The 17th
Corporate
White Paper

Toward the Realization of Sustainable Corporate Management



Keizai Doyukai
(Japan Association of Corporate Executives)

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Preface

This Committee was kicked off in April 2011, immediately after the Great East Japan Earthquake. In November of that year, a heavy flood occurred in Thailand. Both of these natural disasters made us keenly realize again how difficult it would be to co-exist with nature. Following these events, difficulties in the operating environment in Japan, and then referred to as *sextuple handicaps*, were further exacerbated by higher energy prices and the hyper appreciation of the yen. This situation made us feel a real sense of crisis and urgency that Japan would completely lose its competitiveness and become a third class country if this goes on.

Looking at the global scene, major changes have taken place during the past two years. Europe is still mired in a Eurozone crisis, although it has somewhat calmed down recently. In the United States, the shale gas revolution has fueled a spark of hope in its economy, while the country remains plagued by fiscal problems. China is confronted with PM 2.5 air pollution problems while making a soft landing to an annual GDP growth rate of around 7%.

Under such circumstances, the Committee contemplated ways to keep winning in the turbulent age of globalization. I believe that it was a very good opportunity for us to take a plenty of time to review and discuss a *sustainable corporate management* which is focusing not only short-term profit but the long-term sustainability and truly viable ways of Japanese companies to survive in the global markets. I always found discussions at the chairpersons and vice-chairpersons meetings, a number of lectures by influential business managers and experts both at home and abroad, and the ensuing discussions by the whole Committee all very interesting, immediately useful for our business, and very informative and enlightening. All the Committee members had to arrange their busy work schedules to continue Committee activities, and I deeply appreciate their efforts. I for one was always looking forward to attending Committee activities.

Because of the nature of the theme, the Committee could not deliver a *product* within one year activities. Therefore, we had to have the period of Committee activities extended to two years under the same Committee structure. Around the same time, the people concerned agreed to produce our *product* in a white paper. We assumed it would take some time to summarize the extensive reviews and discussions that took place during the two-year period, but we believed that, for this reason, it would offer priceless value to readers. In any event, the Committee activities were always very intriguing and thought-

provoking. With a background like this, we exhibited enthusiasm for developing a white paper fully elaborating the two-year activities of the Committee on Corporate Management Reform 2012 instead of briefly summarizing the results in a policy proposal format so as to provide an opportunity not only for the Committee members but also for a wider audience to be able to relive the experience of the Committee activities.

As described above, we were confident of the development of a white paper, but when we started compiling the white paper, we went through an extremely *tumultuous* experience. When we were right in the middle of producing and editing the white paper, the administration changed hands in Japan. From that time on, the Japanese economy started moving at an extremely rapid speed. We have experienced many times of situations in which the content of the white paper we thought would be appropriate for the *turbulent age of globalization* had become obsolete when the draft was printed for proofreading. I have to admit that we felt that the government took proactive action to address issues whenever we used radical expressions in the draft. In any event, because of this, we were forced to drastically revise the draft many times.

What on earth does the *wealth* mean? What should we, living together with and working for a company, aim for? Of course we do our work with preparedness and resolve that we would "make profits no matter what it takes," but it is certain that we, as well as companies, are looking for something else through our efforts other than the monetary compensation that we receive. The term *sustainable* merely explains the state of things that we are looking for. So, we had to explore concretely what the things that we were looking for really were. We started off by defining *growth* and *development* and embarked on a long journey.

Please read this white paper which summarizes our two-year Committee activities and we would like to have an opportunity to discuss the *sustainable corporate management* with you.

Last but not least, I would like to express my heartfelt gratitude to all of the people concerned for their warm support, and I also would like to express special thanks to Mr. Yasuchika Hasegawa, chairperson of Keizai Doyukai, for his support and advice in the Committee activities for the past two years.

Yoshimitsu Kobayashi Chairperson, Committee on Corporate Management Reform 2012 Keizai Doyukai

The 17th Corporate White Paper

	Preface					
	Table of Contents .	•••••••••••••••••••••••••••••••••••••••	4			
Part I Practical	•	ese Companies in the Age of Globalization				
Edition	1.1 Global	Environment Surrounding Japanese Companies				
	1.1.1 1.1.2 1.1.3	Increasing Universalization of Globalization	9			
	1.2 Challe	nges that Japanese Companies Must Address	.11			
		We Cannot Survive Global Competition with Inward-Looking Activities				
	1.2.2	in the Age of Globalization				
	1.2.3	Catastrophe Competitive Environment in the Globalized Age				
		on of Reform				
	1.3.1 1.3.2	Business Executives and Companies Must: The National Government Must:	. 20			
	Chapter 2 Sustain	nable Corporate Management	22			
	2.1 Toward	d the Realization of Sustainable Corporate Management	.22			
	2.1.1	Necessary to Realize a Corporate Management that Enables a Company to W in the Market Competition and Contribute to the Sustainability of Our Mother Earth and Societies	Vin			
	2.1.2 2.1.3	"Sha-kai (society) of Japan" Should Be "Se-kai (the Whole Global Society)" Establishment of Corporate Philosophy and Code of Conduct and Creative Eff to Instill Them in the Organization — Examples of Selected Companies	forts			
	2.1.4 2.1.5	Corporate Management with Long-Term Perspective	/			
	2.2 Key D	rivers of Sustainable Corporate Management	.35			
	2.2.1 2.2.2	Top Management and Human Resources Corporate Governance	. 35			
	•	ate Management that Ensures Ongoing Success in the Age alization	38			
	3.1 Global	ization for Japanese Companies	.38			
	3.1.1	What Does Globalization Mean for Japanese Companies?				
	3.1.2 3.1.3	Company Models in Terms of Global Operations				
	3.2 Creation	on and Maintenance of Differentiation				
	3.2.1	From Monozukuri to Kotozukuri				
	3.2.2 3.2.3 3.2.4	Open and Closed Sequence and International Standards				

	3.3	Conti	nuous Creation of Innovations	48
		3.3.1	Take Advantage of Diversity as a Source of Innovations – Actively Recruit	
		0.00	Foreigners and Women	
		3.3.2	Take Bold Action with Your Back against the Walls Post Do-Everything-In-House Principle — Open Innovation and M&A	
	3 4		ng More Agile Corporate Management in Competitive Globa	
	5.1		et Environment	
		3.4.1	Reform Corporate Governance	
		3.4.2	Act Speedily to Avoid Holding up Corporate Management Cycle	57
Chapter	4 (Contri	bution to the Sustainability of the Earth and Society	64
	4.1	What	is Growth?	64
		4.1.1	Definitions of Growth	64
		4.1.2	Vision for Sustainability and Initiatives to Promote Sustainability	65
	4.2	Sustai	nability of the Earth	67
	4.3	The S	ustainability of the Society	69
			ustainability of Companies	
	•••	THE	astumus mey or companies	, 1
Chapter	5 (Compa	nies and the State	72
	5.1	Creat	e Competitive Environment in Line with the Highest Global	
			ards	
		5.1.1	Reduce Effective Corporate Income Tax Rate in Stages to 25%	
		5.1.2	Work for the Early Conclusion of Trans-Pacific Partnership (TPP) Agreement and Japan-European Union Economic Partnership Agreement (EPA)	t
		5.1.3	Create Regulatory Environment that Supports Free and Fair Competition	
	5.2	Creat	e the Environment that Makes New Industries and Innovation	ons
		Нарр	ens on an Ongoing Basis	76
		5.2.1	Implement Regulatory Reforms to Encourage the Restructuring of	76
		5.2.2	Industries Build National Infrastructures Necessary for Making Innovations	
			Protect Intellectual Property that Drives Innovations	
	5.3	Create	e Attractive Social Infrastructure	79
		5.3.1	Build Efficient and Low Cost Social Infrastructure	79
		5.3.2	Transform, with a Global Perspective, the Domestic Market into a More Attractive One	79
	5.4	What	Japan as a State and Japanese Companies Should Aim to	
			ve — from Revival to High Quality Maturity	80



Practical Edition

Chapter 1

Japanese Companies in the Age of Globalization

Chapter 2

Sustainable Corporate Management

Chapter 3

Corporate Management that Ensures Ongoing Success in the Age of Globalization

Chapter 4

Contribution to the Sustainability of the Earth and Society

Chapter 5

Companies and the State

A Collection of questions and answers to and from Business Executives

Chapter 1 Japanese Companies in the Age of Globalization

1.1 Global Environment Surrounding Japanese Companies

1.1.1 Increasing Universalization of Globalization

The population in Japan peaked in 2005 and is expected to decline to approximately 86 million in 2050. And the ratio of 65 years or older, around 24% currently, is said to reach 35% by then, which means the aging of the population will be accelerated rapidly. On the other hand, the world population, that was three billion 50 years ago, is currently nine billion. And, by 2050, it is projected to exceed nine billion. When we see the economy, Japan's

gross domestic product (GDP) growth has been stagnant for many years, referred to as "Japan's two lost decades." In the meantime, the world economy has been growing on a sustainable basis, primarily driven by emerging countries. Several of them have achieved more than 3,000 US dollars a per capita GDP. Against this backdrop, in order to consider the growth of *Japan's economy*, needless to say, we have to find ways to incorporate the *global growth* into us, as we, Keizai Doyukai, have always pointed out (**Fig. 1-1**).

There are a variety of definitions and interpretations

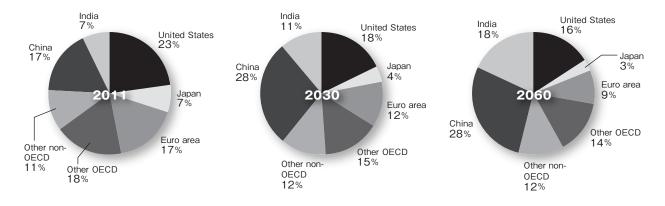


Fig. 1-1 Changes in Shares of World GDP by Major Counties in 2011, 2030 and 2060

Source: OECD Economic Policy Paper, Nov. 2012

of what constitutes the term, *globalization*. In this white paper, we would like to define it as "a situation where corporations are forced to compete with firms around the world both in domestic and international markets," instead of simply saying, "Business developments into international markets." It is the *globalization* to expand its operations globally looking for further growth, and it is also another kind of *globalization* to compete in the domestic market with foreign companies that have made inroads into Japan. As countries are promoting trades

under free trade agreements (FTAs), such as the U.S. and South Korea FTA, concluded last year, and the discussions on the Trans-Pacific Partnership Agreement (TPP), we believe that the globalization of Japanese companies will be accelerated further.

They say "You sometimes use the term 'addressing *globalization*' and it make me feel that you are thinking that there are two sides to the globalization, *offense* and *defense*, and watching the outside world from an island nation." Japanese companies might have a tendency to

¹ White Paper on Aging Society 2012 published by the Cabinet Office of Japan. See http://www8.cao.go.jp/kourei/whitepaper/index-w.html

² See the 2010 Revision of the World Population Prospects published by the United Nations.

take the globalization as given.

Conversely, they also say, "We sometimes get the impression that entrepreneurs in Europe don't have the concept of *globalization*. It appears that, to them, *Being Globalized* is too common to pay any special attention to it." Looking the whole world, we should know that their *globalization* is actually far more advanced than ours.

According to IBM's 2012 Global Chief Executive Officer (CEO) Study, a survey periodically conducted by IBM covering the CEOs of over 1,700 companies across 64 countries, the CEOs have ranked *Technology factors* as No. 1, *People skills* as No. 2, and *Market factors* as No. 3 for external factors that will give significant impacts on their organization in the coming three to five years.³ *Globalization* was ranked No. 4 in 2008 but has been downgraded to No. 6 in 2012, which may well reflect

the CEOs' declining awareness of Globalization (Table 1-1). On the other hand, in our 2012 survey of business executives' outlook in Japan, in response to the question: "What are key challenges that Japanese companies must focus on to remain competitive ten years from now?" Japanese business executives ranked "Addressing globalization," "Innovations" and "Creating Unique Products and Services" as the top three challenges respectively (Table 1-2). "Addressing globalization" was ranked No. 5 in 2008, which means it jumped up substantially in 2012. However, although we should understand that there has been a significant increase in the awareness among Japanese business executives about the globalization, we should also know that the concern of Japan's business executives might be one lap behind the global trend.

IBM Global CEO Study 2012 Japan Report							
Ranking	2008	2012					
1	Market factors	Technology factors					
2	People skills	People skills					
3	Technology factors	Market factors					
4	Globalization	Macroeconomic factors					
5	Regulatory concerns	Regulatory concerns					
6	Macroeconomic factors	Globalization					

Table 1-1: External factor that has the most impact on the organization.

Source: IBM Global CEO Study 2012 Japan Report.

Questionnaire about Corporate Management by Keizai Doyukai						
Ranking	2008	2012				
1	Innovations	Addressing globalization				
2	Creating unique products and services	Innovations				
3	Enhancing employee competencies	Creating unique products and services				
4	Developing (recruiting) excellent business executives/leaders	Enhancing employee competencies				
5	Addressing globalization	Developing (recruiting) excellent business executives/leaders				
6	Strengthening cost competitiveness	Strengthening cost competitiveness				

Table1-2: Key challenges that Japanese companies must focus on to remain competitive ten years from now.

Source: Questionnaire about Corporate Management by Keizai Doyukai (2012).

1.1.2 The Current Global Competition is based on "a Battle Royal among Nations"

We may be able to say that, the current global competition before us should be "a battle royal (melee) involving 200 countries of the world." They call it "G-Zero (or After-G-Zero) World" in which the market fundamentalism led by like the Wall Street and the state capitalism by China, South Korea and as such are prevailing and dominating. If this is the real picture, how should Japanese companies fight in the current global market that has been largely made oligopolistic by Western Giants while the state capitalists are expanding their national interests globally,

but deftly protecting their own domestic markets?⁵

In a model of the capitalism driven by the US, they consider that the value in the market is all, and the market determines everything. Therefore, it appeared that business executives pursued, by fair means or foul, the maximization of the interests of shareholders, who were actually the owners of their corporations. Under this framework, a mechanism was formed, where some financial institutions could generate strange bubbles by whipping up the enthusiasm of the market, as at the time of the Lehman Shock in 2008. Partly (but mainly) because of the lessons and reflections from this experience, in these years, they have been studying hard to modify capitalism in various ways, while, at the same time, seemingly a little excessive regulations over the financial industry are

³ Excerpt from IBM Global CEO Study 2012 by IBM.

⁴ See The End of the Free Market: Who Wins the War Between States and Corporations? by Ian Bremmer (Nikkei Publishing Inc., May 2011) and Every Nation for Itself: Winners and Losers in a G-Zero World by Ian Bremmer (Nikkei Publishing Inc., June 2012).

⁵ See Keizai Doyukai's Policy Proposal "New Growth Strategy that Enables Japanese Companies to Win Global Competition" by Japan Revitalization and Growth Strategies Project 2011(chaired by Naoki Tabata) (May 2012).

under contemplation in the United States.6

In the meantime, state capitalistic economic activities, such as the strategic and massive currency devaluation and the expansion of export with it, the strategic lowering of corporate income tax rates, the national strategic securement of energy resources, rare metals and the like, the direct supports by the governments to private sector businesses and so on, are really engaged by several countries.

As described above, under the current circumstances where, while regulations are being tightened in the global level, state capitalistic activities and behaviors of corporations have become more visible, we must recognize that our global competitions are actually founded on the fierce competitive economic activities among nations (It's not a real free market competition anyway). Therefore, we have to add a view point to our management, that is, to plan the business developments with cooperating with the nation.

1.1.3 The Sustainability of the Earth and Society is on the Verge of a Crisis

No doubt, we are enjoying a current comfortable life because, burning much fossil fuels, we produce mass industrial products, transport goods and people over the long haul in a short time, and grow agricultural crops efficiently. However, if the world fossil fuel consumption increases at an exponential rate due to ongoing economic development and population growth in emerging countries, crude oil will run out in about 40 years, coal in 100 years, and, even in the case of including shale gas of which commercial extraction has started very recently, natural gas in about 200 to 300 years.7 Since the publication of The Limits to Growth8, a report commissioned by The Club of Rome we have been repeatedly discussing this issue as one of the most serious problems facing mankind, but no specific resolution has been found to this date for more than 30 years. We should consider that "our mother earth and mankind are already on the verge of destruction." The start of shale gas extraction is hailed as the Shale Gas Revolution, which is certainly about to change the world significantly. But it just means that one of less-condensed hydrocarbons has become available for our use, and, if we really want to avert this destruction, we have to realize many more "revolutions (or innovations)." We, mankind, should not lose sight of the necessary facts being overshadowed by the Shale Gas Revolution.

On the other hand, the rise of the temperature on the Earth's surface due to greenhouse gas emissions from

Damage from Natural Disasters around the World in 2011 (Comparison with Past Years)						
	2011	2010	Past 10-Year Average (2001– 2010)	Past 30-Year Average (1981– 2010)		
Number of Natural Disasters	820	970	790	630		
Total Amount of Loss (US\$ Million)	380,000	152,000	113,000	75,000		
Amount of Loss Sustained by the Insured (US\$ Million)	105,000	42,000	35,000	19,000		
Number of Deaths	27,000	296,000	106,000	69,000		

	Five Worst Natural Disasters around the World in 2011 (in order of total amount of loss)						
	Date(s) of Natural Disaster (in 2011)	Country/ Region	Type of Natural Disaster	Number of Deaths	Total Amount of Loss (US\$ Million)	Amount of Loss Sustained by the Insured (US\$ Million)	
1	March 11	Japan	Earthquake and Tsunami	15,840	210,000	35,000~40,000	
2	August 1 – November 15	Thailand	Floods and Landslides	813	40,000	10,000	
3	February 22	New Zealand	Earthquake	181	16,000	13,000	
4	April 22 – 28	The United States	Severe Thunderstorms and Tornadoes	350	15,000	7,300	
5	August 22 – September 2	The United States/the Caribbean	Hurricane "Irene"	55	15,000	7,000	

*Both above tables are for reference only. Both the total amount of loss and the amount of loss sustained by the insured are estimates as of the time of publication of this document. They are calculated based on valuation standards then in effect.

*Source: Prepared based on Munich Re NatCatSERVICE statistics (dated January 4, 2012) by Munich Reinsurance Company.

Table 1-3: Damage from Natural Disasters around the World.

Source: White Paper on International Economy and Trade 2012 by the Ministry of Economy, Trade and Industry.

⁶ For example, the Volcker Rule, a rule designed to strengthen bank regulations based on President Obama's proposal, and the Dodd–Frank Act, the United States' wall street reform and consumer protection act signed into law in July 2010, among others.

⁷ EDMC Handbook of Energy & Economic Statistics in Japan 2010.

⁸ See The Limits to Growth: A Report for the Club of Rome's Project on the Predicament of Mankind by Donella H. Meadows (Diamond Inc., May 1972).

the combustion of fossil fuels has also become a more and more imminent issue for us—a phenomenon called *global warming*. It is a fact that abnormal weathers occur very recently, like in the case of the Arctic ice sea, which has recorded the smallest in 2012,⁹ and more intensified typhoons such as Hurricane Sandy, which caused massive damage in the United States last year. A report said that the amount of economic damage caused by weather-related disasters has been increasing sharply since 1990 (**Table 1-3**).

The environmental changes on the Earth have repeatedly occurred during the course of several billion years of its history. However, the issue of global warming that we are referring to here is perceived a phenomenon that human economic activities have started giving specific impacts on the Earth's climate and environment. It is also a very urgent issue that is clearly expected to cause enormous damages to the lives of people in the very near future. In addition, we should not forget that there are other issues that have become considerably serious, such as the excess accumulation of nitrogen in riverbeds and at the bottom of coastal waters, the oxidation of the Earth's atmosphere, and the disruption of biodiversity, concurrently with the global warming.

It is already a common saying that, when we think of the happiness of the generation of our great-grandchildren, it is the responsibility of our current generation to hand over to them a more sustainable world. The problem is that we have let decades pass without specifically fulfilling this common responsibility of our generation. The more time passes, the bigger the magnitude of the problem gets and the far less time and options become.

Unfortunately, we do not have any international consensus on the definition of sustainability. However, in the Brundtland Report published in 1987, the World Commission on Environment and Development (WCED), organized by the United Nations in 1983, has defined sustainability as follows: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."10 Dennis Meadows and others have defined a sustainable society as "one that can persist over generations, and that is far-seeing enough, flexible enough, and wise enough not to undermine either its physical or its social systems of support."11 In this white paper, we use WCED's definition of sustainability as the basis for our discussions. Then, though the term Sustainability is often used synonymous with the term Corporate Social Responsibility (CSR) in our business management,12 because, in the past, the CSR concept didn't pay an enough attention on the limit of the natural resources and the environment on the Earth, we treat these two term as different ones here.

1.2 Challenges that Japanese Companies Must Address

1.2.1 We Cannot Survive Global Competition with Inward-Looking Activities in the Age of Globalization

(1) Lack of Innovative Goods and Services That Have Lasting Competitiveness in Global Market

How many cases have we ever witnessed? Many Japanese products with our sophisticated technologies had once dominated the global markets in the initial stages, but then lost their market shares within five to ten years and become no longer competitive. Dynamic random access memories (DRAMs), liquid crystal display (LCD) panels, solar panels, and car navigation systems are a few of the products included in this category, and there are many more such products (**Fig. 1-2**).

Companies in China, South Korea, and Taiwan have rapidly enhanced their scientific and technological capabilities, and with the progress of digitization and modulation, they have been making large-scale investments at a furious pace in their frantic efforts to

⁹ See September 20, 2012 Press Release by the Japan Aerospace Exploration Agency (JAXA).

¹⁰ See Our Common Future by the United Nations World Commission on Environment and Development (WCED) (Oxford University Press, 1987).

¹¹ See The Limits to Growth - Choice of Humankind by Dennis Meadows.

¹² See One Report by Robert G. Eccles (Toyo Keizai Inc., March 2012).

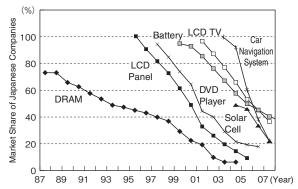


Fig 1-2: Trend of Global Market Share of Product
Technology Developed by Japanese Companies
Source: From Product Innovation to Business Model Innovation (IAM
Discussion Paper Series #001, 2008)
IAM Discussion Paper Series #001(2008)

catch up with and overtake Japanese companies.

In a sense, it is deplorable to see that, even light emitting diode (LED) chips and lithium-ion batteries, which were high value-added and could be produced only by Japanese companies just a few years ago, have now been being commoditized rapidly. In China, there are already over 5,000 companies that manufacture LED

chips. We have to know why Japanese companies could not make the same level of investments as they did, or in what manner such bold and large-scale investments have been made by them.

Meanwhile, as in the case of the above products, Japanese portable music players and IT also had once dominated the global market (although mainstream of IT equipment have shifted from personal computers to smartphones and tablets), but now Apple Inc. of the United States is showing its sky-rocketing growth in these segments. Even in the Japanese domestic market, Japanese companies have significantly lost their shares in these market segments over the last three years. We often hear it said, "Why couldn't Sony and Panasonic do what Apple did while both of them had the necessary elemental technologies and contents?" Mr. Kenichiro Senoo, the president of the Industry Academia Collaboration Initiative (Nonprofit Organization) analyzes the situation as follows: "Focusing on the technologydriven innovation, they stick too much to manufacturing itself and its beautiful vertically-self-integrated structure.

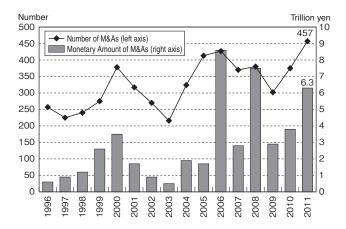


Fig.1-3: Trends of Number and Monetary Amount of outward M&As by Japanese Companies Source: White Paper on International Economy and Trade 2012 published by the Ministry of Economy, Trade and Industry.

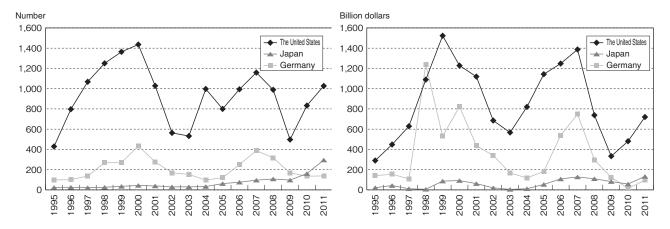


Fig. 1-4: Trends of Number and Monetary Amount of outward M&As by Japanese, American and German Companies Respectively Source: White Paper on International Economy and Trade 2012 published by the Ministry of Economy, Trade and Industry.

On the other hand, Apple focuses on the market-value-driven innovation, and its business model is to tactfully involve other companies in its business processes by adeptly combining open and closed areas. In contrast, there are hardly any open areas in the business processes of Japanese companies. Japanese companies cannot compete in the market with the full vertical integration, in which they implement all the business processes inhouse." He also says: "In product planning it's most important to create value that will get consumers excited. Without indulging into engineers perspectives (or views), they need to seek for what can surprise more consumers pleasantly in a rather bold manner."

Under these circumstances, with a keen sense of crisis for the globalization, Japanese companies have been expanding into overseas markets through mergers and acquisitions (M&A) at an accelerated pace. Last year, Japanese companies acquired foreign corporations worth 6.3 trillion yen (Figs. 1-3 and 1-4). But, in reality, only a handful of such Japanese companies have achieved success. Most of them, being cash-rich and having bought the companies, ended up impairing of them because they had failed to properly manage after the acquisition. Some people say, "If you hire a person from outside to manage an acquired company just because you cannot manage it by yourself, you are no different from investment banks. When you buy a company, you should manage it with so-called good-core-elements of Japanese companies, such

as culture, spirit, corporate values and other virtues."

In any event, it seems to be correct that i) Japanese companies cannot make bold investments (the scale and timing of investment are not appropriate), that ii) there are certain mistakes in the way Japanese companies make investments (probably in the target selection), and that iii) there are problems in framing their businesses (too much emphasis on vertical integration—to implement all processes on their own). Japanese manufacturers are still doing well in the material and parts sectors where product value is largely determined by elemental technologies. In contrast, it is likely that Japanese assemble manufacturers, which have more frequent opportunities to interface with end consumers, may have lost sight of what their business models should be. It may be self-evident that, if a company proceeds with M&A transactions without any appropriate business model, it is difficult for it to achieve success.

(2) Grueling Domestic Competitions Undermining even the International Competitiveness

The Ministry of Economy, Trade and Industry analyzed, in its Industrial Structure Vision 2010, that too many companies are fighting each other in the domestic markets in Japan. So they are suffering from very low profit margins.¹³ In the US, Europe and China, there are only one or two leading companies in each industry.

	Japan	North America	Europe	Asia, etc.
LCD TV	Sony, Sharp, Toshiba, Panasonic, Funai Electric	Vizio (U.S.A.)	Philips (Netherlands)	Samsung (Korea), LG Electronics (Korea), TCL (China)
Railroad	Nippon Sharyo, Hitachi, Kawasaki Heavy Industries, Tokyu Car, The Kinki Sharyo.	Bombardier Inc.(Canada)	Alstom (France), Siemens (Germany)	Hyundai Rotem (Korea)
Nuclear Power Plants	Toshiba (Westinghouse Electric), Hitachi, Mitsubishi Heavy Industries.	GE (U.S.A.), [Westinghouse Electric]	Areva (France)	Doosan Heavy Industries & Construction (Korea)
Water Business (water supply and sewerage systems)	Toray Industries, Metawater, Ebara, Kubota, etc. 'Major companies in the water business include 16 water-related equipment companies, 9 part construction companies and 3 operation and maintenance companies.	GE (U.S.A.), Nalco(U.S.A.)	Veolia Environment (France), Siemens (Germany), Suez (France)	Thames Water Utilities (Australia)
Diagnostic Imaging Systems	Toshiba Medical Systems, Hitachi Medical, Shimadzu, Hitachi Aloka Medical.	GE (U.S.A.)	Philips (France)	_

Fig. 1-5: International Comparison of Number of Major Companies in Each Business Segment Source: *Industrial Structure Vision 2010* published by the Ministry of Economy, Trade and Industry (June 2010).

¹³ See Industrial Structure Vision 2010: What are the Drivers of Income Growth and Employment? published by the Ministry of Economy, Trade and Industry (July 2010).

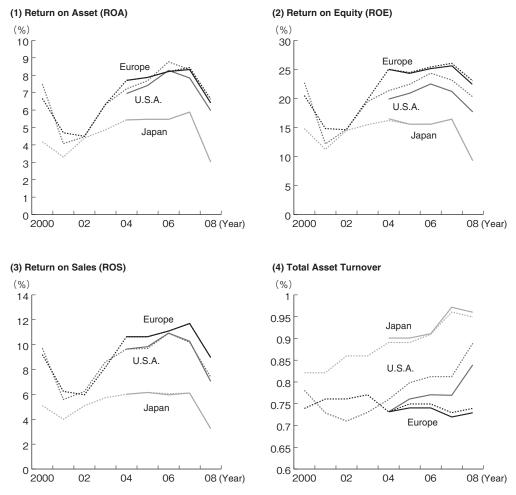


Fig. 1-6: Comparison of Profitability and Total Asset Turnover between Japan, USA and Europe Source: Annual Report on the Japanese Economy and Public Finance 2010 issued by the Cabinet Office

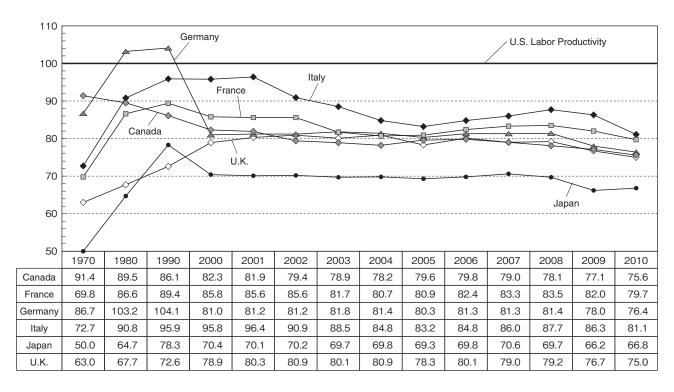


Fig. 1-7 Comparison of Labor Productivity between U.S. and Other Major Countries

Source: 2011 International Comparison of Labor Productivity issued by the Japan Productivity Center

However in Japan, as shown in **Fig. 1-5**, there are so many *leading* companies.

After the years of high economic growth, Japanese companies have diversified themselves in various ways, however, they could not transform themselves properly even during the two lost decades of economic stagnation, thereby resulting in the emergence of many peer companies in the same sector, which essentially pursue similar business portfolios. These companies are still trying to survive in the Japanese domestic market, not only repeating gruel internal competitions there, but sometime even sacrificing profitability in order to maintain the employments. In the research and development (R&D) also many companies have been undertaking similar activities for the past twenty years. So, it is appropriate to assume that Japanese companies are now paying the price for the above fact. In addition, while Japanese companies have been promoting globalization, the reality is that they have been typically competing with other Japanese companies even in overseas markets. Globalization has been advanced much more than we, Japanese, think. Corporations must know their positions and roles in the global markets, such as the market share of products, supply chains and the international specialization. Unless Japanese companies carry out management reforms of their domestic operations and improve their productivities, they will not be able to, even on speaking generally, maintain certain competitiveness in global markets. Needless to say, the "productivity" we are referring to here is one viewed from the global standpoint (Figs. 1-6 and 1-7).

It cannot be denied, in a sense, that a traditional Japanese village like culture, which has neighbor companies and *keiretsu* companies help and support properly a company when it runs into difficulties, is contributing to nurturing a *lock-step* mentality and industries that have been repeating grueling competitions among too many domestic competitors. However, we should not forget that people of different cultures, whom Japanese companies must compete in global markets, may not necessarily share the same mentality with us. It seems that quite a few Japanese companies have only domestic perspectives on markets and competitions, in other words, they are just watching domestic markets, in this age of globalization.

(3) Unable to Withdraw Even from Declining Businesses and Invest for the Growth, Managements are Just Stagnated without Management Cycle In China, they are producing 30 million tons of a chemical plastic resin for fiber annually, while Japan produces only 300,000 tons. Japan was the number one technically in this market just ten years ago, but now a new single plant built in China has an annual production capacity of two million tons. However, although we know well that we had better withdraw from this business, we are still remaining in the market because we cannot justify such withdrawal internally.

What should you do if you find you can compete in the market only by the scale of business at the start of the commoditization of a product? We understand that, IBM in the United States sells such a sign-of-ending business as it did in PC business and constantly incorporates new innovations through the acquisition of small venture companies. Of course, this is not the only way, but we need to change our business models or transform ourselves. We cannot refute arguments that say, "Global markets do not want expensive Japanese products, and Japanese companies seem unable to produce inexpensive products anymore."

Don't we have a mentality, such as "We have invested such a big money into this business, so we are responsible for that and can't throw it away?" But it cannot justify the fact that many Japanese are dragging themselves on in the same business. If we see the case of the chemical resin for fiber above, we may be able to say that, though it is a declining industry in Japan, it is growing in emerging countries and, therefore, we just have to buy relevant companies in such emerging countries. But, oddly enough, Japanese companies cannot make such type of decisions. Is that because current competitions in the global market are too fierce? We think we can say "yes" for our semiconductor industry. With the involvement of the national government, a large amount of domestic capital had been invested in it, but eventually these businesses have been bought up by foreign companies. Was this not an extremely serious problem for us because the semiconductor industry had been the key industry of Japan?

In order to reproduce our success in the global competitions by intermittently showing S-shaped curves of business lifecycle, we need to clarify our corporate vision on the management of business lifecycle, eliminate inefficient businesses, find what will be the future core businesses, and create new innovations. However, it seems that the top executives of Japanese companies are, when they think of their business reforms, too much worrying about how much and where resources should be

invested in. If this is causing any delay in their business-decision-making, it should be a very serious problem. Of course, top business executives should reform themselves, and the Japanese government must urgently take concrete countermeasures to such *Japan*.

For example, when a major Japanese telecommunications company acquired a US company last year, the mass media argued that Japanese companies had too much cash, probably twice as US companies, and that they did not use those cash properly. We may be able to say that it is our virtue (or just our conservativeness?) to be always prepared well for any emergencies, however, at the same time, as in the arguments of the mass media, we, Japanese companies, are just lacking our courage for risk taking. After the WWII, by innovations and aggressive global business developments, Japanese companies had once took the world by storm, but now it appears that we have forgotten how to take risks before we knew it.

1.2.2 Neglecting the Sustainability of the Earth and the Society Will Lead Us to a Catastrophe

(1) Only Awareness without Effective Measures to Cope with the Depletion of Energy Resources

Thanks to the innovation of the extraction technology of shale gas and oil, a huge amount of natural gas has become available in the United States. As previously discussed, it is said that the natural gas reserves will last for another 200 to 300 years at the current production rate. With this discovery, it even seems that serious concerns about the possible energy resource depletion have been eased out at once.

They say now we have 200 to 300 years reserves of shale gas, however, we should be aware that this figure is simulated based on its current production. If we assume that the consumption of natural gas should continue to increase by approximately 2.8% annually since 1970, even though there are, say, 260 years reserves at this moment, it will run dry within 75 years because the depletion will occur at an exponential rate. What is even worse is that, if we, to avoid the depletion of oil reserves, were to consume more natural gas in place of oil and coal for the current energy supply, the increase of natural gas consumption would not be contained at 2.8% annually. Suppose it should be 5% annually, we would run out of

natural gas in only 54 years.14

After the Great East Japan Earthquake, the nuclear power generation itself has come under question, while expectations for the natural energy have been heightened. However, at this moment, that have been heightened are only expectations. For this discussion, the timeline is a very important factor. Some say: "For the time being it should be very difficult to substitute natural energy for fossil fuels. The price of renewable energy in the Feed-In Tariffs (FITs), 42 yen, is too expensive. With this, suppliers may be able to make some money. However it will push up the power cost for the entire society substantially." We have to say that the amount of energy from solar cells is nowhere near the practical level, and a meaningful use of it is still only in a dream. We think, for Japan, we must make all-out efforts to reduce our energy consumption first. While utilizing all possible alternative energy sources, we are just trying to reduce the consumption to some extent. However, with such a generic, non-specific, and lukewarm approach, it is absolutely impossible to sweep away all the concerns about Japan. It is essential for us now to develop a concrete plan to reduce the consumption how much and cover the shortage how much with this alternative.

(2) Changing Global Economic Environment Hampers Our Action toward Sustainability

At his inauguration in 2008, U.S. President Barack Obama mentioned, "Few challenges facing America and the world are more urgent than combating climate change. The science is beyond dispute and the facts are clear." However, the Green Innovation policy proclaimed by President Obama with fanfare then has been pushed back by the rapid commoditization of solar cells, economic stagnation, and the extraction technology of shale gas. In addition, the momentum in Europe is also changing its tone due to economic stagnation after the financial crisis.

In Japan, when carbon dioxide (CO₂) was one of the hot-button topics, everybody must have thought that Japan should realize a low carbon society (sustainable carbon society) by raising the ratio of nuclear power generation to 50%. However, since the meltdowns at the Fukushima nuclear power plants, it appears that we hear much less about new nuclear power plants and even the term "low carbon society." Mr. Yukio Hatoyama, then prime minister, committed to reducing carbon emissions by 25% at the United Nations General Assembly. We

¹⁴ Excerpt from The Limits to Growth - Choice of Humankind by Dennis Meadows (Diamond Inc., March 2005).

wonder how many people in Japan really believe now that Japan needs to keep that commitment.

(3) Lack of Consensus Building in the International Deliberations

At the COP 18 last year, they agreed on a work plan for the new framework to replace the Kyoto Protocol as rules for the reduction of greenhouse gas emissions. But there was no progress on the conflict between advanced countries and emerging countries, and their attitudes on basic issues remained as far apart as ever. Emerging and developing countries continued to oppose the compulsory reduction of greenhouse gas emissions, insisting it will hamper the growth of their economies. At the COP 18 meeting, they pressed for more financial assistance from advanced countries. However, advanced countries were reluctant to accept as all of them were in dire financial difficulties then. As a result, the conclusion on greenhouse gas reduction was held off as usual. Also, as usual, advanced countries, the United States, Japan, and Europe were not getting along with each other.

As in the concept of the *G-Zero*, by Dr. Ian Bremmer, superpower countries have lost their power and influence

and a really multipolar world has been realized. And now it is very difficult to build a consensus by any international deliberation like the above COP18 meetings to which many countries are involved, so is in the World Trade Organization's (WTO's) Doha round of trade talks. However, as the sustainability of the Earth and humankind is an extremely pressing issue, we cannot let it pass by reason of this confusion in international politics. With the expiration of the Kyoto Protocol's commitment period, obviously we cannot waste any more time to address greenhouse gas emissions at the COP 19 this year. We are certain that the Japanese government is well aware of this. The government needs to establish concrete measures to develop a specific solution to this very difficult issue.

Prime Minister Shinzo Abe instructed the Industrial Competitiveness Council and the Advisory Committee for Natural Resources and Energy, among others, to conduct a zero-based review of the energy and environment strategy of the former government and develop responsible energy policies that will ensure the stable supply of energy at lower costs. And they have already begun to review and discuss. With regard to (1), (2), and (3) above, there is no doubt that they have already made a good progress from

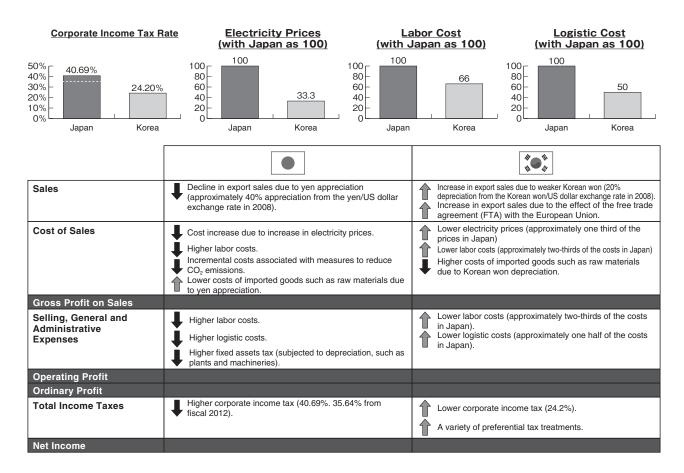


Fig. 1-8 Comparison of Differences in Operating Environment between Japanese and Korean Companies

Source: Compiled by the Secretariat of Keizai Doyukai based on a variety of data

the point "very difficult, so decide later." But the difficult situation itself has never been improved much yet. We would stress here again that we cannot repeat holding off our next actions any longer because this is the utmost urgent issue even if it is difficult to resolve.

1.2.3 Competitive Environment in the Globalized Age

(1) Disadvantaged Conditions for Japanese Companies to Compete in Global Markets

By the globalization, people, goods, capital and information are moving around the world almost freely in this century. A little while ago, there were many restrictions and regulations, especially in emerging countries, and even if Japanese companies tried to aggressively expand into these markets, what they could do there was limited. But now they have various options in overseas operations. In other words, companies have now been able to select their bases of operation really freely, without being bound by their countries of origin.

Until very recently, it has been said that Japan was plagued by sextuple or septuple handicaps. With the advent of the new administration, several changes have taken place, and we are starting to see some signs of improvement. However, there remains the ironic situation in which it is a much easier way out for Japanese companies to move operations outside of the country to overcome the handicaps. Fig. 1-8 shows the results of our study, using 2012 data, concerning the handicaps Japanese companies were forced to overcome to compete in global markets at a time when the spotlight was focused on the problem of sextuple handicaps. This figure shows a comparison of differences in operating environment between Japanese and Korean manufacturers. A variety of profitability-related data suggest that it is obvious that Japanese manufacturers are not on the same level playing field as Korean manufactures even before they compete in the markets actually.

(2) Difficulty in Creating New Industries and Innovations on an Ongoing Basis

It goes without saying that, if new industries and innovations were not created on an ongoing basis, it would be extremely difficult for any country and companies to continue to achieve sustainable growth with matured and obsolete industries and technologies. One top executive comments, "Markets would surely grow exponentially if regulations were removed." We should

not overlook this point. A certain consumer-electronics maker tried to launch a new air conditioner that could be controlled by smartphones last year. However, they were forced to make specification changes immediately before the launch as they were pointed out a conflict with the Electrical Appliances and Material Safety Act. As a frank observation from top executives who are in the frontline of global competition, we have heard it said here and there: "Amid fierce competition in global markets, we are doing everything we can to try to win leading positions in smart grid systems. We cannot understand that such absurd regulations still exist."

There is a similar story in the health and medical services industry. It is a well-known fact that clinical trials can be initiated in the United States far more speedily. For example, a clinical trial has started in the United States to collect patient information, such as the time of the day when a patient takes a medicine and the effects of the medicine inside the patient's body, by having a patient take a pill that contains medicine and a tiny sensor chip, letting the chip electronically communicate with a patch attached on the patient's skin and reading data sent to the patch. Some say, "If we apply for the implementation of the same clinical trial in Japan, it may take at least ten years before we get around to initiating the clinical trial." The reason why Japanese companies are reluctant to venture into the areas of medical devices is not because of lack of necessary technology but because of stringent regulatory requirements in Japan. The only option left for Japanese companies to enter the medical device arena is to go overseas with their technologies.

Innovations are a major source for the development of new industries, and they are being researched and studied in many fields and in diverse ways. A large amount of taxpayer's money is invested each year to develop and foster innovations (**Fig 1-9**) but the reality is that the investment has not yet paid off in creating a new industry. We think it is important for the Japanese government to establish targeted and well-defined objectives and put in place a mechanism for accurately evaluating and constantly monitoring the progress to ensure that efforts to achieve the objectives are being effectively carried out with a sense of unity.

(3) Weakening of Domestic Social Infrastructure

According to the 2012 World Competitiveness Rankings by the International Institute for Management Development (IMD), Japan was ranked 27th. Japan used to hold a dominant position, being ranked number 1 from

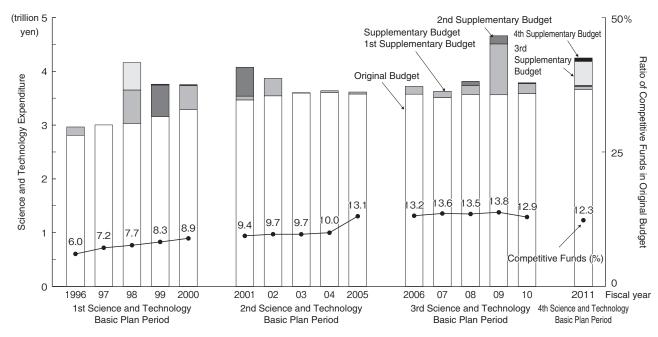


Fig. 1-9: Trends in Science and Technology Expenditure under Science and Technology Basic Plan

Source: Japanese Science and Technology Indicators 2012 by the National Institute of Science and Technology Policy, an institute affiliated with the Ministry of Education, Culture, Sports, Science and Technology.

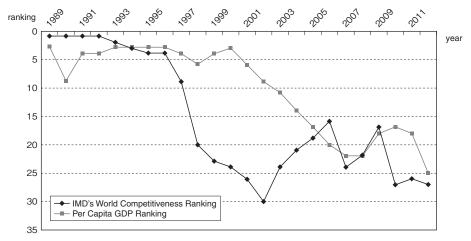


Fig. 1-10: Trends in Ranking of Japan in World Competitiveness Ranking Source: IMF World Economic Outlook Database (April 2012)

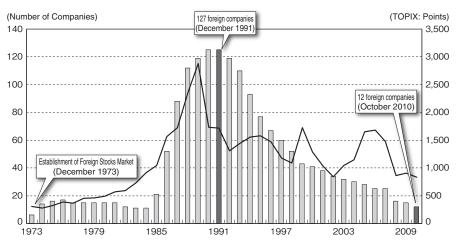


Fig. 1-11: Trends of Number of Foreign Companies Listed on Tokyo Stock Exchange Source: Toward the Goal of Becoming One of the Main Stock Exchanges in Asia by Tokyo Stock Exchange, Inc. (November 2010)

1989 to 1992, but has been ranked in the 20s for the last ten years (**Fig. 1-10**). In terms of government efficiency, which is one of the factors reviewed in IMD's survey, Japan was ranked among the bottom group of 59 surveyed countries. Given there is a compelling need for overall national strength to create and maintain an environment that enables companies to sustain competitiveness, we would like to see the new administration take immediate action to address the government efficiency issue. The retreat of foreign companies from the Japanese market has continued with the decline in the number of foreign companies listed on the Tokyo Stock Exchange (TSE) for the last 20 years (**Fig. 1-11**). It is necessary to work aggressively to make the Japanese market more attractive and active for both Japanese and non-Japanese companies.

Additionally, it is necessary to take action to reinforce the domestic infrastructure, which is increasingly aging and inefficient. Under its national IT strategy called the "e-Government" plan, Japan once achieved significant results by reinforcing the IT infrastructure, including the deployment of optical fiber networks, with the Japanese Internet touted as being the fastest Internet connection in the world. On the other hand, some people say that the

applications and software used on the hardware are very weak and difficult to use. Japan is one of a few advanced countries in which a national identification numbering system, among other social infrastructure, has not been introduced. It is necessary to take immediate action to renovate and further improve the efficiency of the social infrastructure.

Deregulation or the easing of regulations and the promotion of science, technology, and innovation are considered as the two critical keys to a growth strategy, which is one of the "Three Arrows" of Abenomics, and active discussions and studies have already commenced to promote these initiatives. However, for the past several years, Japan's growth strategy has been rewritten each time the administration changes hands. We must make every effort to avoid a situation in which "there is nothing particularly new in the growth strategy initiatives by Abenomics." We do hope that the new administration will develop and execute, this time around, a growth strategy that would not end up being a pie in the sky and instead actually changes the world for the better, i.e. the Japanese market in our case.

1.3 Direction of Reform

1.3.1 Business Executives and Companies Must:

(1) Capitalize on Growth Opportunities from Globalization and also Contribute to Sustainability

Although faced with a number of challenges as described above, Japanese companies must overcome them and realize sustainable corporate management to ensure that they will become a sustainable going concern that can prosper in the age of globalization and coexist in harmony with the Earth and society. In order to do so, Japanese companies must implement "kill-two-birdswith-one-stone" corporate management by continuing to achieve success in market competition in a globalization age, while at the same time actively contributing to ensuring the sustainability of the Earth and society.

(2) Continue to Achieve Success in Fierce Market Competition in Globalization Age

In order to continue to achieve success in a globalization age, Japanese companies must win out in the competition or continue the "winning streak." The concept of "winner takes all" is one of the intrinsic characteristics of the market supremacy-oriented capitalism, and recently, there have been many cases where that winner captures a majority of the global market share by making largescale investments intensively in a short time. Therefore, achieving a one-time success with the value of a certain product or service is far from winning out in competition. In order to continue winning streak in global competition, the first step is to snap out of inward-looking activities among Japanese companies and the ensuing meaningless grueling competition as soon as possible, and to clearly identify a target growth model in a globalization age and strategic initiatives required to realize such growth model.

Differentiation from competitors in the global market

and innovation that creates such differentiation are key points. In addition, it is also essential to develop and implement speedy decision-making processes that meet and exceed global standards. The first thing to do is to clearly identify a business lifecycle as part of the process of managing the business portfolio and to exit from nonviable businesses and enter new business fields with a sense of speed. Additionally, business executives are required to interpret the complexities of global markets and respond to changes in competitive environment promptly and flexibly.

<Key Points>

- Develop a strategy based on the clarification of globalization.
- · Create and maintain differentiation.
- · Create new innovations on an ongoing basis.
- Improve the speed of decision-making processes.

(3) Contribute to Enhancing the Sustainability of the Earth and Society

In a G-Zero World, an increasingly greater number of the roles that should be played by the national government have shifted to private companies. In principle, the national government can regulate or oversee only what happens within its borders, and because of this, companies with multinational operations make a greater direct contribution to addressing global issues than the national government. The first step is for companies to learn more about the sustainability of the Earth and society. The second step is to incorporate actions that lead to making such contributions in their daily business activities. There is a critical need for humankind to create innovations that would provide a solution to the sustainability crisis, and it is hoped that Japanese companies develop such innovations by taking full advantage of their respective strengths.

<Key Points>

· Incorporate actions that lead to making a direct

- contribution to the sustainability in daily business activities.
- Develop innovations that would provide a solution to the sustainability crisis.

1.3.2 The National Government Must:

Given the fact that global competitive environment is predicated on economic activities that are carried out amid intense economic battles among countries, the Japanese government must take immediate action to rectify such differences if there are significant differences in competitive conditions between Japan and other countries. In addition, the Japanese government must take the necessary steps to further promote economic growth, create and foster a new industry that generates employment, and renovate the current domestic social infrastructure to make it more attractive.

<Kev Points>

- Create a competitive environment that meets and exceeds global standards.
- Create an environment that can boost and foster new industries and employment.
- · Create attractive social infrastructure.

In the following chapter onwards, we will discuss the directions of reform discussed above, including specific actions that need to be taken. Specifically, we interviewed active business executives of companies that continue to grow by increasing the ratio of overseas sales through the promotion of globalization efforts and leading experts in related fields. Using the results of the interviews as best practices, we will define desirable future directions for the realization of *sustainable corporate management* and discuss proposed actions that need to be taken to achieve these directions.

Chapter 2 Sustainable Corporate Management

2.1 Toward the Realization of Sustainable Corporate Management

2.1.1 Necessary to Realize a Corporate Management that Enables a Company to Win in the Market Competition and Contribute to the Sustainability of Our Mother Earth and Societies

Today, we humans are facing with a variety of pressing issues, such as the depletion of natural resources, excessive greenhouse gas emissions, the degradation of biodiversity, overpopulation and water shortages. We may not be able to survive on this Earth until 2050 if we are careless. In a way, it may sound like sour grapes, but the primary goals of our business activities are not only to make a profit. We must reconsider what constitutes a *real Japanese-style management*.

As discussed in the preceding chapter, we are living in a G-Zero world today, where it is extremely difficult to resolve global issues through international organizations or through multinational negotiations. Therefore, if we leave these issues entirely up to the nations or the international organizations, there is a strong possibility of our missing a deadline of those global issues described above. Some say that more roles of the nations are shifting to private companies. The nations in principle give priority to national interests first, and regulate and supervise what happens within its borders. Therefore, in terms of contributing to the whole earth issues, private companies are more likely to come up with creative activities, especially if they are international companies, and thus can have greater influence. It is because they are private corporations, not the governments. Private companies sometimes realize an unexpectedly large contribution beyond the power of a nation(s). This suggests that business managers must manage their business operations fully considering even global, whole earth, issues.

On the other hand, others say, "It is an idealistic

thought that private companies should contribute to the sustainability. Can we afford to concentrate to those issues prior to the normal business management requirements?" It is a firm fact that nothing can be done nor said without sound economic viability and profitability. It is not easy to find any visible overlap between the profitability of a corporation and its sustainability, but corporate executives have to manage a delicate brush and balance between these two factors that usually contradict each other. It is appropriate to say that it is the very essence of "the sustainable corporate management" to put these two seemingly contradicting factors together, through brushing and balancing acts, into one cohesive business strategy.

2.1.2 "Sha-kai (society) of Japan" Should Be "Se-kai (the Whole Global Society)"

If a company has lost the value of its existence for consumers and customers in the world, it can make no money and nor survive. On the contrary, if a company is retaining a great raison d'etre for customers and the society, it can continue to make a profit. While the profitability and the contribution to the sustainability constitute the essential part of the corporate management, its kernel might be existing somewhere in the other place. The society ("sha-kai") should be a very important stakeholder of a company, however at the same time, it's difficult for an entity like it to get involved directly in the company's business activities. We should acknowledge a company should win the wide recognition of the value of its existence first, and receive high expectations of its function from "sha-kai."

In other words, it can be said that a company should have its own role and responsibility, as a member of the "sha-kai," that can be accepted by all the stakeholders. In fact, this is the philosophy that Japan has been embracing since a long time ago. The Japanese do not value any

business just to make money, nor think that the business should be of themselves only. This is well represented by the following proverb of Omi merchants (an old province of Japan, today in Shiga Prefecture) - In business, there are the "three goods": the good for the seller, the good for the buyer, and the good for the society. This may partly explain the reason why Japan is ranked first in the world, far ahead of second place Germany in terms of the number of companies that have survived for 200 years or more.1 Over the last 200 years, prior to the advent of the age of globalization, the Japanese political and economic systems have undergone many major changes, ranging from feudalism in the Edo era and the Meiji Restoration to events before and after the Second World War. Many Japanese companies have survived these major changes. This may become proof that these companies had clearly identified their appropriate roles and responsibilities in the society and then considered and contributed to all the stakeholders, and therefore, their existences have been well supported by the whole society.

To realize a truly sustainable corporate management, the key point is how Japanese companies can evolve to be companies that can offer meaningful value to customers not only in Japan but also in the world and to societies not only in Japan but also across the world. It may be that long-surviving companies or companies with a 200year history could survive just because they had been well protected under the "sakoku" (the isolationism during the Edo era) and the Japanese-style system adopted by the government. But today we are in an age where an event that occurs in one country does not stay within its borders but instantly spreads all over the world. We must regard the current condition that the sustainability of our mother Earth and societies are in an impending crisis as our own emergency. Then, we must have a broad vision when we consider the contribution to the society that encompasses the full limits of the system of our mother Earth. In the preceding chapter, we have indicated that Japanese business managers' level of awareness about the globalization lags considerably behind the global level. Given that Japanese companies have advanced in identifying and fulfilling their roles and responsibilities in "sha-kai (society)," the first thing Japanese companies must do is to, replacing that "sha-kai (society)" with "sekai (the whole world)," have a global vision.

After this, then Japanese companies should verify again their own meanings of existence and clarify their stance as to whether they can really pursue the realization of their corporate philosophy on a global scale. Moreover, they should disseminate their corporate philosophy, values, and identities extensively across the world. This is easier written than done. Because, in the process of implementing these procedures, it is inevitable that they will face squarely the question about their own identities: "What is our company? What is Japan?" and the real strengths of Japan and of Japanese companies probably be rooted in a certain thing quite unique to Japan regardless of their awareness of it, and it requires considerable intellectual works to disseminate this something uniquely Japanese to the world. Dr. Inazo Nitobe succeeded in this with his book, "Bushido." However, he had to write a whole book. It was not enough at all to just repeat Japanese word in Roman letters.

In Japan, we think companies have a mission as a public institution. That is to say, in Japan, we particularly think much of the perpetuity of a company lasting for hundreds of years, believing that a company should always create employment, develop innovations, and contribute to society. On the other hand, in the United States, people have a culture to think it a natural course of action to sell or transfer companies or businesses that have completed their missions to those who are willing to take them over. We should know that each country or culture has its own unique concept as to the ideal state of a company. This is an extremely fundamental issue and, ensuing discussions may end up being tepid unless we define this point clearly here.

2.1.3 Establishment of Corporate Philosophy and Code of Conduct and Creative Efforts to Instill Them in the Organization — Examples of Selected Companies

All the companies we interviewed here have been making strenuous efforts to pursue their raison d'etre in a deep way. They also revisit their management philosophy and their codes of value and reinvent them whenever necessary or with the change of times. Under the leadership of top management, they have been continuing their earnest efforts to ensure that all employees are instilled them by utilizing a variety of creative techniques. In this section, we would like to introduce, as follows,

¹ See The Rules of Companies that Survives for Three Generations of Ownership or One Hundred Years by Toshio Goto (President Inc., July 2009).

some examples of the strenuous efforts made by these companies in the words of top management:

Komatsu Ltd.

The Komatsu Way

For Management: 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.

For manufacturing and operation: Seven Ways of Komatsu

- 1. Commitment to Quality and Reliability
- 2. Customer Oriented
- 3. Defining the Root Cause
- 4. Workplace Philosophy
- 5. Policy Deployment
- 6. Collaboration with Business Partners
- 7. Human Resource Development

For Brand Management:

- 1. Customer perspective
- 2. Understand customers
- 3. Meet the needs of our customers with our collective strengths

In an attempt to maximize its corporate value globally, Komatsu Ltd. has been making all efforts to ensure that the Komatsu Way is shared by all employees and deeply entrenched in the organization with the aim of encouraging continuous improvement activities and enhancing the vitality of the organization. The Komatsu Way, which was formulated in 2006 based on the spirit of the founder, clearly spells out the Strengths of Komatsu, the Appropriate Mindset for Working for Komatsu, and the Basic Behaviors Expected from Komatsu Employees, the guiding principles developed and nurtured by generations of Komatsu employees over the years. The Komatsu Way was revised in 2011 to make it easier for Komatsu's international staff to understand and, at that time, the brand management section, which focuses on the marketing side of Komatsu's business, was newly added to the Komatsu Way.

It took almost one year to formulate the Komatsu

Way. They thoroughly went through quality control (QC) notebooks dating back to 1963, interviewed many current and former Komatsu employees, including skilled workers, sometimes called *artisans in the field*, and thoroughly studied a collection of Komatsu's wise sayings handed down through generations in the field of operation. In order to ensure that Komatsu's Way could be firmly entrenched in the organization, they extensively and thoroughly discussed the mindset and rules of conduct inherited by Komatsu employees through generations, and finally they completed a book on the Komatsu Way. Thus, we can say appropriately that this effort was "a journey to find their identity by going back to the past and to build more self-confidence for the future."

These fundamental values are universal ones. They transcend cultural differences and borders and are handed down from generation to generation even if times or people change. The Komatsu Way has been translated into 15 languages. The top management people in the world are invited to Komatsu's headquarters in Japan to receive training and participate in discussions to learn all about the Komatsu Way. They are given the mission to instill the Komatsu Way in the company, so they give discourses about Komatsu Way by themselves to all the employees including the management level. In the operation fields, supervisors are giving guidance to operators in order to instill Komatsu Way in them and, in the back-offices, managers are doing so to all employees there.

Nissan Motor Co., Ltd.

Vision: Enriching People's Lives

Nissan Way

"The power comes from inside"

Our focus is on the customer, our driving force is value creation, and our measurement of success is profit.

- Mindset
- Cross-functional, Cross-cultural: We welcome diversity and are always open and empathic towards different views.
- 2. Transparent: We are clear and simple; we are not vague and we never hide.
- 3. Learner: We are passionate and learn at every opportunity.
- 4. Frugal: We achieve maximum results with minimum resources.

- 5. Competitive: Never complacent, we focus on competition and continuous benchmarking.
- Actions
- 1. Motivate: We energize both ourselves and others and always work as a team.
- 2. Commit & Target: We are accountable and strive to reach our potential.
- 3. Perform: We deliver results.
- 4. Measure: We are aware. We assess constantly how well we're doing.
- Challenge: We push ourselves daily. We aim to make a positive impact and drive progress across the company.

As is well known, Nissan Motor Co., Ltd. (Nissan), which had been suffering from extremely poor business results, formed an alliance with Renault S.A. (Renault) in 1999, as a result of which Mr. Carlos Ghosn was appointed chief executive officer (CEO) of Nissan. Then, they developed the Nissan Revival Plan (NRP), and implemented a number of reforms under the strong leadership of Mr. Ghosn and achieved a V-shaped recovery in a short period.

The number of Nissan employees was 125,000 in 1999, and it hardly changed before and after the implementation of the NRP. Mr. Ghosn brought only a small team of executives from Renault to Nissan. It took only two years for practically the same Nissan employees successfully revive Nissan. What was different? Was it an attitude for the job or a way of doing business? In order to ensure that the *revived* Nissan would never go back to the old Nissan, in 2004, after the successful completion of the NRP, all the Executive Committee members, including Mr. Ghosn, got together for a meeting camp to discuss extensively what changes Nissan had made through the implementation of the NRP. Based on the results of such exhaustive discussions, they came up with the Nissan Way.

The Nissan Way starts with "The power comes from inside." This is a symbolic expression that describes the experience of Nissan, a company which has achieved completely different business results with the same employees. Upon this basis, in order to enrich people's lives, they vow to focus thoroughly on *customers*, *value creation*, and *profits*.

Following this mission statement, then are five *mindsets* and five *actions*. At the top of the list of mindsets, they

clearly stated, "Diverseness to welcome different views and thoughts," which they found out through the alliance with Renault.

In order to put the Nissan Way into practice, Nissan has, as a company, taken a variety of initiatives, such as crossfunctional teams (CFTs), the Nissan V-up program, and diversity programs. Through these initiatives, the Nissan Way has been firmly entrenched throughout the Nissan organization as its corporate culture. Mr. Toshiyuki Shiga, Chief Operating Officer (COO) of Nissan, says, "Whenever I visit Nissan's business locations overseas, I make it a rule to talk about the Nissan Way to our local employees as part of our efforts to deploy and entrench the Nissan Way globally. Recently, there are cases where what we, Japanese members, have once taught them evolves into something new and unique in our overseas operations, which is reverse-imported back to Nissan Japan. The levels of Nissan's overseas operations have been enhanced so much that we can now learn from them much. This demonstrates how nicely the Nissan Way has been instilled in Nissan's worldwide operations."

Fuji Film Holdings Corporation

The Unchanging Values of the Fujifilm Group
We will use leading edge, proprietary
technologies to provide top-quality products
and services that contribute to the advancement
of culture, science, technology and industry,
as well as improved health and environmental
protection in society. Our overarching aim is
to help enhance the quality of life of people
worldwide.

Photographic films were the core business of Fuji Film Holdings Corporation, which used to account for 60% of its total sales. With the demand for photographic films shrinking by 25% annually since 2000, Fuji Film's core business was on the edge of a precipice. In the face of the crisis, Fuji Film succeeded in transforming itself into a winner by successfully developing six new business fields.

While their photographic film business had been in a crisis since 2000, they, spending two years since 2002, identified all its available technologies and business seeds as well as the needs of its existing and new markets, and explored future business potential by comparing the business seeds with the market needs. This was, pretty

much an "easier said than done" exercise.

Mr. Shigetaka Komori, chairperson and CEO of Fuji Film, said in retrospect, "Our Corporate Value is offering top-quality products and services to contribute to the advancement of society by leveraging our leading-edge, proprietary technologies. So we pursued whether we could really provide any our own original product, which had very unique functions and characteristics and also the number-one quality that would enable us to completely differentiate ourselves from others, with the society."

As a result, they came up with six new business fields. He added, "Once decided, we just jumped the wire." His comments were backed up by the fact that Fuji Film had spent two trillion yen for research and development (R&D) and had made a capital investment of another two trillion yen in around ten years since then. In 2006, they changed the company name from Fuji *Photo* Film Co., Ltd., to Fuji Film Co., Ltd., by deleting the word *Photo*. In the face of a crisis of the company, a top management by himself took the lead in embodying its corporate philosophy and reminding all employees of the importance and necessity of embodying it. Thus, Fuji Film overcame the crisis.

Bridgestone Corporation

Mission

"Serving Society with Superior Quality"

Foundation

- Seijitsu-Kyocho (Integrity and Teamwork)
- Shinshu-Dokuso (Creative Pioneering)
- Genbutsu-Genba (Decision-making Based on Verified, On-Site Observations)
- Jukuryo-Danko (Decisive Action after Thorough Planning)

Bridgestone Corporation is a global company with number one market share in the world tire industry. Mr. Shoshi Arakawa, chairperson of Bridgestone, points out: "In order to make our company playing an indispensable role in our society into the future by threading through our mission: *Serving Society with Superior Quality*, in the intensely competitive tire industry, we must ensure that all of our managers and employees around the world should recognize and comprehend Bridgestone's DNA and brand identity."

He reminisces: "When I was the president of one of Bridgestone's overseas subsidiaries, I spent so much time and energy trying to instill our corporate philosophy into the local employees, but I was not successful." This is because, although Bridgestone had already its own corporate philosophy for a certain period, it was a bit obsolete and rather difficult for them to understand due to the changes of the historical background. So on the occasion of the 80th anniversary, Bridgestone refined its corporate philosophy with more simple expressions.

An initiative to refine the corporate philosophy was launched with the involvement of global employees who were expected to be the next generation of executive leaders in Bridgestone's group companies in the world. As a result, mindsets developed through such initiative as a powerful weapon, which would enable Bridgestone to be a winner amid fierce global competitions, were of ambiguity and modesty, but putting emphasis on spirit, and refraining from self-assertion and working as a team around you, all of which, they found, were symbolic of the minds of the Japanese. Bridgestone is a global company with its overseas sales accounting for 77% of the total sales and the ratio of its overseas tire production amounting to 70%. These refined mindsets are the opposite of the typical Western mind, such as articulate expressions and meanings and clear and strong self-assertion.

The refined mindsets are written in both Japanese and Roman characters—Seijitsu-Kyocho (Integrity and Teamwork), Shinshu-Dokuso (Creative Pioneering), Genbutsu-Genba (Decision-making Based on Verified, On-Site Observations), and Jukuryo-Danko (Decisive Action after Thorough Planning). It is generally assumed that the Japanese language is too ambiguous to understand and cannot be used for any global standard. But Bridgestone call these Japanese expressions written in Roman characters as Bridgestonese expressions and has been making unique efforts to disseminate these Bridgestonese expressions throughout their global operations so that Bridgestone's employees around the world share and use them commonly.

Bridgestone's corporate social responsibility (CSR) activities embody this corporate philosophy and CSR is put into practice in the course of its core business activities. Bridgestone carries out its CSR activities in the belief that CSR is a core component of corporate management. In light of the requirements from the society and others they have identified 22 specific CSR focus points—the challenges, that need to achieve and also are based on its corporate philosophy, are incorporated into their midterm management plan. Bridgestone is making strenuous efforts to achieve the goals by implementing a Plan-Do-Check-Act (PDCA) cycle in these challenges. Mr.

Arakawa states, "Bridgestone is always with conscious awareness of the cooperation with the society. I believe this is because we still honor the thoughts of our founder."

Mitsubishi Chemical Holdings Corporation

Group Philosophy

"Good Chemistry for Tomorrow"

Creating better relationships among people, society and our planet.

Our Aspiration – Value that We Strive to Achieve: Toward the Realization of *KAITEKI* (*KAITEKI* means a state of true sustainability, and also represents comfort for people, comfort for society, and comfort for the Earth.)

Mitsubishi Chemical Holdings Corporation is a large company employing over 50,000 people, and covers a wide range of business domain from petrochemicals and functional chemicals to textiles and pharmaceutical products.

Dr. Yoshimitsu Kobayashi, president and CEO of Mitsubishi Chemical Holdings, points out "In the case of automotive manufacturers or consumer electronics companies, people can tell by a company name what it is manufacturing or doing. But in the case of Mitsubishi Chemical Holdings, it is difficult for people to tell what we are manufacturing or doing." Therefore, they came up with what they call *KAITEKI* management. The purpose of this is to make it possible for everyone inside and outside the company to see that Mitsubishi Chemical Holdings is contributing to the society as a chemical company by working toward the goal of *KAITEKI*.

To realize *KAITEKI* management, Mitsubishi Chemicals Holdings has created methods to quantify annually the progress of its technological development — the management of technology (MOT) — and its contribution to the sustainability of our mother Earth, etc.—the management of sustainability (MOS)—in order to evaluate its own comprehensive corporate strength numerically. It took more than two years to complete the creation of these methods with the assistance of outside experts.

At the same time, Mitsubishi Chemical Holdings has been making continuous efforts to instill the values of *KAITEKI* management fully in all employees. Dr. Kobayashi has been writing an internal blog already for

over the past four years to promote *KAITEKI* management. Like this way, a top management is by himself actively disseminating the *KAITEKI* concept internally and also externally. Moreover, an initiative called "My own MOS" has started recently to generate individual awareness in all employees of the concept of MOS. Under this initiative, each individual employee is required to establish his/her own personal MOS objectives. Also Mitsubishi Chemical Holdings has established as its group motto APTSIS, which is the behavioral guidelines for realizing *KAITEKI* management. APTSIS is a term coined by Dr. Kobayashi, by combining the initial letters of *Agility, Principle, Transparency, Sense of Survival, Internationalization, Safety, Security and Sustainability*.

Unicharm Corporation

NOLA&DOLA (Necessity of Life with Activities & Dream of Life with Activities) for New Century Mission Statement:

- 1. We contribute to creating a better quality of life for everyone by offering only the finest products and services to the market and customers, both at home and abroad.
- 2. We strive to promote proper corporate management that enables us to achieve business growth and the well-beings of our employees as well as to fulfill our social responsibilities.
- 3. We bring forth the fruits of cooperation based on integrity and harmony, by respecting the independence of the individual and striving to promote the Five Great Pillars.

Unicharm Corporation is a company globally growing with its overseas sales accounting for over 40% of the total. In recent years, it has been showing eye-opening performance especially in emerging markets. It now has a market share in excess of 50% in the disposable diaper market in Indonesia, and it has expanded its business to China and Southeast Asian countries, and recently to Egypt and other Middle Eastern countries.

Mr. Takahisa Takahara, president and CEO of Unicharm, states, "The most important thing in making our overseas expansion a success is "human resources". The key is how to establish a common target that all employees can share." His management approach is called *Management with Resonance*. Under this Management with Resonance, Unicharm is thoroughly infiltrating employees worldwide

with its corporate philosophy "Necessities of Life with Activities and Dreams of Life with Activities (NOLA and DOLA) for New Century" and its guiding principles based on this philosophy.

Unicharm has spent a lot of time and effort to infiltrate its employees worldwide fully with its corporate philosophy and a variety of programs have been launched to achieve this goal. The programs include: i) compiling a collection of wise sayings at Unicharm to help an alignment of values among employees, ii) implementing the Middle Management Business Board for the development of young executives, iii) implementing management school programs for senior executive, iv) launching the Schedule-Action-Performance-Schedule (SAPS) Management Model, a framework to ensure an alignment of the targets of all employees, v) publishing a manual for the introduction of SAPS management model, which is intended to help better operate the SAPS management model, and vi) formulating the Unicharm Way.

The same initiatives have been implemented both in Japan and abroad. Sometimes employees in its overseas operations are more enthusiastically engaged in these initiatives than in Japan. This is, they say, probably because they can more directly feel the improvement. On the manufacturing front, Japanese and overseas operations are learning from one another. The days of a one-way relationship, where the Japanese operations teach everything about manufacturing to their counterparts in Asia, are over. Now the Japanese plants can learn many things from the overseas plants.

Nitori Holdings Co., Ltd.

Dream (Vision):

Nitori will provide people in the world with the richness of home decor furnishings like in Europe and the United States.

Mr. Akio Nitori, CEO of Nitori Holdings Co., Ltd., quit salaried employment at the age of 23 and started his own furniture store on the northern Japanese island of Hokkaido. When he started operating the second furniture store together only with his wife, they finally managed to earn a decent living with the stores' sales. For the time being, it increased steadily. However, with the opening of a new large furniture store, five times the size of their stores, in the neighborhood, they were brought to the brink of bankruptcy. Then he happened to learn about

an American Furniture Seminar to be held in the United States, and he decided to participate in.

His trip to the United States gave a big impact on Mr. Nitori. More than anything else, he was surprised to find that food, clothes were inexpensive and that their selection was large. Also, he found that each store gave the first priority to customer preferences, had their own characteristics and arranged goods for customers easy identification. He realized then for the first time how poor a life in Japan really was, and decided to spend his life trying to enrich Japanese life. This is his dream, which constitutes Nitori's corporate philosophy.

Forty years have passed since then. Japan has become rich. Today Nitori is Japan's largest furniture and home furnishings chain. Mr. Nitori says that he now has a strong desire to enrich people's lives the world over. This is his new *dream and vision*. He says that it serve as a source of renewed motivation, dedication, and curiosity. Moreover, Nitori aims to realize this new dream and vision and to become the largest furniture and home furnishing chain in the world.

Yamato Holdings Co., Ltd.

Company Precepts (or Slogan)

- 1. We 'all' represent the company. (all-hands management and employee involvement)
- 2. We see our delivery services as an extension of our customer's personal sentiments We deliver with a personal touch. (We always put the satisfaction of our customers ahead of our profit.)
- 3. We work with gratitude and politeness. (Compliance)

Mr. Makoto Kigawa, president of Yamato Holdings Co., Ltd., points out, "Of all services industry, an express delivery service is a pure service and what we sell is dependent much on the human power. Therefore, it is a big challenge, in a sense, for a company like us to develop our business globally."

Yamato has pursued its unique Customer First principle, which is to enhance customer satisfaction by focusing on the elimination of inconveniences of a receiver, instead of a sender to whom a transportation charge is due. Yamato's "sales-drivers" are uncontrollable once they are outside. Therefore, Yamato is thoroughly infiltrating them with its company precepts and instructing them to always think

and judge from the customers' point of view.

The company precepts had existed even before the startup of its express delivery service business, however it still gives moral support to Yamato's employees. Yamato focuses on the importance of all-hands management with the involvement of all employees to know that every sales-driver is not a mere driver but represents Yamato outside the company. For this reason, all Yamato's employees chant these company precepts in chorus at a morning meeting every day.

Yamato adamantly adheres to instill the Japanese way and Yamato Way of doing business in its overseas operations. Mr. Kigawa says, "It is still unknown whether the Japanese way of providing services will work in Asia. In order to make the Japanese way work also in Asia, it is essential to instill Yamato's DNA among all our local employees." Further, he adds, "We train our local employees in China to take their hats off and say "Thank you!" to customers. One local Chinese employee once asked me if our customer, not we, should say Thank you." This is an honest and natural question as there is no custom of taking one's hat off and bowing the head in the Chinese culture. But all our local employees in China now make it a rule to take their hats off and thank customers, bowing their heads.

At its investor meetings in Europe and the United States, investors sometimes suggest that Yamato should focus on increasing profit margins by rightsizing its services as they are excessive, but Mr. Kigawa has flatly refused to accept such suggestions. Yamato has a firm belief that it should guarantee to customers in Asia the same level of services as in Japan without compromise. And it is well evidenced by its strenuous efforts to instill its company precepts among its local employees.

IBM Corporation

IBMers value:

- · Dedication to every client's success
- Innovation that matters for our company and for the world
- Trust and personal responsibility in all relationships

IBM Corporation is a large global company that has a history of over 100 years since its founding. IBM has continued to achieve sustainable growth by radically changing its business model to focus on software services

from hardware, such as computers, due to increasing commoditization in recent years. Throughout its history of over 100 years, IBM has had the values called "IBM's Three Basic Beliefs": Superlative Customer Service, the Pursuit of Excellence in All Tasks, and Respect for the Individual.

However, these Three Basic Beliefs seriously diverged from their original intent over the years. In a book about the history of IBM called *Making the World Work Better:* The Ideas that Shaped a Century and a Company, it was written as follows: "Over several decades, the value Respect the Individual turned into some kind of vested interest, while the value the Pursuit of Excellence in All Tasks turned into a perfectionism, which resulted in causing delay in decision-making. And the value Superlative Customer Service was often interpreted to mean to do whatever it took to meet customer expectations." Under such circumstances, IBM revisited its raison d'etre and reinvented its corporate philosophy in 2003.

To revisit the corporate philosophy, a discussion about shaping the future direction of IBM took place on IBM's global intranet for three days. On the first day of discussion, there were more pessimistic opinions about IBM's future. But on the second day, some constructive opinions began to surface, and on the third day, there were more positive opinions about the company's future. The results of such discussion were analyzed by computer and the top management of IBM finally decided on the three new values. They are called IBMers Values. The IBMers Values are i) Dedication to every client's success, ii) Innovation that matters, for our company and for the world, and iii) Trust and personal responsibility in all relationships.

Royal DSM N.V.

Mission of DSM

Our purpose is to create brighter lives for people today and generations to come. We connect our unique competences in life sciences and materials sciences to create solutions that nourish, protect and improve performance.

Mr. Feike Sijbesma, chairperson and CEO of Royal DSM N.V., states, "A mission statement is just a bunch of words on paper if employees cannot recall it without searching through a handbook. That would not happen in my company." DSM's mission statement says, "Our

purpose is to create brighter lives for people today and generations to come. We connect our unique competences in life sciences and materials sciences to create solutions that nourish, protect, and improve performance."

DSM is a company formed by the Dutch government as a coal company in 1902. It transformed over the years from a coal mining company to a petrochemical company. Thereafter, DSM transformed itself again, selling almost all of its petrochemical businesses and becoming a company focusing on high-functional chemical products. As part of its strategy: *Vision 2010 – Building on Strengths* established in 2005, DSM announced its decision to shift further its business focus from high-functional chemical products to life sciences and materials sciences. This mission statement defines DSM's new future direction and ideal state that have been clarified in its strategy: *Vision 2010 – Building on Strengths*.

DSM makes it a rule to undertake a full and exhaustive discussion internally when developing its important strategy, such as defining its ideal state or the path it should follow. The discussion process is called the "Business Strategic Dialogue." It is a strategy development process that was developed by DSM in the early 1990s in conjunction with the International Institute for Management Development (IMD) and a certain university. It is a concrete technique as well as a specific process for generating internal dialogue regarding the path a company should take or how a company should continue evolving.

First, a certain business unit is appointed as the owner of a dialogue. Then another business unit is appointed as a facilitator. The facilitator is responsible for managing a dialogue according to a given method and keeping conversations on track. When strategy or reform is on the agenda, discussion tends to be much emotional. The role of the facilitator is to coordinate the team to ensure that discussion will go smoothly however complicated it may be. And, a separate business unit is appointed as a challenger. The role of the challenger is to challenge or object to everything owner says. The challenger is responsible for raising questions, such as "I do not think so" or "Is it really true?" This technique is to visualize a dialogue as much as possible through the division of these three roles. Meanwhile, as employees need to be properly trained in order to play out these roles, appropriate trainings are being provided to them.

The Business Strategic Dialogue is intended to draw out ideas from employees that would never be generated by the top-down approach. Through discussions, is a consensus, that everyone can embrace from the bottom of their hearts, not the one forced on them by top management, can be built, which is another benefit of this process. In addition, it is possible for employees to assess if they can really, by themselves, put the strategy into practice. The beauties of this process are to yield a strategy as well as the name of it and to enable to communicate afterward on it among internal members. DSM makes it a rule to hold a dinner meeting with employees and discuss the results of a dialogue with one slide that summarizes the results of discussions. The purpose of this dinner meeting is to ensure that all employees fully understand the strategy developed through this process. Mr. Feike Sijbesma says, "At DSM, our strategies are completely shared with employees. Any employee can talk about our mission statement or our strategies for at least 15 minutes on end."

2.1.4 Corporate Management with Long-Term Perspective

As discussed at the start of this chapter, a truly sustainable corporate management sometimes involves several seemingly contradicting elements that are brushing and balancing each other. The same can be said when you see the corporate management from the timeline viewpoint. In a short-term view, the issue will be simply how to balance the profitability and the sustainability. However, if we look at this from a long-term perspective, such as a 10-year or 50-year span, we will be able to put it into perspective and think that contribution to sustainability is synonymous with sustainable competitive advantage.

It is true that there is another side to this issue, "Though we know well that the sustainability is very important for us, can we really afford to take a leisurely approach thinking only of the sustainability?" In order to secure a sustainable competitive advantage, there should always be a brushing and balancing act in between the profitability and the sustainability. When we see the profitability, we evaluate it on a quarterly basis. However, in case of the innovation, we do so on a 10-year (decade) basis, and the sustainability, on a 50 to 100-year (century) basis. There must be a certain technique for coordinating these three elements that have different time scales into one management focus. In any event, the long-term perspective is an indispensable factor of the sustainable corporate management.

2.1.5 How to Quantify Sustainable Corporate Management and Balance Profitability with Sustainability?

The profitability and the sustainability seem to contradict often with each other and have totally different time scales. To put a sustainable corporate management into practice, we have to develop a management technique aligning them into one vector (one direction) following the raison d'etre of each company in a society, and managing to keep and control it into the future. To date there has hardly seen any example of such management technique. In this section, we would like to introduce two new management approaches that have been studied recently.

(1) Four-Dimensional Management (Initiative by Mitsubishi Chemical Holdings)

To realize *KAITEKI*, Mitsubishi Chemical Holdings manages its group following three basic management axes and the associated time axis: the axis for measuring the economic efficiency based on the company's operating performance, the axis for measuring the technological development, and the axis for measuring the progress of the improvement of the sustainability of people, society and the Earth. Mitsubishi Chemical Holdings calls this management approach "the *KAITEKI* management."

The first axis is intended to measure the economic value and thus to help make management decisions based primarily on the figures in financial statements such as the capital efficiency, profit margins, and the shareholder value. This axis is called the "Management of Economics" axis or the "MOE" axis. It stems from the understanding that the fundamental mission of a company (or a corporation) is to pursue the economic value.

The aim of the second axis is to create a harmony between the corporate activities and the science and technology while generating innovations that enables the sustainable development of the (a) society. This axis is called the "Management of Technology" axis or the "MOT" axis. This axis is to help align the direction of innovations with its management policy and apply the outcome of technological pursuits steadily to the creation of the corporate value.

Many companies have adopted the above two management axes as key criteria for making corporate management decisions. In addition to these management axes, Mitsubishi Chemical Holdings has introduced as the third management axis, the Management of Sustainability axis or MOS axis that measures the improvement of the sustainability of people, society and the Earth. By adding this management axis, it enables the company to manage its business by fully taking *KAITEKI* for society and the Earth into consideration.

In these management axes, the evaluations need to be done respectively by their different timelines. The MOE axis primarily focuses on the profitability of a business, and the evaluations on a quarterly or annual basis, and in the case of the MOT axis, technologies are evaluated based on a decade span. On the other hand, in the case of the MOS axis, a company's contribution to the sustainability is evaluated based on a long-term perspective, such as a century span.

Therefore, in the implementation of the KAITEKI management, they take the time factor into their consideration of these three management axes, and manage the company by optimizing the balance of these four elements in the four dimensional space-time (**Fig. 2-1**). This concept is new, and in particular, there were no indices to measure the MOS objectively. Against this backdrop, Mitsubishi Chemical Holdings has established MOS index for the purpose of visualizing and quantifying the progress of the management of sustainability.

MOS index is a management index established for evaluating the progress of MOS. In establishing the MOS index, Mitsubishi Chemicals Holdings has selected factors in consideration of importance and relevance of the whole group companies and contributions to the realization of KAITEKI. In the case of Mitsubishi Chemical Holdings, the indices consist of nine factors—three sub categories per each of the three large categories that serve as the criteria for corporate decision. The three large categories are Sustainability (environment and natural resources), Health, and Comfort (Fig. 2-2). In addition, there are several middle categories under the nine sub categories. For instance, as for the sustainability index, Mitsubishi Chemical Holdings has realized a quantification of a target, like putting a target as reducing carbon dioxide (CO₂) emissions by 30% by 2015. In addition to CO₂ emissions, it has also focused on other factors such as natural resources and the environment. As for the health index, it has established quantifiable targets according to the degree of contribution to the medical treatment, such as the progress of the development of a medicine of unmet needs. For the comfort index, it has tried to quantify the targets by evaluating a ratio of new products, which offers new values to markets and consumers, as

well as the degree of efforts to become a trusted company by the society in terms of the safety and the compliance.

MOS index plays two important roles in corporate activities. One is to help businesses resolve or improve the challenges facing them today, which include the reduction of greenhouse gas emission and energy conservation. Another role is to help businesses plant seeds for and nurture new business ventures or new products looking at the future of society. This includes the development of energy sources that are not dependent on fossil fuels, chemical synthesis from plant material, new drug development, and the development of organic photovoltaic cells, et cetera.

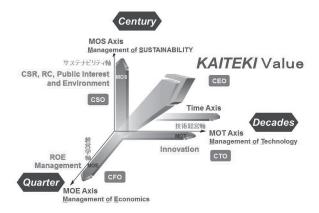


Fig. 2-1: Space Coordinates for Four-Dimensional Management Source: Mitsubishi Chemical Holdings Corporation

Meanwhile, Prof. Michael E. Porter, at Harvard University, introduced two years ago the concept of Creating Shared Value.² According to this concept, in addition to traditional management focusing on capital efficiency, companies must share values attained by their business activities with society and stakeholders because social values such as CSR lead to the enhancement of the corporate value.

The "ESG investment" has been intensified recently particularly in Europe, which proves that they value not only the capital efficiency but also, more increasingly these days, its efforts like utilizing renewable energy. Apparently, not limited to MOS index, the whole world are moving in this direction. We can say that, MOS index and Four-Dimensional Management are characteristic because in that the sustainability and the profitability are handled as completely separate and independent elements but are evaluated together as elements that have equal

value to each other.

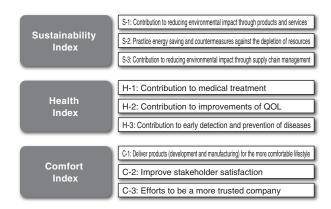


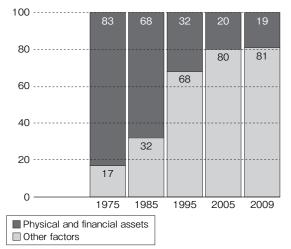
Fig. 2-2: MOS Index that Visualizes and Quantifies Progress in the Management of Sustainability.

Source: Mitsubishi Chemical Holdings Corporation.

(2) Integrated Reporting ⁴

Fig. 2-3 shows trends in the ratio of the effects of financial capital and non-financial capital with the S&P 500 companies' total market value as 100%. In 1975, the ratio of financial capital was 75%, which represented a typical 20th century type industrial economic society. Since approximately 1985, the ratio started to change on the back of the emergence of the information technology (IT). With the rapid growth of IT, the ratios of financial capital and non-financial capital were finally reversed in 1995. This means that accounting data hardly explain

Components of S&P 500 market value



The percentage of market value explained by physical and financial assets versus other factors, some of which are explained within company accounts, but many of which are not.

Fig. 2-3: Ratio of Physical and Financial Assets to Market Capitalization.

Source: The Discussion Paper *Towards Integrated Reporting* by the International Integrated Reporting Committee (IIRC), p.4 (2011).

² See Creating Shared Value by Michael E. Porter (Harvard Business Review, January 2011).

³ To make investments to improve long-term business performance by integrating ESG (Environment, Society, Governance) factors into the investment process and evaluating corporate value from a long-term perspective.

⁴ Reference: Lecture by Yasuhito Hanado, entitled "Adjusting Gaps between Corporate Strategy and Sustainability by Integrated Reporting: Winning Corporate Strategy in Globalization Age" under the sponsorship of Keizai Doyukai's Committee on Corporate Management Reform 2012.

a company's market capitalization, in other words, a corporate management has become like a "black box." Today, the ratio of the effects of financial capital has gone down to approximately 20%. With the presence of this "black boxe" in a company's performance, combined with a variety of speculation, it has become extremely difficult to advertise the true state of a company through information disclosures. Against this backdrop, if some negative impact occurs, a variety of rumors spread quickly, escalating into an unmanageable situation called the "burnt-out phenomenon". As such, companies are now exposed to increasingly high reputational risks.

Under these circumstances, the concept of integrated reporting has been developed. The International Integrated Reporting Council (IIRC)⁵ took the lead in the development of the concept. With regard to the whole Earth sustainability issues, IIRC has declared in its mission statement: "The aim is to ensure that we are not battling to meet 21st century challenges with, at best, 20th century decision-making and reporting systems." Integrated reporting is a concise communication that integrates financial information and non-financial information, such as the environment, society, and the corporate governance. Integrated reporting meets the needs of a burgeoning sustainability-oriented global economic model and enables a company to prevent any "black box" in the business management, accurately publish the total picture and true state of its business, and minimize the reputational risks.

In integrated reporting, it is proposed that an organization should clearly identify, as a "business model (BM)", a mechanism for how it creates and maintains values in the short-term, medium-term and long-term. A BM is a mechanism for investing, multiplying, and preserving financial capital, manufactured capital, human capital, intellectual capital, natural capital, and social and relationship capital. This concept is called the Octopus Business Model (**Fig. 2-4**). The concept of six capitals, the specific contents of the concept, and the ideal business model are affected by external factors. A company must manage resources by effectively integrating these elements into its business processes. The framework for this Octopus Business Model is currently under development.

The key point of this integrated reporting is that the *materiality* is highlighted as one of the most important concepts. The term *materiality* here is substantially different from the concept used in an accounting audit. It is identified through the following process — a company identifies topics that are most relevant to its corporate management and prioritizes them, and the topic with the highest priority is identified as being *material*. Integrated reporting is to develop a report by reflecting business management, people's thoughts and judgments in the *materiality* concept, sorting out information based on this *materiality* concept while being fully aware of a target range, and adding thereto time elements, such as from the past to the present and from the present to the future.

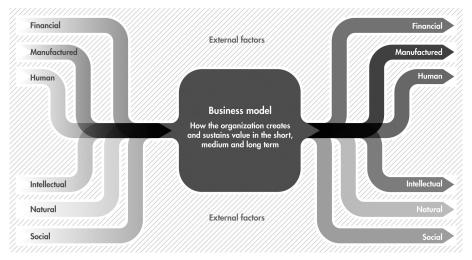


Fig. 2-4: Octopus Business Model.

Source: Discussion Paper towards Integrated Reporting by the IIRC, p.10 (2011)

⁵ IIRC was formed in 2010 by consolidating the Accounting for Sustainability Project (A4S) established by the Prince Charles in 2004, a project for studying the development of a new accounting framework for the formation of sustainable society, and the Global Reporting Initiative (GRI), a scheme backed by the United Nations.

Japanese companies are required to explain fully to the public how their business activities support the sustainability of society. It is difficult to meet this requirement if they provide relevant information in their annual reports, CSR reports, etc., in a piecemeal fashion here and there. It is important to provide information strategically to the most relevant stakeholders. Following are five key points in preparing for integrated reporting:

- (i) Provide data for rational decision-making: First of all, it is necessary to provide forward-looking data and change the general perception in ways that historical data support the credibility of future data.
- (ii) Analyze the source of corporate value creation: A company must thoroughly identify resources that support its corporate management and how they contribute to the corporate management. This is the basic premise for enhancing the credibility of integrated reporting.
- business cycle: Although annual financial reporting is made once every year and a quarterly reporting every three months. However, the cycle of business activities does not necessarily complete annually or quarterly. Since most of Japanese companies develop their mid-term management plans, they are the most advanced in the world in terms of visualizing the whole picture of company-specific business cycles. It is recommended, therefore, that Japanese companies should further refine the current business management process to accomplish this key point.
- (iv) Clarify the relationship between non-financial and financial performances: We cannot explain appropriately a company's real value creation if we say, a financial report explains financial issues and so does a non-financial report. Eventually we need to link both of these reports to the changes in monetary value. There will be many elements that cannot be measured in monetary value, but a company needs to find a way to converge with the monetary value evaluation in the future. To do so, the first step a company should take is to amass data on such elements without leaving them as it is—i.e. financially not measurable.
- (v) Make it easy to understand: the disclosure of a company's information will be targeted not only at experts but also increasingly at the general public, which may be responsible for reputational risks.

In order to obtain the understanding from them, an integrated report must be easy to understand and suit the information-processing capabilities of its users.

Japanese companies periodically publish their financial statements to report their financial results, as well as their earnings' forecast, so Japan is one of the most advanced countries in the world in terms of information disclosure. It is often the case that Japanese companies already publish and explain I the elements required by integrated reporting in some form or another. What Japanese companies lack most is an easy-to understand document that comprehensively explains the whole picture of the state of their business performance. Japanese companies should develop a document that enables its readers to understand the whole picture after 15 to 20 minutes of reading.

* * *

Anyway, it is important to treat the profitability and the contribution to sustainability — seemingly two contradicting elements — equally and carefully and report them together. If these two elements are reported individually, they may be taken as two separate things and it may be difficult to treat them equal. By reporting these conflicting elements together, a fair tradeoff of these elements, which is the essence of a true sustainable corporate management, will come into play.

Mitsubishi Chemical Holdings has tried to visualize this fair tradeoff of conflicting elements as a vector on space coordinates, which may be somewhat bold. We think it is a proper way to start with integrated reporting. In any event, we have not yet been able to find a definite concept or technique for evaluating non-financial, not-for-profit corporate activities. Maybe, this area needs to be studied most urgently when thinking about the *corporate management for the 21st century*.

As mentioned in the previous paragraph, Japanese companies are very much advanced in terms of performance reporting. Globally, Japanese companies are in a better position to tally business results and report them at a higher level. Given the situation, as they say, "An attempt is sometimes easier than expected." We have high expectations that Japanese companies will make further great progress in terms of performance reporting.

2.2 Key Drivers of Sustainable Corporate Management

2.2.1 Top Management and Human Resources

In order to remain successful in global market competitions and to contribute to the sustainability of our mother Earth and society, strong leadership and decision-making capabilities of top management, with global and long-term perspectives, will be required. In addition, top management must understand the corporate identity as a Japanese company in this complicated and constantly changing world.

A robust governance system is imperative to enable top management to demonstrate fully their leadership and decision-making capabilities or select such a top management. On the next section and chapter 3, we would like to discuss how corporate governance should be structured and function.

Meanwhile, employees convert a company's corporate philosophy and vision into practical values and deliver them to the society. "Corporate management ultimately boils down to human resources." Therefore, the primary role of top management in the realization of their company's corporate philosophy and vision is to ensure that all employees satisfy and share the corporate philosophy and vision. This point has been fully explained in the previous sections by using some actual examples.

At the same time, it is also important to secure excellent human resources, that is, to recruit and develop human resources. In this time of rapid changes, it is not easy to always staff a company with human resources who can satisfy the needs of the changing times. As for the employment, it is necessary to develop a system that promotes labor market flexibility, including the relaxation of employment-related regulations.

In addition, it is necessary to enhance efforts to promote the globalization of human resources. In global market competitions, we cannot afford to develop Japanese human resources in areas where Japanese employees are not good at. In such case, we must seriously consider employing foreigners who have high skills in the required areas whenever necessary. In many of the countries of the world, the employment of necessary foreigners is a common practice. We must not forget that we have to compete head-on with them in global markets. Additionally, in order to promote the creation of innovations, it is important to enhance the diversity of human resources, including foreigners, women, and the elderly.⁶ We would like to discuss this further in detail in chapter 3.

Lastly, assuming that it is essential to have a spirit or a sense of survival to never lose, as well as a strong desire or a passion to contribute to the society in order to keep winning in competition, Japanese employees may fall behind people in other countries who are constantly exposed to intense competition for employment opportunities. Japanese employees will likely be forced to compete with them on a level playing field in the near future. We think that it is time for Japanese employees to reinvent themselves, carefully review their respective job careers, and establish the *sustainability of their job careers*.

2.2.2 Corporate Governance

Corporate governance is a system designed to enhance the competitive strengths and corporate value of a company, prevent the occurrence of misconduct, rigorously check the execution of representative directors' duties, enhance the transparency and promptness of management decision-making, and promote positive communications with stakeholders. We, at Keizai Doyukai, have studied and have made proposals on how corporate governance should be structured and function. According to the 16th Corporate White Paper⁷ published by Keizai Doyukai in July 2009, the purpose of corporate governance is defined as "to establish and faithfully operate a system where transparency, objectivity, appropriateness, promptness and disclosure are fully secured from the viewpoint of stakeholders, including shareholders in terms of how a

⁶ See Policy Proposal "Creating Diversity on Decision-Making Boards Appointing Female Managers and Executives to Strengthen Competitiveness" published by Keizai Doyukai's Committee on Development and Utilization of Human Resources 2011 (Chairman: Sakie T. Fukushima) (May 2012).

⁷ See the 16th Corporate White Paper "Creating a New Style of Japanese Corporate Management" published by Keizai Doyukai (July 2009)

company's business status and management decisionmaking should be."

Recently there has been a spate of misconduct cases of Japanese companies' the top management. On the back of this situation, we have seen some foreign media reports questioning the effectiveness of corporate governance in Japan. Japanese companies must re-examine the effectiveness of their corporate governance systems in order to prevent the recurrence of misconduct cases due to the abuse of power by top management and to enhance the ability to persuade investors both at home and abroad, including an increasing number of foreign investors in the Japanese stock market.

In the United States also, there have been a number of misconduct cases caused due to the abuse of power by top management, such as accounting fraud and fraudulent investment decisions. We do not believe that the root cause of this problem can be eradicated by newly designing institutional arrangements, such as the establishment of a company with auditors or with committees. We think that an organizational theory and management technique for reinforcing corporate governance are only secondary and that if the persons concerned are not fully aware of the need of corporate governance, any organization or management technique, whatever it may be, cannot be perfect.

There have been some cases where companies try to give only an impression that a robust corporate governance system is put in place and maintained by establishing an organization or introducing a management technique without careful consideration. This is like putting the cart before the horse and just does not make any sense.

The first step in considering a truly sustainable corporate management that is required for the 21st century should be for a business manager to go back to basics and re-examine the responsibility and role of the company in society, "sha-kai" (or in the world, "se-kai"). In the case of companies, such as those that have violated compliance rules, for example, is it appropriate to expect them to play a social role? We need to remind ourselves that we must ensure safety and compliance with laws and regulations, before focusing on the profitability and the contribution to sustainability, as they are the very basic premise of our corporate activities.

Keizai Doyukai's Committee on Corporate Management

in FY2009 studied corporate governance and made the following six proposals in its policy proposal entitled "Deepening of Japanese-style Corporate Governance"8:

- A high sense of ethics and high aspirations of business manager.
- Appointment of more than one independent outside director.
- Addition of the independence requirements of outside directors and outside auditors.
- Mutuality of complementary functions between corporate auditors and outside directors.
- Transparency of processes for appointing directors and determining director compensation.
- Support for the implementation of executive officer system.

In order to continue to achieve success in the age of globalization, it is necessary to establish a corporate governance system with high transparency, objectivity, fairness, promptness, and disclosure that can be highly regarded by a diversity of stakeholders. In addition, a Japanese company must enhance its credibility and persuasiveness to investors at home and abroad through active communications and establish a corporate management system that enables it to make prompt risk-taking decisions based on diverse perspectives. In order to enhance the evaluation of the corporate governance systems of Japanese companies, it is indispensable to strengthen the audit function (board of corporate auditors, audit committee), i.e. the function of corporate risk management. Therefore, companies with committees should establish a framework where a highly independent audit committee can have full access to internal information, while companies with a board of corporate auditors should ensure that effective audits would be conducted by auditors themselves based on a strengthened collaboration between corporate auditors and outside auditors.

As the competitiveness of top management is critical to the future of a company, a company should establish a process for the development of its future business leaders and a clear policy for succession of top management. In addition, from the standpoint of ensuring the transparency of corporate governance and providing incentives to business managers, a company should establish clear

⁸ See Policy Proposal "Deepening of Japanese-Style Corporate Governance" published by Keizai Doyukai's Committee on Corporate Management 2009 (Chairman: Nobuo Katsumata) (March 2010)

criteria for executives' performance and compensation. Corporate governance has been discussed repeatedly with increasing emphasis on the enhancement of transparency to stakeholders following a spate of corporate scandals. Meanwhile, in order to continue to achieve success in fierce market competition in the age of globalization, it is necessary to maximize the competitiveness of a company. Corporate governance needs to be reformed as part of management reforms to ensure the establishment of a corporate mechanism that enables a capable business

leader to be selected and such selected business leader to perform at full potential. In chapter 3, we would like to discuss corporate governance from this perspective.

In any event, even if a superior system or mechanism that ensures corporate governance is prepared, the execution of corporate governance must be dependent on the business manager. If the business manager lacks a sense of ethics to manage the company properly, the corporate governance of the company will become dysfunctional.

Chapter 3 Corporate Management that Ensures Ongoing Success in the Age of Globalization

3.1 Globalization for Japanese Companies

3.1.1 What Does Globalization Mean for Japanese Companies?

In his book The World Is Flat, published in 2005, the author Thomas Friedman predicted, "With the advancement of information technology (IT) and economic growth in China and India, the world economy will be integrated, and the world will be a level playing field, where all competitors have an equal opportunity." Seven years have passed since then, and it turns out that things are looking different from Friedman's prediction. When Dr. Ian Bremmer of Eurasia Group was asked, "Given the current state of globalization strongly reflects religious, racial, economic and state-capitalistic elements, is it more appropriate to characterize it as diversification?" He said in response, "I do not use the word diversification. I think the current state of globalization is more fragmented so I would call it fragmentation. And this is the essence of globalization." We have had exhaustive discussions about the implications of the globalization, but the meaning of globalization itself has been changing at breakneck speed.

In his book *The Price of Civilization: Reawakening American Virtue and Prosperity*, Dr. Jeffrey D. Sachs has indicated that globalization has brought about three overarching economic effects². One of these effects is the convergence effect, which refers to the fact that developing countries can easily catch up with developed countries by copying the advanced technologies of developed countries. Because of this, the income gap between developing countries and developed countries has been rapidly narrowing. The second effect is the labor effect. Many companies, notably manufacturers, have been entering emerging markets in search for cheap

labor. It has resulted in pushing down the levels of labor costs and the wages of low-skilled workers around the world. The third and final effect is the mobility effect. With increasing borderlessness, the liberalization of international capital flows has become the order of the day. There is a growing disparity between mobile and immobile things. Within the current framework of a nation-state system, countries must find a way to fetch in more capital in order to develop industries. In order to achieve this, countries are forced to implement a variety of measures to address environmental factors, such as easing regulations and cutting corporate tax rates, etc.

In light of such global trends, what does the globalization mean for Japanese companies? As the United States is a nation of immigrants, it is relatively easier for Americans to understand the meaning of the globalization. Meanwhile it is difficult to define globalization uniformly in Japan. Does the globalization refer to one of the evolution phases of a global company or simply the fact that Japanese companies deploy to overseas markets? For example, some Japanese companies have been expanding business overseas by exporting products and services since the Meiji era. Even if such exporting companies have increased their overseas sales by exporting products and services, the way of doing business remains the same as before and this should not be interpreted to mean the progress of globalization. Globalization has a wide range of meanings, such as shifting headquarter, production and/or sales functions overseas, globalization through leveraging information and communication technologies (ICTs), and globalization of human resources, including recruiting research and development (R&D) personnel from overseas, and other things. What direction of

¹ See The World Is Flat by Thomas Friedman (Nikkei Publishing Inc., May 2006).

² See The Price of Civilization: Reawakening American Virtue and Prosperity by Jeffrey D. Sachs (Hayakawa Publishing Corporation, May 2012).

globalization does the globalization mean for Japanese companies?

One business manager points out, "From a global perspective, the globalization of a company should be interpreted to mean an improvement in the overall performance at the whole earth level." Others say as follows: "Importing is important for the globalization of retail businesses as imports may benefit from yen appreciation. Globalization means different things to the service industries and the manufacturing industries." "In the insurance business, as there is no concept of export and import, there is no other way but to expand business overseas to grow business globally. As the insurance business does not require large fixed assets, such as production facilities, it appears easier to promote the acceleration of globalization but cultural factors present big hurdles." Globalization comes in a variety of forms and shapes, depending on the types and categories of business.

One thing common to all Japanese companies is that they are now forced to compete with the companies of other countries in the world both in domestic and overseas markets. Japanese companies are forced to compete with foreign companies even in the Japanese market in a variety of fields, such as liquid crystal TV sets, smartphones, furniture, financial services, and retailing. In this white paper, we have defined this situation as the globalization for Japanese companies and have studied the specific forms of the globalization from two perspectives.

3.1.2 Company Models in Terms of Global Operations

We have classified the globalization of Japanese companies into three categories in terms of global operations. The first category is the Europe/US-type Global Company Model. Large-scale manufacturers and manufacturer-cum-retailers fall under this category.

Company Model	Category of Business (Example)	Basic Global Strategy
Europe/US-type Global Company Model	Large-scale manufacturers (steel manufacturers, chemical companies, etc.), manufacturer-cum-retailers	These companies target global markets, are willing to enter and compete in oligopoly markets and aim to optimize profits on a global-wide basis.
Kyoto Company Model	Companies in Kyoto, some of companies in service industries, such as department stores	These companies do not pursue business scale for the simple sake of becoming larger but pursue unique technologies and differentiation, and offer products and services in global markets with their business bases located in certain areas in Japan.
Local Company Model	Many of Japanese companies in tertiary industry	Although raw materials procurement and/or production may be sourced globally, these companies conduct business primarily in the Japanese markets, with their products and services deeply rooted in Japanese culture and values.

Table 3-1: Company Models in Terms of Global Operations.

These companies target the whole global markets, are willing to enter and compete even in oligopoly markets, and aim to optimize profits on a global-wide basis. The second category is the Kyoto Company Model. Companies in this category are based in Japan and offer superbly-differentiated products and services worldwide,

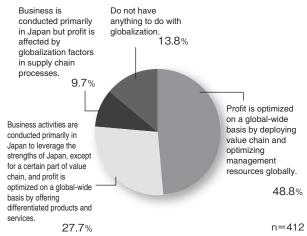


Fig. 3-1: What do you envision is the state of a globalized company?

Result of a questionnaire survey conducted by Keizai Doyukai (2012)

without seeking for any scale in the global market. The prime example is manufacturers in Kyoto. In addition to manufacturers in Kyoto, some retailers and some service companies fall under this category. The third category is the Local Company Model. Many of Japanese companies in tertiary industry fall under this category. Although they sometimes procure raw materials worldwide, these companies conduct business primarily in the Japanese markets, with their products and services deeply rooted in Japanese culture and values.

Fig. 3-1 shows the result of a questionnaire survey conducted in 2012 by Keizai Doyukai: "What do you envision is the state of a globalized company?" Among the choices of answer to this question, the answer: "Profit is optimized on a global-wide basis by deploying value chain and optimizing management resources globally" is equivalent of the Europe/US-type Global Company Model, while the answer: "Business activities are conducted primarily in Japan to leverage the strengths of Japan, except for a certain part of value chain, and profit is optimized on a global-wide basis by offering

differentiated products and services" applies to the Kyoto Company Model, with the answer: "Business is conducted primarily in Japan but profit is affected by global factors in supply chain processes," to the Local Company Model. As a result, it can be seen that approximately half of Japanese companies are oriented toward the Europe/US-type Global Company Model, while approximately a quarter, toward the Kyoto Company Model and 10%, toward the Local Company Model.

3.1.3 Company Model in Terms of Growth

Recently, the theme: "What is Growth?" has been increasingly coming under the spotlight on the national level. Concepts such as *spiritual richness* and *happiness levels* are often regarded as keywords to answer this question. But if we focus only on spiritual richness, we might become poorer as the accumulation of material wealth gradually diminishes and end up being in a state where our spirit is rich but there is nothing to eat. In a way, globalization is a means for companies, and the most essentially important thing for companies is how they tackle growth. Therefore, we have tried to classify the globalization of Japanese companies in terms of growth.

The first category is companies that focus on increasing their market shares in overseas markets through globalization on the assumption that there are plenty of growth opportunities in overseas markets. It is sometimes said that Japanese companies have been lagging behind in a certain growing business in overseas markets. However, there is no way that global markets have stopped growing. And they will continue to grow in the future. So this is definitely the area on which Japanese companies should continue to focus their business attention.

The second category is companies that focus their

attention on the creation of advanced innovations by aiming to achieve technological and business growth in new areas where no companies have yet come up with viable solutions. The potential of creating advanced innovations is high especially in the areas of life science, the environment, and materials, among other things. In order to help nurture companies oriented toward this business model, we have to question the performance of the government to loosen the regulations that might inhibit the efforts of companies to take on the challenge of creating advanced innovations.

The third category is the Domestic Problem-Solving Company Model. Despite the population decline in Japan, it is not always necessary for those companies that focus on domestic operations to go out of their way to expand globally. For example, in the case of Japanese nursing-care service companies, it makes better sense for them to capture a dominant position in the Japanese markets by further enhancing the levels of nursing-care services, instead of going out of their way to expand business globally. This is also a type of growth.

In addition, the Social Company Model, which refers to companies that grow through social innovations, has emerged recently as a potentially viable business model. Japanese companies are rather weak in this area. Globally the Grameen Bank and Base of the Pyramid (BoP) businesses fall under this category. Globally, in addition to investors looking for financial gain, an entity that invests for social returns, such as the Bill & Melinda Gates Foundation, has emerged in recent years. The Social Company Model is a new company model that evolves through a combination of the diversity of funds and the value of corporate management. And this model aims to achieve growth by creating a flurry of innovations and solving social problems in Japan, a country facing a variety of forward-looking societal challenges.

Co	mpany Model	Global Strategy	
Global Deployment Company Model Advanced Innovation Company Model		These companies aim to achieve growth by deploying business globally with special focus on markets that continue to grow going forward.	
		These companies aim to achieve growth by developing new business in areas, such as life science and the environment, where no companies have been able to come up with viable solutions.	
	nestic Problem- ving Company Model	These companies aim to achieve business growth by specializing in the Japanese domestic markets and tackling forward-looking challenges facing Japan, such as nursing care.	

Table 3-2: Company Model in Terms of Growth.

3.2 Creation and Maintenance of Differentiation

3.2.1 From Monozukuri to Kotozukuri

In response to the question: "What is the most important factor in increasing competitive strength in global market competition?" in the questionnaire survey conducted by Keizai Doyukai targeting the heads and top management of companies, the largest number of respondents said: "to further enhance the added value of products and services" (Fig. 3-2). Japanese companies have been providing high value to world consumers with highly functional and high quality products through their superior Monozukuri (or manufacturing excellence from Manufacturers' perspective). However, from the comparison of slumping Japanese electronics manufacturers with their overseas counterparts enjoying booming business with smartphones and tablets, it is often said that "high function and high quality alone do not sell product" or that "value-added services accompanying products' quality are important." Recently, the key point in value creation has shifted from Monozukuri to Kotozukuri (or producing an excellent system of products and services from consumers' and users' perspective).3

Value Created Synergistically between Products and Services⁴

Mr. Kenichiro Senoo, president of the Industry-Academia Collaboration Initiative Nonprofit Organization, says, "Apple iPod was not developed by applying technologies available at Apple Inc. The same was true with Sony's Walkman. Once an innovation is created, it is difficult to break out of a chain of modifications and improvements to an existing product. This is because, by adding higher or multi-functions to existing products, it is possible to avoid facing squarely the difficult challenge of creating a new innovation for the time being."

An iPod can be expressed as a mobile-digital-musicplayer. The major difference between an iPod and cassette tapes or CDs is that the latter require an additional music player. An iPod combines the functions of media and

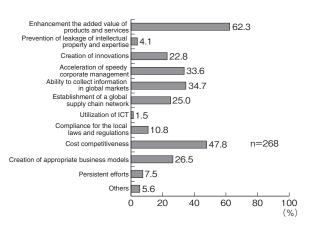


Fig. 3-2: Company Model in Terms of Growth.

Result of a questionnaire survey conducted by Keizai Doyukai (2012)

a player, to be more specific, the functions of media, a player, and a storage device. Mr. Senoo adds: "An iPod creates a new value by integrating functions previously separated and is representative of trends in shift from a single function to a composite function." Another key point is that iPod hardware is sold not independently but in combination with services called "iTunes Store." In other words, Apple offers to customers with an iPod a value created in synergy between the product and services. Mr. Senoo further indicates: "This is a prime example of how an approach to value creation has evolved from a single-layered to a multi-layered."

Additionally, Apple makes iPod and Apple's other hardware such as personal computers or iPad be interconnected via its free software *iTunes* for interoperable contents. But they make it so that content cannot be moved from Apple's *ecosystem* to others', such as Sony's and Panasonic's. Apple has designed and developed a business model by combining the creation of high added value through a tactical combination of products and services with the development of a product configuration that becomes a high entry barrier for competitors.

Create High Added Value through Integration of ICT and Communications Technology

Komatsu Ltd. is a leading manufacturer of construction

³ See Policy Proposal entitled Aiming to Realize Mono-Kotozukuri (Manufacturing Excellence and Excellence in Product-Driven Innovation) by Keizai Doyukai's Committee on Mono-Kotozukuri 2010 (Chairman: Toru Nagashima) (June 2011).

⁴ Reference: Lecture entitled Business Model in Globalization Age — Innovation: Age in which the Configuration of Product and Business and Industrial Ecosystem Move in Conjunction with Products and Services by Mr. Kenichiro Senoo of Keizai Doyukai's Committee on Corporate Management Reform 2011 (December 2011).

and mining machinery in Japan. They have created a business model to provide information on machine maintenance and notice the replacement timings of consumables timely to an owner or a maintenance engineer of the machine. Necessary information is estimated from the operating time and distances travelled etc., that are obtained from the global positioning system (GPS) embedded on their machines. This system, which is well known as the KOMTRAX, is a good example of the integration of product and services, in which product (machinery), communications technology (GPS) and ICT (monitoring) are optimally combined.

Mr. Kunio Noji, president and CEO of Komatsu Ltd., indicates: "We can drastically change our products by combining them with ICT—the change is so drastic that it is impossible to explain just by pointing the difference between hardware and software—and thus can create a new value." In the copper mines in Chile and Australia, unmanned dump trucks with a payload capacity of 300 tons are remotely operated, using a GPS system. An ordinary dump truck has a driver seat with a steering wheel and a shift lever for steering a vehicle. If a truck is unmanned, a driver seat is no longer necessary, eliminating the concept that the direction where a driver seat is facing is forward and thus eliminating the need to change direction or to make a U-turn. If this is possible, the development of such a truck will be undertaken at vastly different levels from the current truck development, making it possible to create a new "out-of-the-box" value. This same concept could eliminate a variety of challenges facing current vehicles, such as better handling, ride, and noise levels, making future vehicles totally different from the vehicles we know today.

We Deliver Goods to an Individual Customer, Not to a Place

Mr. Makoto Kigawa, president of Yamato Holdings Co. Ltd., stresses: "We used to be able to get customers satisfied just by delivering goods to them. But those days are over. It is now the age of *personal delivery*, where we deliver goods to a specific person." Yamato Holdings has been making efforts to provide highly convenient services to customers by combining the service of delivering goods to a customer's place with a variety of other services, which has resulted in creating a differentiation that competitors cannot easily copy.

For example, from two years ago, Yamato Holdings has started a service in which a customer can freely designate the time and place of delivery in advance and goods will be delivered at the designated time and place the next day. The backbone of this service is the use of advanced IT technologies and the membership system. The current number of Yamato Holdings' Kuroneko (Black Cat) members exceeds eight millions.

Additionally, Yamato Holdings offers a service called Today Shopping Service (TSS). Peak hours for online shopping are late night hours. Under the TSS, if a customer shops online by twelve midnight, the goods will be delivered to the customer's front door by eight o'clock the next morning. Yamato Holdings has been able to put the TSS into practice by combining advanced IT technologies with the creative use of its networking. Regardless of the launch of TSS, Yamato Holdings has been operating delivery trucks during the night for the purpose of recovering goods erroneously delivered. If they ship goods using these delivery trucks by two o'clock at night, the goods will arrive by eight o'clock in the morning. Most likely Yamato Transport Co. Ltd. is the only delivery service company that has this kind of behind-the-scenes trucking diagrams, which essentially constitute a cost center.

In this way, Yamato Holdings has been able to further improve the convenience of individual customers and provide well-differentiated services by combining a variety of services backed up by advanced technologies and expertise.

3.2.2 Open and Closed Sequence and International Standards

In recent years, a product's lifecycle has become shorter (Fig. 3-3). Technological breakthrough in high valueadded products, such as solar power generation systems, lithium-ion batteries, and LED lighting, took many vears to commercialize. However, cheap substituting products from China and Korea had flooded the markets immediately after the launches of new Japanese products, and those Japanese products have been swallowed up by the waves of commoditization. One such Japanese manufacturer says in disappointment: "Under a hybrid strategy, we have decided to focus on the production of high value-added products in Japan and to shift the production of commoditized products to our plants in China. But lately the speed of commoditization of high value-added products has become so fast that it makes us feel as if we just have to keep shifting our production to China."

Mr. Senoo cautions: "Japanese manufacturers would

not be able to compete with global competitors if they continue to adhere to the Do-Everything In-House principle, that is, to develop, manufacture, and sell products, namely fully vertically integrated products, by themselves." Even if Japanese manufacturers invest money, people, and time to develop products from upstream to downstream, the commoditization of products is so fast that they will be quickly embroiled in price competition to sell the products. Therefore, it is necessary to achieve the high value-addition and the agility concomitantly and to develop a mechanism that makes it difficult for competitors to readily copy the products.

One business manager points out: "To achieve this, we need to adopt a strategy of keeping the own advantage hidden like a secret recipe, laying the rest disclose and promoting a standardization of a product (or a service)." The sequences of open and closed parts vary according to products, but if this business model turns out to be successful, the closed part will become a black box. At the same time, a number of companies will become interested in adopting the open or standardized parts and consequently rapid cost reduction will be promoted. Ultimately the popularization of the whole product category will expand at a drastic speed.

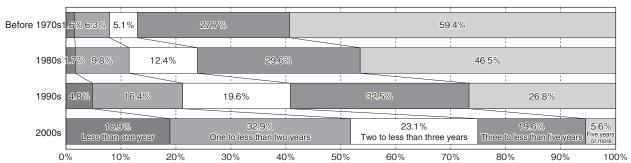
Mr. Senoo indicates: "By doing so, as *an ecosystem* is formed across the open and closed parts of a product, it is possible for Japanese companies to establish a win-win relationship with the companies of emerging countries, while at the same time to accelerate the market formation of products and to secure reasonable profits for themselves." This does not mean that technology is not necessary. But that it is essential to develop a business model that best utilizes technology and a model enables us to find peers and win using them nicely.

In case of a Hamburger4

We would like to further explain this concept by using an allegory. Suppose that a certain company invented a hamburger. The company willingly makes open a portion of how to make a hamburger and positions it as an area of collaboration for competitors to promote competition. For example, the company may disclose technical information as to how to make a patty, thus making the relevant technology standardized. Other companies in Japan and emerging countries will start making a patty all at once, fuelling competition, which will result in improving the quality of a patty and reducing its costs at once.

The company declares that, while it lays open how to make a patty, it will keep how to make a bun as its own proprietary information. By doing so, if the quality of a patty improves decisively and its cost goes down, a hamburger will become instantly more popular and the market size will expand several million-fold as it tastes better and costs only 100 yen, while at the same time, the company will obtain a profit from buns made by the proprietary method. That is, the company will secure a profitable area due to its unique technology as a closed area while it will disclose the technology for the diffusion in the market. Consequently it will grab the whole hamburger market.

Japanese companies adhere to the "Do-Everything-In-House" principle as well as the principle of full vertical integration to make a profit from the entire hamburger business, while successful companies in Europe and the United States specialize in either a patty or a bun while disclosing information on the other to let an overall hamburger market grow through the increased competition, thus making an increasing profit from the growing hamburger market.



Source: Fact-Finding Survey on Small and Medium-Size Enterprise (SME) Manufacturers' Sales Activities by the Japan Small Business Research Institute (JSBRI), 2005 White Paper on Small and Medium-Size Enterprises in Japan by Small and Medium-Size Enterprise Agency.

Notes: 1 Definition of a hot-selling product is a product that sells very well in a company's own product line.

2 This figure is based on the data of products that used to sell very well but do not sell now

Fig. 3-3: Lifecycle of Hot-Selling Product.

Source: 2005 White Paper on Small and Medium-Size Enterprises in Japan by Small and Medium-Size Enterprise Agency

In the days of the G-7 countries, which account for approximately 700 million people in the market, it was still the analogue age and Japanese companies were able to compete fairly well by adhering to a fully vertical integration model, but in the days of the G20 plus BOP countries, which collectively account for four to five billion people, this business model (open and closed) will work much better. As the concept of this business model applies to every level of business — parts, products and an overall business, Mr. Senoo calls this as the "Matryoshka doll construction of a hamburger business model."

Intel Established a Dominant Position by Developing a Core Component of Personal Computers⁴

IBM Corporation, which had focused its efforts on the development of advanced technologies, took a leading position in the personal computers (PC) market during the market formation period. In times past when there were no such terms as hardware and software, Intel and Microsoft attempted to make micro-processing units (MPUs) and operating system (OS) software as their respective proprietary core components of personal computers.

Intel made the inside of its MPU a black box by using its unique technology, while it made the interface between the MPU and external components open and standardized so that the MPUs could be freely connected to external devices. And, Microsoft created an OS platform where any applications could be freely loaded. It used to take a lot of time and effort for component manufacturers to coordinate with finished product manufacturers, such as IBM, however, because this business model eliminated the need for the coordination with finished product manufacturers, all component manufacturers started to participate in this platform.

After a while, Intel started to control trends in all the hardware of a personal computer, which eventually resulted in finished product manufacturers, such as IBM completely bowing to it. This is the first example in the world where a component manufacturer has subjugated finished product manufacturers. With this, Intel has created an *Intel Inside* business model in which a component manufacture can be a winner if it creates a platform by developing a core component.

Deploy an Open and Closed Sequence Business Model Utilizing Its Unique Technology as a Weapon

Mitsubishi Chemical Holdings has utilized an open and closed business model in its optical disk business and LED lighting business. An optical disk is a disk-shaped recording medium with a reflective layer, such as aluminum, a recording layer, including pigments that have a memory function, and a protective layer provided on a plastic substrate, made of polycarbonate resins. Pigments included in a recording layer are the key components manufactured by Mitsubishi Chemical Holdings using its unique technology.

In manufacturing optical disks, Mitsubishi Chemical Holdings treats these pigments as the closed part, i.e. like a secret recipe, outsources the remaining operation parts including assembling of optical disks, to Taiwanese and Indian manufacturers licensed by Mitsubishi Chemical Holdings and purchases finished products from them. Mitsubishi Chemical Holdings sells under its own global brand name *Verbatim* the finished products purchased from assemblers. With regard to LED lights, Mitsubishi Chemical Holdings has developed an open and closed business model using its unique technology, such as gallium nitride and phosphor as its major weapons and sells the finished products through its global sales channels.

The Automotive Industry Has Also Started to Face the Wayes of Modularization Rush in

Recently there has been intense competition in the automotive industry, with automakers scrambling to achieve larger shares in emerging markets and to develop innovative environmental technologies, such as electric cars and hybrid vehicles. It is said that, as optimizing technology where Japanese companies excel are extensively used in vehicle developments and assemblies, it is not easy for competitors to copy. That said the automotive industry has started to face the waves of modularization rush in. Against this background, some companies have started to adopt an open and closed sequence scheme.

We hear it said that the way to supply auto parts is totally different between German and Japanese automotive manufacturers. Let's take an IC chip as an example. Japanese automotive manufacturers treat an IC chip as simply one of supplier parts. On the other hand, in the case of German automotive manufacturers, an IC chip supplier is required to supply an IC chip which can be

plugged into a standardized connector on motherboard.

An IC chip delivered to Japanese automotive manufacturers is not easily replaceable because the chip is adjusted delicately to other parts and becomes a part of the end product. On the other hand, in the case of German automotive manufacturers, if there is something wrong with an IC chip, all they have to do is to change suppliers and to connect a new supplier's IC chip with a standardized connector. One business manager indicates, "A German automotive manufacturer can easily change suppliers, and we are forced to do business with them with a sense of extreme tension as requirement specifications for compatibility with a motherboard change every year." In this way, IC chip manufacturers are forced to compete each other fiercely, which result in contributing to the better quality and the lower costs. In the case of the optimize-and-adjustment type business, once a part is determined, it is much easier for the relevant supplier to stay because there is less competition for them.

We hear it said that "the number of base chassis is almost 10 in the case of a Japanese automotive manufacturer but only four in the case of a German. This goes to show that Japanese automotive manufacturers may not be able to compete well globally unless they switch to a business model in which they standardize wherever standardization makes sense, retain in house as their competitive advantage where standardization does not make sense and they find they are competitive, and outsource the rest."

3.2.3 Business Scale and Mechanism that Ensures Cost Competitiveness

A business manager of a global company points out, "To put it in an extreme way, with the progress of the globalization, it is likely that Japanese companies will be forced to choose either of the following paths — giving up half-hearted efforts to achieve the top quality, challenge to achieve oligopoly first, or, create small scale innovations through *nuclear fission* of a company or an industry." If Japanese companies choose the former path and will challenge real world competitions, they will have to, securing employments globally, contemplate their costs and business scales on a global basis.

A business manager of a certain manufacturing company states: "The reason why we have built our plants in Indonesia and Thailand is not to look for new ideas but to manufacture products at lower costs. Cost

competitiveness is absolutely necessary in everything we do. In the future, cost competitiveness should be the most important theme in studying new business endeavors we plan to undertake or high-tech products we plan to manufacture." There is no doubt that cost competitiveness is a major challenge for Japanese companies that have been typically known for their highly functional and high-quality products. In this section, we would like to introduce some examples of Japanese companies' efforts to enhance cost competitiveness through global business expansion.

A Certain Scale of Business is the Minimum Requirement for Companies to Survive Fierce Competitions in Global Markets

A tire is an internationally standardized product and any company can start a tire business as long as its products meet the relevant minimum standards. Therefore, competition in the tire industry is extremely fierce, and the tire business is often referred to as a *cutthroat business*. In the tire industry, many companies have undertaken mergers, acquisitions, and capital tie-ups or business alliances etc. for survival. Mr. Shoshi Arakawa, chairperson of Bridgestone Corporation, indicates: "In order to survive in this industry, we have to have a thick pillar first. We have been thinking all along that a certain scale of business is the minimum requirement. This will not change in the future."

Bridgestone Corporation has become the world's largest tire manufacturer through the acquisition of the Firestone Tire and Rubber Company in 1988. Prior to that, the world's tire industry was dominated by two major manufacturers — Michelin and the Goodyear Tire & Rubber Company. Bridgestone Corporation was then only a small company but had a sound business structure. In the face of the major moves of reorganization in the whole tire industry, Bridgestone Corporation was fraught with a heightened sense of crisis amid a growing concern that it might be taken over by a competitor, and it made an outright purchase of the Firestone that had a much longer history than Bridgestone under top management's resolute decision. To put this in today's setting, it is as if a small start-up company has acquired an existing huge corporation.

Some say, "In the tire industry, structural changes have been taking place at an accelerated pace each year. Even if Bridgestone could expand its scale of business, the company may not be able to win through because it becomes too big to be substantial and

conduct speedy decision-makings due to too this huge acquisition." Mr. Arakawa says, "I'm sure that, in order to win through in global competitions in these rapidly changing circumstances, the speed in decision-making that far exceeds those of competitors and the corporate management that ensures cohesiveness and consistency among the whole group are essential for us, Bridgestone, a large company which employs in excess of 140,000 people on a consolidated basis. To achieve this, we have been devoting all our efforts to ensure that our corporate philosophy is firmly entrenched throughout the organization and that a robust corporate governance system is put in place as we consider that it is extremely important to solidify our management base. That said, we believe that a certain scale of business is, at minimum, essential for us to survive in this industry."

Learn from the United States and Think in Japan while Do it in Asia

Today we are faced with the era of rapidly changing global business ranking and we have seen the rapid decline of existing major companies happen mundanely. In the United States, with the expansion of market shares by Amazon.com, large-scale mass retailers of electrical and electronic home appliances can hardly make profits, and many major bookstore chains have gone out of business. Mr. Akio Nitori, CEO of Nitori Holdings points out: "It is inevitable that this trend will hit Japan. I predict that, at the end of the day, there will be only one or two distributors left in Japan. As this is the rule of humankind, nobody can stop this trend."

"As labor costs in Japan are the highest in the world, we will not be able to compete in global markets if we keep our production in Japan." Based on this thought, Nitori Holdings decided to build their factories in Indonesia and Vietnam. Assuming that labor costs in China would soon become higher, Nitori Holdings dared to select countries in the Southeast Asia as production sites. Additionally, Mr. Nitori says, "The average Indonesians annual income of workers is currently a half of Chinese, and the Vietnamese average is a half of Indonesians. But as the annual income of workers in the countries of Southeast Asia is projected to gradually increase in the future, it will likely be necessary to change countries or locations of our production sites every 10 or 20 years." Therefore, Nitori Holdings assumes a 10-year payback period for all the relevant investments in building a manufacturing plant overseas.

Nitori Holdings projects that, eventually, in the furniture

and home-furnishing industries, the era of oligopoly will come where only a few top companies will be able to make a profit. That said they intend to face up to the rapidly changing market based on an extremely simple business model. That is they learn from the United States, think in Japan, do it in Asia (our head is Japan and the body is Asia), and continue to sell their products both at home and abroad.

Designing Products and Costs That Meet the Needs of Customers

In terms of trends in global new car sales, the markets in Japan, the United States and Europe collectively accounted for more than 70% of the global sales only ten years ago. They now account for less than a majority of the total, with the recent rapid growth of new car sales in emerging countries. It is projected that new car sales in emerging countries will reach 60% of the global sales in coming years.

New car sales in Japan, the United States, and Europe are primarily driven by the replacement demand, while sales in emerging countries are driven mostly by firsttime buyers. This is where clear differences arise in terms of performance and quality requirements and expectation for cars. For example, first-time car buyers in emerging countries may not always highly appreciate a specific aspect of performance, such as smooth gear-shifting performance at 1,800 rpm, which is a performance improvement made to meet the replacement demand in advanced countries. A conventional business model is to modify cars originally developed for advanced countries to meet local needs in emerging markets, but this business model no longer works. Cars developed based on the conventional business model can no longer compete well in emerging markets with the emergence of new brand cars that are specifically and originally developed and manufactured to meet the local needs of emerging markets.

Given the situation, Nissan is planning to pull off a comeback in emerging markets by reviving the "Datsun" brand. The Datsun brand was launched in 1932 and highly regarded worldwide until 1982, when it was integrated into the Nissan brand. The new Datsun brand cars will be locally developed from the ground up, targeting growing middle class in emerging countries. They will be cost competitive and have specifications that meet the needs of first-time car buyers in emerging countries. A Nissan official indicates with enthusiasm, "In 1932 there were only Ford and GM cars in Japan. In that year, Datsun cars

were launched as the first purely domestically produced cars that were inexpensive and dependable with lower-priced after-sales services and service parts. With Japan's postwar high economic growth, the sales of Datsun cars increased substantially. We would like to recreate the same thing in emerging countries."

3.2.4 Send High-CaliberEmployees to Foreign CountriesTo Further Enhance GlobalMarketing Clout

One of the difficulties that Japanese companies have been experiencing when competing in global markets is the lack of the marketing clout needed to enable them to create products and services that sell well globally. There has been the term "global competition" but it only meant what and how much Japanese companies sell to Japanese clients residing overseas. But now Japanese companies are forced to target non-Japanese clients in overseas markets. The days of Japanese companies selling products only to Sony and Panasonic were over, and now they have to sell products to Apple and Samsung. The former and the latter, which are both referred to as global competition, are totally different in meaning from each other, like a home game and an away game.

In an attempt to further enhance their global marketing clout, the Samsung is implementing an internal area expert development program in which selected Samsung employees are sent to foreign countries to learn local culture and develop a network of personal connections there. Also at Unilever, their employees spend some time living with local nationals in a foreign country for the purpose of researching the real-world local conditions of use of products. These are a few of well-known examples for international companies' attempts to enhance their global marketing clout. In this section, we would like to introduce some of Japanese companies' efforts.

Send an Experienced High-Caliber Employee with More Than 20 Years of Service to an Overseas Assignment for a Period of 10 Years

Unicharm holds the top market share (in excess of 50%) in the disposable diaper market in the Republic of Indonesia. Unicharm established its subsidiary in Indonesia in 1997, and it has attained its dominant position in the Indonesia market over the years through its strenuous efforts. The Indonesian disposable diaper

market is growing by 40 to 50% annually, and Unicharm's Indonesian business has become one of the major contributors to its overall profitability.

Mr. Takahisa Takahara, president and CEO of Unicharm, points out, "It is important for us, manufacturers, to understand unique local needs and tastes through real life experience. Before we review digitized data, we make it a rule to visit a foreign country to which we plan to sell our products and thoroughly observe at first hand the way of living of local people there." Unicharm places importance on the insight derived from first-hand observation, which is a major difference from global mega-companies with which they compete. In Indonesia, they make it a rule to stay with ordinary middle-class families to observe at first hand their kitchens, and the way they wash their hands and take care of babies and children and so on, so that they can use these observations for their business.

There are two types of disposal diapers — tape type (disposal diapers with re-sealable tapes) and pants type. Unicharm has decided to promote the sales of disposal diapers focusing on pants-type by taking full advantage of their strengths.

In addition, most people get paid weekly in Indonesia and it is common for them to buy what they need and how much they need when they need to. So to meet the shopping habits of those local people, they have decided to sell disposable diapers by putting each unit into an individual package, stringing each package together, and then having each store hang a string of disposable diapers from the ceiling.

As this example indicates, since it is necessary to provide proper communications that explore the insights of consumers and strike the right chord of them, it is important to proceed the product development at a localized manner, focusing on the inputs by local staff who are well versed in local culture and the way of thinking of local people. However, it is easier said than done to put *Monozukuri* (manufacturing excellence) principles into practice jointly with local staff.

Usually local employees tend to look at Japanese employees dispatched from a parent company with stern eyes. Therefore it is not at all possible to manufacture quality products unless local employees fully understand the company's corporate philosophy. For this reason, Unicharm decided to send experienced high-caliber employees with more than 20 years of service to overseas assignments for a period of ten years. According to Unicharm, it was necessary to send high-caliber Japanese employees with whom local employees would like to

work, and they are providing good training and education with local employees.

As a General Rule, Appoint a Local National as President when New Operations Are Established Abroad

One of the characteristics of IBM's corporate management approach is to make it a rule to appoint a local national to president and CEO of a local IBM subsidiary in a country where IBM newly establishes its operations. From the database of 430,000 employees, as a general rule, IBM selects a native employee. This

is because a local national understands his/her country's culture and therefore can find common ground between local conditions and global corporate management.

Mr. Takayuki Hashimoto, chairperson of IBM Japan, Ltd., points out, "The company's operations cannot be totally globally oriented. It is necessary to separate what can be globally standardized and what needs be kept local according to market circumstances." These procedures are standardized to support the establishment of a local subsidiary, making it possible for IBM to implement marketing activities that meet the local needs of a country even where it newly establishes a subsidiary.

3.3 Continuous Creation of Innovations

3.3.1 Take Advantage of Diversity as a Source of Innovations – Actively Recruit Foreigners and Women

New ideas are always heterogeneous at the outset. An innovation starts from this different way of thinking and ultimately evolves to the creation of new value through trials and errors. The key factor for generating and fostering the different way of thinking and new ideas is diversity that generates different perceptions and a corporate culture that embraces this diversity. Mr. Toshiyuki Shiga, COO of Nissan states, "What we are aiming at is an innovation which comes arise from the diversity." In an organization made up of a relatively homogeneous group of people, it is difficult to generate new ideas as they tend to think too much alike and attach too much attention to minor differences. New ideas tend to come arise through the process in which diverse people challenge one another.

An executive manager of a certain pharmaceutical company indicates in surprise, "I have worked in the headquarter offices of several overseas global companies. Each of the places where I worked was a melting pot of different ethnic groups and full of diversity. Although a local national was assigned as the president of a local subsidiary in each country, every company was a melting pot of different ethnic groups on a global basis. Recently I have started working for a Japanese company in Japan but the place is full of Japanese and there is no diversity."

In this section, we would like to review some examples of Japanese companies' efforts to enhance diversity, primarily focusing on the diversity of foreigners, and would like to discuss the key points in concrete terms.

The First Step is to Create a Corporate Culture that Can Accept Diverse People

Previously, Nissan's management team mostly consisted of Japanese. Following the implementation of the Nissan Revival Plan, Nissan has been making efforts to realize a truly global management. While they clearly define and maintain the strengths of a Japanese company, such as the importance of *Monozukuri* and teamwork that complements one another to balance out the weaknesses, they are focusing on to enhance the diversity by utilizing global human resources. Mr. Shiga says, "This is easier said than done. A lot of effort has been put in to accomplish this day in and day out." What they are trying to achieve through this effort is innovation that comes about through diversity. They place great emphasis on how they can routinely bring about innovations at all times.

In order to rebuild its luxury brand "Infiniti", Nissan poached Mr. Johan de Nysschen from Audi USA, a key player who has led the growth of Audi in the United States. In the case of Japanese companies, if a top executive is all of a sudden poached from outside like this, there is a risk that he/she may not be welcomed by others within the organization and become isolated. But Nissan now has a corporate culture where his professionalism is warmly welcomed and he can be well accepted by others

within the organization. Mr. Shiga points out, "It is most important to foster a corporate culture that can accept diversity."

Nissan has been able to create such a corporate culture due to valuable lessons learned from implementing painful reforms and overcoming the bankruptcy crisis. Following its alliance with Renault, a team of French executives started working at Nissan, and a variety of frictions started to occur within the organization between Japanese's steady but slow way of doing things and French's conceptual way of doing things. During the process, Nissan's Japanese employees came to realize as follows, "Like French colleagues insist, it is important to define at the outset what we plan to do. Without clearly defining the goals, we have rushed to act and have covered up our mistakes if any with our strength of factory floors and field operations. This is definitely one of the weaknesses of Japanese companies." Nissan's Japanese employees overcame a variety of cultural and emotional difficulties and finally developed a mindset: "We will work closely with French colleagues by complementing one another in terms of planning and execution abilities."

Synergy is created through the process in which diverse people stimulate one another. Nissan's Japanese employees have started to desire to do a much better job even in marketing and branding, the areas at which Japanese employees are traditionally not so good. It is dangerous if Japanese employees completely depend on foreign executives and become totally disengaged. This would cause Japanese employees to do only what they are told, resulting in making a company just a loser organization.

On the other hand, the thing we need to avoid at all costs in promoting diversity is to employ foreigners without having a clear vision. If foreigners are employed as members of a company when the company does not have a corporate culture that can accept diversity, it will result in not only demotivating Japanese employees but also that the employed foreigners will become isolated within the organization and will end up leaving the company without playing an active role there.

Locally hired foreign employees will not be motivated to work hard unless there is an ample opportunity to the position of an executive officer at a company's headquarters according to their abilities and a robust system to support their promotion. Unless an organization can effectively utilize and fairly treat talented employees, regardless of their nationalities, both Japanese and foreign employees will lose their motivation. It may be said that a

company has succeeded in achieving diversity only when it can attract many talented human resources regardless of their nationality and let them play an active role in its organization. It will likely take a considerable amount of time to reach this stage. Mr. Shiga says, "It is important to have the mettle of a Japanese and aim for the spirit of *Wakon-Tasai* (Japanese spirit and many talents)."

'National English' Helps Take Advantage of Diversity

At Bridgestone, they value and respect the diversity and do business by drawing on the diversity of ideas from employees of different nationalities and ethnic groups. Chairperson Arakawa states, "It is very important to creatively devise a common communication language in order to create an organization that can take full advantage of the diversity."

First of all, it is a major problem if employees from a non-English speaking background and employees who are not good at English become hesitant to actively participate in communications when they learn that a company's official language is English. But more importantly, as a language is heavily tinged with the culture, customs and way of thinking of the ethnic group, if an official language becomes English, an English way of thinking will become dominant, making it difficult to draw on a diversity of ideas. In other words, it will result in denying the very important element of diversity.

Given this situation, Mr. Arakawa has devised a communication method called *National English*. *National English* means the English language which non-English speaking employees study in their respective countries. It is different from the authentic English language spoken in English-speaking countries. *National English* is not an official language but a common language. That is, it is neither British English nor American nor broken English, but a language that is equal and fair to employees in Bridgestone's global operations who have a variety of backgrounds. Therefore, the English languages spoken by English and American employees are just a variation of *National English*.

Considering its purpose, *National English* is intended not as a means to test English speaking abilities but to generate a variety of ideas. *National English* is a means of communication that emphasizes the ideas of a speaker, not pronunciation, and that is intended to facilitate effective communication not only by using words but also by using five senses as well as hands and feet or writing. At Bridgestone, this *National English* is used as a common

language even at important global meetings.

Establish A Variety of Diversity Councils to Promote Diversity

IBM has a long history of commitments to diversity, and it has taken the following initiatives to date to ensure diversity: Diversity 1.0, Diversity 2.0, and Diversity 3.0. Diversity 1.0 was launched in the 1970s to comply with the law. Diversity 2.0 was launched in the 1980s, primarily focusing on the promotion of women. As a result of this initiative, the ratio of female employees to total employees has increased to 20%, with the ratios of female managers and female directors, to 13% and 12%, respectively. This initiative is still in progress to achieve the specific numerical targets. Diversity 3.0 is an initiative that is intended to take full advantage of diversity as a source of its corporate growth. IBM fully understands "The importance of learning the local culture and taking in the diversity through many years of experience when it newly establishes its operations in a foreign country."

IBM Japan has been aggressively promoting diversity by implementing specific initiatives, such as establishing a separate diversity council to deal with each of the following themes: Advancing women; people with disability; gay, lesbian, bi-sexual, and transgender (GLBT); work-life integration; cultural diversity; and cross generational diversity for the purpose of promoting the vitalization of young employees. Work-life integration is a flexible work arrangement where an employee can flexibly and repeatedly determine on duty time or offduty time per every unit hour in a day. For example, under this work-life integration program, an employee can work until the evening, take an off-duty time to have a dinner with his/her family, and then go back to work again. His/ Her place of work is not restricted to a company's office, but it can be anywhere, including at home, overseas or at a resort hotel, as long as an appropriate work environment is put in place. In so doing, an employee can flexibly decide an on-duty or off-duty time repeatedly whenever or wherever he/she wants is the direction of working patterns going forward. This is also one of the important initiatives for promoting diversity.

3.3.2 Take Bold Action with Your Back against the Walls

A common ground for today's winning companies is that they all have suffered a devastating defeat in the past. Steve Jobs of Apple was indeed a charismatic leader, and Andrew Grove took the lead in successfully managing Intel. However, Mr. Jobs was once ousted from Apple, and Mr. Grove suffered a humiliating defeat in its DRAM chip business at the hands of Japanese manufacturers and was forced to withdraw from the business. Both Apple and Intel have developed their new business models based on the lessons learned from these bitter defeats. Mr. Senoo cautions, "Japanese companies tend to let bygones be bygones, failing to learn lessons from their defeats. This is a serious problem for Japanese companies." Of the companies we interviewed this time, there are many companies that have come out of serious crisis situations and have re-established their current strong presence, such as Fuji Film Holdings, which was forced to transform core businesses due to the rapid decline in demand for photographic films, Komatsu, IBM, and Yamato Holdings. These companies initiated a bold business model in the face of a crisis situation, which resulted in contributing to the creation of major innovations. In this section, we would like to introduce the examples of these companies as well as how they could successfully foster a sense of survival among their employees.

DNA for Making Innovative Changes

Yamato Transport, the predecessor of Yamato Holdings, created a business model called the *shipping line* business, which is primarily undertaken by other domestic transport operators today, and started regularly scheduled, on-time truck delivery services between Tokyo and Yokohama in 1929. This delivery service business grew steadily. In order to continue to grow this business, it was necessary to expand the delivery service area nationwide but Yamato Transport failed to do so timely, which resulted in being overtaken by many competitors. With the onset of the oil shock, Yamato Transport finally plunged into a crisis that threatened their survival.

Under such circumstances, Yamato Holdings succeeded in creating an innovation, i.e. an express home delivery service called *Takkyu-bin*. In the transport industry in those days, as transport operators mostly undertook B2B (business-to-business) transactions, generally they transported the predetermined volume of goods at regular schedules. It was a conventional wisdom then that private transport operators would not be able to profitably operate home delivery services as the time, locations and quantity of the delivery of goods could not be planned in advance. It was generally thought that only state-run companies could operate home delivery services as shipping goods by postal parcel or by railroad.

However, Yamato Holdings' express home delivery service became a big hit because they came to pick up goods for delivery with one phone call, prices were low, and customers could get delivery the next day. And finally, Yamato Holdings decided to completely withdraw from their B2B business and concentrate on their express home delivery service only, completely shutting off their escape route (they had no other way than express home delivery service). Yamato Holdings' express home delivery service perfectly matched the potential needs of Japanese consumers and has achieved a rapid growth. On the first day when they launched their express home delivery service, the number of goods they delivered was only 11. Now their service has grown to be a big business, and they deliver an average daily volume of four to five million pieces of parcels.

This innovation, i.e. an express home delivery service, has been created by boldly taking on the challenge of realizing an idea that would go beyond a conventional wisdom and that everyone thought would be unrealistic. It goes without saying that, on the back of taking on such bold challenge, there was a sense of survival that threatened the very existence of the company and a sense of survival that all employees, including top management, were forced to share.

Then, is it possible to bring about innovation without the exigency of a crisis? Mr. Kigawa points out, "Thirty-six years have passed since we first started an express home delivery service. The domestic express home delivery service market, which is currently oligopolized by three major companies in substance, is approaching maturity, and the volume of freight transportation in the whole domestic trucking industry has been on the decline after the peak in 1996. On the other hand, the trucking industry in Japan has low entry barriers and the total number of trucks has been increasing. Under these circumstances, it is time for us to seriously consider how we should continue to survive in the future." While their express home delivery service is still viable, they are looking at the challenge of making changes by transforming their core business from an express home delivery service to something else.

In order to bring about innovation, it is necessary to take some risks and boldly take on the challenge of making changes. Yamato Holdings are currently engaged in the Haneda Chronogate initiative which requires an investment of 140 billion yen and is an extremely bold and adventurous challenge for Yamato Holdings. In this way, Yamato Holdings is willing to take this bold

challenge to ensure their ongoing survival. In response to the question: "We tend to face oppositions when we try to make changes. What would you do if there is much opposition?" Mr. Kigawa replies, "Fortunately, there are still some executive officers left in our organization who remember the pains we suffered when we had no choice left but to come up with the idea of an express home delivery service on the verge of bankruptcy. Yamato Holdings' current initiative is strongly backed up by the opinion of these people that we need to take action for the future while our core business is still going well." This Yamato Holdings' DNA of making changes is an important element for supporting the creation of innovations.

Take a Bold Action

The sales of photographic films reached a peak in 2000. Since around this time, the digitization of ordinary photographs has been rapidly increasing. Fuji Film was the first manufacturer that put a perfect digital camera on the consumer market in 1988. But with the entry of an increasing number of manufacturers into the digital camera market from 2000 and onwards, Fuji Film's share rapidly declined from its peak of in excess of 30%, and it became increasingly apparent that its digital camera business could not replace its photographic film business as its core business. On the other hand, the demand for photographic films declined by 25% each year. With the decline in demand for photographic films, the demand for color photographic printing papers as well as the sales of photo-processing stores declined accordingly. Fuji Film's core business plunged into a bottomless pit. In 2000, Fuji Film's photograph-related business was the very core of its core businesses, accounting for 60% of its total sales and two-thirds of its total profit. It was self-evident, however, that this business would become unprofitable within four or five years.

At that time, Fuji Film decided to concentrate its management resources on six new business fields where it considered them to be competitive. It was very difficult to gain insights as to the following: 1) which business fields they should enter and in which segments they could perform at their full potential and achieve success, 2) in acquiring companies, what should be the essential technologies, potentials and market positions of the acquired companies, 3) whether they could compete in target business fields by combining the strengths of the acquired companies with its own technologies and potential, and 4) whether they could come up with unique

— "only-one" products and "number one" products. These insights turned out to be some of the important success factors for their transforming core businesses.

Fuji Film has spent two trillion yen on research and development (R&D) and another two trillion yen on capital investments for the last ten years by borrowing and by using the cash flow generated each year. Mr. Shigetaka Komori, chairperson and CEO of Fuji Film, states, "In any event, we must be bold and courageous and act. But at the same time we must also take some risks. Although a doubt, such as "what will happen to us if we fail," sometimes crosses our mind, once we make a decision, we must go on." He adds, "We make decisions in the hope that every decision should be the right one, but, to be honest we sometimes make wrong ones. But as long as we think really hard, such decisions cannot be so far off the mark even if it is not the right one. As long as a decision is not so far off the mark, we can work hard and make a success even out of it. At any rate, once we make a decision, we must act and execute to drive for results."

Mr. Komori points out, "The most important thing is to have a can-do spirit, and the worst thing is to have a goner mind. I have seen the devastation of World War II. I returned to Japan with my parents from Manchuria, China, with one backpack on my back. Considering the fact that we have been able to rise from that devastation, what's to worry about now? The one thing that is more important than anything else is top management's strong resolve to revive the company at any cost."

Heighten a Sense of Survival

Nitori Holdings has been making a rule to enhance the ability of each individual employee to make changes by changing his/her assignment every one and half years (max. two and half years). Mr. Nitori, CEO of Nitori, indicates, "An employee tends to be stuck in a rut if he/ she stays in the same assignment too long and to become complacent by repeating the same things. For the first one year, an employee is expected to observe, analyze, and judge things in the workplace and make improvements whenever problems are identified. And he/she is expected to make drastic changes during the next half-year. If he/she cannot make drastic changes during that time, the tenure of his/her assignment will be extended to two years, and then to two and half years. We never fail to change the assignment of an employee according to this rule so that he/she can acquire the skills to make changes. This is the most difficult challenge but the most productive one as well for Nitori."

3.3.3 Post Do-Everything-In-House Principle — Open Innovation and M&A

Dr. Hiroshi Komiyama, the former president of the University of Tokyo, said that a breakthrough could be achieved by the fusion or combination of a variety of technologies. With the progress of science and technology and the contraction of the lifecycle of products and services, it is now less probable that a single technology or service will bring about a highly competitive innovation. Against this backdrop, in order to create new value, more attention is increasingly being paid to combine technology with technology, technology with service, or service with service.

Indeed, it is possible to develop in house all the technologies and services that we would like to combine, but if we do so, we will end up needlessly exhausting ourselves under these big changes. If we tackle the development on our own, it will be very difficult to compete in terms of the agility of investments, including manpower. The key point is how efficiently we can create high added value by focusing core technologies while procuring peripheral technologies and services from others. It is sometimes said that Japanese companies adhere to the Do-Everything-In-House principle too much. Japanese companies should make positive efforts to create an innovation by the development of a post Do-Everything-In-House principle.

Possible approaches for developing a post-Do-Everything-In-House principle include M&A, partnership and open innovation. Japanese companies should use the approaches that would be most appropriate for them in light of their financial situations, external circumstances, costs, risks, and promptness. In this section, we would like to introduce some examples of companies successfully growing out of the Do-Everything-In-House principle.

Specialize in Areas of own Expertise and Adopt Most Advanced Technologies in Other Areas

In copper mines in Chile and Australia, unmanned dump trucks with a payload capacity of 300 tons are remotely operated utilizing the position information received from a GPS system. The Autonomous Haulage System (AHS), an essential technology of this scheme, was developed approximately twenty years ago. Initially AHS-equipped dump trucks were operated on guiding tracks. Komatsu acquired system technologies for operating dump trucks

in mines from a certain company of Tucson, Arizona, the U.S.A. In addition, by adopting GPS system technologies utilizing the U.S. military satellites, which was made available for civilian use in 2000, Komatsu has succeeded in launching the current AHS.

The AHS development project was a collaborative development effort among Komatsu Japan, Komatsu's U.S. subsidiary, and the companies of Russia and the United States, with a project leader role by Komatsu Japan. Komatsu was primarily responsible for the development of vehicle body structures only, with Komatsu's U.S. subsidiary, for the development of dump function, engine and control systems, with the Russian company and the U.S. company, for GPS technologies and an electrical driving system.

As Japanese companies are generally very weak in the development of information and communications technology (ICT), it is difficult to find a right partner in the ICT sector in Japan. Additionally, the GPS for AHS must achieve an accuracy of 10 millimeters, while the most advanced GPS in Japan can only achieve an accuracy of approximately several meters and therefore cannot be used for this purpose. Although Komatsu's basic policy is to manufacture key components in Japan, it is very difficult to develop GPS and communication technologies in Japan at this moment. Therefore it is necessary to acquire U.S. companies with technologies or to develop a collaborative working relationship with other companies. U.S. companies are far superior to Japanese companies in terms of radar technologies as well as gyro and sensor technologies for controlling a vehicle body. This is because technologies developed and nurtured in the U.S. military's unmanned system project 20 years ago and they were made available for civilian use by the U.S. military forces ten years after the end of their development.

Partnership Strategy

Nissan Motor has entered a cross shareholding arrangement with Germany's Daimler AG. Through this equity exchange, the Renault-Nissan Alliance has obtained a 3% stake in Daimler, with Daimler, a 1.5% stake in Renault and Nissan respectively. Nissan is interested in Daimler's powertrains for luxury cars, while Daimler is interested in Renault's and Nissan's small car technologies. As the areas of each other's interests are clearly defined and they need to exchange engineering data to fulfill their respective interests, they have decided to enter a cross-sharing arrangement. In this way, Nissan

has been aggressively pushing forward its strategy of sharing investments and complementing each other's technological needs in collaboration with its business partner.

In its alliance with Daimler, Nissan places importance on the formation of a true partnership, with neither company to control the other. The two companies hold a meeting called *Cooperation Committee* meeting once a month with the attendance of four committee members from each company. At the Cooperation Committee, they confirm the progress of strategic alliance between the two companies and make the necessary decisions through consultation. Nissan considers that the most important thing in partnership strategy is to never fail to develop a win-win business relationship and that, if either of the parties has to suffer a loss, it is not worth putting it into practice.

In order to make a partnership arrangement work efficiently and effectively, the most important things are to ensure that the relationship between the two companies is always synergistic and complementary and that one plus one equals more than two under the partnership arrangement, and to respect each other's culture and identity. It has taken years of training before Nissan can realize the benefits of a partnership arrangement. Now Nissan is very effective and efficient in working with its business partners and a partnership arrangement has become one of Nissan's strengths.

Introduce Cutting Edge Technologies through Acquisition of Venture Companies

In recent years, IBM has been making a major shift towards higher added-value products and services, with the sales of more profitable software products growing substantially while the sales ratio of hardware products reducing to approximately 10% of its total sales.

In order to develop new business, IBM takes the following approach: They first determine a business segment where they plan to enter; thoroughly investigate the technologies and expertise that are required to support the new business development; if its own research center does not have the necessary assets or expertise, search all over the world to find a suitable venture company; and then take the company over. In M&A, as a general rule, IBM does not buy a company just because it happens to be put on sale. Through this approach, IBM has acquired cutting-edge technologies over the years, and it has taken over more than 100 software companies for the last ten years.

KAITEKI Institute (TKI), an Open Innovation Institute

What can Mitsubishi Chemical Holdings do to address global challenges facing humanity and to realize KAITEKI? Resolution of the global-scale problems, such as the deterioration of the Earth's environment, depletion of energy and natural resources, and food and water crisis are pressing issues. Mitsubishi Chemical Holdings established the KAITEKI Institute (TKI) in April 2009 for the purpose of studying these global challenges with the long-term perspective of 20 to 50 years. TKI is a substantial research institute that has a think-tank function

without any hardware facility for a research center.

For example, TKI studies a research theme and its solution for a future challenge, such as how to produce organic substances from carbon dioxide (CO₂) itself, in the context of the depletion of the world oil supplies within 100 years. The way TKI establishes a research theme is to envision an ideal state of society for the future, back cast it to the present and thus develop business and research seeds. TKI is an extremely open innovative organization and it commissions universities and other research institutes to study the established research theme.

3.4 Seeking More Agile Corporate Management in Competitive Global Market Environment

In today's world where management resources move freely beyond the borders and information move instantaneously around the world thanks to IT and network technologies, as the lifecycle of products and business is getting shorter and shorter, speed has become a bigger factor in determining a winner of management or a loser. A top management of a foreign-affiliated company states: "When launching a new business in a new market, it is essential to act quickly with agility and speed, armed with as much information as possible. Japanese companies seem to be having difficulties in acting that way. They are too slow."

In the meantime, some business managers of Japanese companies say as follows: "We have a long tradition of almost 100 years, but I do not think our company is functioning well enough as an organization. Everything seems to be slow, but I cannot specifically pinpoint what is wrong." and "We have not been at all able to manage our business with a sense of speed and urgency, such as by withdrawing from unprofitable business and transforming it to a new business. I know Japanese companies have been making a variety of efforts but global companies have been acting much faster." And others say in puzzlement: "IBM has transformed its core business from computer manufacturing to software and consulting at such a bewildering speed that it made us wonder for a moment where the IBM of old had gone. What does it take for us to be able to transform business as speedily as IBM did?" and "Samsung is a family owned company. In the case of a family owned company, the speed of management decision is really fast. Many Japanese companies have not been able to break away from a consensus-building management approach. I think this is because many people have different agendas for decision-making and because of a silo-based organization."

And yet still others say: "We should not needlessly waste time and postpone making a decision, but I do not think it is appropriate to have a handful of people arbitrarily make a decision in a reckless manner. Faster is not always better. There are some benefits in a consensus building approach. It is a matter of corporate governance and compliance."

The speed of corporate management has roughly two implications. One of them is the speed of business promotion that helps companies succeed in business. It is the speed of process from development through to sales and of market deployment. The other is the speed of corporate management cycle, the lifecycle of business in terms of achieving sustainable growth, withdrawing from business if necessary, and creating and growing new business. Additionally, there are three elements for enhancing the speed of corporate management. They are the speed of decision-making, the speed of operations and the speed of taking proactive action by staying on top of changes. In this section, we would like to discuss, focusing on each of these speeds.

Prior to our discussion on the speed of corporate management, it is essential to clarify the meaning of "What constitutes the motivation of business managers in Japan?" This is because "what motivates business managers to act" is a basis for the speed of corporate management. Although different stakeholders have different degrees of influence, given the fact that the mission of a business manager is to maximize the satisfaction of all stakeholders, how a business manager is motivated to act is nothing but a matter of corporate governance. Therefore, we would like to first discuss corporate governance.

3.4.1 Reform Corporate Governance

(1) Enhance the Connection between Performance and Compensation

In companies in Europe and the United States, there is a one-to-one linkage between a manager's compensation and stock price, and the compensation is far more greatly influenced by stock price than in the case of Japanese companies. Compensation comprises three core elements — base compensation, performance-based compensation and stock option. If everything works out well, compensation from stock option may become ten times as much as base compensation. Given these core elements, business managers in Europe and the United States are very enthusiastic to increase their companies' stock prices and their incentives lead to the agility of corporate management as a result.

In an increasing number of Japanese companies also, top management's compensation comprises the above three elements. Major differences in the business manager's compensation structure of Japanese companies, as compared with those of companies in Europe and the United States, are that the ratio of stock option compensation is lower and that the absolute amounts are smaller. In his book Corporate Governance — How the Change of CEOs should be Implemented and How CEO Compensation should be Structured, Mr. Katsuyuki Kubo, Professor of the Graduate School of Commerce, Waseda University, says, "Unlike business managers in the United States, the net worth of a Japanese business manager does not increase significantly even if his/her company achieves outstanding business results and does not decrease even if the company's business results are extremely poor." For example, when CEO compensation

is compared between the United States and Japan, if the CEO increases the yield on his/her company's stock by 14.8%, the CEO compensation is estimated to increase by 208.5 million yen in the United States while only by 4.06 million yen in Japan."⁵

Then what is an incentive for business managers of Japanese companies? Some say: "A Japanese business manager has something else, such as a sense of responsibility. This cannot be explained in simple terms and this may be the goodness of Japan" and "A Japanese manager has a sense of honor that transcends monetary compensation. Most likely an overwhelming number of Japanese business managers will prefer living with self-esteem rather than being despised."

It appears that immeasurable values above monetary terms, such as a sense of responsibility and passion, are also part and parcel of an incentive for Japanese business managers. This may be rooted in the identity of a Japanese company, such as priority to corporate philosophy or founding spirit than to short-term profits, or priority to benefits of customers and society as well as to its own profits. In other words, it may be that, in order to maximize the satisfaction of diverse stakeholders, Japanese business managers regard non-financial value in business performance also as their incentives. But the problem is that, except for people concerned with direct knowledge of the matter, it is impossible to objectively judge whether a certain management decision is made to put long-term profits before short-term profits or it is simply a bad decision.

Stringent assessment of corporate management may bring a sense of tension of a business manager and it is possible to enhance his/her motivation by leading the tension to his/her compensation. In case that we try to establish an incentive scheme described above, it is essential to evaluate a business manager's performance not only in terms of financial value but also in terms of non-financial value. Therefore it is necessary to clarify the definition of non-financial values as discussed in Chapter 2. And it is necessary to achieve objectivity to ensure the consent of all stakeholders and then to increase the linkage between performance and compensation. The specific measures include an appointment of more than one independent outside director and the establishment of a Compensation Committee to enhance the objectivity of performance assessment and compensation.

⁵ Excerpts from Corporate Governance – How the Change of CEOs should be Implemented and How CEO Compensation should be Structured by Katsuyuki Kubo (Nikkei Publishing Inc., January 2010)

(2) Extend the Tenure of a CEO to 10 Years

One business manager indicates: "As Mr. Kazuhiro Mishina, Professor of Kobe University, insists that the mission of a CEO cannot be accomplished in ten years, it is difficult for a CEO to accelerate the speed of corporate management and get things done by fully demonstrating his/her leadership and ownership skills unless his/her tenure is 10 to 20 years." In a Japanese company, as the tenure of a CEO is approximately four years and many of retired CEOs remain with a company as senior advisers, it appears that the tenure of an incumbent CEO soon comes to an end while attending to the needs of people around him/her. Another business manager says: "In terms of a company's performance, if the negative legacy of his/ her predecessor is significant, he/she will have great difficulties in reversing it, while it may be said that an incumbent CEO benefits from the results of hard work by his/her predecessor. In a Japanese company, if a CEO works hard to improve the company's performance, the next CEO or the next-next CEO will enjoy the fruits of it." Under these circumstances, in a Japanese company where the tenure of a CEO is fixed at four years, there is a problem that the speed of decision-making is determined according to the tenure and a lower organization tends to trim its activities accordingly.

IBM marked the 100th anniversary of its founding, but there are only nine CEOs during its history of 100 years. Looking at the tenures of recently retired CEOs, Mr. Samuel Palmisano, IBM's former CEO, presided as the CEO for eight years, with Mr. Louis V. Gerstner Jr., IBM's former-former CEO, for ten years. So the tenure of IBM's CEO is roughly ten years. In successful companies in Europe and the United States, the tenure of a CEO is roughly ten years, and it is common that a CEO retires when he/she is a little over 60 years old. The actual situation is that the tenure of a CEO is polarized in Europe and the United States as a CEO is forced to retire if his/her company's business performance is poor. On the other hand, the tenure of a CEO in a Japanese company is approximately four years, regardless of his/her company's business performance. And the reason for CEO change is predominantly "scheduled" in a Japanese company, which is in stark contrast to overseas companies.6

From the standpoint of enhancing the speed of corporate management as well as enhancing business performance, Japanese companies should determine the tenure of a CEO according to his/her ability by breaking

away from conventional practices. To achieve this, it is essential to establish an objective performance evaluation system as discussed previously. To that end, Japanese companies should first develop a method for evaluating executive performance from both financial and non-financial aspects, and in order to enhance the objectivity of evaluation, they should then establish a system for properly evaluating the execution of duties by appointing independent outside directors.

(3) Select a Highly Qualified Successor

If tenure is short, the CEO can neither make a dynamic decision nor can he/she enhance the speed of corporate management and demonstrate leadership skills. In addition to determining the tenure of a CEO, it is also important to establish an appropriate method for selecting a competent leader who has the ability to continue to perform at high level as a CEO for ten years. Additionally, it goes without saying that it is important to design a process of developing future leaders.

In the case of Japanese companies, to put it in an extreme way, it looks as if one of the CEO candidates of the right age is asked to succeed the CEO position in the natural course of events, instead of selecting the best candidate for the CEO position. One business manager says: "Of course, there was no CEO grooming process at that time. It appears that, after years of being scolded and bullied, I happened to be assigned to this CEO position." If true, this will be a serious handicap for Japanese companies to compete in the global environment.

In order to select a capable CEO who can continue to preside as a CEO for ten years, it is necessary to select a CEO through a more multifaceted and objective selection process. One of such specific methods is to establish a nominating committee for selecting a successor CEO. However, as it is sometimes said that a nominating committee tends to select a person of sound judgment with international common sense as a candidate, it is necessary to incorporate necessary adjustments if a nominating committee primarily consists of people such as outside directors who are not well versed in a company's circumstances.

A company's systems, such as a nominating committee may be different depending on companies. It is more important than anything else to establish a robust process for grooming potential CEOs to develop a global leader or a world-class CEO. If a robust CEO grooming process is in

place, the types of CEOs, such as a CEO with engineering background who has excellent engineering expertise but lacks management skills and a CEO who cannot manage well in areas except for his area of expertise, will never be selected. In any event, succession planning is one of the most important responsibilities for a CEO to ensure the sustainable management of a company. Companies have been making a variety of efforts in succession planning, and we would like to introduce the examples of the following two companies.

[System in which Top Management can be Replaced Anytime]

IBM has defined the following nine competencies that are required of leaders to reinvent themselves — Embrace challenge, Partner for clients success, Collaborate globally, Act with a systematic perspective, Build mutual trust, Influence through expertise, Continuously transform, Communicate for impact and Help IBMers success. IBM assesses employee competencies from these perspectives and trains and educates them to improve low competency areas if any to develop future leaders.

Only high-caliber future leader candidates who are selected from IBM's global operations are eligible to take this training program. Selected future leader candidates do not mean that they are guaranteed to be leaders at IBM in the future, and future leader candidates are selected annually. IBM develops a succession plan for each future leader candidate, and executes the plan and assesses the progress of the development.

Future leader candidates are assessed on a scale of one to five for each competency and are required to receive a stepped-up training program for a competency whose target they fail to achieve. IBM always lists up successor candidates for 500 senior management positions, which are top management positions in IBM's regional operations. These candidates can fill the positions immediately, and three years and five years from now respectively.

[Recruit and Develop Future Leaders Globally]

Since the launch of the Nissan Revival Plan in 2000, Nissan has been making continuous efforts to recruit top-class personnel from around the world and develop future leaders. The Nomination Advisory Council (NAC) is a system to support such efforts. As the first step of NAC, high potential employees are selected from all of Nissan's regional operations in the world. At the same time, high potential employees are selected from the functional perspective as well. Those high potential employees who

are selected from regional and/or functional perspectives are reviewed at NAC and registered as future leader candidates as appropriate.

The second step of NAC is a process of developing a succession plan for each of these candidates through consultation with members of the management committee. For example, the following discussion takes place at NAC endlessly over a year: "This person in legal operations in the United States has the potential of becoming the head of legal operations at Nissan headquarters in Japan in the future. So we should first assign him/her to a position in Nissan Europe and then reassign him/her to the U.S." Mr. Carlos Ghosn, CEO of Nissan, spends only five days a month in Japan but he never fails to spend half a day to attend NAC. At Nissan, the CEO himself puts a lot of effort into the development of future leaders.

3.4.2 Act Speedily to Avoid Holding up Corporate Management Cycle

In order to realize sustainable corporate management, companies must continue to have the value of its existence from a social standpoint by making a profit in the global market competition and contributing to sustainability. Sustainability includes not only the sustainability of the environment and society but also the sustainability of a company in the life cycle of the industry. First of all, companies must identify their sustainable management cycles and the necessary action to address the situation by clarifying the following: 1) In light of the fact that their current businesses will be eventually doomed to decline after the cycle of introduction, growth and maturity, whether or not they can repeat this cycle in a sustainable manner in the relevant industries, 2) how fast their businesses are growing as compared with the speed of market changes, and 3) when they expect to achieve the goals of their initiatives currently under way—within one to two years or within ten years.

As previously discussed, we sometimes hear it said that Japanese companies are repeatedly engaged in excessive competition in the same industries and do not have a sense of speed or urgency to transform their businesses to compete in a new industry. In the meantime, Japanese companies have come to more frequently compete head-on with global companies both at home and abroad, and the speed of the life cycle of an industry must have changed accordingly. Japanese companies must revisit their management life cycle and take appropriate

action with a sense of speed and urgency to ensure the realization of sustainable corporate management without the stagnation of the life cycle. In this section, we would like to introduce the specific examples of companies making such efforts.

(1) Accelerate the Speed of Decision-Making — Rules for Withdrawal from Old Business and Unrelenting Efforts to Create New Business —

[Sell Business if Added Value Cannot be Increased]

In recent years, IBM has been making a major shift towards higher value-added products and services. With the ratio of hardware sales decreasing to approximately 10% of its total sales, IBM has achieved a significant growth in its more profitable software business. As the common objective shared by its 430,000 employees worldwide, IBM established its 2010 earnings per share (EPS) objective of 10 to 11 US dollars, up from the 2006 EPS objective of 6 US dollars, despite the Lehman Brothers shock of 2008. And IBM successfully achieved the 2010 EPS of 11.52 US dollars, exceeding its objective as well as the expectations of its shareholders.

IBM has a unique method to avoid the stagnation of its corporate management cycle to ensure its sustainable business growth. IBM makes it a rule to sell businesses whose values cannot grow and to replace them with other businesses. Additionally, IBM tactfully uses M&A schemes as the means to create new businesses. For the last ten years, it has taken over more than 100 software companies. IBM does not buy companies simply because they are put on sale. IBM determines a target business segment and acquires cutting-edge technologies by buying suitable companies, especially venture companies, if its own research center does not have the necessary assets or expertise.

[Change Businesses Drastically Every Five to Seven Years, Just Like Changing Cars]

Nitori Holdings, which has been increasing sales and profits for 25 consecutive years, tackles a new business area every year. The company initially started with the sales of furniture and expanded its business to include the sales of carpets and curtains, and then bedding, home furnishings and crockery. It started dealing in the sales of small home electric appliances four years ago. Its business pattern is to start new business for trial in the first year, change the business in the second year, and determine the viability of the business in the third year.

Mr. Nitori states: "Continuing with business on a status quo basis is totally unacceptable. It is necessary to drastically change businesses every five to seven years, just like replacing cars. If a company continues with the same business for a long time, it will be eventually doomed to a failure after completing the cycle of growth, maturity, and decline. This is the rules of humankind, which we must obey." He adds, "Each time when we launch new business, just like changing cars, we must obtain a license. We always struggle to obtain a license, and sometimes get injured in the process. First of all, we launch new business on a trial basis at a small number of our stores. Most of the new businesses fail at this stage, and we consider this failure as tuition for future success. If new business gets on the right track, we call it as having obtained a license."

In order to obtain a license for new business, Nitori makes careful preparations from the planning stage, including establishing the numerical targets for total sales, profit margins, and retail prices. Nitori makes it a rule to aggressively launch completely new business but not to enter business segments that are totally unrelated to its existing businesses. Mr. Nitori says: "It takes three years of sitting on a rock (patience), five years of enduring wind and snow storms, and ten years of overcoming adversity for a new business to be one of the company's business pillars."

(2) Accelerate the Speed of Operations — Utilize M&A Schemes and Partnership — [Closure of Unprofitable Business and Transformation of Business Portfolio through M&A]

Mitsubishi Chemical Holdings manages its businesses by dividing them into four quadrants – next generation growth business, growth business, core/cash-generating business and business to be restructured. The first on the list of business to be restructured is ethylene crackers, which are in a state of oversupply for the current domestic demand. While minimizing social impacts, Mitsubishi Chemical Holdings has substantially scaled down this business, including employment, over the last five years towards a complete closure. At the same time, Mitsubishi Chemical Holdings has created next-generation growth businesses through innovation and has grown them through product differentiation and other business expertise into core/cash-generating businesses, which are expected to achieve respectable market shares.

Mitsubishi Chemical Holdings has taken the initiative in undertaking major structural reforms since the Lehman

Brothers shock. M&A schemes are essential to undertake a speedy structural reform. For the last three years, they have reduced its deficit by 17 billion yen due to the closure of unprofitable businesses with the concomitant reduction of approximately 320 billion yen in sales, while at the same time it acquired controlling stakes in Mitsubishi Rayon, the Quadrant Group of Companies and the Nippon Synthetic Chemical Industry through M&A schemes, which has resulted in increasing its total sales. Mitsubishi Chemical Holdings has drastically transformed its business portfolio.

(3) Stay on Top of Changes and Act Quickly [Withdraw from Business While It is Making a Healthy Profit]

The year 1999 turned out to be very important for Royal DSM N.V. Although its petrochemical business, the number one core business for DSM then, was still very competitive, the then CEO of DSM provoked the following controversy: "Can we continue to survive on petrochemical business as a going concern for eternity?" and "Is there any possibility that we may lose the competitiveness of our petrochemical business and may be doomed to extinction if we keep the status quo?" Heated discussions ensued internally. So 1999 became a year of the starting point of reforms carried out in 2000 and onwards. Someone inside DSM said things like "Has he gone crazy?" or "This is tantamount to suicide." Following exhaustive internal discussions, however, DSM decided to withdraw from its petrochemical business.

Others said: "He must be dreaming." When the then CEO responded: "The world is changing," some argued back, saying: "The world has not changed. If we work harder, we will be able to maintain the competitiveness of our petrochemical business and survive for eternity." In response to this comment, the then CEO firmly countered, saying: "That is not correct. Please reread our past strategic dialogues again. Competition in petrochemical business will be controlled by countries in the Middle East going forward. In the Middle East, they can have oil and naphtha almost free of charge. Recent young business leaders in the Middle East are engaged in business with passion and are making serious efforts to maintain the legacy of the Middle East. I think it is time for us to withdraw from our petrochemical business." He added: "The sales price of our petrochemical business will go down, hereafter. I think it is the right time to sell the business." Mr. Sibesma, chairperson and CEO of DSM, says: "In retrospect, I think we could afford to undertake a flurry of reforms thereafter only because we sold our petrochemical business at that timing and achieved substantial gains on the sales. It is very difficult to implement a corporate strategy because sometimes we have to decide to withdraw from a business while it is still making a healthy profit. To implement such strategy, we will have to face intense resistance."

We must accurately recognize and understand changes in the operating environment if we wish to achieve sustainable success by making changes on a continuous basis. We will not be able to succeed if we continue to postpone our decision and keep waiting. Mr. Sibesma says: "I believe in Charles Darwin's Theory of Evolution — the survival of the fittest, and the fact that it is not always the strongest that survive." When we face up to making changes, we cannot make excuses, saying that we have met strong resistance from the Board of Directors, society, or employees. Changes are always met with resistance. Most of such resistance is not fact-based but stems from a strong feeling of attachment to the status quo, or a feeling, such as "I can understand it but I do not like it." If we fail to sell a business in a timely manner, it will lose value. In that case, we will not be able to obtain enough resources that will enable us to invest to support future changes.

[Rolling Plan Process, a Process that Helps Cope with Changes in the Business Environment]

Bridgestone makes it a rule to review and update its mid-term management plan once a year. This is because, based on the basic premise that the business environment changes constantly, Bridgestone considers it more important to incorporate changes to achieve the objectives than to change the objectives to respond to the changing environment. Bridgestone reflects changes in the current business environment on the prior year's five-year mid-term management plan. When reviewing and updating it annually, they add and update their strategic initiatives even if cancel some of them in a consideration of the continuity. This process is called a *rolling plan process*.

Mr. Arakawa points out, "This rolling plan process is very effective in the age of uncertainty." The effectiveness of this process was confirmed at the time of the Lehman Brothers shock and the Eurozone Crisis. With the mid-term management plan providing common criteria shared by all employees at all times, Bridgestone promptly updated the mid-term management plan to ensure consistency with changes in the business environment to enable employees to properly cope with the crises without panicking.

At that time, Bridgestone's employees could really understand that it is possible for them to turn adversity to opportunity only if they have a robust management plan that guides them. Bridgestone externally publishes its mid-term management plan updated through the rolling plan process every October. It is Bridgestone's unique initiative to share with stakeholders its assumptions on changes in the business environment, its ideal state for the future and its business results.

3.4.3 Accelerate the Speed of Business Promotion

- (1) Enhance the Speed of Decision-Making
- i) Determine Beforehand What Must Be Done and What Must Not Be Done

[Criteria for What Must Be Done and What Must Not Be Done]

Mr. Nitori stresses, "It is important to put in place a management system that makes a profit by itself. To accomplish this, we have established clear criteria for what must be done and what must not be done." Specifically, they have established detailed criteria that cover a variety of aspects regarding the way of doing business, such as "Retailing should be based on self-serve without the assistance of a sales attendant," "Store should be lightly furnished," and "It is ok to scout new employees, but never employ anyone through personal connections."

In addition to the establishment of the criteria, Mr. Nitori points out: "I make it a rule not to go against the empirical rules of human beings and the laws of human nature." He further states: "Four times the age of a store is roughly equivalent to a human age, so the store age of six years is roughly equivalent to a human age of 24 years. In recent years, there are stores in Japan whose ages are 20 to 30 years, which are equivalent to a human age of at least 80 years. Obviously, these stores have already come to the end of their lives. Nothing can be done about this judgment because this is determined by the empirical rules of human beings."

Additionally, Nitori uses the number of store visitors as a barometer of social contribution. In terms of sales and profits, Nitori can live with the results as long as they are close to their respective objectives even if they do not meet them, but the number of store visitors is a must objective that Nitori must meet no matter what. If the number of store visitors decreases year over year at a certain store, it is construed that consumers do not want that store and that Nitori might as well shut it down. Mr.

Nitori points out: "Measures we develop to increase the number of store visitors will eventually contribute to an increase in sales and profits."

ii) Delegate Authority

Even if a company has a robust infrastructure that enables it to collect information promptly and accurately, it is impossible for top management alone to review all the incoming information, immediately identify issues, and make a decision if the size of a company is big. There are only 24 hours in a day. Therefore, it is necessary to develop an executive summary for top management, but the process of developing an executive summary takes an extremely long time and sometimes only positive information is reported to top management.

In the case of U.S. companies, that process is completed by three layers of management. They delegate authority where delegations are appropriate and elevate issues to higher management levels whenever necessary. To facilitate the delegation of authority, the level of authority granted to each position is clearly defined, and each employee is required to act responsibly. Let's take a claim for reimbursement of travel expenses as an example. In the case of Japanese companies, an employee must claim for reimbursement and have it approved by his/her immediate supervisor to get reimbursement, while on the other hand, an employee can get reimbursement without any approval in U.S. companies. If an employee makes a false claim and if it is discovered, the employee will be immediately terminated. We hear it said that there is a surveillance unit like a world police within the organization of a foreign company in Japan. It appears that such a surveillance unit plays the role of an auditor to detect misconduct and fraud. We also hear it said that if it is suspected that an act of misconduct or fraud has been committed in a M&A case, the surveillance unit will come and investigate the situation in detail, and that if misconduct is found, the relevant employee(s) will be terminated.

In Japanese companies, such a surveillance unit is sometimes organized on an ad hoc basis when a problem occurs but not on a permanent basis. Instead of flatly rejecting these delegations of authority by a surveillance unit as a western-style corporate management, we should carefully review and use this as a reference to facilitate our efforts to promote the delegation of authority and accelerate decision-making process.

(2) Accelerate the Speed of Operations i) Accelerate the Speed of Coping with Changes [Strengthen Workplace or *Genba*'s Capability to Cope with Changes]

In 2006, many companies understood the state of housing and real estate bubbles in the United States but took no action to address the situation. Subsequently they suffered huge damage following the collapse of Lehman Brothers because they could not timely adjust their production and inventory volumes to changing economic conditions. Komatsu was one of a few companies that could promptly stop production and reduce inventory during the economic downturn and later could promptly meet an increasing demand when the U.S. economy recovered. When the Lehman Brothers shock occurred, Komatsu consolidated their eight plants in the United States to three, and it took them only one year to complete it. In retrospect, Komatsu's fate at that time depended on whether they could complete the plant consolidation within one year because the U.S. economy quickly recovered one and half years later. If it had taken them two years to complete the plant consolidation, they would have suffered a major opportunity loss.

Mr. Noji, president and CEO of Komatsu, stresses: "As it is impossible to accurately project the future, the ability to cope with the speed of changes becomes all the more important." At Komatsu, genbaryoku — workplace capability is defined as the ability to make continuous improvements. In order to further strengthen this capability, it is essential for top management to provide metrics that are as concrete as possible when giving instructions. Here are some of such examples: "Shorten to one month the period required for transferring the production of a certain model between plants" and in the case of development activities, "Do not repeat the same mistakes over and over again." In addition, Komatsu puts particular emphasis on measuring and simulation technologies in development activities as they tend to repeat the same mistakes over and over again if the quality of measurements and simulation are insufficient. When its ten Thai suppliers were damaged by the Thailand flooding two years ago, Komatsu made a quick decision and took immediate action, enabling its Thai plants to place orders with Chinese suppliers two days later for components that they could not procure from the damaged Thai suppliers. This is the result of the *genba*'s or workplace's capability to cope with changes.

ii) Do Not Do Everything on Its Own

— Utilize M&A, Partnership and Alliance Schemes — [Alliance with Other Companies is One of the Alternative Approaches to Expanding Business Overseas]

Mr. Takahara, president and CEO of Unicharm, indicates: "There are three key factors to consider when entering foreign markets — market size, maturity degree of distribution channels and competitive conditions among others." Since the future conditions are more important than the present conditions when entering foreign markets, Unicharm studies the viability of business expansion overseas from the multiple perspectives that include these three key factors as well as time element to ensure that they can maximize growth and profits.

Unicharm's policy is to directly enter an overseas market if it satisfies the following conditions: the market has the potential of expanding in the future, distribution channels are still in a developing stage, and competition is not dominated by a few top companies and is still moderate. This is because if they directly enter an overseas market, they can expect higher profit from the local operations.

On the other hand, even in an Already Dominated Market, a country where the market size is expected to remain almost unchanged in the future, distribution channels are almost monopolized by large-scale retailers and competition is dominated by a few top companies, if the current market size is huge, there is no reason for Unicharm to let the business opportunity go to waste. In such case, Unicharm adopts a strategy where it finds an alliance partner, licenses them to use its technology, and receives royalty fees in return.

Currently, Unicharm has adopted the strategy of directly entering markets in the case of Asia, Middles East, and North Africa, while it has adopted the strategy of licensing arrangements and exporting in the case of Western Europe, Northern Europe, and North America.

iii) Process Re-Engineering: Standardization and Integration

[Cross-Sourcing System that Enables Companies to Cope with Changes in Global Operating Environment]

Komatsu has the ability to flexibly adjust production capacities among its global production sites according to exchange rate fluctuations, production volume changes, and cost changes. For example, for models that it usually exports from Thailand to the United States, Komatsu can switch the production sourcing, such as exporting them from Japan or Europe, depending on the situation.

Komatsu's sales in the United States were booming because of the housing and real estate bubbles until 2006, and the demand then was approximately three times as much as the total production capacity of its plants in the United States. Based on the projection that the bubbles would soon burst, Komatsu decided to meet the two-thirds portion of the demand by importing the products from Japan and Thailand without expanding the production capacity of its plants in the United States. It is because of this production sourcing system that Komatsu could take such a flexible approach in coping with the changes. This so-called cross-sourcing system has made it possible for Komatsu to promptly and flexibly adjust production volumes and production sourcing according to changes in the global operating environment.

The key points in realizing this cross-sourcing system are to commonalize base machines (platforms) among production sites and to standardize production control systems and bills of materials (BOM) for production and development purposes. When launching this cross-sourcing system, Komatsu had to develop a production control system from the ground up. It took approximately 30 engineers working for two years to complete the development of this system. "With 30 engineers, Komatsu can develop three new models a year. Komatsu had some doubt as to whether to invest this much manpower in the development, but Komatsu made the decision to go ahead as it believed that it would be necessary for building a solid foundation."

It is Komatsu's policy that it will never retreat from its overseas production how severe a slump in demand it may suffer. Komatsu has continued its production in Brazil for 40 years, although there were times when it suffered a severe slump in demand. Even in times of decreasing demand, Komatsu has maintained its operations in Brazil, believing that Brazil would revive someday. There is a school of thought that a company can retreat from the local production and switch to exports if there is not enough demand to support it and re-establish a local production base when the export volume increases. In that case, it is not possible to re-establish a production base locally in time when demand starts picking up. If Komatsu were to retreat from Brazil, it would lose its customer base there. Therefore, Komatsu has established a cross-sourcing system that enables it to maintain its production base without retreating by adjusting production volumes to cope with changes.

[Power of a Globally Integrated Enterprise (GIE)]

As it stands now, the ratio of IBM's sales to advanced markets to those to emerging markets is approximately 3:1. It is projected that the ratio of sales to emerging markets will increase by one percent annually and that the ratio will be 7:3 in 2015. In IBM's case, there is hardly any difference in profit margin between advanced markets and emerging markets. This is something unique to IBM. The key to this is IBM's unique strategy called a globally integrated enterprise (GIE).

IBM has evolved from an international cooperation, in which the U.S. headquarters manufactured all its products and only sold products at overseas sites, to a multinational cooperation, in which each regional operation operated independently, country by country, e.g. a Japanese subsidiary was responsible for all the operations in Japan, while the U.S. headquarters was responsible for all in the United States only, then finally to a GIE. Since mid-1990s, with the objective of becoming a GIE, IBM has been making efforts to create One IBM of the world by optimizing, on a global basis, the duplication of operations in the world.

IBM started shifting R&D activities that had been carried out independently by each country to a globally integrated center, while retaining the strengths of each country's R&D functions, centralizing global purchasing functions and data center, integrating global marketing, PR and advertising functions, and working on the unification of definitions of standard skills for the purpose of global people development, among other things. As a result, IBM has been able to enter a new market extremely efficiently and effectively.

At the time of its entry into a new market, a local IBM subsidiary can carry out standard operating procedures by receiving direct support from its global back-office center. As its local subsidiary is structured so that it can start making a profit from the first year of its operation, IBM can now establish its subsidiaries in many countries of the world expeditiously. This is the power of the GIE.

(3) Stay on Top of Changes and Act Quickly [Battle Line Information is Made Available to Top Management on Real Time Basis]

In response to the question: "Komatsu took appropriate action to cope with the economic downturn following the collapse of Lehman Brothers and did take proactive action to address the economic slowdown in China. It is difficult to make a stop or go decision by instinct and experience, and employees will not be convinced

if a decision is made based on the best judgment of top management alone. Are there any specific metrics that you always look at when making such decision? Do you have specific grounds for making such decision?" Mr. Noji pointed out: "We have been studying a method to accurately forecast future demand through a scientific analysis of trends in demand, but have not been successful so far. Eventually, a decision has to be made based on the best judgment of top management. At Komatsu, I am deeply involved in routine operations. Or rather, our corporate structure requires me to get involved in daily operations. I give instructions weekly after reviewing our production and sales plans. I do not think many CEOs review daily retail sales data, but I think this should be the start of everything. Our instincts do not work unless we have knowledge about what is happening on the retail front. If I have to name one, I think this is the key point."

One business manager of a Japanese company wonders in puzzlement: "I am always surprised to find that whenever I visit an overseas company for investor relations, every top management always checks mails on his/her handset. I asked him/her how many mails he/she checked every day. It appears general manager-class employees check 300 mails every day, while top management checks around 1,000 mails every day. I have been telling my people not to send unnecessary mails to me. I wonder if the top management of an overseas company checks all the incoming mails so that he/she can share information with his/her employees at a high level."

The business manager of a foreign company in Japan indicates: "It is true that I receive a substantial number of mails each day if I include carbon-copy (CC) mails. Probably I check hundreds of mails every day. I only respond to mails from my direct reports, and I respond back quickly. Things start progressing from there at frantic speed. I make it a rule to send carbon copy mails to those concerned for information sharing. In this way, as information is directly sent to top management, the role of middle management in foreign companies is totally different from that in Japanese companies. Middle management is a person with whom employees share information in Japanese companies but the role in foreign companies is to make a decision within the authority granted to him/her and give instructions so that employees can act."

Ultimately, it is a matter of leadership. The issue is how quickly top management can obtain accurate information and start acting. If battle line information is not made available to top management, his/her subordinates tend to report only positive information to top management. A major difference in this respect between Japanese companies and companies in Europe and the United States is whether top management has access to battle line information or equivalent information on a real time basis. It is difficult for top management to promptly make an accurate decision unless he/she grasps on a real time basis the same level of battle line information as employees on the frontline have.

[Act Quickly]

Nitori sends hundreds of employees to the United States for training every year and periodically monitors the state of the U.S. economy. The prices of land and buildings in the United States were very high prior to the collapse of Lehman Brothers, just like the prices we saw prior to the bursting of the bubble in Japan. Mr. Nitori stresses: "I think the bursting of the bubble in the United States was entirely predictable in light of the same experience in Japan."

Nitori declared internally that it would lower the prices of its products three years before the collapse of Lehman Brothers. From two years before the collapse, they generated 12 billion yen to fund the planned price reductions for 12 times by in-house cost reductions. Nitori started lowering the prices of its products from May 2008 and in September 2008, as predicted, the economic downturn started following the collapse of Lehman Brothers.

In retrospect, Mr. Nitori points out, "It finally came is what I thought then." As its sales increased too much, it became difficult to achieve a year-over-year sales increase, and so Nitori stopped lowering the prices of its products after the eleventh time (did not lower the prices at the twelfth time). Because of this price/cost reduction initiative, Nitori's stock prices continued to increase when the overall stock market continued to decline following the Lehman Brothers shock. In this way, it is important to stay on top of changes but that is not enough. It is extremely important to act proactively and quickly to address changes.

Chapter 4 Contribution to the Sustainability of the Earth and Society

4.1 What is Growth?

4.1.1 Definitions of Growth

The population in Japan finally peaked in 2006¹ and Japan is destined to follow the fate of a mature state. Then, what is growth for Japan? There is no doubt that Japan needs to continue to grow on an ongoing basis. But then, raise the question anew, what is growth? According to the dictionary, *growth* is defined as "an increase or expansion in the size of things." ² Then what should we increase or expand?

A certain business manager of a foreign-affiliated company in Japan said, "For the first time, I understand that, in the eyes of global companies, the uniqueness of Japanese companies or an area where Japanese companies deviate from international standards is a difference in the will to grow. It appears that Japanese companies think that it is not necessary for them to grow." We assume that the

definition of growth in this case is "an increase in profit."

Without a doubt, economic growth is the kind of growth that we are required to achieve. If economic growth means an increase in gross domestic product (GDP), then it is necessary to take action to increase the working population and raise labor productivity, among other things. If a company increases its size, it is also a kind of growth. It can be said that the company models in terms of growth that we have discussed in the definitions of globalization in chapter 3 also provides a certain definition of growth.

Recently, focus has been placed on enhancing the level of happiness. The Cabinet Office has launched an expert committee under the name of the Study Group on the Level of Happiness with the aim of exploring potential growth opportunities from the standpoint of enhancing the level of happiness by developing a happiness index.³ This

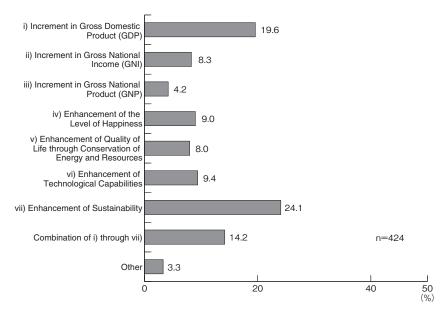


Fig. 4-1: Japan is often referred to as a mature society. What do you think is growth for Japan?

Results of Questionnaire Survey by Keizai Doyukai (2012)

¹ White Paper on Aging Society 2012 by the Cabinet Office, Government of Japan. Visit http://www8.cao.go.jp/kourei/whitepaper/index-w.html

² Excerpts from the Daijisen, a general-purpose Japanese dictionary published by Shogakukan Inc.

³ Study Group on the Level of Happiness organized by the Cabinet Office, Government of Japan. Visit http://www5.cao.go.jp/keizai2/koufukudo/koufukudo.html

can be one form of growth. However, under the current severe economic conditions, if we only focus on spiritual richness, we will become poorer as the accumulation of material wealth gradually diminishes and ultimately will end up being in a state where our spirit is rich but there is nothing to eat.

Needless to say, the growth of the economy and companies is important, but we also must recognize that it is realistically impossible to pursue this idea endlessly. For example, it is totally unacceptable for us to build many manufacturing plants to increase production volumes and emit greenhouse gases without constraint, to cut down tropical rainforests one after the other because we have demands to meet, or to use up energy resources without thinking of the consequences.

When thinking about our future lives on the Earth from this perspective, we must be mindful that the world's oil and coal will run out in approximately 40 years and 100 years, respectively, while we will run out of natural gas in about 200 to 300 years' time even when including worldwide shale gas resources. Additionally, we are also facing a variety of other present and potential issues, such as the destruction of biodiversity, carbon dioxide (CO₂) emissions, overpopulation, and water shortages. We are now confronted with the situation where humans and the Earth may not be able to survive until 2050 if we are not very careful. Given the situation, is it acceptable for us to continue to manage a company by disregarding these realities?

We think it is also one type of growth to expand a mechanism that ensures sustainability in human activities with a renewed awareness of these challenges facing us in order to ensure happiness until the great-grandchild generation. **Fig. 4-1** shows the results of a questionnaire survey conducted by Keizai Doyukai. In terms of the definitions of growth, many respondents selected sustainability along with economic indicators, such as GDP. We think that the results of this questionnaire survey point to the fact that Japanese business managers' awareness about growth has increasingly shifted towards sustainability.

4.1.2 Vision for Sustainability and Initiatives to Promote Sustainability

It is difficult to identify a single solution to this problem. The definitions of growth may differ between emerging countries and mature countries. Also, they are different between different timeframes, such as past and present. They may also differ depending on the situation. For example, the utilization rates of thermal power plants have been increasing following the nuclear power plant accidents in Fukushima resulting from the Great East Japan Earthquake, but we cannot afford to stop the operation of thermal power plants to help reduce global warming. Ultimately every discussion about ideal and desired state of society in Japan always boils down to what kind of growth we need to achieve towards 2050 under this capitalist society.

With its economy worn down this badly, Japan has to focus on regaining its competitive strength globally for the time being. Is it sufficient for us to continue to pursue only the GDP-based growth model thereafter? Maybe we need an additional concept for growth.

There is no doubt that in 2050 the number of laborintensive industries will have decreased in Japan. It is almost self-evident that it is extremely difficult to foster labor-intensive industries dependent on cheap labor in a mature country like Japan where there is less income disparity. Also, the world population is now rapidly growing, but it is said that it will peak out at around nine billion. During the process, the composition of population in Japan will shift from a pyramid-shaped structure to a tube-shaped structure. Based on these assumptions, it is necessary for us to think about what, ultimately, is growth. It is very unlikely that we will come to a conclusion that it will suffice if we stay on the current course and we remain economically strong. The richness that these assumptions lead us to is spiritual richness. We think that growth for Japan is to become a country that creates innovations to contribute to the Earth and society in the areas of the environment, new energy resources, the conservation of resources and energy, healthcare, and new-generation city planning, among other areas. And we should aspire that Japan will become such a country which can lead the world by Japanese-specific higher dimensional and deeper quality. We believe that this should be a vision for Japan as it moves towards 2050.

Of course, it is extremely difficult for Japan to reach that stage in a single jump. This is because, when looking at the current world situation, there seems to be a big-picture scenario or a certain sequence of events that must take place; that is, business expansion and fierce competition are projected to continue for some time to come, and thereafter, there will come a time when the world population reaches saturation and the world economy reaches maturity or a certain equilibrium point. If this is

the case, it may be necessary to think about growth for Japan based on a *two-stage transformation theory*; that is, for the next 10 to 20 years, we should aim to create an economically strong Japan, and thereafter, we should aim to create a friendly and happy Japan as we move towards 2050. Honestly, at this stage, there are many things that we do not know about as to what *spiritual richness* will mean in the future. We believe that it will be defined in concrete terms as we move forward, and Japan should become a global leader in this respect also. In other words, we should firmly recognize that globalization means not only fighting a battle but also resolving global issues in close cooperation with the countries of the world and that Japan must lead the world, instead of winning a battle, during the process of globalization.

When thinking about the state of Japan 50 to 100 years from now, the concept of creating society based on the aging of the population naturally comes to the fore. This is a difficult challenge. Some even say, "But in a way, a society where more than 50% of the population is 60 years or older is extremely forward-looking, and it might be interesting to pursue the creation of an ideal aging society." Though, we have to think dispassionately about whether this should be the one and only solution to what growth Japan should strive to pursue.

Apparently, it is not sufficient to think about the richness of society 50 to 100 years from now based on the current projections of population changes. When we think about richness in terms of sustainability for future generations, it is important to develop a good way to giving birth to and nourishing future generations. We think that Japan lacks policies to address this point. We should fully recognize that, at minimum, Japan is not in a position to counter such an argument.

Numerically, unless at least 2.12 babies are born per family, the population in Japan will shrink and eventually come to extinction in the long term. If we do nothing, there is no use in thinking about richness 50 to 100 years from now because mathematically the Japanese will become an extinct species before then. Additionally, it has already become a reality that the percentage of unmarried people aged 35 or younger is approximately 50%.⁴ It does not appear that not having enough money and a poor social security system are the only reasons for not marrying. If

there are any other fundamental issues that prevent people from getting married, we need to assess them carefully and thoroughly.

The current birth rate in Japan is approximately 1.4, while that in France is 2.0.5 France's birth rate declined to 1.6 at one point in time but has recently recovered to 2.0 thanks to a variety of efforts made to improve the birth rate. In France, the parents of approximately 70% of children are not married, and women can feel safe and secure in giving birth to children as the French government ensures free public education up to the university level.

As evidenced by this thought-provoking example in France, it may be that the way of thinking based on our conventional concept, such as the family, will not hold true in the 21st century. If we think the Earth has been on the verge of disruption under the current system, it may be necessary to change our way of thinking and diversify the conventional concept of the family as appropriate. While increasing the number of births is of course important, increasing the number of immigrants from overseas is another option that we should not disregard. As previously discussed, we think a future vision for Japan should be to become a country that delivers a higher dimensional and deeper quality. When Japan has realized this vision, it will be a country where many foreigners would like to live and a country that can attract people from all over the world. If Japan has become such an attractive country, people will come to Japan from all over the world of their own volition, thereby resulting in increasing the population in Japan. In any event, Japanese companies and the Japanese government should take specific action to address this issue by staying focused on an ideal state for Japan 50 to 100 years from now.

We have insisted that, in order to realize sustainable corporate management, we must look at the present and the near future, as well as expand our horizon to look at our future 50 to 100 years from now. We think that the purpose of our business activities is to ensure the survival of the Earth and human beings 200 to 300 years from now and that making a profit is not the sole primary driver of our business activities. We think Japanese companies should pursue growth during the course of building and maintaining relationships with society and making a contribution thereto in the future.

⁴ National Population Census 2010 published by the Ministry of Internal Affairs and Communications (2010).

⁵ Data book of International Labor Statistics 2012 published by the Japan Institute for Labor Policy and Training.

Japanese companies should make efforts to become a company that has the significance of existence in society by clearly defining its ideal state in line with its corporate philosophy and establishing a vision for sustainability that ensures happiness until the great-grandchild generation. A company's approach to ensure the sustainability of

the Earth and society will likely be different among companies.

In this chapter, we would like to introduce some of the examples of companies' efforts to ensure the sustainability of the Earth and society.

4.2 Sustainability of the Earth

Bridgestone's Environmental Management

With population growth and economic development in emerging countries, the number of vehicles in the world is expected to double the current level to more than two billion in 2050. Assuming that the production volume of tires is increased twofold to meet the demand, if we use simple logic, the required amount of resources will increase twofold and environmental impacts will increase twofold accordingly. In order to achieve a sustainable society, it is important to achieve economic growth while keeping the consumption of resources in check and reducing the environmental impacts. In other words, the decoupling concept will become important.

Bridgestone places emphasis on corporate management that is sustainable (or that enables it to continue to grow) by incorporating the environment as one of its business pillars. Based on this concept, Bridgestone established its environmental declaration in 2009 to ensure that it can promote efforts to address environmental issues as a group in a consistent and coherent manner. In the hope of ensuring that all the children in the future will be able to live in peace, Bridgestone refined its environmental declaration in May 2011 to more clearly define the directions in which the Bridgestone Group as a whole should promote its environmental activities, which are coexisting with nature, resource conservation, and reduction of CO₂ emissions.

In terms of *coexisting with nature*, there is an example that demonstrates their efforts to coexist with nature during the process of procuring raw materials. One of the essential raw materials for tire production is natural rubber. Currently the production of natural rubber is mostly supported by small-scale farms. Bridgestone makes a variety of techniques and expertise that it has developed to increase the production volume of natural

rubber, such as highly productive seedlings and rubber tapping (the process by which the latex is collected from a rubber tree) available to small-scale farms to help them improve productivity, instead of keeping them proprietary for use by its self-owned farms. In terms of its in-house technological development, with the objective of preventing deterioration in the productivity of natural rubber, Bridgestone has developed a new diagnostic method that can inhibit the deterioration in productivity due to disease by changing the diagnostic method from one dependent on visual inspection to a more scientific one. Additionally, Bridgestone provides guidance about the method of controlling the quality of natural rubber to small-scale farms and supplies appropriate tools to them to help them ensure quality. Also, Bridgestone is engaged in investigating the status of biodiversity around rubber farms, among other things, in collaboration with nonprofit organizations (NPOs) and universities.

In terms of resource conservation, tires use not only natural rubber but also many fossil fuel-based raw materials, including synthetic rubber. Considering the expected future increase in the consumption of resources. Bridgestone considers it necessary to develop the utilization of 100% sustainable materials. They define sustainable materials as resources that can be utilized on a sustainable basis, and sustainable materials do not include resources that will be depleted if they continue to be consumed, such as fossil fuel-based resources. Bridgestone has focused on the development of 100% sustainable materials in terms of products and renewable resources. In terms of products, Bridgestone has developed half-weight tires, run-flat tires, retreaded tires, and air-free concept tires, among others. Half-weight tires, in which the amount of raw materials used for tire production is reduced by half, are designed to support a

mobility society while reining in the use of resources. Run-flat tires are designed to deflate minimally when punctured, so drivers can continue, without any problem, at certain speeds for a certain distance. Retreaded tires, which are worn tires that are retreaded by pressure-fitting and vulcanizing rubber onto their treads, use less than one-third of the amount of raw materials compared to conventional new tires. Additionally, air-free concept tires, in which a 100% recyclable plastic material is used for the spokes of a unique structure, are designed to achieve a high level of environmental friendliness, safety, and comfort.

In terms of renewable resources, Bridgestone has undertaken two approaches to the development of renewable resources — expand and change. Currently, milky latex, which is a raw material for tire rubber, is extracted solely from the rubber tree (or *Hevea brasiliensis.*) As its efforts to expand renewable resources, Bridgestone is engaged in the development of technology to extract the milky latex from alternative plants, such as the guayule and the Russian dandelion. As its efforts to change renewable resources, Bridgestone is engaged in the development of technology to produce key intermediate of synthetic rubber, butadiene, from renewable biomass via bioethanol. Likewise, Bridgestone is also engaged in the development of replacing reinforcement materials and carbon black with plant-derived oils and fats.

Finally, in terms of the *reduction of CO*₂ *emissions*, the amount of greenhouse gases emitted by car tire during its lifecycle accounts for 86% of the total amount of greenhouse gases emitted by car in use. The amount of CO_2 emissions caused by tires is related to a tire's rolling resistance, and reducing its resistance would contribute to reducing CO_2 emissions. As its efforts to reduce CO_2 emissions, Bridgestone is working on the reduction of a tire's rolling resistance by 25%, which reduction level is greater than the amount of CO_2 emitted through *Monozukuri* (manufacturing) activities.

As explained above, Bridgestone, has been contributing much to the sustainability of our mother Earth, making best use of its technologies to solve environmental challenges, continuous innovations of business models, and its technological capability, which has been nurtured through the development of diverse products, mostly in polymer chemistry. It may be said that, in order to realize the *sustainable corporate management*, Bridgestone keeps a balance between the environment issues and its business, and realizes new shared values and competitive advantage through addressing environmental issues

as part of its business activities. The concept of these approaches should be the very essence of Bridgestone's corporate philosophy and its CSR concept.

Mitsubishi Chemical's Development of Environmentally-Friendly Materials

Plants produce hydrocarbons from light, CO_2 and water. Then, animals eat hydrocarbons and then burn them with oxygen, producing CO_2 again. By repeating this cycle, our mother Earth maintains the CO_2 concentration of 300 to 400 ppm. If it is insufficient, plants cannot produce an enough amount of hydrocarbons, thus making it impossible to establish this cycle, human beings cannot live on the Earth anymore. As carbon and CO_2 are in metempsychosis via plants and animals, we have to understand first these delicate relationships or the symbiosis of these elements. Mitsubishi Chemical Holdings has been making efforts to contribute to the sustainability of the Earth as a chemical manufacturer, like a "carbon-alchemist."

Since plastics are easily molded, can be added various functions, and are sturdy, cheap and lightweight, they become indispensable materials for many of our belongings now. However, because of their sturdiness, it is difficult to dispose of when become wastes. In addition, there are concerns that the use of plastic may adversely affect the issue of resource depletion as it is made from fossil-oil-derived raw materials. To help resolve such waste disposal and resource depletion issues, Mitsubishi Chemical Holdings has been engaged in the development of *GS Pla*, a biodegradable plastic that can be disposed of without impacting the natural environment, and *Durabio*, a transparent engineering plastic made from plant-derived materials with high heat resistance and high impact resistance, and so on.

Also, in recent years, solar cells are drawing more and more attentions because of the potential to contribute to the prevention of global warming and as clean, sustainable, and safe energy sources. By leveraging its synthesis technologies of organic compounds that it has nurtured since its founding, Mitsubishi Chemical Holdings has been working on the practical applications of a *coating-type organic thin-film photovoltaic*, which is flexible and lightweight and much different from current solar cells being widely used. This new solar cells make it possible to be installed in ways that have never been imagined before. For example, it is possible to generate power by coating the entire body of an electric vehicle with these cells or by installing them on the wall surface of a building or on the wall of a living room that basks in

the warm rays of sun.

There still be a number of hurdles to be overcome in the development of practical application and in the completion of the manufacturing technologies. But Mitsubishi Chemical Holdings has been making steady progress in these efforts with the aim of contributing to the sustainability of the Earth and realizing the *KAITEKI* society.

Nissan's Electric Vehicle (EV)

One of the major changes taking place in the automotive industry is the emergence of diverse environmental technologies. A company's strategy for environmental technologies has become the key to determining its surviving. It is an urgent task to substantially reduce the amount of CO, emissions to support the prevention of global warming. CO, emissions from automobiles are no exception. In order to limit the rise in the Earth's surface temperature to two degrees, it is necessary to reduce CO₂ emissions by 90% from 2000 level by 2050. They say, it is obvious that this CO, reduction will not be achievable through the conventional methods of making modifications to internal combustion engines. For this reason, in addition to environmental technologies using modified internal combustion engines and a hybrid system, new technological options, including a plug-in hybrid car and electric vehicle, are now made available. Predicting that the compliance with zero emissions will eventually become mandatory, Nissan is committed to taking a leadership role in the development of zeroemission vehicles as a pioneer in this field.

Toward a more widespread use of electric vehicles, Nissan has been taking on the challenge of improving social infrastructure, such as promoting the construction of quick charging stations, and so on. And, Nissan has developed the Power Conditioning System (PCS) that allows electricity to be supplied to the home from a battery on the Nissan Leaf and also allows the Nissan Leaf to charge at night to take advantage of lower energy prices and then to use at peak daylight times. And also Nissan has been engaged in the development of a collaborative system between the Home Energy Management System (HEMS) and PCS. The electric vehicle industry is still in an early stage of growth, and therefore, as just described, it is important to have a venture spirit and to tackle the challenges not only of mere developing electric vehicles but also of creating other new business opportunities.

Nissan has taken on the challenge of creating a completely new market that is not dependent on existing internal combustion engines. The cumulative sales numbers of Nissan's electric vehicles has reached 50,000 since their introduction, and Nissan, as a pioneer, has accumulated a variety of lessons learned in the promotion of electric vehicles like birth pangs as valuable assets. Nissan believes that these lessons should serve as a foundation for taking a leadership in electric vehicles. Nissan has been tackling the challenge of accomplishing a future duty as an automotive manufacturer, with strong conviction, a great cause, and unflagging resolve.

4.3 The Sustainability of the Society

Yamato Holdings' Initiative

Yamato Holdings has adopted "More Global and More Local at the Same Time" as a slogan. Although it is like chasing two rabbits at the same time, Yamato Holdings says, since both these markets are now in their prime, and it will never let the opportunities slip away. The reasons why Yamato Holdings has decided to expand business globally is not because the domestic cargo volume has peaked in Japan, which is rather a backward-looking posture, but because there are an increasing number of customers who are not satisfied only with the domestic transport services, which can be said a necessary

conclusion. Yamato Holdings aims to be indigenized wherever it goes. On the other hand, Yamato Holdings says that there are many more things to do in Japan as well.

In Japan, many new issues are coming to surface such as the urbanization, the aging population, the depopulations, the hollowing-out, and the emergence of remote areas where going shopping is difficult, etc. If we leave these issues unattended, it is expected that it will become impossible for public services to cope with and they will become huge social problems. Given this situation, Yamato Holdings plans to develop services leveraging

its business infrastructure as a platform for providing the society with the future life support.

As express home delivery service is a universal one, Yamato Holdings has not provided any area-specific services thus far. But, under its new strategy, Yamato Holdings plans to take on the challenge of providing area-specific services. It does not intend to monopolize the operation but aims to collaborate with the related parties including government offices to provide community-based services. Yamato Holdings has taken on the challenge of enhancing the sustainability of society saying, "We do not intend to take jobs away from the government offices, but we see the aging population, declining tax revenues, and nursing-care services that are primarily dependent on volunteers, as major issues in revitalizing local areas, and we would like to cut to the core of these issues."

IBM's Initiative to Address Urbanization Issues

IBM has established Smarter Planet as its corporate vision. IBM's vision is to make the Earth much smarter by using information technologies. The Smarter Cities initiative, which aims to make cities smarter and more sustainable by using information technologies, comprise government services, transportation, energy and utilities, medical services, communications, education, public safety, and other fields. IBM aims to contribute to society by combining social infrastructure in each of these fields with information technologies. With the rapid growth and the population increase in emerging countries, it is expected that urbanization will also progress in a rapid manner, which the existing social infrastructure will most likely be unable to support. Therefore, it will definitely be necessary to further improve the efficiency by using information technologies in the fields such as energy and utilities like promoting smart grid developments the transportation system, relieving traffic congestion, and so on. Additionally, it will be necessary to put in place diverse social communication network services in the fields of medical care, public safety, and government services, and so on. These will be areas where IBM will leverage its technologies to make cities smarter.

Two thousand projects are now in progress across the world with the aim of realizing Smarter Cities. Among them, the most spotlighted is the project in Rio de Janeiro, Brazil. Rio de Janeiro will host the 2014 FIFA World Cup and the 2016 Olympics, and it is projected that information technologies will be extensively used to support these sporting events. Meanwhile, the city of

Kitakyushu, Japan, has also participated in demonstration tests of smart cities and has accumulated many assets through the validations so far. IBM is looking at the possibility of applying the Smarter Cities concept to northern Japanese cities ravaged by the Great East Japan Earthquake.

Unicharm's Initiative to Address Aging Population

Mr. Takahisa Takahara points out, "It is important to see the future ten years from now and keep up with the mainstream of a mega trend. In other words, it is important to incorporate the mega trend into a vision of our company's future. Major challenges that we must address include the low birth rate, the aging population, the depletion of resources, coping with issues related to the emerging countries, environmental issues, and the safety and security. We must keep up with the mainstream of this trend by fully taking these major challenges into consideration."

The urgent challenge Japan is facing is to cope with the aging population, and the elderly market is the key, that is, the silver industry. Unicharm especially focuses on toilet support needs among other things. Mr. Takahara says, "When we get older, we need reading glasses. Likewise, we need care products to help with our excretory function when it becomes weaker as we get older. Unicharm would like to support the creation of a healthy aging society by offering toilet support products to the elderly to help them work, travel, and play almost as much and hard as in their younger days." Japan is a big market for businesses catering to an aging population, and the populations are aging also in China, Korea, and Taiwan. Unicharm is looking at the possibility of establishing a standard pattern for meeting the needs of an aging society and then deploying it to Asian countries.

4.4 The Sustainability of Companies

Japan is ranked first in the world in terms of the number of companies that have survived for 200 years or more. ⁶ We assume that, in order to survive for 200 to 300 years, these long-surviving companies have been conducting sustainable corporate managements by flexibly coping with the changes of the times and keeping reinventing themselves to be a meaningful presence in the society. They have successfully realized the *sustainability of companies* through their active contribution to our mother Earth and the society.

These long-surviving companies are totally different from zombie companies. To be a meaningful presence in the society means being wanted and supported by the society. Zombie companies would be unable to cope with the changes of the society and die out with the passage of time. In the age of globalization, in which people, goods, capital, and information are moving at an increasingly speed as the society changes rapidly, Japan will not be able to evolve into a new society if it has many zombie companies domestically, thereby posing a risk that Japan will be left obsolete behind the global community. Japan must aim to realize a true sustainability of companies by maintaining a proper metabolism of itself. It goes without saying that, in order to achieve this, Japan must put in place, at first and least a crisis management system and a business continuity plan to enable it to cope with disasters and risks, such as the Great East Japan Earthquake (2011), Thailand floods (2011), and country risks recently seen in China and Algeria.

To maintain a proper metabolism of a company in order to always cope with the need from the society, one of the most important things is to always keep a company fully staffed with the required human resources, in other words, the sustainability of human resources in a company. With stringent employment laws and regulations in Japan, it is getting more and more necessary for us to seriously consider how to achieve the sustainability of human resources in order to survive in a rapidly changing operating environment. We have to think globally about how to recruit and develop human resources and to consider the ideal state for employment.

Globally, there are many countries in which a job is more focused rather than a *company* based on the concept of equal pay for equal work. This employment practice, which is supported in Europe, the United States, and China, has become a global standard, while on the other hand the lifetime employment still remains strongly supported in Japan. Against this backdrop, we are a little concerned because it appears that Japanese society is proceeding on the assumption that the mobility of employment will never be increased. From this perspective, Japanese employees must more seriously think about their own job careers, in other words, about the sustainability of their job careers. Once employed, Japanese employees tend to think about their future jobs and job careers as given based on the assumption of the lifetime employment. As the sustainability of job careers is not something given to an employee but it should be designed by each individual employee, it is necessary to make Japanese employees fully understand this point through training and education. Unless Japanese employees change this basic assumption, they will never be able to change the mindset that a workplace is provided by a company and a job is given by the nation.

⁶ See The Rules of Companies that Do Not Go Out of Business for Three Generations of Ownership and One Hundred Years by Toshio Goto (President Inc., July 2009)