscious society. Ordinary people have a strong will to get things done by themselves.
- Trust based on long-term relationships

People sometimes dare to seek long-term benefits, even facing an opportunity for short-term benefit. Ethics and morals have been naturally established and improved in this ethos.

II. How successful Japanese enterprises capitalize their strengths

We would like to identify how successful companies capitalize on their strengths in company management from lectures and interviews with the corporate leaders of ten representative Japanese enterprises in five industry sectors.

Distribution	Seven & i Holdings Co., Ltd. (Toshifumi Suzuki, Chairman and CEO)	Lawson, Inc. (Takeshi Niinami, President & CEO)
Construction machinery	Komatsu Ltd. (Masahiro Sakane, Chairman & Representative Director of the Board)	Caterpillar Japan Ltd. (Shoichi Hirano, President)
Electric appliances	Panasonic Corporation (Kunio Nakamura, Chairman of the Board)	Sony Corporation (Ryoji Chubachi, President and Electronics CEO)
Automobiles	Toyota Motor Corporation (Fujio Cho, Chairman of the Board)	Honda Motor Co., Ltd. (Hiroyuki Yoshino, Director and Advisor)
Trading	Mitsui & Co., Ltd. (Shoei Utsuda, President & CEO)	Mitsubishi Corporation (Yorihiko Kojima, President &CEO)

* Names in parentheses are persons who gave a lecture or persons we interviewed. The titles are correct at the time of the lecture or interview (from September 2008 to March 2009).

1. The ideal corporate leaders

1) Role as an evangelist of the corporate philosophy¹

Successful companies have one common tendency, though there are some differences in the method of expression or whether it is stipulated or not; they recognize the importance of a corporate philosophy, and the corporate leader is the vanguard of disseminating it and making decisions based on it.

Toshifumi Suzuki of Seven & i said that what was important in the process of globalization of the company was a corporate philosophy that would be universal even when the company

¹ For the philosophy of each company, see pages 30 to 32.

expanded business overseas and became more multinational. Takeshi Niinami of Lawson said that top management must convey the spirit of the corporate philosophy in words, even though it was clearly stipulated.

The Komatsu Way is the company's documented corporate philosophy. It was compiled by the president himself, and the company provides educational and promotional opportunities in each region.

Shoei Utsuda of Mitsui expressed the company's philosophy as "*Yoi-Shigoto*" (meaning good quality work). He repeated that they should select business based on three standards: whether it is really good for society, whether it is worth pursuing for Mitsui, and whether it is worth tackling in exchange for your time and energy.

Fumio Otsubo inherited the presidency of Panasonic from Kunio Nakamura. He declared his determination to confirm and spread the keystones of the management principles set forth by the founder, Konosuke Matsushita, once again, when they changed the company name from Matsushita Electric to Panasonic; "A company is a public entity of society," "Customer comes first," "Start anew every day," and "Management by all with collective wisdom."

From his experience of working in the United States, Fujio Cho of Toyota states that they must not change their way of thinking and sense of values, and that he established the Toyota Way because the company would delegate its business to the top management of each nation, and therefore, the way and the value should be equally shared by them.

Most of the corporate leaders discussed in this white paper were promoted from within the organization, not from outside the company. One reason for that was that each company has its own culture based on the company philosophy. Overseas enterprises enjoying long-term growth, including GE and Caterpillar, also attach importance to corporate philosophy and have CEOs who were promoted from within the organization as in Japan. If Japanese enterprises continue to appoint presidents from within the organization, they will fall behind overseas competitors in terms of the diversity of human resources. The management structure consisting of Japanese permanent male employees with bachelor's degrees may be weak in terms of global competitiveness. This will be discussed in detail in Part II.

2) Commitment to human resource development

Another factor common to successful companies is the corporate leader's commitment to human resource development.

Seven & i is famous for holding weekly meetings called "*Gyokaku*"² to convey the company's management policy and as an education opportunity. These meetings have been held for more than twenty years.

² "*Gyokaku*" of Seven & i is held on a weekly basis in each operating company and group, where management, including Chairman Toshifumi Suzuki, communicate the company policy directly. It had been held weekly up to 2007 and biweekly since 2008.

Takeshi Niinami of Lawson always spends about half a day with the participants for discussions on the last day of the company's training sessions. He uses one-third of his time for human resource development including communication of the corporate philosophy.

"Mitsui is People" is a phrase often used to express the philosophy of the company. Mitsui is a company that attaches importance to human resource development. Shoei Utsuda has focused on the enhancement of employee training programs since he assumed the presidency. An example explaining his keenness is that he spends all day attending a training session summoning 20 to 30 employees around 40 years old from across the world.

Panasonic has a program for leaders where they learn how to be a good executive through direct communication with the chairman, president, and other executives.

It is symbolic that each company strives to accept suggestions for management as a part of action learning sessions in training programs targeted for leader candidates and utilizes them for actual corporate management. In the Global Leadership Program of Mitsubishi, teams consisting of manager-class employees from around the world make proposals to management, which are assessed and recognized. Sony established Sony University in 2000 to identify and develop business leaders for the next generation, which includes a project for giving strategy suggestions to management. A group of executive candidates from Panasonic from home and abroad also produces business proposals for the president.

3) Role as a good communicator

Another characteristic of successful companies is that corporate leaders emphasize communication inside and outside the company.

a) Role as a good communicator inside the company

Based on the policy of Toshifumi Suzuki for face-to-face communication, Seven & i provides opportunities for direct communication in store manager meetings and field counselor meetings in addition to the *Gyokaku* and promotes an understanding of the background of management policies through direct communication with management.

Takeshi Niinami of Lawson says that he usually uses videoconferences instead of gathering all employees when he communicates basic information, but he puts his heart and soul into words when needed and conveys them to employees face-to-face once or twice a year, which is very important. He often has opportunities to talk with senior staff and member stores directly, as well, and has visited local regions to hold town meetings for seven consecutive years, where he has direct communication with employees and member stores in the region. If he has an issue that may create backlash from those around, he explains the background and communicates sufficiently so that they endure the severe situation.

In the Five Principles of Top Management in the Komatsu Way, the company urges them to "take the initiative in communicating with all stakeholders." On the day after announcing the

financial statements, the financial results and issues of the company are explained to all employees at headquarters, and it is video recorded and distributed to the rest of the world in English. In addition, the president visits factories to provide explanations at plenary meetings.

Shoei Utsuda of Mitsui works to create a sense of unity by shortening the distance between management and workers and facilitating communication. For this purpose, he ensures multiple means of direct communication, including small-group communication meetings entitled “Sitting in a Circle with the President,” which have been held more than a hundred times since he assumed office, as well as conversations on the intranet. They are devices that convey the direction and policies of the company in an easy-to-understand manner.

Yorihiko Kojima of Mitsubishi promotes exchanges among employees and named it “Vertical and Horizontal Communication.” The program includes communication between the generations (vertical) and inter-organizational communication (horizontal). He provides opportunities for face-to-face conversation with local employees not only in Japan but also overseas and puts out monthly e-mail newsletters in both Japanese and English.

Ryoji Chubachi of Sony has transmitted messages on his blog seven days a week since he assumed the presidency, in addition to such direct communication opportunities as the quarterly policy explanatory meetings to management and touring different workplaces.

b) Role as a good communicator outside the company

Komatsu defines its corporate value as the total sum of the trust from society and all stakeholders. The president himself achieves accountability to stakeholders by visiting investor meetings and dealer meetings overseas.

Takeshi Niinami of Lawson deepens the understanding of the company through direct conversations with member stores and the market. He also endeavors to build human relationships with top executives in overseas joint ventures by meeting face to face at frequent intervals.

2. Strengths in *Gemba* and advantage of coordination

1) Philosophy reflecting focus on *Gemba*

The philosophies of the ten excellent companies include some common keywords that explain their focus on *Gemba* (workplace or actual location). For example, Komatsu identifies “Workplace Philosophy” in its Komatsu Way and says workplaces offer information that should constitute the foundation of their policies, strategies, improvement plans, and other vital initiatives, and it's important to emphasize and look at the facts of the workplaces, making information "visible." On the other hand, Toyota's management philosophy, values, and operational procedures are documented in the Toyota Way, where the importance of “*Genchi-Genbutsu* (frontline-first and real-thing based; always go to the source to find the facts and make correct and realistic decisions to build consensus and achieve goals)” is explained. All

employees must go to see the actual situation in the actual location and understand the real nature of it. Honda has the “*Sangen Shugi*” philosophy that urges the employees to go to the site, make a direct observation, and determine the facts. Mitsui considers it important to acquire a sense of the local people by experiencing a variety of regions, nations, and services on a global scale. What is important is the sense cultivated through interaction with clients in an actual business instead of making decisions based on data or theories alone.

2) Strengths in *Gemba*

In successful Japanese enterprises, workers in the field have a sense of ownership and work hard together based on relationships of trust built-up through long-term employment, thus improving the organizational capability included in the core competence of each company. Toyota’s *Kaizen* is one of the famous terms that explain it. The distinctive characteristic is the long-continued steady efforts to instill an organizational culture. In the workplace of these companies, engineers and technicians are developed through job rotations to become all-round skilled labor. At the same time, concurrent engineering becomes possible through mutual cooperation among the processes of product development, design, manufacturing, and sales/marketing.

Honda regards technologies and products as the lifelines of the company and pumps a large amount of money into research and development.

Comparing the production workplaces in Japan and overseas, Shoichi Hirano of Caterpillar Japan stated the following: Japanese engineers with university or postgraduate degrees are willing to wear factory uniforms and work together with factory workers, and the social status of production engineers is comparatively high in Japan. Because their position is respected by other people, students take on the job with pride. In China, however, if graduates from famous universities are requested to work on a production site, many decide to leave the company. The United States has the same tendency. Although many excellent human resources worked in the manufacturing industry up until the 1960s, as the financial industry came to play a central role in the economy, people tended to think light of manufacturing, and the people working there came to be disrespected. In this sense, high expectations are placed on Japanese workers in manufacturing sites as well as production engineering itself, and they prove to be efficient.

The product line-ups of Caterpillar include many construction machines developed in Japan. Thus, Caterpillar Japan assumes the role of establishing best practices in the production of such machines and instilling them into other factories worldwide. This is proof that the manufacturing sectors of Japan’s excellent companies are superior. Komatsu has the same idea, and they dispatch Japanese engineers to the production divisions of locally incorporated companies, even though they basically appoint local employees to the position of top management.

Fujio Cho of Toyota points out that good labor-management relations, which are visible, are behind the strength of *Gemba*, as well as a management philosophy symbolized by the Toyota Way and the code of conduct represented by the Toyota Production System, which are invisible but rooted in the company as part of its culture.

The strength of *Gemba* is not confined to production sites alone. Seven & i (Seven-Eleven, here) promotes information sharing and requires employees in each position to make a decision by themselves. Each store buys a stock of goods based on hypotheses they developed and reviews it using point-of-sale data, which further sophisticates the appropriateness of order placement.

3) Corporate management that understands *Gemba* and helps it function

Toshifumi Suzuki of Seven & i describes the importance of management that helps the *Gemba* function and Masahiro Sakane of Komatsu points out the importance of not being too distant from *Gemba*. In this way, the commitment of management is essential so that *Gemba* has a sense of ownership.

Hiroyuki Yoshino of Honda says that easy access to management is an important factor in motivating workers. At Honda, management has a dream and is committed to realizing it. They encourage workers by communicating frequently with them, and they finally realize the dream in the long run. This is the characteristic of Honda. Generally, challenges to inexperienced targets often result in failure. Honda, however, commends excellent failure as well as excellent success in a humorous way to cultivate a culture where failure is regarded as part of the game to encourage workers to accept new challenges.

Komatsu adopts the “middle-up and middle-down” approach. It means to help middle management implement management policy in the workplaces by enhancing the ability to incorporate the opinions of the workplaces into management decisions.

The convenience store sector found that customer preferences differ significantly in different regions. To promote its community-based strategy, Lawson renewed an organizational structure where branch managers can make a decision, and authority was significantly delegated to local merchandisers. This enabled each region to provide a variety of stores that met customer needs.

4) Advantage of coordination

Teamwork is one of the strengths of the Japanese. Teamwork is thought to be incorporated in our DNA and originated in the harvesting operations of an agricultural people.

a) Coordination within the company

From his experience working in the United States, Masahiro Sakane of Komatsu points out that one of Japan’s strengths is its strong organizational and technological coordination

and that the strength is maximized through a comprehensive merger of electric, machine, and hydraulic technologies, with robots as an example. In Komatsu's locally incorporated company in the United States, team play must be evaluated more highly than the demonstration of efforts by each individual. He also indicates that, in addition to coordination in the workplaces, corporations among executives based on shared information are surely another strength. By enhancing communication among section heads and disclosing and sharing information, prompt and satisfactory decisions are made. The company also tackles organization building that accelerates coordination.

Yorihiko Kojima of Mitsubishi points out the difference between Japan and the United States in the manufacturing industry; in the United States, engineers who invented a new technology tend to use it to add value to themselves, but in Japan they share the benefit with the people around them and pass on it to the next generation as the technology of their company.

b) Coordination outside the company

Shoichi Hirano of Caterpillar Japan says that very few countries outside Japan have a number of unique small and medium-sized enterprises working effectively in diversified ways, and making the most of this advantage, Japan should assume the role of a depot in Asia to supply sophisticated components. Masahiro Sakane of Komatsu also points out the strength as a corporation with suppliers outside the company. Yorihiko Kojima of Mitsubishi says that it is one of the most important parts of Japan's culture to create a new product by giving and obtaining advice among different industries.

3. Customer orientation

Many successful Japanese companies include customer orientation in their philosophy. Putting the customer first is the basic philosophy of Seven & i. Each business category of the Seven & i group has the discretion to maximize the value of the corporate philosophy independently and pursues convenience for customers from their point of view. Seven & i entered into the banking business. Toshifumi Suzuki says, "When we expanded the business of Seven Eleven, we started a new service of collecting fees for public and other services in their place. This business became widely used and provided greater convenience for customers. Then, I realized that having an ATM in a convenience store would provide even more convenience to customers. So, we were determined that banking, which we had no direct interest in, should be one of our new service functions, and established a bank. Banking seems to have nothing to do with retail but they had an inevitable relationship for me, which I have no doubt about."

Lawson also promotes development of new products that meet customer needs. The company's definition of innovation is to create a system to capture the customer's ever-changing consumption behavior.

From the viewpoints of environment, safety, and IT, Komatsu develops *Dantotsu* (unrivaled) products, where specific functions with high customer needs are enhanced and cutting-edge technologies far ahead of other competitors for three to five years are incorporated. This realized improvement in productivity and fuel efficiency reduced the customer's operational cost as a result. By introducing construction machines equipped with a global positioning system (GPS) called KOMTRAX (Komatsu Machine Tracking System), the company can grasp the customer's operational status, including the volume of remaining fuel or operating time, which is used to make a proposal for efficient operation.

Caterpillar Japan is also fully aware of customers. The company refines quality as well as product support technologies that lead the customers to success.

Toyota also adopts the "customer first" concept. For example, there are more than ten types of Corolla models worldwide. This means the company creates unique automobiles that incorporate the taste of each nation's market and local people. Management never fails to respond to letters from customers and even follows up on them.

Honda sharply focuses on customers among a number of stakeholders. Honda's customer-first concept is documented and clearly expressed in the "The Three Joys (buying, selling, and creating)."

Ryoji Chubachi of Sony emphasizes the quality-first concept within the company. As the most important standard of the company, he selects overwhelming quality to ensure customer satisfaction.

4. Human resource development to support each company

1) Human resource development to support workplaces

Fujio Cho of Toyota says that "cultivation" is Japan's culture, and "selection" is America's culture, but employees in U.S. factories respond favorably to our stance on employee ability development including safety education. One of the strengths of successful Japanese enterprises is to nurture and take good care of employees from new recruits to executives.

Toyota established the Global Production Center (GPC) for effective skill training of local employees engaged in production outside Japan, where highly skilled line workers play the role of instructor and facilitate the acquisition of manufacturing skills. In addition, local GPCs opened in three major areas, the United States, U.K., and Thailand, to transfer skills to the rest of the world.

Honda places first priority on having employees display their ability in a research and development environment and nurtures a culture where people are enthusiastic and an individual's ideas are considered important. All employees actively participate in quality control (QC). Regional conferences and world conferences are held, and yearly forums are conducted by the production divisions in North America, where a variety of ideas are discussed. In this way, good ideas are constantly communicated worldwide, and the Honda philosophy is

instilled throughout the group through these activities.

Komatsu has a corporate school designed to educate employees and help them become human resources who can be the driving force of Komatsu-style manufacturing on a global scale. The company provides young employees with opportunities to learn liberal culture, English, mechanical engineering, total quality management (TQM), labor control, and others. Against the backdrop of global expansion of its business, Komatsu endeavors to educate next-generation human resources who can be involved in quality control or cost reduction for the purpose of transplanting the company's manufacturing spirit.

Lawson has an educational and training program named Lawson University, where skill training is also provided for member storeowners and part-time employees.

2) Grooming new leaders and middle-level managers

All companies focus on fostering new leaders and middle-level managers. The main pillar of education is the corporate philosophy and action learning to produce proposals for management. Many companies have structured education programs covering multiple levels.

All companies have established a link between education/training and actual work in the divisions to which participants are assigned. Among them all, Seven & i and Honda, especially, attach importance to experience in the workplace. Toshifumi Suzuki of Seven & i has a policy on this point; "You cannot make leaders, but people grow to become leaders themselves." Based on that idea, Seven & i has a system of job rotation where employees who joined the company immediately after graduation have a variety of experiences and challenges. At the same time, the company welcomes human resources from outside the company, and these two types of employees try to improve by learning from others. At Seven & i, management team explain the business strategies directly to all managers in one meeting; they also call a meeting of all foreign executives in Tokyo to familiarize them with Seven & i's basic principles. Honda makes it a rule of human resource development to assign challenging tasks to any persons who have potential. All companies are shifting the focus to the fostering of global leaders. As they have just started the effort, we would like to work on it again in Part 2.

3) Recruiting diverse human resources

Each company understands the importance of diversity for global business expansion and promotes recruitment of human resources other than Japanese.

Panasonic seeks excellent human resources from around the world (especially from Asia) and recruits almost the same number of new graduates from foreign nationalities as Japanese. At Lawson, 20 to 30 percent of new graduates are foreign nationals. The company is trying to ensure diversity in Japan.

5. Conservative financial policies that enable long-term investment

Many successful Japanese enterprises adhere to conservative financial policies. They do not seek even appropriate leverage typical of corporate finance in the United States, but place priority on securing cash flow and strengthening the capital base to build the financial strength to support long-term investments.

Looking back at past M&As, Toshifumi Suzuki of Seven & i says, “Our strength has been corporate management with more than sufficient capital, which is realized by attaching importance to the capital itself. As a result, we can conduct large-scale M&As when necessary. I would like to hold fast to this policy for the future.”

Mitsui and Mitsubishi also have a management policy of maintaining a sound financial footing. Under the current global recession, these companies are receiving a number of inquiries about purchasing rights and interest in resources. However, they still have a policy to carefully select the project, putting first priority on maintaining sound finances.

III. Characteristics and strengths of Japanese enterprises that should be maintained or enhanced and issues to be solved—from the integrative consideration of I and II

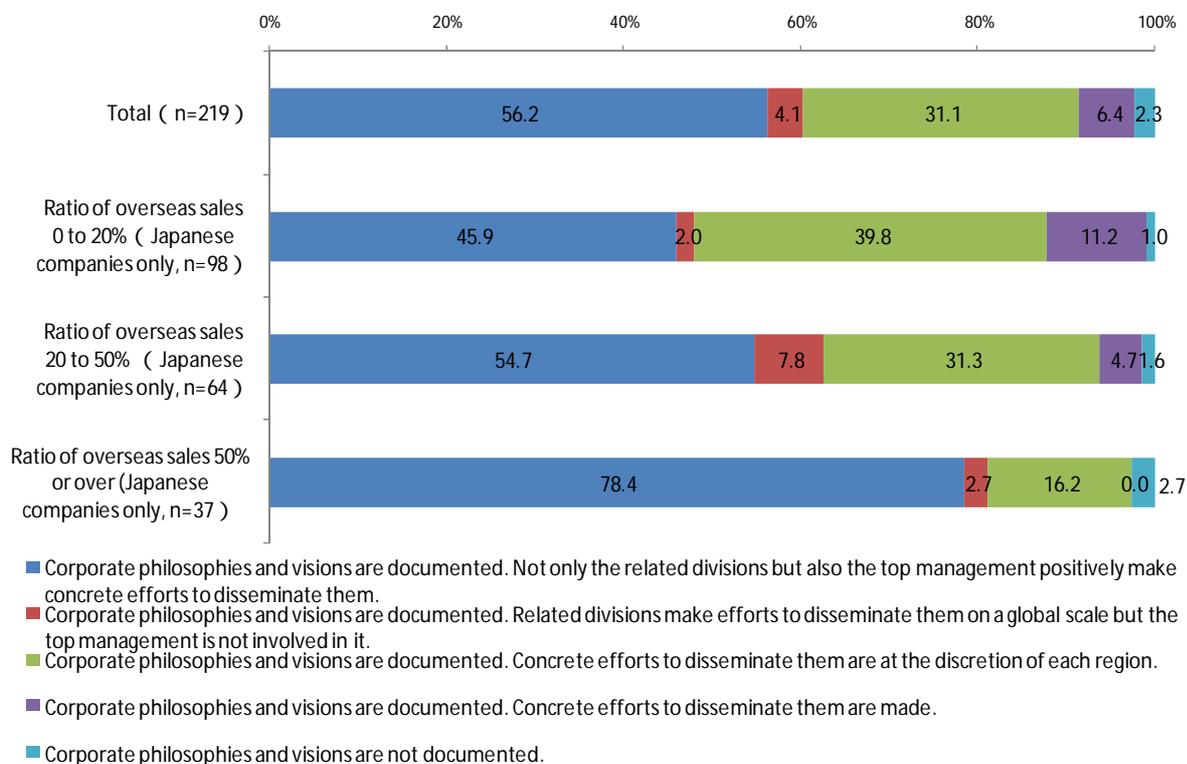
1. Corporate management based on the corporate philosophy

Each successful Japanese enterprise has its own unique management system. When you analyze it, you'll find a gene unique to each company, which is typically the corporate philosophy. How the philosophy is expressed varies according to the company: from the rigid inheritance of the spirit of the founder to modern arrangements. But, it surely supports the core competence of each company. Constant efforts are made to instill the philosophy; fostering understanding by all employees from top management to local workers and providing opportunities where employees can reconfirm the meaning of the philosophy. An important characteristic is that decision-making by management and the behavior of the employees is always based on the philosophy. Corporate management not based on the philosophy often deviates from the social meaning and core competence of the company. The ability to do so becomes visible as the difference in the capacity of each company to adapt to or be ready for the global recession triggered by the global financial crisis should not be forgotten as an important lesson.

It is becoming more and more important for Japanese enterprises to instill their corporate philosophy, or the sense of values unique to each company, in each region, when they expand globally. The results of the Questionnaire about Corporate Management (hereafter called Questionnaire) conducted from December 2008 to January 2009 by Keizai Doyukai (Japan Association of Corporate Executives) shows that companies with a higher ratio of overseas sales document their corporate philosophies and visions, and the corporate leader is aggressive about instilling the philosophy and vision within the company (Diagram 1-1). It is necessary for

corporate leaders to convey them directly and for the company to provide education to leaders as evangelists in each global region to diffuse and instill the philosophy and vision in each region.

Diagram 1-1: Efforts to disseminate corporate philosophies and visions on a global scale (Companies involved in global business only)



Source: Questionnaire about Corporate Management by Keizai Doyukai

2. Corporate management from the long-term point of view

Japan has not been ruled by other ethnic groups and has lived mostly on rice farming, which requires cooperative activities, for thousands of years. With this historical background, the Japanese are said to have a long-term perspective. Successful Japanese companies, mostly in the manufacturing industry, have made long-term investments in research and development, as well as human resource development, to bring about innovation. It is true that excellent overseas companies who have achieved continuous growth, such as Caterpillar and GE, also conduct business from a long-term point of view, but generally speaking, the ratio of companies with such a perspective is higher in Japan.

Lawson focuses on the R&D and the environment of the stores. This is based on the sense of values that doing business from a long-term perspective is more important than short-term profit.

Takashi Masuda, founder of Mitsui, once said, “Avoid infatuation with immediate

advantage. For enduring prosperity, harbor grand aspirations.” The Sakhalin II project³ was signed in February 2009. Mitsui has tackled it for more than twenty years, while other overseas companies withdrew one after another. The company also has medium and long-term projects for underground and food resources, guided by the sense of mission that they should expand overseas and secure resources for Japan, which is poor in natural resources.

Mitsubishi has invested in coal for coke making in Australia for 40 years as well. The project also takes the medium and long-term perspective based on the mission of a general trading company to secure the required volume of resources for Japan. The company has 14 offices in 13 nations in Africa, where it conducts a variety of honest activities to earn the trust of the people, looking ahead scores of years; including the CSR activities of donations to elementary and junior high schools and support for students through scholarships.

Honda has a separate company that is solely responsible for research and development, Honda R&D Co., Ltd. This is because of the determination that they should avoid pursuing short-term profit.

Kunio Nakamura of Panasonic says, “Japanese companies also tend to see corporate management on a quarterly basis these days. But, we have to recover the process we used to have; developing robust medium and long-term plans, as well as one-year plan, obtaining consent from stakeholders at the general meetings of stockholders and board meetings, communicating them to the employees, and discussions with the labor union.”

Many Japanese and foreign companies have medium- and long-term plans, but what is peculiar to Japan is that a comparatively large number of companies draft detailed strategies based on the medium- and long-term plans and provide follow-up, while obtaining the consensus of employees.

One of the background reasons that Japanese companies have a long-term perspective is because Japanese companies have a lifetime employment system. The vast majority of corporate leaders are promoted from among the employees; therefore, they have a strong sense that they are long-distance relay runners, and they are keenly aware of the ultimate goal (long-term vision that continues even after they retire from office) when managing the company. This Japanese-style succession system of corporate leaders worked well during the high economic growth period of Japan, but we have to admit that there is a risk of a delay in responding to changes when the future is uncertain and the paradigm is shifting significantly.

³ The world’s largest oil/gas composite project off Sakhalin, Russia, with approx. 45 billion barrel (oil equivalent conversion) resource

3. Ability to manufacture in a broad sense (including the service sector)

The result of the questionnaire indicates “manufacturing,” “high value added products,” and “environmental technologies” are the top three strengths of the Japanese economy in the future (Diagram 1-2).

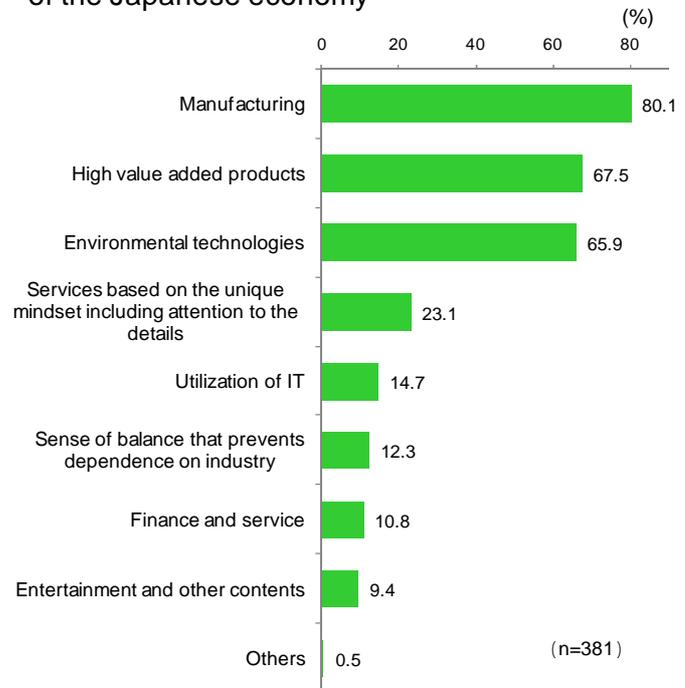
Japanese enterprises are good at identifying customer needs and have reinforced their organizational ability by competing with each other (capacity building competition) in workplaces to meet the needs. Further development of the ability to manufacture products is essential as the strength of Japanese companies by maintaining and enhancing the ability in the workplaces. For this purpose, the following is necessary:

- Passing on core technologies and know-how to permanent employees within the company based on the long-term relationship of trust
- Avoiding the separation of top management from the workplace
- Developing middle-level managers (best mix of top-down and bottom-up)
- Promoting differentiation by best and unique products (e.g.: external module and internal integral)
- Transferring the know-how of manufacturing capabilities to overseas bases

For the transfer of manufacturing capabilities overseas, Komatsu calls a production factory with a development division the “mother factory” and the evaluation of the “child” factories about cost cutting and other matters is included in the evaluation of the mother factory manager. We believe the manufacturing divisions in Japan should take the initiative in the transfer of the manufacturing system and identify which part must be done by Japanese personnel, considering the characteristics of the people. It is also important to identify which nation or region is suitable for receiving the transfer of manufacturing capability.

To enhance manufacturing capability, it is necessary to have not only the ability in the workplaces but the viewpoint of total optimization linking the ability with profit. Komatsu has a mechanism where each workplace discloses information, and all divisions share it to make a prompt and satisfactory decision. This will be of some help to other companies. Visualization of the information from each workplace and the corporate management process is essential.

Diagram 1-2: What should be the strengths of the Japanese economy



Source: Questionnaire about Corporate Management by Keizai Doyukai

4. Human resource development

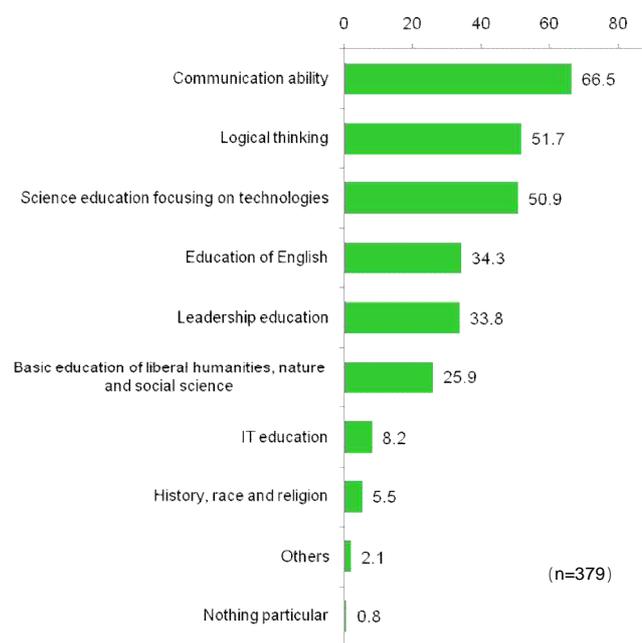
1) Human resource development from the long-term perspective

Successful Japanese enterprises have implemented human resource development from the long-term perspective, nurturing employees' loyalty to their company and the sense of ownership. Good labor-management relations and a mechanism to develop employees and teamwork are the backgrounds to such success and should be handed down.

2) Human resource development to support workplaces

One of the strengths of Japan's economy lies in the strength of *Gemba* (workplace or actual location) in the manufacturing and other industries. It is supported by engineers and researchers; therefore, the development of their capability is important. The capabilities are realized by maintaining and strengthening the *Gemba* where employees work hard together as well as from science education at universities that produce the next generation of engineers and researchers. To enhance Japan's higher education, now is the time to review how science education can be achieved, especially where technology and theory are balanced (Diagram 1-3). Corporate leaders worry about the current situation of science education at universities in Japan. Their concern includes the declining number of students who want to enroll in science courses and the declining quality of students. To solve these problems, it is necessary to restructure the science educational system from the elementary level.

Diagram 1-3: The areas that should be enhanced in higher education (university education) in Japan (%)



Source: Questionnaire about Corporate Management by Keizai Doyukai

To apply stimulus to their lukewarm competitive environment, universities also need to have an environment that can accelerate competition with the external world. For example, we need to promote a project involving Japan and other nations to establish a new international institute of technology (tentative name: East Asian Institute of Technology) in Asia, where the diversity of professors and students is secured to obtain a stimulus from the outside and to contribute to the dissemination of excellent Japanese technologies and theories to Asian nations. Realization is wanted.

3) Employment

The ten excellent enterprises here regard their employees as important multi-stakeholders. It is one of the strengths of Japanese-style corporate management to motivate employees by giving a sense of security and to encourage loyalty to the company. In order to maintain the ability of Japan's workplace, it is necessary to pass on the strengths within the company by improving the core technologies using permanent employees.

The so-called Three Sacred Treasures of Japan (enterprise union, permanent employment, and promotion by seniority) should not always be denied in Japan, and they have recently been reappraised. We need to maintain what is good. Teamwork and permanent employment fit the mentality of the Japanese.

4) Human resources required in the future

Let us summarize what is required of leaders of the next generation in Japanese enterprises listed by the members of the Committee on Corporate Management. The above-listed strengths of Japanese enterprises (long-term perspective, high ethical standards, and sense of morality) must be the base. In addition, they should have a sophisticated culture, understanding of diversity, and intercultural communication ability, which a number of Japanese leaders are said to lack. Cultivation of human resources who can lead the globalization required for the future development of Japanese enterprises will be discussed in Part 2.

5. Aggressive application of innovation-oriented management toward lofty targets (especially, corporate activities based on the environment)

Even in the manufacturing industry, which has been the strength of Japan, newly emerging nations are catching up with us by utilizing low-cost labor. To enhance its presence, Japan must innovate constantly, keeping one step ahead of other nations.

In the environment sector, there are a number of promising areas, including new technology, alternative energy, and low-energy product development. This is the sector where we can capitalize on our strengths, which have been explained previously. It is important to build social capital through investments in the future on a medium- and long-term basis, mostly for efforts against global warming, and use it to strengthen Japan's competitiveness. An indispensable condition of Japan's survival and prosperity is to establish a higher goal to work continuously to bring about technological innovation and to lead the world from a long-term perspective based on the view of nature peculiar to the Japanese, "cohabitation with nature."

For this purpose, it is important for corporate leaders to take aggressive action, attract human resources from across the world and build an environment where world-class human resources can be nurtured. Corporate leaders need to show the direction to go and build an innovative corporate culture and mindset by constructing a diverse and open organization,

encouraging employees to accept challenges, and following up. This applies not only to corporate leaders but also to the heads of any kind of organization, including governments, municipalities, and universities. In addition, corporate leaders must lead the organization and society by defining the ideal situation in the future and goals to be achieved based on their own vision, setting medium and short-term targets through the back-cast approach, and utilizing people, materials, and money efficiently.

Furthermore, in order for Japan to keep on improving as a science, technology, and innovation oriented nation, establishment of an innovative culture and mindset is required on a national scale. For this purpose, it is vital to reform science education because it will be the foundation of future innovation. To help children observe nature with a supple mind, early education in science must be revived in elementary schools, an environment that helps children develop an interest in science must be constructed, and organic collaboration with higher educational institutions and corporations is required. Among all, corporations should contribute to the construction of an advanced educational environment by promoting comprehensive academic-industrial alliances and responding to internationalization and the rapid progress of information technology. They also need to be positive about cultivation of the bearers of this country's future by providing opportunities for elementary school children to visit offices and factories, visiting schools to give lectures, and accepting teachers for training.

[Reference] Corporate philosophies of ten excellent companies

○Seven & i holdings

Corporate Creed

We aim to be a sincere company that our shareholders trust.

We aim to be a sincere company that our customers, business partners, and local communities trust.

We aim to be a sincere company that our employees trust.

○Lawson

Corporate philosophy

“Happiness and Harmony in our Community”

Code of Conduct

Acting with utmost consideration for others

Challenging with innovative ideas and actions

Having a strong will to attain the objectives

○Komatsu

Overview of The KOMATSU Way

Five Principles for Top Management

1. Vitalize the functions of the board of directors.
2. Take the initiative in communicating with all our stakeholders.
3. Comply with the rules of the business community.
4. Never put off responses to risks.
5. Keep thinking about your successor.

Seven Ways of KOMATSU (shared values that promote *Monozukuri*, or manufacturing competitiveness)

1. Commitment to Quality and Reliability: Quality is our top-priority commitment, and thus we will never make any compromise on quality.
2. Customer Oriented: By valuing the opinions of our customers, we continue to offer the products and services that they are proud to own.
3. Defining the Root Cause: By clearly defining all processes from product planning to machine conditions in the field, we always work to find and fix the root cause of problems in order to prevent the problem from recurring.
4. Workplace Philosophy: Workplaces (*Genba* in Japanese) offer information which should constitute the foundation of our policies, strategies, improvement plans, and other vital initiatives. It's important to emphasize and look at the facts of workplaces, making information "visible."
5. Policy Deployment: As soon as top management policies are announced, employees on all levels understand their respective roles, make their own activity plans, and implement them on their initiative.
6. Collaboration with Business Partners: In all operations from development to sales and after-sales service, we work together with our business partners from around the world to solve problems and improve operations, share know-how and work for our mutual growth as "One Komatsu."
7. Human Resource Development: It is the human resources, i.e., employees, that support sustainable corporate growth. Employees are the most valuable corporate asset and thus human resource development and educational programs for employees are indispensable worldwide.

○Caterpillar Japan (Listed below are the Caterpillar U.S.'s code of conduct)

Our Values in Action

Integrity: The Power of Honesty

Excellence: The Power of Quality

Teamwork: The Power of Working Together

Commitment: The Power of Responsibility

○Panasonic

Basic Management Objective

"Recognizing our responsibilities as industrialists, we will devote ourselves to the progress and development of society and the well-being of people through our business activities, thereby enhancing the quality of life throughout the world."

○Sony

Purpose of Incorporation

- a) To establish of an ideal factory that stresses a spirit of freedom and open-mindedness, and where engineers with sincere motivation can exercise their technological skills to the highest level
- b) To reconstruct Japan and to elevate the nation's culture through dynamic technological and manufacturing activities;
- c) To promptly apply highly advanced technologies which were developed in various sectors during the war to common households;
- d) To rapidly commercialize superior technological findings in universities and research institutions that are worthy of application in common households;
- e) To bring radio communications and similar devices into common households and to promote the use of home electric appliances;
- f) To actively participate in the reconstruction of war-damaged communications network by providing needed technology;
- g) To produce high-quality radios and to provide radio services that are appropriate for the coming new era;
- h) To promote the education of science among the general public.

○Toyota

Guiding Principles at Toyota

1. Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.
2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.
3. Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.
4. Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.
5. Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.
6. Pursue growth in harmony with the global community through innovative management.
7. Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.

Toyota Way 2001

Continuous improvement

- Challenge
- *Kaizen*
- *Genchi Genbutsu*

Respect for people

- Respect
- Teamwork

○Honda

Basic Principles

Respect for the individual. The Three Joys (buying, selling and creating)

Company Principle (Mission Statement)

Maintaining a global viewpoint, we are dedicated to supplying products of the highest quality, yet at a reasonable price for worldwide customer satisfaction.

Management Policies

Proceed always with ambition and youthfulness.

Respect sound theory, develop fresh ideas, and make the most effective use of time.

Enjoy work and encourage open communication.

Strive constantly for a harmonious flow of work.

Be ever mindful of the value of research and endeavor.

○Mitsui

Mission

Strive to contribute to the creation of a future where the aspirations of the people can be fulfilled.

Vision

Aim to become a global business enabler that can meet the needs of our customers throughout the world.

Values

Build trust with fairness and humility.

Aspire to set high standards and to contribute to society.

Embrace the challenge of continuous innovation.

Foster a culture of open-mindedness.

Strive to develop others and oneself to achieve full potential.

○Mitsubishi

The Three Corporate Principles

Shoki Hoko = Corporate Responsibility to Society

: Strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.

Shoji Komei = Integrity and Fairness

: Maintain principles of transparency and openness, conducting business with integrity and fairness.

Ritsugyo Boeki = International Understanding through Trade

: Expand business, based on all-encompassing global and cosmic perspective.