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JMA *Resources for Global Management Development and Innovation*

Management News

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Japan Management Association

Lead Interview

Life Culture Can be Created

TOTO Ltd. specializes in plumbing-related housing equipment such as toilets, kitchens, and bathrooms. Our sales are approximately JPY500 billion annually. No other manufacturer in the world shares our specialized focus on plumbing-related products. Today the plumbing market demands ever more comfortable, convenient, energy efficient, and maintenance-free products. It has long been our business policy, since our founding in 1917, to improve consumer's living standard through such products. Over the years, TOTO has developed a succession of world-first products. Washlet, for example is a toilet seat with a heated bidet feature that has been embraced by our customers for its ability to change our life culture dramatically. Other firsts include washstand vanities, unit baths, system baths, etc. There is a line of toilets that allow us to get rid of cleaning agents, with a help of a new photo-catalyst technology. Since our products use electricity, gas, and water, we are putting a great deal of effort into energy-saving products that generate reduced amounts of carbon dioxide and promote water conservation in everyday home living.



Masatoshi Shigefuchi
Chairman, TOTO Ltd.

Universal design is our another focus. Aging population and its decreasing birthrate are serious social issues in Japan, and TOTO responds to them with products that help the elderly remain independent and facilitate nursing care. One example is our bathtubs that aim easier care-taking of the elderly during bath. Benefits of these universal-design products are not limited to the elderly and caretakers, but are enjoyed by children and pregnant women too as being safer and easier.

It is being said that the housing equipment industry faces an unfavorable condition. Japan is already oversupplied with housing, having 10% surplus against the number of households. Some forecasters postulate that as the number

of marriages between only-child adults increases, the day will come when only one house will be required where two now stand.

However, such view is out of touch with reality, especially in light of the radically changing idea of a house. In Japan, the value of house property has been thought to last 30 years at its maximum, thus creating a rebuilding cycle that runs about 30 years. In Europe however, houses are commonly used for 50 or even 70 years. This philosophy of the “long-life house” is now spreading in Japan, where people are starting to expect at least a 60-year span, double the current standard. In fact, if you remodel the inside—typically called a “Reform” in Japan—you can add new value to the house.

Suppose the life span of the average house is extended to 60 years. Housing equipment would then turn over three times, counting the initial construction, since the life span of such equipment is roughly 20 years. This would result in a demand ratio of 2:1 for remodeling-oriented equipment as opposed to that for new construction. In fact, in France this ratio stands at 8:2 already, while in the United States it is 7:3.

Knowing these facts, TOTO has invested tremendous effort in developing the demand for “Reform.” This effort has already borne fruit and reversed our ratio of remodeling and new construction to 6:4. Nevertheless, a great number of homes still call out to be remodeled. Out of 55 million units of housing stock, 30 million—nearly half—are potential remodeling market. If just 10% of these houses were actually remodeled each year, that would represent an annual market of three million houses. Thus, even if demand for new construction grew to one million homes a year, the remodeling market would still be multiple times larger.

Living environment also changes. In a typical case, 20 years after a house is built, children will leave their parent and house, and an older parent requiring care-taking might move in instead. There are many such variations that push homeowners to remodel, and if you can put your fingers on these needs and develop appropriate products, you will see the housing equipment industry quite promising. Instead of the more common “Reform” expression, TOTO uses “Remodeling” for such works. Reform actually means to fix or repair something that is faulty, while remodel implies an altering of the lifestyle itself. After all, creating rich and pleasant life culture aptly describes the mission not only of TOTO, but the whole housing equipment industry itself.

No country pushes companies to compete for consumer’s benefit more than Japan. This is because of the incredibly demanding nature of the Japanese consumer. Any product that has satisfied the Japanese consumer, therefore, also tends to be well-accepted overseas. This provides Japanese manufacturers with a very advantageous environment, and I cannot see any need for us to be pessimistic about our competitive strength in the global market.

Special Feature

Management Challenges Pressuring Japanese Companies in 2005

The 27th Corporate Management Challenges Survey Report

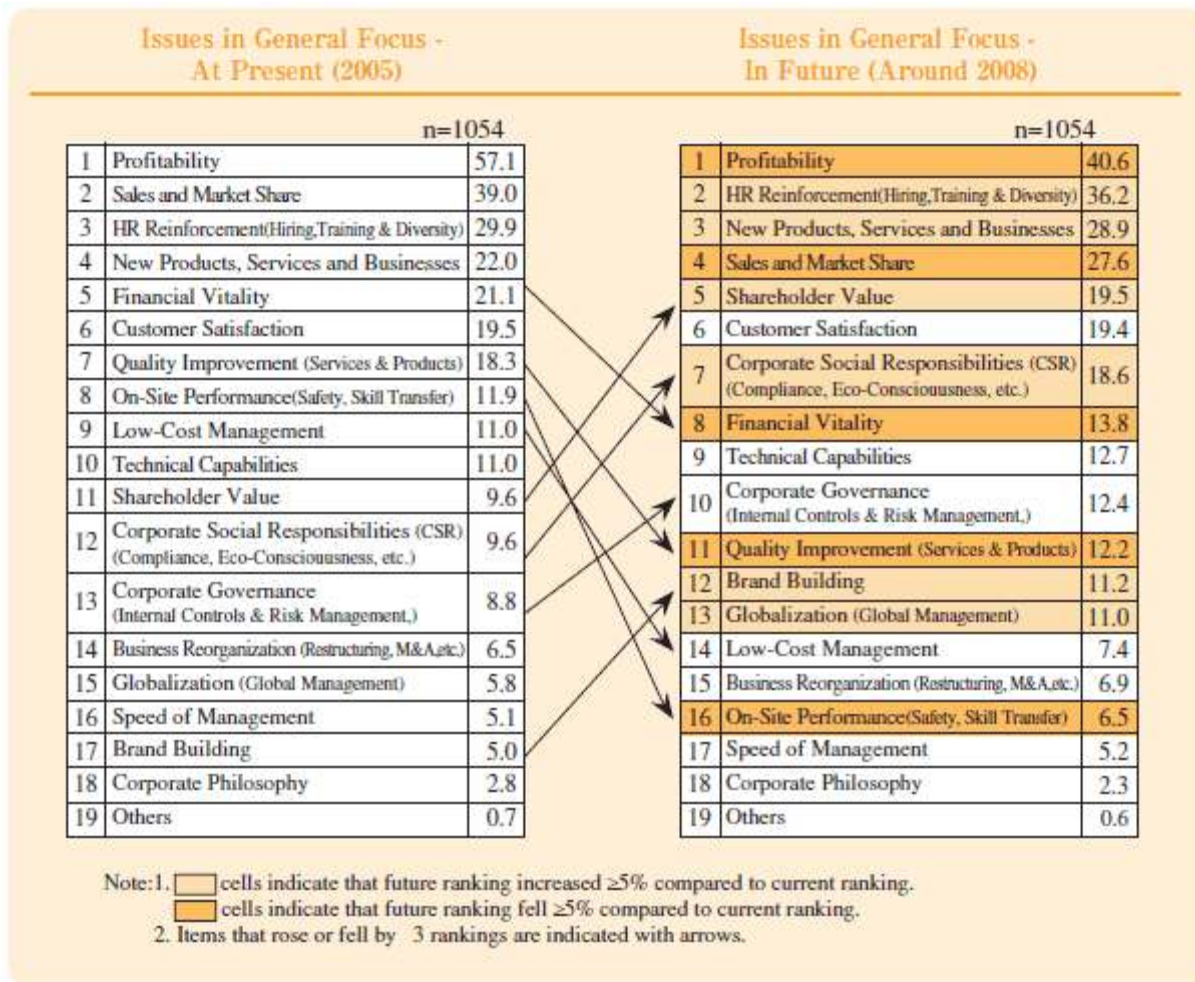
Japan Management Association (JMA) has been conducting the Corporate Management Challenges Survey every year since 1979, to identify and analyze critical management issues pressuring Japanese companies both at present and in the medium term. The survey also seeks to investigate specific measures and strategies to address these issues. The year of 2005 marked its 27th, and over the years it has established itself as a popular reference throughout Japanese industry in developing corporate management policies. This year's survey took place between June and July 2005. It queried corporate managers of leading companies nationwide, and 1,054 responses were received out of 7,002 companies surveyed in total. After closely analyzing the data, JMA presented the results in November 2005 over six reporting sessions held at locations around the nation. The sessions sparked a sensational response, and the survey report, "Management Challenges Facing Japanese Companies in 2005," is now available to all interested parties (Japanese only). An outline of the survey results follows.

Summary of survey results

1-1 Most Pressing Management Issues

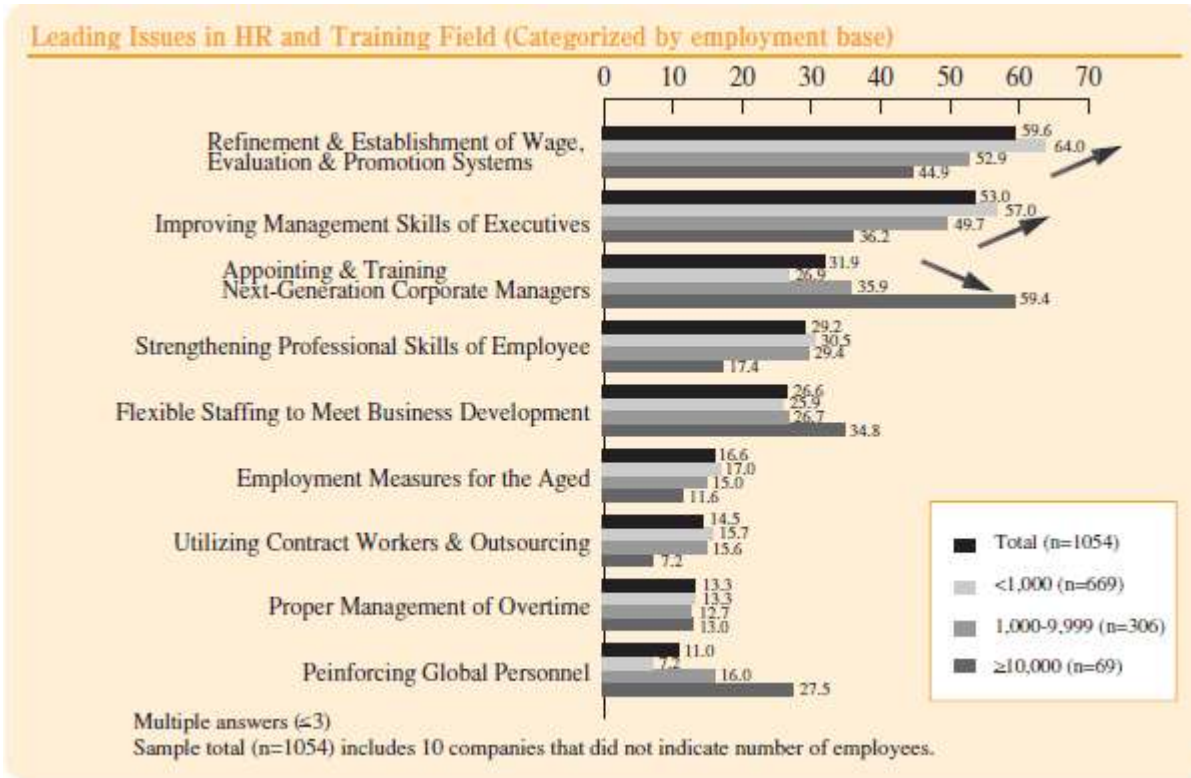
Increasing Profitability was identified as being the most important current and future management issue. Meanwhile, Increasing Shareholder Value and Corporate Social Responsibilities (CSR) were highly ranked in their possibilities to gain further importance in future.

Broken down by industry, manufacturers tended to regard Developing New Products, Services and Businesses as critical, both at present and in the future, while nonmanufacturers tended to stress Expanding Sales and Market Share. Looked at by company size, as measured by number of employees, the smaller the company, the more the present focus tended to be on Expanding Sales and Market Share and Strengthening Human Resources. Looking to the future however, larger companies tended to choose to Increasing Profitability as their major issue.



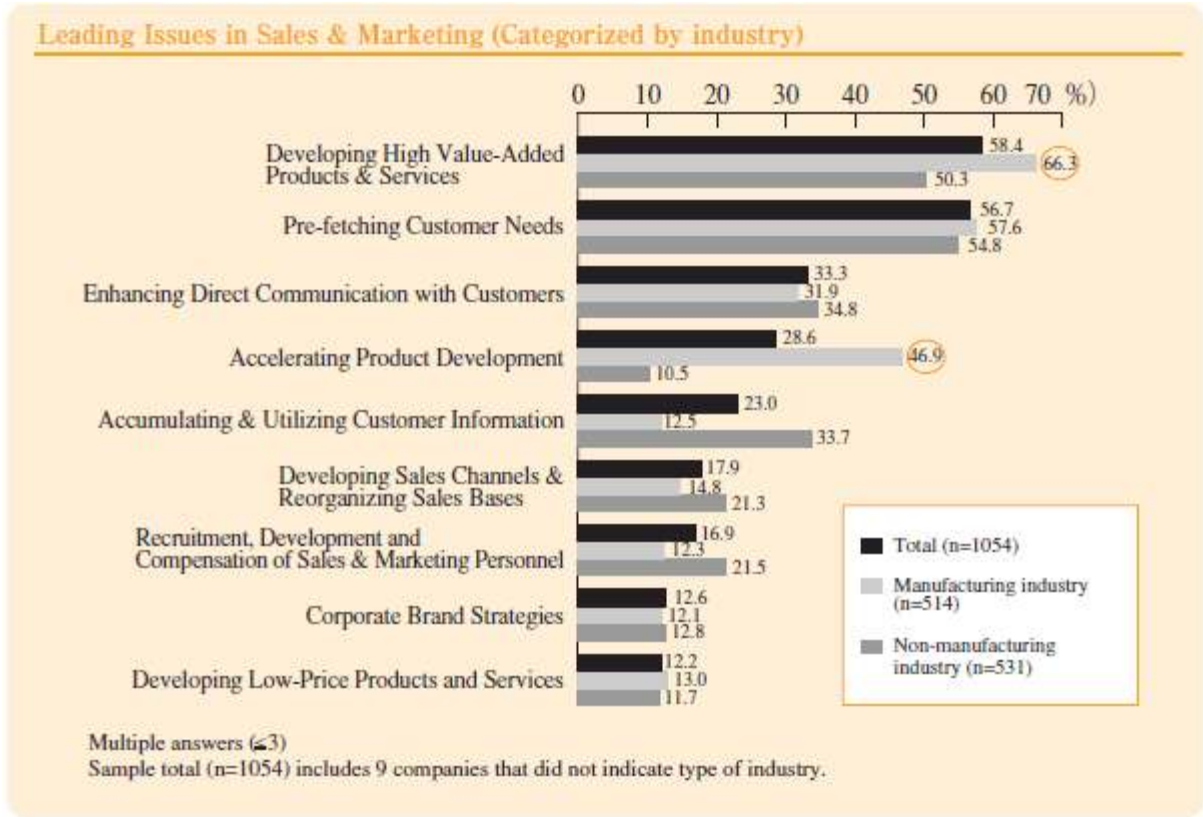
2-1 Human Resource Development Issues

Reviewing and Ingraining Compensation & Evaluation Systems and, Improving Executive Management Skills came as the first and the second in total. By industry, manufacturers gave emphasis to Finding and Training Next- Generation Corporate Managers, whereas nonmanufacturers weighted Compensation & Evaluation Systems more heavily. Smaller companies also placed greater emphasis on Evaluation & Promotion Systems and Improving Executive Management Skills, whereas larger companies were more keen on raising next-generation managers.



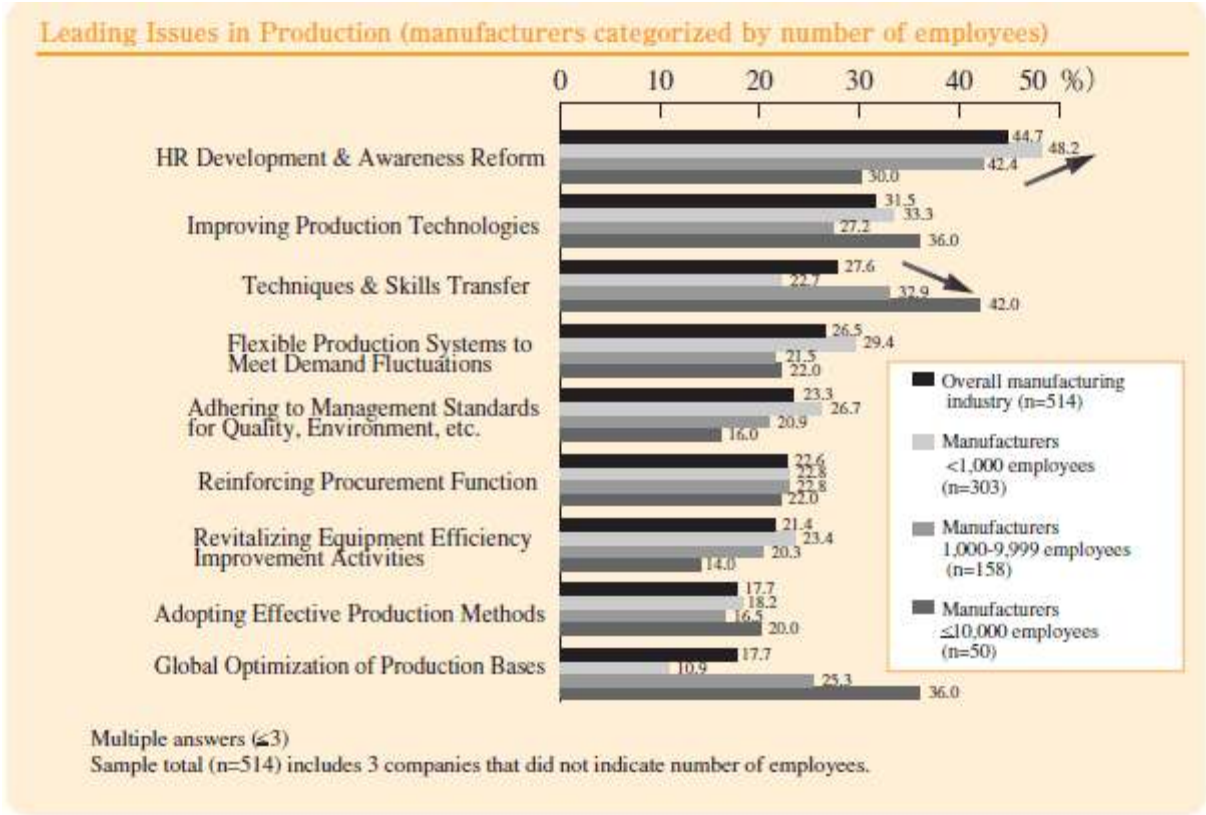
3-1 Sales and Marketing Issues

Overall, Developing High Value-Added Products/Services and Pre-fetching Customer Needs were highly ranked. Manufacturers in general gave emphasis on value-added products and Accelerating Product Development, whereas non-manufacturers gave more weight to Accumulation & Utilization of Customer Information.



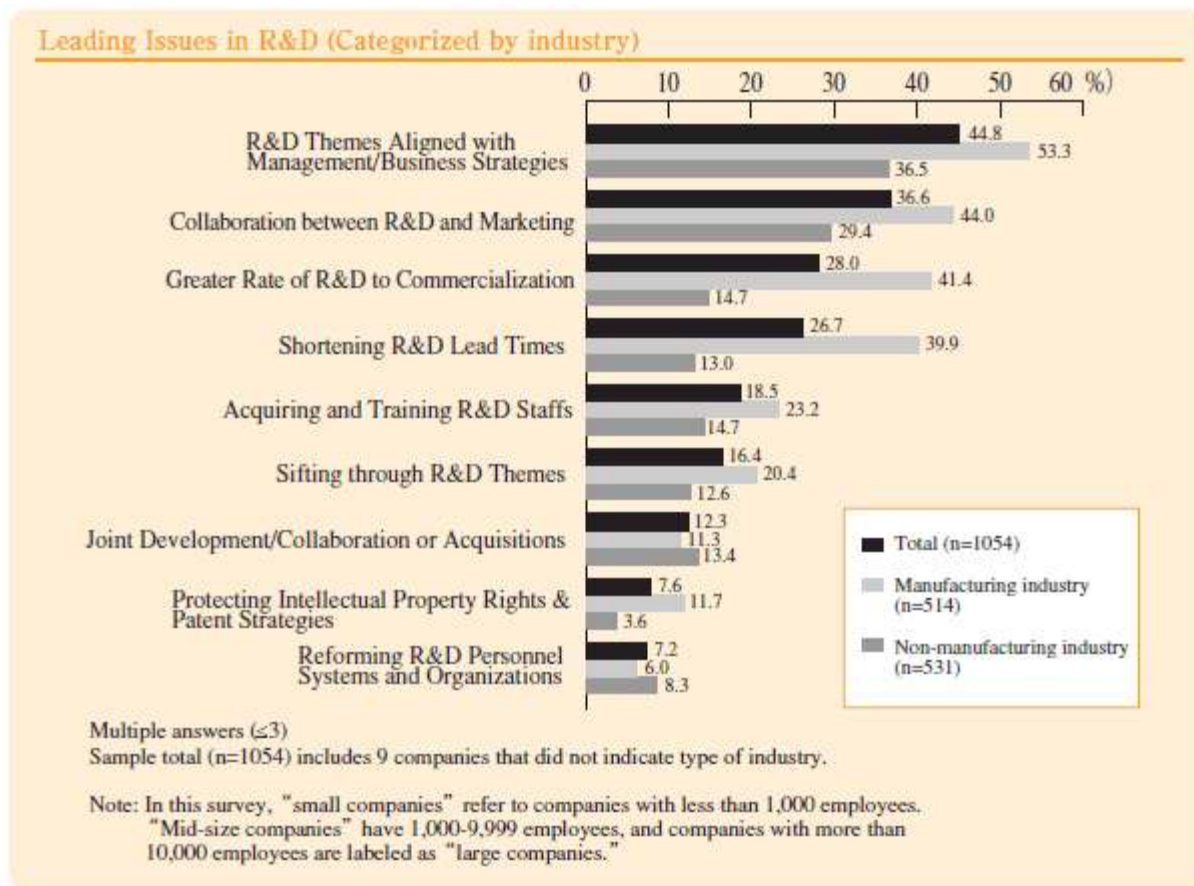
4-1 Issues in the Field of Production

The survey assumed that Quality Improvement would be the top issue in production. However, the survey revealed that at least, larger companies view Cost Reduction and Environment & Safety more important. Among other issues, HR development and employee awareness was given the greatest emphasis, and this held particularly true among smaller companies. Larger companies, on the other hand, regarded Technique & Skill Transfer as extremely important.



5-1 Issues in the Field of R&D

Overall, high rankings were given to alignment between R&D Themes and business strategies, and collaboration between R&D and Marketing. This was particularly clear in manufacturing industry. It was also noted that the larger the company, the more emphasis was given to policy & R&D alignment. Greater percentage of commercialization was another issue that labeled important by these larger companies.



Digest

Study Results from the First Term of the Japan CTO Forum Results announced during Japan CTO Forum 1st anniversary open symposium

JMA held an symposium to commemorate the first anniversary of the Japan CTO Forum at the Tokyo Prince Hotel (Shibakoen, Tokyo) on November 8, 2005. Various achievements that resulted from studies and exchanges conducted throughout the past year were shared at the event.

The Japan CTO Forum consists of 37 Chief Technology Officers (CTOs) from leading Japanese companies that responded to JMA's appeal. Inaugurated in October 2004, the Forum seeks to find solutions to common issues through sharing successful experiences, crossing over industrial boundaries. With approximately 80 attendees—members plus corporate managers, learned experts—the November symposium offered three hours of serious presentations and a forum for active inquiry. Some prominent political and administrative leaders including Koji Omi, a member of the House of Representatives, and Ayao Tsuge, a member of the Council for Science and Technology Policy, also paid summary visits. They both commended the Forum's achievements and expressed their faith in the role that

CTOs will play in promoting innovation in Japan. Year-end activity results of each three subcommittees will be compiled into reports that will be made available to the public at a future date.

Summary of the presentations given by each subcommittee leader during the symposium follows.

◆ Subcommittee No. 1

Ways to Promote R&D in China Chair: Toru Nishiyama, Vice President, Ajinomoto Co., Inc.

- R&D investments in China are clearly trending up. Judgments should balance prudence with boldness in such situation.
- Chinese-led management is advantageous to develop business successfully in China, thus strategic development of talented Chinese executives will be essential. This will require a long-term outlook and effort.

◆ Subcommittee No. 2

intellectual property strategy & management issue surrounding CTO how to handle problematic areas

Chair: Masaaki Terada, Managing Director, Olympus Corporation

The Second Subcommittee identified common issues in the intellectual property field and explored them in detail, placing particular emphasis on 1) Defense measures against some unprincipled patent management companies and 2) Effective countermeasures against patent infringements in China. Joint defense against such patent management companies will obviously be needed, for in many cases a whole industry is being attacked, one company after other. However, various problems are likely to occur in its execution phase. Production of knock-offs in China is another problem at the moment, however, Japanese companies must also firmly recognize the importance of China as a market.

◆ Subcommittee No. 3

Exploring Possibilities of modern Project Management (PM) in R&D

Chair: Akira Tominaga, Senior Managing Director, IBM Japan

This subcommittee members compiled actual cases from their own companies and analyzed the factors that led to the success (or failure) of each project. In addition, characteristics of each R&D project were shown in radar charts and the projects were then classified into such categories as research type, development type, and operational type. Following this exercise, the factors that led to success or failure were resampled.

The Japan CTO Forum will run its second term from February 2006 to March 2007 and Companies interested in participating are now being sought.

*Providing Solutions to the Corporate Challenge of
Passing Down Techniques and Skills
60 attend JMA Topical Management Conference in Sendai*

JMA Topical Management Conference was held on October 12, 2005 in Sendai, inviting the JMA member companies in the Tohoku region. This was the second to be held in Sendai in 2005, the first being in July. This conference is a part of membership services and deals with topical economic trends and management issues. It is being held each year at various locations around the nation. Earlier conference venues in 2005 included Tokyo, Hiroshima, Fukuoka, Osaka, and Nagoya. Topics have ranged from developing professionalism and leadership to meeting management strategies, and were attended by a good number of member companies.

Entitled “Solutions to the Challenge of Passing Down Techniques and Skills,” the Sendai Forum featured Shigehiro Nakamura, JMA fulltime lecturer, as the main speaker. He was welcomed by 60 participants.

Transfer of techniques and skills, now known as the Year 2007 Issue, is well recognized as an urgent management issue particularly for manufacturing industry. Year 2007 refers to the beginning of mass retirement of postwar baby boomers. However, no effective solutions are implemented to it yet. Thus, the Sendai forum was a timely event that clarified how companies should address the issue with a menu of specific approaches.

What are the key techniques and skills that must be maintained in perpetuity and how should they be passed on? There exist some technical abilities that is said to defy easy transferal and how can they be passed on to successive generations?

Eliminating abstract concepts and “should/must” arguments, the lecture offered explanations based on specific real-life examples such as cutting and processing skills, and was well received by the audience.

When one considers a successful handing down of techniques and skills, selection of qualified individuals with appropriate aptitudes becomes crucial. The conference delved into methodologies of personnel selection, evaluation of skill recipients, coaching techniques, and other related issues in human side.

Nakamura stressed that “in promoting manufacturing strategies, companies must not approach the issue from the singular ‘skill transfer’ point of view. Rather they should integrate the issue with their overall human resource development program.” It became evident that HR development and technical skill transfers are inseparable.

For details about JMA Topical Management Conferences, please contact JMA Membership Organization Division at 03-3434-1820.

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