

TOP MANAGEMENT FORUM

Asian Dynamism
and Global Management



ASIAN PRODUCTIVITY ORGANIZATION

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Asian Dynamism and Global Management

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ASIAN PRODUCTIVITY ORGANIZATION
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Report of the APO Top Management Forum on Asian Dynamism and Global Management

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FOREWORD

The economic growth in the Asia-Pacific has garnered the attention of the global community. Despite the worldwide economic slowdown, Asia-Pacific nations continue to chart sustainable growth brought about by strong domestic demand and interregional trade.

Subsequently, global leaders are experiencing a change in mindset. The scope of business for global enterprises will expand not only in major advanced economies but also in developing economies in the Asia-Pacific. To take advantage of the opportunities and benefits offered by the diverse cultures in the region, it is necessary for top managers to rethink their global strategies from various viewpoints including corporate philosophy, technology development, operational management, human resources, marketing, finance, and stakeholders.

The APO Top Management Forum on Asian Dynamism and Global Management was held in Kyoto, Japan, from 14 to 16 February 2011. The forum examined the management strategies and competencies of global leaders in the current economic climate in the Asia-Pacific. Eight speakers from government, academia, and global corporations shared their experiences, research results, and achievements with 39 participants from 18 APO member economies and Japan. Speakers represented global enterprises, including Mitsui O.S.K. Lines, the No. 1 Japanese shipping company; Tokyo Electron and Nambu Company, both major manufacturers; and Ootoya Company, a restaurant chain.

The forum also provided valuable opportunities for participants, experts, and speakers to share new knowledge and perspectives on diverse topics ranging from regional to global economies, micro- to macro-level policies, the manufacturing to service sector, and mid-sized to large enterprises. This publication is a summary of presentations given at the Top Management Forum on Asian Dynamism and Global Management. It is my sincere hope that readers will gain valuable insights that can contribute to the further successful activities of their own organizations.

Finally, I would like to express my appreciation to the Japanese government for its financial support for the forum, and to the Japan Productivity Center and Kansai Productivity Center for co-organizing this event. My sincere gratitude also goes to the distinguished speakers and participants for making the event meaningful.

Ryuichiro Yamazaki
Secretary-General

Tokyo
November 2011

I

Summary of Presentations

Asian Diversity and Dynamism of Innovation Management

Yoshiya Teramoto, PhD

Professor

Institute of Management Studies, Waseda Business School

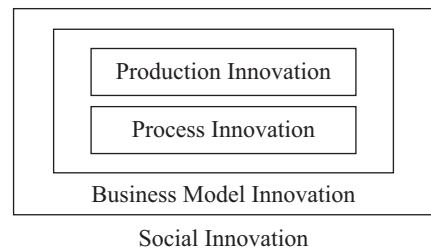
Graduate School of Commerce, Waseda University

After the 2008 global financial crisis, the global economic map has changed. We now have a growing region and a maturing region. Most Asian regions belong to the former, realizing relatively higher rates of economic growth while their advanced counterparts are experiencing a slowdown, according to an IMF outlook.

The E7, or the major emerging countries, comprise the BRICs and Indonesia, Mexico, and Turkey. Driven by PR China, which is set to become the world's largest economy, the combined GDP of the E7 is expected to be around 30% higher than that of the G7. This shift has already begun. The GDP of Russia and East Asian countries surpassed the Euro zone GDP in 2010. Since the late 19th century, Asia's emerging countries have grown rapidly and we are now in the age of Asia. There are currently around four billion people at the bottom of the pyramid, which includes parts of Asia and Africa. Asia comprises two-thirds of this world volume zone and can be considered to be the growth engine of the economy.

For long-term economic growth, the major factors needed are an increase in investment or accumulated capital; an increase in the working population; and increased productivity. These factors need to be combined with innovation. A standard definition of innovation is the introduction of new goods, new production methods, new markets, new sources of supplies, and the organization of an industry. As Peter Drucker said, innovation is the change that creates new dimensions of performance. There are now four areas of innovation: product, process, business model, and social innovation. We need more innovation in every part of Asia. Innovation is a key factor for the future growth of our region.

Four areas of innovation in 21st Century



To look at an example in the automobile industry, standardized cars have been manufactured through the process innovation of factory assembly lines. Now, after almost a century, there are new product innovations within the process innovation. The Nano car, manufactured by India's Tata Motors, sells for USD2,000 and is among the lowest-priced cars available today. It has one side mirror, one windshield wiper, and no air-conditioning. This is still very much a product innovation of our time, because there is no need for a side mirror or a second windshield wiper in India due to the transportation infrastructure and weather. With limited specifications and options except for the body color, the cars can easily be sold through the Internet. This is part of the manufacturer's business model innovation.

Another example is process innovation by Japanese companies such as Canon or Toyota. They are currently introducing a so-called cellular manufacturing system, a new process innovation

mechanism for organizational learning. In conventional manufacturing systems, line productivity is limited to the lowest levels. Even if workers want to improve their individual productivity in the assembly line, their tasks are limited. There is little motivation, and it is hard to learn from one another. The cellular manufacturing system enables one person to assemble an entire part of a product, making it easy to improve individual productivity while also encouraging organizational learning. In this way, production in the 21st century is not constrained to the production of goods or services. It has become a process of value creation, which is the provision of customer value. There are three parts to value creation: hardware, software, and service or serviceware, or humanware. These three kinds of ware are fused or combined for value creation.

A very good example of another type of value creation is at Singapore Airlines. The airline has received many international awards, and it is clear that its value creation is made of three wares: hardware such as the latest aircraft, for example the Airbus 308; a very wide range of network services all over the world; and very good in-flight service. Singapore Airlines has combined hardware, software, and serviceware in its value creation. This is innovation.

Japan's Komatsu Corporation, the world's second-largest manufacturer of construction equipment and mining vehicles, has an innovative contracting system. With a satellite-linked network, Komatsu can get information at its Shanghai monitoring center on each fleet that is provided to a customer, which is an innovation for customer value. In the case of PR China, Komatsu's machinery is owned mostly by small businesses, and it is sometimes difficult to collect payments from them. From the Shanghai center, Komatsu can closely monitor whether each individual piece of machinery is working properly, in which case the customer can pay its fees. If fees are not paid regularly, Komatsu has the option to shut down the machinery, so the customer must pay.

Social innovation is innovation for resolving social problems and issues. One famous example is Grameen Bank in Bangladesh. Grameen Bank has good partnerships with companies such as UNIQLO, the largest clothing retailer in Japan.

Asia has a vast variety of cultures, languages, and thought and behavior patterns. This diversity serves as an engine for innovation or dynamism. Most innovations are new combinations of existing materials, values, and other elements, which our diversity can rapidly enhance. However, diversity is not always good for innovation and it must be managed properly.

There is an old Japanese tale of Momotaro, or Peach Boy. Once upon a time, an old man and his wife lived in a village. The woman went to the river to wash their clothes and found a big peach floating toward her. She brought it home, her husband split it open, and they found a boy inside. Peach Boy grew up strong and kind and learned one day about ogres living on Ogre Island who had been stealing from the villagers. Setting out for the island to attack the ogres, Peach Boy met a dog, a monkey, and a pheasant along the way. The animals asked Peach Boy for his dumplings, and in turn agreed to accompany him. They collaborated, defeated the ogres, and returned to the village with the stolen treasures and lived happily ever after.

Take a look at the lessons from that story. The team's talents were diverse. The pheasant was gifted in gathering and analyzing information, or intelligence; the wise monkey handled the planning; and the dog took charge of the action. As a clever leader, Peach Boy managed the PDCA cycle of planning, doing, checking, and action, organizing and coordinating these talents with inexpensive rewards of dumplings, which shows us another lesson from the story: diversity for innovation management. They shared the mission, vision, and goals, which is critical for diversity and innovation management. As a leader, Peach Boy interpreted the different values of his team from one context to

another, which is called contextual switching or contextual transfer and important in diversity management. The three “T’s” in innovation are technology, talent, and tolerance. The team members must have tolerance for one another, meaning having patience and accepting, coordinating, and managing diversity.

In the short term, diversity means achieving dynamic communication between talents, which brings synergy. But if the membership is limited, diversity will be decreased in the long term due to the expansion of shared knowledge, which results in homogeneity. To solve this dilemma, it is important to exchange knowledge and enhance the mobility of talents within an organization or a city, country, or region.

For Peach Boy, diversity led to innovation that created growth, and growth increased the maintained diversity. The conclusion is that the inherent sources of innovation are diversity and dynamism, and well-managed diversity can lead to innovation. Likewise, Asia is a region that seizes opportunity in every kind of difficulty, rather than difficulties in every opportunity.

Q&A

Question: What do you mean by social innovation?

Prof. Teramoto: The concept of social innovation has to do with solving issues and problems. It also means new innovations in the social process, such as open innovation.

Question: Diversity can lead to various conflicts in social, cultural, political, religious, and other spheres. How can these be translated into innovation?

Prof. Teramoto: Diversity does not always bring innovation. It must be managed properly with common or shared missions, good contextual switching, and tolerance. These are the factors to combine under proper diversity management.

Question: How do you make transformations when there are a lot of synergies but we want to decrease diversity by managing homogeneity?

Prof. Teramoto: One answer is to maintain the diversity itself in the long term. Synergy is not a natural product of diversity. Synergy must have a common purpose or shared goal.

Japan's EPAs/FTAs and Regional Economic Integration Policy

Kazutoshi Shimura

*Deputy Director, Economic Partnership Division, Trade Policy Bureau
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Japan has been attempting to deepen its economic relations with its Asian counterparts. In comparison with the progress of its Economic Partnership Agreements (EPAs), its Free Trade Agreements (FTAs) lag behind those of other countries. The government believes that there is a need to promote its FTAs proactively.

In Japan's aging society and with its decreasing number of children, it is necessary to increase opportunities for stable growth. It is important to draw energy from Asia, the growth engine of the world economy. Prior to the APEC Yokohama conference in 2010, Japan set a Basic Policy on Comprehensive Economic Partnerships. Due to a lack of natural resources, trade occupies an important position for Japanese economy. The history of its trade policy can be divided into three parts. The first was when exports were the driving force. The second was the high-growth era pushed by domestic demand. The third is the current era of globalization.

During the export-driven era after World War II, Japan rapidly recovered its competitiveness in exports, particularly to the USA, which resulted in a trade imbalance. A series of trade frictions ensued, over textiles in the 1960s, steel and TVs in the 1970s, and autos and semiconductors in the 1980s, which Japan dealt with through bilateral negotiations. The USA made many demands, and Japan tried hard to respond. Although it voluntarily restricted its exports, the trade deficit did not ease. Through the Plaza Accord in 1985, there was a rectification of the dollar and stronger yen, but the deficit still did not diminish. Japan was prompted to implement structural reforms through the Structural Impediments Initiative dialogue (SII), meaning deregulation, so that US businesses could more easily enter its market. Since the 1980s, trade policy has been based on both bilateral dialogue and multilateral negotiations that are in accordance with the WTO and GATT.

In 1997, Asia suffered from the financial crisis. The Republic of Korea (ROK), which came under the control of the IMF, suggested a FTA in 1998, and an international investment agreement (IIA) took effect in 2003. This was the first time for Japan to focus on a bilateral trade agreement. Around 2002 when Japan announced EPA negotiations with Singapore, its policy focus shifted from the multilateral forum to FTAs and EPAs. Today, Japan is aggressive in concluding these and IIAs in parallel with the multilateral WTO Doha Development Agenda. The WTO, as well as EPAs and FTAs, are its two pillar policies for trade and investment. It has been vital for Japan to drive exports and demand for business operations abroad. The three major areas now covered are the liberalization of trade and investment, the facilitation of trade and investment, and cooperation.

Japan's EPA with Singapore reflects its trade policies and has become a template for the transfer of goods and services as well as people. It also covers the facilitation and improvement of business activities and how bilateral cooperation should be promoted. The content of these agreements can vary in accordance with the partner. With the Philippines and Indonesia, nurses and care workers can come to Japan to work, and training courses in the Japanese language are provided to them.

Besides its FTA with Singapore, Japan also has effective EPAs with 10 ASEAN countries. Negotiations have been concluded with India and Peru, and talks are underway with Australia, GCC, and ROK. In ASEAN Plus One, there are FTAs or EPAs as part of the plus one framework for Japan, the ROK, PR China, India, Australia, and New Zealand. Bilateral talks are ongoing among non-ASEAN regions, and EPAs are increasing. Although there are also others under negotiation such as the EAEA FTA, Japan has not concluded an EPA/FTA with the USA or New Zealand.

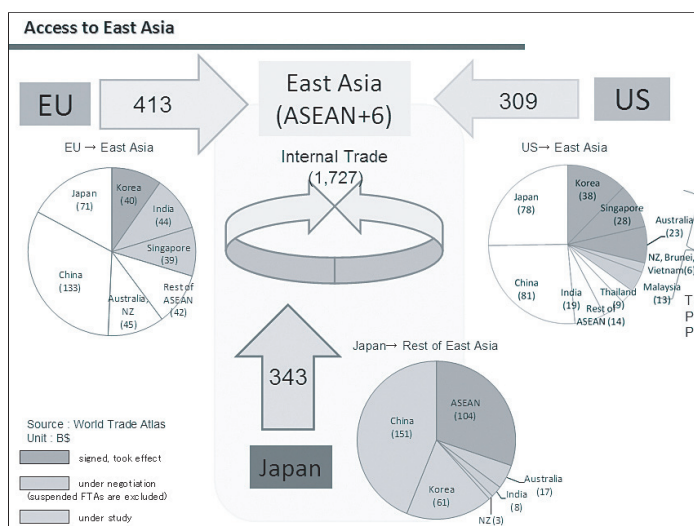
There are also active ongoing negotiations on the Trans-Pacific Partnership (TPP) agreement. The Japanese prime minister has said that a decision will be made on the country's participation by June 2011. There are three reasons why Japan is interested in the TPP. First, the framework could become the core of the Asia-Pacific region. Second, the TPP will have an expanded membership. Third, the target of the TPP will be a total abolition of tariffs.

The ROK and Singapore have already concluded FTAs with the EU and USA and are enjoying the benefits. Japan has not yet begun negotiations on FTAs with these second- and third-largest trading partners. A quarter of Japan's exports go to the TPP negotiating countries, and two-thirds go to the APEC economy, making economic partnerships in the Asia-Pacific crucial. For the EU, high-level group negotiations are currently underway. With the issue of nontariff barriers and challenging negotiations, the next steps will be discussed in an upcoming EU-Japan summit meeting in April.

In comparison with Singapore and the ROK, Japan lags in concluding FTAs. It is still in the stage of studying EPAs with its top three trading partners, PR China, the USA, and the EU. It needs to make a decision on its participation in the TPP by the end of June and is actively gathering information while attempting to strengthen the agriculture sector, which will be impacted. In the November 2010 APEC meeting, the Yokohama Vision Declaration stated that by 2020, APEC as a whole would conclude a FTA of the Asia-Pacific Region agreement.

In 2010, the Japanese Cabinet adopted a decision that the country should serve as a "bridge nation" of Asia. To date, it has examined various related issues, such as pollution and environmental concerns, urbanization, decreasing numbers of children, and aging society, which can be stumbling blocks for the economic growth of Asia. Japan has been the first country to experience and deal with these negative issues, and it seeks to share how it has coped with and overcome those problems, hoping to contribute to the sustainable growth of the region.

That is the concept behind the term "bridge nation." Economic partnership could be one means for Japan to become a "bridge nation" and through this role it hopes to contribute to the development of Asia.



Q&A

Question: How is the Japanese economy structured and what changes are taking place?

Mr. Shimura: A major concern for Japan includes urbanization and service orientation, but our biggest issue is the aging of society and fewer numbers of children. The pension system is creating a burden on the government and its financial structure. Because Japanese society is aging and shrinking, we need to bring in energy from abroad. We are inviting professionals from outside Japan to enable it to become a factory or research basis for different markets.

Question: What are the obstacles that Japan faces on bilateral FTAs/EPAs between dialogue partners?

Mr. Shimura: Japan has already concluded negotiations with India, but negotiations are quite difficult. The biggest obstacle is that Japan has traditionally focused on multilateral forums like the OECD, and multilateral efforts have been promoted by reducing tariffs, which are already very low in comparison with other countries. The biggest benefit is the reduction of tariffs with the ROK, EU, and USA. The remaining sector is Japan's agriculture.

Question: What are the reforms that the Japanese government has recently taken to protect the expansion of business abroad?

Mr. Shimura: The most recent reform is corporate tax. Prime Minister Naoto Kan announced that corporate tax would be reduced by 5%. The biggest issue for companies is how to expand our FTAs, and the toughest area for this is agriculture. If this sector can become stronger and we are on a level playing field with agriculture-oriented countries, we can lower our tariffs and attract more negotiating partners. This is the way to facilitate FTAs and EPAs and to help the manufacturing industry indirectly in overseas exports.

Question: Do you have any policy where you first consolidate your position in the Asia-Pacific region then move toward other countries?

Mr. Shimura: We already have investment agreements with Pakistan and Bangladesh. Under this agreement, companies in Japan or Japanese companies in these countries can sue the local government if their land is confiscated or if the business environment changes dramatically. With Mongolia and the ROK, the first step is to sign an investment agreement, and then Japanese companies can begin to invest locally. As the legal infrastructure is prepared by the IIA, negotiations can begin earlier. The EPA includes many different sectors, and it is difficult to harmonize the various interests, so in some cases the first step is to have an IIA. The next step is to decide whether or not to have an EPA. There are many conditions that must be clarified, and that is why we have a study period. Otherwise, the political leadership may decide to conclude an EPA. Then we can get EPAs sooner. Manpower is also an issue, as the human resources involved in the negotiations are limited.

Policy for Promoting Economic Partnership

In-Sang Hwang

*Director of FTA Policy and Planning Division
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Republic of Korea*

We are living in an era of the proliferation of FTAs. As of January 2011, 287 provisional agreements had been reported to GATT and the WTO. After the conclusion of the Uruguay Round in 1994, bilateral and regional preferential trade agreements have increased rapidly in number.

FTA-based trade now accounts for more than 50% of the world's total trade. Canada has nine FTAs, Japan 11, PR China nine, and the USA 14. In considering the significance of this kind of global expansion of FTAs, three points can be raised. The first is the success of regional economic integration. The formation of the European Economic Community (EEC) in 1957 and its development into the EU was a landmark in the history of the region. Starting from six countries, the EEC doubled its membership before it became a single market in the mid-1980s. The Americas have responded by forming an economic bloc. The NAFTA negotiations were completed in 1993, together with the Uruguay Round. These types of integration have prompted similar initiatives in Latin America and East Asia, Mercosur, and the ASEAN Free Trade Area.

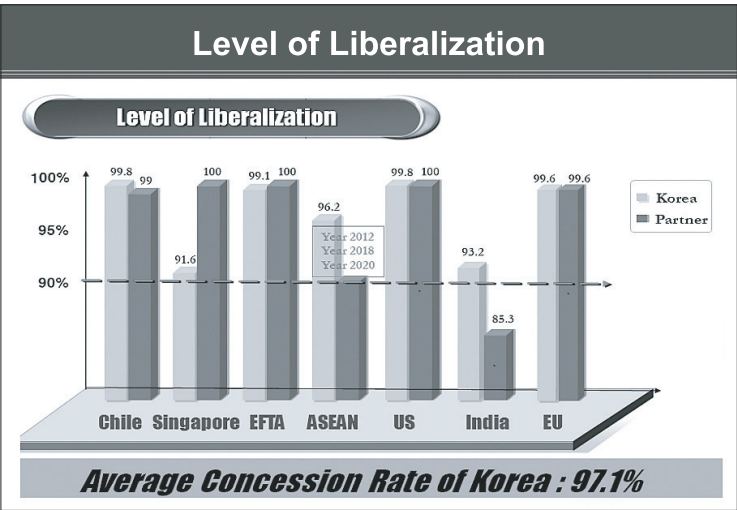
The second point is the uncertainty of the Doha Development Round and the difficulties in advancing trade liberalization at the multilateral level. Another reason for the rise in preferential agreements is that they are effective. The slow progress on the multilateral front encourages countries to accelerate their regional and bilateral free trade negotiations in an effort to seek alternatives.

The third point is pressure from local businesses. Due to a growing number of FTAs, businesses fear being shut out of the export market. That type of pressure has driven governments to embrace bilateral relations with countries far from their borders.

The Republic of Korea (ROK) could not ignore this global trend. Its first FTA negotiations with Chile began in 1998 and became effective in 2004. In pursuit of multitrade FTAs, the ROK adopted the FTA roadmap in 2003. The key objective is in increasing global market access and providing its exporters with a competitive edge. However, the most important goal is to enhance economic efficiency by strengthening the transparency and predictability of the regulatory system, since trade and investment liberalization can bring significant competition and a more transparent business environment that can be used for domestic reform. Furthermore, the legal and institutional framework of FTAs promotes favorable business environments and increases business opportunities, which can contribute to better welfare through increased purchasing choices for consumers. To respond to the progress of regionalization, the ROK has been pursuing an ambitious FTA policy to establish a global network.

Since the successful conclusion of the ROK-Chile FTA, four other FTAs have taken effect, with Singapore, EFTA, ASEAN, and India. However, the ROK's current trade volume with FTA partners accounts for only 14.6% of its total trade. This rate is 15.9% in Japan, and nearly 90% in Chile. The ROK's goal is to reach more than 80%. To maximize the benefits from the agreements, the ROK has been pursuing comprehensive FTAs that cover services, investment, and discipline issues,

as well as the elimination of duties on trade in goods. Comprehensive FTAs can further advance liberalization, which will eventually support the multilateral trading system.



In ROK FTAs, the levels of liberalization have reached an average of 97.1%. In FTAs with the USA and EU, nearly 99% of the concession rate has been achieved. The ROK-Chile FTA has pushed exports to levels of around 60%. The ROK’s average annual growth in trade with its partners after the conclusion of FTAs has reached 37.5%. The ROK currently has five FTAs in effect and signed or initialed three more. FTAs have been concluded or initiated with the USA, EU, and Peru. Among the industrialized

countries, the ROK may be alone in its conclusion of an FTA with the USA and the EU. There are also seven other FTAs under negotiation with Turkey, Australia, New Zealand, Colombia, GCC, Canada, and Mexico. Others are under joint study or in the preliminary stage with PR China, Japan, Mercosur, Israel, Vietnam, and Central America. The ROK also began joint studies last October with Costa Rica, Guatemala, the Dominican Republic, Panama, Honduras, and El Salvador. As the ROK only has five FTAs currently in effect, its preferential trade rate is 14.6%. This will rise to 35.2% when the FTAs with the USA, EU, and Peru are concluded, and 50% if the seven FTAs under negotiation also enter into force. The ROK’s target is 84%.

There are many approaches to economic integration in the Asia-Pacific region. In addition to ASEAN Plus Three, there is New Zealand, Australia, and India, and TPP negotiations are being held involving nine of these members. Having already concluded or in the process of negotiating FTAs with some of these countries, the ROK is poised to focus on bilateral FTAs, although it will support the regional integration effort.

There is a saying that to conclude an FTA is one thing but to utilize it is another. The ROK-Chile FTA shows a high utilization rate, while the ROK-ASEAN utilization rate is very low. This may be due to the lack of recognition of FTAs among ASEAN importers, especially SMEs. In 2010, the ROK’s Ministry of Strategy and Finance devised a new policy to support businesses in using FTAs more efficiently. To develop the growth engine, the strategy is to lay the foundation for FTA utilization by 2011 and to heighten its level by 2013. For capacity building, consulting services could be provided to foster FTA experts, offer country-of-origin programs, and reinforce the implementation of FTAs. The ROK also plans to develop cooperative relations between customs authorities of its FTA counterparts, as well as establish a local FTA utilization support center within its government organization.

It is necessary to have principles that can be embraced for future FTAs, and legal frameworks are needed for trade and economic growth. FTAs are a comprehensive process to construct a legal and institutional framework between partners to enhance overall bilateral relations. The conclusion of an FTA proves a commitment to pursue free trade as a way to boost exports and job opportunities,

which are crucial for economic growth. FTAs should compliment the multilateral trading system. It is important to move away from having a multilateral trading system on one hand and bilateral FTAs on the other. Comprehensive FTAs can advance liberalization, which will support the multilateral trading system, referred to as WTO-plus, which the ROK is pursuing. This will set benchmarks for agreements on market liberalization.

Q&A

Question: Do you mean that FTAs should complement the multilateral trading system?

Mr. Hwang: The ROK started its FTA policy only in 2003, when we still sought business opportunities within the framework of multilateralism. FTA policy and WTO multilateralism are complementary with each other, especially in the sense that if we conclude the WTO-plus element, for example, on competition and intellectual properties and investment, it is an upgraded level of elements. This kind of WTO process element could boost an international trend to upgrade our global regimes.

Question: The countries that are signing FTAs seem to be developed countries. Are the small countries being left out?

Mr. Hwang: We have considered that, on one hand, we need to increase the ROK's business opportunities abroad, and on the other hand, we also need to contribute to multilateralism. We will have FTAs with countries worldwide and these could be merged into one, as multilateralism. The ROK does not have FTAs with smaller countries because of our resource constraints. We focus on the major economies, and maybe we can gain more FTA partners later. Multilateralism is the ideal, but in reality, we need to create more opportunities for ROK companies, so we move ahead with our FTAs, while at the same time keeping in mind that these policies could go hand in hand with the WTO and multilateralism.

Global Management of Tokyo Electron

Tetsuro Higashi
Chairman
Tokyo Electron Limited

Of the world GDP of USD61.963 trillion, electronic applications account for 2.2%, or USD1.374 trillion. Tokyo Electron Ltd. (TEL) manufactures semiconductor and flat-panel display (FPD) production equipment and photovoltaic equipment, which comprise almost 30% of all electronic applications. If transportation, aerospace, the medical field, and education are included, they probably comprise 15 to 20% of global GDP. TEL is in an important position in supporting all of these industries.

Established in November, 1963, TEL has 10,204 group employees. Consolidated sales ending in March 2011 were about JPY675 billion, and as the world number two TEL aims to become number one. Since its beginning, TEL has overcome sharp market fluctuations by creating markets with technical innovations and changing its business models to match changing customer needs. For the first 20 years, TEL imported and distributed US products in Japan. It shifted to manufacturing, beginning with a joint venture with a US company and then becoming independent. Globalization began after 1994. Until then, 70% of sales were in Japan and 30% overseas, which reversed in 1997. Globalization and innovation are the important key words.

Globalization previously meant expanding to the USA and Europe. Now, there has been a shift to Asia. The semiconductor market has grown to become a USD300 billion, with an average growth rate of 12.2% between 1987 and 2007. The reason for TEL's continued growth is that there are three new waves expanding the semiconductor market. The first is expansion in applications. Driven by mainframes in the beginning, the semiconductor market moved to engineering workstations and PCs, then to portable phones, and now ubiquitous and global wireless, and regional networks. New applications have been added in every phase.

The second wave is the increasing content ratio of semiconductors driving new products and new lifestyles. There are portable phones, smartphones, and iPads; together with data centers; digital cameras have replaced film cameras. Hybrid cars have been developed, and electronic cars will soon follow. All of these include many semiconductors, and the market will continue to be huge.

Paradigm shifts were created due to technical innovation. In an era of sharing, information is shared through every tool, which illustrates another technical innovation of extreme miniaturization. In the 1970s, a semiconductor pattern was 10 micromillimeters in size. In 1990, it was reduced to 350 nanometers, the size of the influenza virus. Now it is the size of a DNA molecule. Made possible by technology innovation, miniaturization is beginning to reach its limit. TEL is working to find new materials and new structures and is considering three-dimensional devices using MEME technology as well as combining biotechnology with semiconductor technology. There are many opportunities for future innovation.

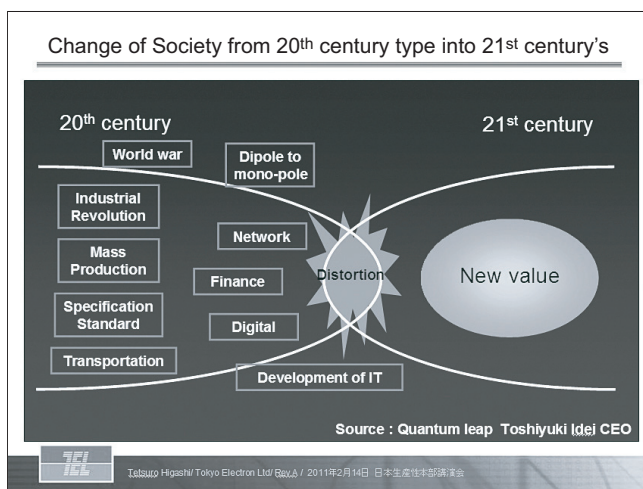
The third wave is geographic expansion. Semiconductors were first developed in North America, Western Europe, and East Asia. Their production expanded to the BRICs and Eastern Europe, and the market continues to grow. Asia has now become the number one market. The industry will grow

through applications, content ratios, and geography. Technology is changing, as are its applications. TEL is also changing. Among the top 10 semiconductor production suppliers listed in 1985, only three retained their positions in 2009: TEL, Teradyne, and Applied Materials. To survive in the market, management must not be misled. Since product miniaturization reaches a limit in 10 or 15 years, a company's priority is innovation.

For global management, it is important to explain company policies to employees worldwide. The following points are at the core of TEL:

- Complete customer orientation in every aspect of business. TEL listens to the customers and understands their needs thoroughly for customer satisfaction.
- Supply top technology, products, and services and provide technological leadership on a global level.
- Strengthen TEL's corporate entrepreneurship with young energy, meaning creativity based on individual thinking, a spirit of tackling challenges, flexibility, the ability to respond quickly to changing situations, and a passion to succeed. Profit orientation must always be kept in mind. If providing technology creates profits for customers, their satisfaction level will be high and they will pay for that value. Without customer satisfaction, profits will be low. If there is no profit, it is not possible to create technological leadership or to provide good service.
- TEL attempts new things in various fields, not what others have already done. There may be failures, but it is important to consider the reasons for failure and link them to success. It is important to listen to customers and employees and to act quickly.

TEL was first started by young people full of the venture spirit. That vitality has been passed down and is closely tied to its innovations. The business environment has changed tremendously in the 21st century, and the speed of innovation has steadily accelerated. TEL must continue to meet the challenges of innovation. In a project to identify its driving force, TEL created a five-point summary of its values and core competencies: pride, challenge, ownership, teamwork, and awareness. Pride means that we take pride in providing high-value products and services. Challenge signifies that we accept the challenge to become the world number one. Ownership will be maintained through thought processes and actions to achieve goals. Teamwork shows that we respect each other's individuality and prioritize teamwork. Finally, awareness reminds us of our responsibility as respectful members of society.



TEL has taken a central role in the infrastructure of the ICT industry to make the world more comfortable and safer. It has supported the union of information and communication, which has improved the quality of life dramatically due to vast gains in productivity. Semiconductor display

and software technologies have undergone technological innovations, and through their fusion with related areas such as nanotechnology, biotechnology, and MEMS, they have become a core technology in the areas of medicine, education, automotive, air transportation, space, energy, and environment. All of these are essential to the growth and development of humanity. However, with the expansion of the world population, the consumer economy has grown at an overwhelming rate. The increase in energy consumption threatens the sustainability of our environment due to the depletion of natural resources and the emission of gases causing global warming. TEL seeks to pursue green technology through innovations that lessen the burden on global resources and make growth sustainable.

There have been changes in society from mass production to financial and digital networks and IT development. New values and a new structure based on multipolarization are needed. TEL is aiming at a healthy balance of finance, ICT, energy, healthcare, bioscience, and food supply. Electronics and biotechnology have become very sophisticated, and Japan has developed advanced technological capabilities and experience in manufacturing technology and quality control. Its important mission is to drive technological innovation with the integration of electronics, biotechnology, and nanotechnology. Japan must construct a new business model with sustainability as its key concept.

Q&A

Question: Japanese goods are unaffordable. Could you give up on the profit orientation?

Mr. Higashi: What is important is that we need technology innovations to achieve lower costs.

Question: Do you drive innovation through R&D, or encourage your employees to be innovative?

Mr. Higashi: We usually spend about 10% of our total sales on R&D. We call for new ideas from our employees and pay R&D costs for good results. We also have a variety of alliances externally with IBM, IMIC, a science laboratory in Belgium, and universities in Japan, the Republic of China, and Republic of Korea.

Question: Do you measure your technology innovations in terms of achievement?

Mr. Higashi: Technology innovations take time, and we cannot measure their value over a short period. We first compare new technologies with existing ones and then thoroughly consider what is new and what would really satisfy our customers.

Question: How do you capture creative, innovative ideas?

Mr. Higashi: We need to depend on and have trust in our employees, otherwise they lose their motivation. If we count on them, they will educate themselves. Also, good relations with our customers and their top engineers are very important. We have strong R&D collaborations with universities such as the University of Tokyo and Tohoku University in Japan; in the USA, we have ties with MIT, Texas Instruments, and Stanford University. New findings do not come automatically. We have to knock on every door.

Global Strategy and Manufacturing of Nambu

Kazushi Nomura
President
Nambu Company Limited

Founded in 1955 and established in 1965, Nambu Company is engaged in the design, manufacturing, and sales of hydraulic cylinders for die-cast plastic molds and rotary cylinders for steel plants. Nambu seeks to contribute to society through its technology. It focuses its efforts on technology development and manufacturing the best-quality products in the world. The company holds 11 patents in Japan and four in the USA. It has been commended by the Ministry of Economy, Trade and Industry as well as Tokyo's Ota ward for its excellence as a factory, and has been approved as a model SME factory. As a 2005 Parts Manufacturing Contest Grand Prize winner, Nambu achieved huge sales when its patent for its super lock cylinders was adopted by Toyota Motor Corporation.

Nambu makes a variety of special cylinders for die-cast and plastic molds. Almost 50% are patented and use sensor cylinders. Its two main business fields are the core puller cylinders for die-cast and plastic molds and rotary joints for steel mill industries, and sensor cylinders. The core puller hydraulic cylinders comprise 70% of the company's gross sales, with a Japanese market share of 60%. Rotary joints and rotary cylinders for steel sheets in steel plants make up the remaining 30% of its sales. Although Nambu is a small company, its market share is big. It has a 70% share of the Asian market and supplies more than 90% of the needs of Posco, an iron industry enterprise in the Republic of Korea that uses its rotary cylinders and rotary joints, which are also used by US Steel.

In core puller cylinders, the core puller's motions are used in making the engine blocks of a car. It closes the mold, pushes the core, injects melted aluminum, cools it, pulls the core, opens the mold, and removes the product. Nambu rotary joints and rotary cylinders are used by steel plants throughout the world. Melted steel is removed from a furnace at about 1,400 degrees centigrade and then rolled. At about 400 degrees centigrade, the steel's thickness increases from one millimeter to three millimeters and rotates with the cylinder, moving at 1,200 revolutions per minute. It is then shrunk before pulling it out of the cylinder.

Nambu supplies the hydraulics for all the Japanese carmakers, i.e., Toyota, Honda, Nissan, Suzuki, Matsuda, Isuzu, and Yamaha, and provides 100% of the supplies for the steel industry, i.e., Nippon Steel, IHI, Sumitomo, Mitsubishi-Hitachi, JFE, and Kobelco. With its head office in Tokyo and factories in Hamamatsu, Nambu has an extensive sales network reaching all parts of the world. Five Star Hydraulics Inc. in Indiana is its sole agent and partner in the USA. Nambu Cyl Thailand is located in Amata Nakorn, Chonburi. At the head office and factory in Japan, background music plays in the factory and skilled female employees work on machinery processing. Traditional processing is handled by other staff, and the latest super precision machinery and 2D and 3D computer-aided design equipment are installed.

Nambu Cyl Thailand was established in 2002 to supply cylinder parts for standard cylinders to Japan. Hydraulic cylinders completed at the plant are now exported to nearby countries such as Indonesia, Malaysia, Vietnam, and India. Nambu Cyl Thailand manufactures rotary joints and rotary cylinders for core puller cylinders. Although at first only the standard parts of core puller

cylinders were made in Thailand, production is now completed locally for export to ASEAN, while standard cylinder parts are shipped to Japan and PR China. The technology level of Nambu Cyl is medium in comparison with that in Japan, but for core pull hydraulic cylinders, the technology level is the same. The only difference is that Japan employs staff in its drawing division as well as in development. There is no difference in quality, and production costs are 20 to 40% cheaper in Thailand.

The company places emphasis on the treatment of local staff. In every developing country, the headache for employers is job-hopping. There is almost no job-hopping at Nambu Cyl Thailand because the Japanese managing director is given the authority to maintain close communications between management and local staff. Unlike the US or European style, managers always eat with local staff in the factory dining rooms. Maintaining good communications helps in the selection and training of key local staff, and their treatment quickly improves with timely salary increases, depending on economic conditions. Nambu strives to create a comfortable factory environment, and air-conditioning is necessary even if local electricity costs are high. To motivate staff, they are given individual targets such as improvement in skills and technology that are on par with Japanese standards. Events such as monthly parties, outings, and soccer games with good customers are also held.

Nambu's Hamamatsu factory was established in 2006 for the assembly of its standard products. Although there are only 11 or 12 employees, the location was selected because it is the hometown of Honda, Suzuki, and Yamaha and is near Toyota. The factory is successful. Nambu Cyl Changzhou Co., Ltd. is located about halfway between Shanghai and Nanjing. Established in March 2010, it is headed by a man who came to Japan from PR China 15 years ago and became a naturalized Japanese citizen.

Visitors to Japan Nambu have come from France, Russia, Germany, the USA, Thailand, Georgia, Azerbaijan, and Armenia, as well as Cambodia, Lao PDR, Myanmar, and Vietnam, and numerous overseas VIPs have visited its factories. Taichi Sakaiya, Director-General of the Economic Planning Agency and writer and minister, as well as the mayor of Tokyo's Ota ward and Masayuki Naoshima, former minister of economy, trade and industry, visited the Nambu head office in 2010.

Nambu has appeared in various media. There was a 30-minute educational program on Japan's NHK television network on working women filmed at Nambu's machinery center. Another television program featured Nambu Cyl Thailand last summer. Those were both good advertisements of Nambu's success.

The Japanese 5S workplace organization methodology has become well known internationally. *Seiri* is for cost reduction. *Seiton* means raising efficiency. The purpose of *Seiso* (cleanliness) is quality improvement. *Seiketsu* maintains good conditions. *Shitsuke* is meant to improve individual morale and moral standards. In Japan, the 3Ks are also well known, which are equivalent to the 3Ds in English: *kitsui* equals difficult or hard work; *kitanai* means dirty; and *kiken* signifies dangerous. Hygiene and the promotion of 5S are important. All Nambu factories are air-conditioned, the floors are coated, and there is background music on cable broadcasting since music tapes are not safe and can become boring. If the workplace involves the 3Ds, then younger workers will not be retained over the long term.

Education for employees

- Study meeting is held every month
- Participating in external courses and seminars
- On the job training by skilled employees
- English conversation class by native English teacher once a week
- Participating in domestic and foreign exhibitions



Mechanical Components & Materials
Technology Expo (Tokyo)

NAMBU
Futuristic Technology



METALEX(Thailand)



NADCA (USA)

Nambu also holds birthday parties for its staff on the first Friday of each month as well as commendation days. Saturdays and Sundays are holidays, in addition to summer, New Year, and Golden Week vacations that are at least one week long. This year, there are 131 days of company holidays. For employee education, a study meeting is held every month, and participation is encouraged in external courses and seminars. On-the-job training is provided by skilled employees, and English conversation classes are given

once a week. Nambu also takes part in domestic and international exhibitions, such as one this year in Thailand as well as a die-cast meeting in North America.

Q&A

Question: What are the critical factors in your impressive success?

Mr. Nomura: In Japan, we have very high costs for labor and land. If we outsource, we are able to produce good-quality products, but it is difficult to do this at lower cost. That is why we decided to operate overseas. We trained and educated the local staff in Thailand and have had great success. Thailand is in a free trade area, so we can export our products to Indonesia, India, Malaysia, or Vietnam almost free of taxation or tariffs. In 2009, auto manufacturing in PR China turned out about 13.6 million units, and last year it was 17 million units. In 2011, Chinese auto output will surpass the USA at 20 million units. Japan is facing an aging population with fewer children, and there is no chance that the market will grow. Although there are hardships and difficulties in operating in PR China, we want to have an operation there. That is why we decided to open Nambu Cyl Chanzhou Company Limited. Thailand began as a parts supplier, but we decided to operate in PR China because of the market size.

Question: You mentioned a number of measures that you take for the welfare of your employees. What is the retention rate in your organization?

Mr. Nomura: There has been a global recession in the past few years. There were opportunities to lay people off in Japan, but it was impossible to imagine that anyone would want to leave. In early 2009, Thailand was also severely hit. Many businesses had extensive layoffs, but we never reduced our staff number, either there or in Japan. I believe that this is the basis of our relationship of trust. So the answer is that almost 100% of our staff stay with Nambu.

Question: Do you have a special strategy for your factories in Japan and Thailand?

Mr. Nomura: This is a result of necessity. We did not select the USA, PR China, Republic of China, and Republic of Korea as export destinations. The USA wanted to import goods from Japan, and so does PR China. They are willing to pay higher prices for high-quality products. The same tendencies are seen in the Republic of China and Republic of Korea, which are really booming. This is a result of supply and demand. For Indonesia, Malaysia, India, and Vietnam, the prices are 20 to 40% lower if they purchase products from Thailand. Nambu Cyl Thailand might be invading Nambu Japan: Toyota and Honda say that if possible, they would like to purchase cylinders from our Thai factories instead of our Japanese factories.

Question: What is your greatest difficulty when you invest in a new plant in an ASEAN member?

Mr. Nomura: I do not think that I have felt any difficulty. Any difficulty that I have faced would have been from the simultaneous global recession. The impact in PR China was not as big, but the impact was serious in Thailand, as bad as it was in Japan. In PR China today, Nambu faces many issues that can cause anxiety or fear, but these are not difficulties. If I had stayed in Japan with no overseas investments, I would have taken a greater risk.

MOL's Global Management

Akimitsu Ashida

*Representative Director & Chairman of the Board
Mitsui O.S.K. Lines, Limited*

After the 2009 financial crisis, there has been a slowdown in global economic growth. However, pushed by international trade, the world GDP was USD60 trillion in 2010. Of this, international trade comprised 30%, or USD18 trillion, up from 25% in 2000. This represents an annual growth of 0.5%, indicating that an increase in international trade is the basis for expansion in world GDP. Shipping is needed for trade.

On a weight basis, 99.7% of Japan's trade is transported by sea. To look at the global shares of the shipping of major commodities, 52% of globally produced crude oil, for example, is transported by sea. Out of 3.9 billion tons of annual oil production, seaborne trade accounts for 2.0 billion tons. Iron ore is another example of those commodities relying heavily on seaborne transportation, with 1.7 billion tons produced worldwide, and almost half that amount is transported by sea. Coal production is 6.9 billion tons, with about 12% transported by sea. Steel products total 1.2 billion tons, and 22% are transported by sea. Corn production is 798 million tons, with 9% seaborne; wheat production is 683 million tons, with 20% seaborne. Of the 72 million units of automobiles produced, 43% are transported by sea. These figures illustrate how the world economy is supported by ocean transportation.

The volume of seaborne traffic was miniscule after World War II but has continued to rise. There have been three occasions of a decline in traffic. One was in 1973, at the time of the oil crisis. The second was in 1978, with the second oil crisis. The impact remained for four to five years, after which steady growth continued. However, the recent financial crisis starting with the collapse of Lehman Brothers was a major blow, and the world economic slowdown created another decline. Seaborne traffic is expected to grow with the increase in population. In 1967, the world population was approximately three billion, and seaborne traffic was 1.5 billion tons, or 0.5 tons per capita. In 2005, the world population rose to 6.5 billion, and seaborne traffic was 6.6 billion tons, or one ton per capita. The world population is predicted to reach nine billion in 2050, and seaborne traffic will be 13.5 billion tons, or 1.5 tons per capita. To accommodate such increases in traffic, the global fleet size must be expanded. Shipping is definitely a growth industry. Mitsui O.S.K. Lines (MOL) plans to continue capital investment to increase its number of vessels and expand their sizes.

In terms of the number of operating ships, MOL is number one in the world. MOL's history started in 1884 when Osaka Shosen Kaisha (OSK Lines) was founded. Later in 1942, MOL's other origin, Mitsui Steamship Company, was founded. In 1964, both companies merged to form Mitsui O.S.K. Lines, Ltd., which again merged with Navix Line in 1999. Consolidated revenue in fiscal year 2010 was JPY1.5 trillion, or USD18.7 billion. The biggest headache for Japanese shipping companies is the exchange rate, because most revenues are denominated in USD. Due to the current strong yen with the exchange rate at JPY83 to the dollar, what would be very good USD-based revenue of USD18.7 billion is only JPY1.5 trillion. Four years ago, when the exchange rate was JPY120 to USD1, this would have been JPY2 trillion. Due to the exchange rate, there has been a severe loss of revenue.

MOL has approximately 10,000 group employees. It operates 905 vessels, which is the biggest fleet in the world. The operating vessels are mostly large ships, and MOL transports 8% of the world's cargo. The company's 109 automobile carriers, 11 stories in height and resembling large parking lots stacked vertically, can transport 6,000 cars in one voyage. There are also 101 container ships for transporting textiles, furniture, electronic goods, machinery, toys, and food. The largest can carry 8,000 containers, each of which is six meters in length.

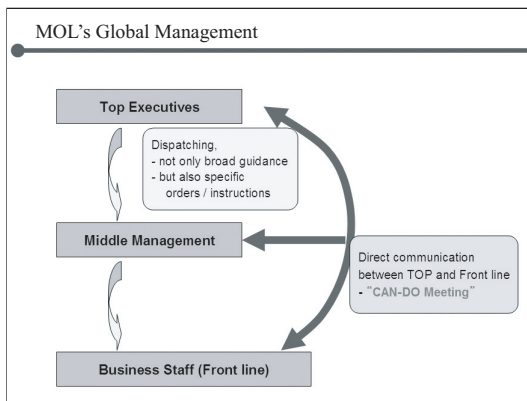
A major global concern today is combating global warming through the reduction of CO₂. CO₂ is produced when crude oil and coal are used, but emissions from natural gas are lower, and thus natural gas is called clean energy. Heavy oil needs to be used as fuel for vessels, and CO₂ is emitted. Of the 29 billion tons of global CO₂ emissions in 2007, 3%, or 900 million tons, were from the shipping industry. In the meantime, PR China and the USA accounted for about 50% of the 29 billion tons. The best way to cut emissions from existing ships is to simply reduce sailing speed. A speed reduction of 10% creates a 20% decrease in CO₂ emissions. For newly-built ships, MOL is conducting an intensive study for next-generation vessels that will have significantly reduce CO₂ emissions. Our first proposal to the public was a car carrier that will reduce emissions by 50%. Second, we announced a large-scale iron ore carrier that will result in a 30% reduction. To protect the environment, the company will reduce the speed of its existing vessels and investigate new technology for CO₂ emission reductions.

If we look at imports carried by dry bulkers and tankers, PR China imported total 186 million tons in 2001, of which 92 million tons were iron ore and 60 million tons crude oil. The biggest increase toward 2010 was iron ore, up to more than 600 million tons. In 10 years, PR China has achieved dramatic growth with its imports of overseas resources. Its current annual consumption of crude oil is 500 million tons, about half of which is imported. PR China is increasing imports to satisfy domestic demand. In the USA, current consumption is one billion tons, and two-thirds are imports. Domestic production is one-third of the proven reserve of oil, which will last for only 10 years if one billion tons are used per year. Thus the USA must import two-thirds so that the supply will last for 30 years instead of 10. During that period, the USA wants to develop new technology and shift to other energy sources.

MOL's operations have always been global. There are three major points in its corporate principles. The first is to contribute to the global economy. Second, MOL seeks the highest ethical social standards to maximize its corporate values. Third, MOL will promote and protect the environment by maintaining strict, safe operation and navigation standards. MOL employs approximately 10,000 people, of whom 60% are in Japan and 20% in Asia. North America has 7%; South America employs only 66 people due to reliance on agents who are not direct employees; 0.6% are in Oceania; 8% in Europe, including the UK; and 1.4% are in Africa. No matter where the location, MOL has three layers of personnel: top executives, middle management, and business staff. Top executives generally feed information to middle management, but MOL aims for two-way communication directly connecting top executives and business staff. Unique "can do" meetings are also held, as explained below.

"MOL Power" is an abbreviation for the "MOL Liner's Program Of World-wide Empowering of Human Resources." This program refers to our container carrier business, which is governed and operated through the Tokyo headquarters and three other regional headquarters in Asia, the USA, and Europe. MOL hopes to expand career paths of people in this division through rotating them among the regional headquarters, thus, enabling them to capture new ideas and concepts. In the MOL Power program, people are hired in each region. Different jobs are assigned for the first and second years, and for one month after that they visit Tokyo for orientation and intensive training.

They are then reshuffled and rotated. The orientation and training course covers various areas from network planning and management, marketing and sales, safe and efficient vessel operation, fleet planning, terminal and logistics management, to visiting vessels, PL analysis, and antitrust and antimonopoly legislation.



The “can do” meetings began in 2004. Before US President Barack Obama said, “Yes, we can,” MOL had been saying “can do”—“we can do.” In the past, I observed that the performance of one division in MOL’s organization had started to deteriorate, and the reason was found to be a lack of smooth communication among that division. This is one of the reasons why I initiated the meetings. To avoid such a situation, I thought that there must be a direct channel of communication. The president needs to communicate his thoughts in his own words to the frontline staff. The “can do” meetings are held from noon to two o’clock in the afternoon

with about 25 attendees in an informal atmosphere. After 15 minutes of reporting, one hour and forty-five minutes of serious discussion occur. In the “can do” meetings, information can be shared among the layers, and the atmospheres in departments, qualifications, and talents can be seen firsthand.

Q&A

Question: Understanding the challenges of changing weather patterns and rising fuel costs, how does your company see the coming years?

Mr. Ashida: If we slow down the speed of our vessels by 10%, we could save 20% of fuel costs. That would contribute to the protection of the environment. As fuel costs rise, all companies in the shipping industry are sharing the same experience, so there is going to be competition among them. Our backgrounds and conditions are the same. In that sense, MOL continues to be very strong because it is able to fight.

Question: How do you manage when your employees refuse to be relocated from one place/country to another?

Mr. Ashida: One of our career paths is globalization. Our employees are expected to be worldwide players. The path is explained to all recruits at the interview before joining the company. We only hire those people who agree with this path, so such a problem should not occur.

Question: How were you promoted in your company? What is the most important thing that you do every day? How do you make a major decision when needed?

Mr. Ashida: I was promoted every two years until becoming a vice president. I was able to foster and nurture my perspectives comprehensively from my previous positions in the area of corporate planning in this company. The best communication with subordinates and exchanging views is the most important thing for making a major decision. “Can do” meetings, unofficial meetings, even frank conversations every day and night are very good occasions for maintaining the best communication, which I have been doing.

Japanese Food Culture for the World—Ootoya's Global Strategy

Hisami Mitsumori

President

Ootoya Company Limited

Founded in January 1958 as a family business in Tokyo, Ootoya has embraced the founder's philosophy to serve safe, balanced, traditional, homemade Japanese food. At the time, meals were prepared and eaten at home with the family, which is Japan's traditional food culture. When people came to Tokyo from local regions for education or for work, it was difficult for them to cook homemade meals. Therefore Ootoya began offering home-style meals in a restaurant.

Ootoya Company Ltd. was founded in May 1983 with a capital of JPY3 million. It now operates 234 restaurants in Japan and 50 overseas. Sales are JPY17.3 billion, and the company was listed on JASDAQ 10 years ago. In the Japanese restaurant industry, Ootoya is in the mid-size category. Since the beginning, Ootoya's corporate philosophy has been to promote people's physical and mental well-being. It seeks to contribute to people's growth and development by offering good food services.

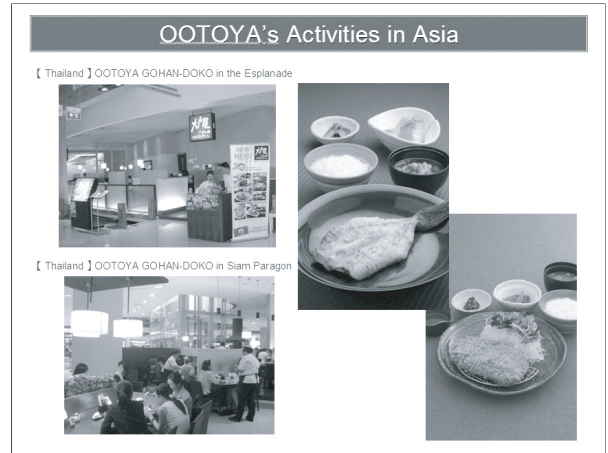
The US food business model was imported to Japan some 40 years ago. Although US and European technology have been adopted in other industries, Ootoya combines traditional Japanese wisdom with the practices of the West. It currently operates in the Republic of Korea, Hong Kong, Thailand, Indonesia, and Singapore. Other industries have made great efforts to expand their overseas operations and have achieved high levels of customer trust, and Ootoya has received the same trust for its Japanese food. It believes that Japanese food offers an excellent balance of three nutrients: 60% carbohydrates, 25% fats, and 10 to 15% protein. Government statistics show that this is a typical, balanced adult male diet. In 1949, the average Japanese adult consumed about 2,000 calories a day, which was unchanged in 2004. Many carbohydrates are consumed in Japanese food. Rice is eaten with one or two other dishes, at a ratio of perhaps six to two. Rice is high in calories but is consumed as energy at a high rate. Its minor fat content is very low compared with other carbohydrates. For example, bread has a higher fat content and is also often eaten with butter. There is an increasing incidence of colorectal cancer and lung cancer in Japan and developing Asian countries. People are eating more meat, and the nutrient balance is changing. The medical community warns that this is one of the risk factors for colorectal cancer. Ootoya would like to spread the wholesomeness of traditional Japanese food to the world.

Japan is known for longevity, which is not simply because of the food but also due to its good healthcare system. Japanese food is recognized as healthy, although the most internationally popular sushi, tempura, and shabu shabu are not the healthiest. The taste of the ingredients must be preserved, and thus good infrastructure is essential for quality and safety.

In food distribution, processing is usually done in a central kitchen where 60 to 70% of the cooking is completed prior to delivery to restaurants. Preparation at restaurants is limited to a simpler, assembly-like process. This is the US-style food operation. Operations based on a central kitchen are adequate when serving hamburgers, but using the same method for Japanese food creates many difficulties. Larger restaurants are successful with different processes, with the exception of traditional Japanese food where efficient food preparation in a central kitchen would mean a loss of

taste. There are advantages of the US style of integrated operations, but there are also elements that cannot be adopted for a Japanese menu. The most important point is to base operations on Japanese culture and tradition. By doing so, it is possible to become a globally recognized brand. Ootoya does not have central kitchens because most of the cooking is done at its restaurants, similar to smaller establishments in local neighborhoods. What Ootoya does in its restaurant kitchens is similar to what mothers do for their families at home. It does not follow the model of a food-processing company. It is making unique efforts to develop its technology and thus expand its business.

Ootoya opened its first overseas restaurant in Thailand six years ago with Betagro, a large local food company, as its partner. As Ootoya is committed to offering authentic taste, the ingredients are important, and a good distribution system is needed to maintain quality. Betagro provides high-quality meat, pork, and chicken. After the avian influenza outbreak, chicken supplies are procured in Brazil. Rice is supplied by a farmer who produces Japanese-type rice in Chiang Rai. In Japan, an aquaculture food factory is used experimentally for growing vegetables indoors using LED or fluorescent light, tap water, and liquid fertilizer, free of agrochemicals. The same type of factory is being considered for overseas operations. Ootoya's restaurants can be divided into three categories: takeout Ootoya Kitchens, which offer less expensive meals; Ootoya Gohandokoro, which are conventional restaurant; and the high-end Ootoya Restaurants. It hopes to open one Ootoya Restaurant in each of its overseas markets.



One-third of the food supplies for overseas operations are sent each month from Japan, including Ootoya's private brand soy sauce-based sauces. Due to the different temperatures and humidity, the quality of locally produced soy sauce is not as good as that made in Japan. Ootoya exports these sauces and soy sauce to maintain the same flavors as its offerings at home. The key principle is to use the safest ingredients and ensure nutritional balance. No shortcuts can be taken, and cheap ingredients are not used for the sake of convenience.

Ootoya wants its customers to make the right judgments for their health. To convey this message, the company needs to boost its market presence. Ootoya will continue to offer safety, quality, good taste, and nutritional education, and contribute to the well-being of Asian consumers. It needs to develop its products, procure materials and local companies as partners, and find good locations as well as good people. With its local partners, there is great scope for collaborations with different competencies. In this way, Ootoya hopes to continue to expand its business abroad.

Q&A

Question: How do you manage customer satisfaction?

Mr. Mitsumori: Because eating always affects our bodies, we must be conscious about the impact of our food on health. We need to offer high-quality food, together with hospitality in high-grade restaurants with wonderful interior decoration. Only with a comprehensive package can we satisfy our customers.

Question: How do you select your overseas partners? How do you undertake your marketing?

Mr. Mitsumori: We select one partner in each country. We are responsible for the development of our products as well as the assurance of quality and supply, and the local partner is responsible for human resources. Since we know little about overseas markets, we depend on the expertise of the local partner to find the best location. Our marketing activities are not different from those of other companies, but our capability is not sufficient, so I use a lot of intuition.

Question: When you travel, you see Chinese, Japanese, Lebanese, and various other restaurants, and you can use these instruments for cultural exchange and cooperation, which is food diplomacy. Is your strategy of offering services based on customers and countries?

Mr. Mitsumori: I agree on food diplomacy. I think that food is all about culture, based on history. Only the good aspects of long traditions will survive in food culture. Food is the culture of any country, and an exchange of this is wonderful. We want to convey the essence of Japanese food culture and taste to people everywhere in the world. That is our current strategy. Some countries do not eat pork or beef, and there are differences in cultures, so we make adjustments accordingly. But for the basic taste, we believe it is better to offer the authentic Japanese taste and introduce it as it is, directly from Japan.

Question: Do you have plans to enter the Chinese market?

Mr. Mitsumori: We do intend to go to PR China. It would be difficult to succeed alone, so we are going to find a partner who shares our principles. A unique operation will be developed based on the essence of Japanese food. We are a small venture-type company, and we want to find a partner to grow with, who can respond speedily during our Chinese market expansion.

Evolution of Corporate Management through Global Dynamism

Shigemi Yoneyama, PhD

Professor, National Graduate Institute of Policy Studies

Director of Research, National Institute of Science and Technology Policy

In my publication entitled *The Persistence and Transcendence: Case Studies of Asian Global Companies* coauthored with Professor Yoshiya Teramoto, I studied 10 well-known companies in Asia such as Toyota, Komatsu, Seven&I Holdings, and Mitsui from Japan; Taiwan Semiconductor Manufacturing Company Limited (TSMC) from the Republic of China; Tata and Wipro from India; HSBC from Hong Kong; and Singapore Airlines. All 10 companies are excellent global players that represent Asia and pursue global operations with sophisticated strategies, organization, and management systems. They have been evolving their distinctive competencies shaped in their home countries through globalization.

The dynamic integration of persistence and flexibility has allowed them to transcend, which is one of the mechanisms of global companies. Persistence is a company's strength or distinctiveness, and transcendence requires flexibility. They can be thought of as tradition versus reform. The 10 companies have corporate values that are enhanced through globalization. Toyota's essential value has been boosted through globalization. Many companies establish hybrid management systems, such as HSBC's combination of centralization and decentralization. The most typical combination is in the strategy aspect. Tata and Haier generate global innovation by recognizing global needs and problems or by dealing with institutional voids at home. The leadership aspect is important to combine personal strengths and open-minded flexibility. The starting point for understanding these dynamic interactions is to consider why firms globalize and what they can gain from globalization.

Professor Pankaj Ghemawat of Harvard University wrote on the concept of "ADDING." It is an acronym for adding value, decreasing costs, differentiating or increasing the willingness to pay, and improving industrial attractiveness, normalizing risks, and gaining knowledge.

The traditional perspective on global strategy is based on profit maximization. For this, companies should pursue global efficiency while adapting to local market needs. They can enjoy global efficiency, or scale merits, by coordinating operations of all markets. For them, it is also important to combine such a global strategy with domestic adaptation. This is transnationalism, the ideal in global strategy. Professor Ghemawat's framework of ADDING helps to achieve a transnational strategy. The key is to acquire new knowledge. Gaining knowledge through globalization can simultaneously enhance strength and knowledge for domestic operations, creating opportunities for innovation.

More recently, a new concept of globalization has been proposed by Prof. Vijay Govindarajan, which is reverse innovation. He stated that global management starts from simple globalization and proceeds to glocalization, modifying products and services to meet each country's needs. The third stage is local innovation, developing and selling products in a country for that country. The last stage is reverse innovation, a process of developing and selling products and services and scaling up for worldwide use. LG of the Republic of Korea has a successful mobile phone, the Meccaphone, equipped with directions to guide the user in the direction of Mecca, the center of the Islamic world.



Followers of Islam must pray several times a day, so this is very useful. This product was a successful example of local innovation. Reverse innovation goes a step further. There are many examples of reverse innovation, such as GE's ultraportable electrocardiographic equipment. Cardiographs are big and expensive, but this is a low-cost, battery-operated ultraportable model developed in rural India and PR China for physicians to perform health

checks, which has found markets in the USA. Nestlé's Maggie was developed as low-cost, low-fat dried noodles in India and now sells in Australia and New Zealand. In short, global management is evolving from the linear perspective to the multiple perspective, from exporting products or services or transferring knowledge or competencies to developing products or services and creating knowledge and competencies across multiple countries and deploying them globally.

Local innovation is the first step for reverse innovation. Here, fostering regional specialists is an important method. Samsung of the Republic of Korea offers its employees one-year leave to live in other countries to learn the language, society, market needs, etc. Asahi Breweries in Japan has a similar system. Another point of localization is developing partnerships with local people and companies. It is important to adopt qualified local staff and to build strategic ties with local companies. For companies in the developed countries, reform of the decision-making process would be critical.

Reverse innovation goes beyond localization. Tata Motor is planning to sell an upgraded version of its low-priced Nano car in Western markets. Japan, a developing country in the 1970s, developed compact cars that swept the US market. As such, reverse innovation is not only a model for developed countries but also for developing and emerging countries.

Emerging or developing countries should pay attention to their core competencies. I think that there are three distinctive competences. The first is the ability to understand the local market or local customer needs, which is not easy for companies based abroad. The second core competence is the ability to understand and access the local resource market. The third is the ability to deal with institutional voids or the absence of institutional infrastructure. Companies in developed countries are ill equipped to deal with an institutional void. Turning disadvantages or weaknesses into advantages and strengths can be a core competence.

Of course, for the global deployment of innovations by companies in developing and emerging countries, technological endorsement is important, which requires quality and reliability. They should build partnerships with companies in developed countries. Japan is now struggling to revitalize its economy. However, it maintains a very high market share in components and materials. Cultural exports are also promising. Japanese fashion is developing a following in PR China, and its animation is popular in France. The infrastructure system is huge. Experienced in developing the Shinkansen bullet train, Japan has great potential in combining its technology for large systems. With components, culture, and big infrastructure systems as its strengths, in 2010 the government

issued a new growth strategy. There are seven basic strategy areas, including green innovation, life innovation, finance, and Asia.

Asia has great potential, with a high growth rate, a big market, and growing middle- and high-income segments. Japan is focusing on partnering with Asian countries to generate growth opportunities while serving to unify the dynamics of the Asian market. Growth and innovation, together with Asian countries, are Japan's hope and expectation.

Q&A

Question: We see Asia going forward, but what was the reason for the debacle of Japan alone?

Prof. Yoneyama: Japan is mature and developed, and there are complicated sector relations. For example, the Japanese government is trying to open our markets, but we have to protect our agriculture business. Another reason is that there are too many competitors within the Japanese market. There are seven or eight automakers that must compete among themselves to survive.

Question: Could you give us some direction to drive local innovation or reverse innovation?

Prof. Yoneyama: Balancing and linking local innovation and reverse innovation are very important, and our concept of persistence and transcendence focuses on that process. Without persistence or local competences, reverse innovation cannot emerge, so persistence in the local market is a prerequisite factor. If you do not have power in the local market, you cannot globalize. Therefore a company must be strong in the local market.

Question: Who is Professor Govindarajan who wrote about reverse innovation?

Prof. Yoneyama: Vijay Govindarajan is the Earl C. Daum 1924 Professor of International Business at Dartmouth College, USA, and the founding director of Tuck's Center for Global Leadership. He has published many widely read articles in the Harvard Business Review describing the case of General Electric.

Question: Is corporate social responsibility (CSR) one of the topics considered in the 10 companies that you studied?

Prof. Yoneyama: CSR is another important point. Although we did not focus on CSR issues, I think that it is included in the corporate philosophy or corporate values.

Group Discussion

Prof. Shigemi Yoneyama acted as facilitator of the group discussion session. Participants were divided into four groups: Manufacture & Trading (Group A), Service Sector (Group B), Government Organization & Academia (Group C), and Chamber of Commerce & NPOs (Group D), ensuring that all group members were from different countries. Each group was requested to present on the following four group discussion topics.

Group Discussion Topics:

- 1) The most impressive aspects/findings of the presentations
- 2) Present status of and issues in global management and Asian dynamism in your country
- 3) Methods and ideas you hope to apply to your working environment
- 4) Obstacles you envisage in applying the methods/ideas in 3) above

GROUP DISCUSSION AND PRESENTATIONS

Group A: Manufacture & Trading

1) The most impressive aspects/findings of the presentations

The most impressive aspects and findings from the presentations were the strategies for change and sustainability, which would be inevitable in any business; and innovation through the management of diversity. Second, as the world moves toward globalization, one sure key for successful globalization would be innovation for Asian markets, which are also emerging markets.

2) Present status of and issues in global management and Asian dynamism in your country

The diversity of culture and long-term homogeneity need to be reconciled, because unless there is diversity there will be no innovation. As our countries move toward homogeneity, we need to find a method for preserving the best aspects of our diverse cultures, while being homogenous in our efforts to develop our businesses. Integrating resources through regional cooperation is one important aspect. Asian countries realize that we always have a shortage of one resource or another. It could be financial in some countries, human resources in others, or raw materials in still others. It is time for international businesses to reconcile simply making profits and the economic value derived from doing business. It is no longer sufficient to concentrate on profit alone and to ignore value creation and society. It is also necessary to reconcile government regulations and the requirements for free trade. Although we believe in regional cooperation, we cannot afford to lose our identity as separate countries and governments, but trade should be sufficiently free so that the integration of resources is possible.

3) Methods and ideas you hope to apply to your working environment

The emphasis on human resources development was the most striking featured idea. In human resources development, what really inspired us was the mention of more dynamic communication, especially the “can do” meeting idea by the head of MOL, and hiring internationally. We should not be looking within our national boundaries if we really want to globalize. There should be proper incentives for human resources. You cannot economize on people, because opportunities are expanding. Our last item is social innovation. We learned and agreed that social innovation should become an important aspect of our businesses. This could involve any activity that has a positive

impact on society, like the recycling of materials or rainwater harvesting, and could fall under the category of fulfilling corporate social responsibility.

4) Obstacles you envisage in applying the methods/ideas in 3) above

The main obstacles are human resources and the cultural and language barriers in the area when we go global, even in our own countries. Second, financial and infrastructure constraints make our choices for human resources development difficult. However, we must develop people while overcoming the constraints, because human resources are an important element in business progress. Government regulations can be also an obstacle to human resources development, especially in the context of the international movement of those resources. Under social innovation, we would like to add the traditional Asian mentality, which can be reluctant to attempt innovation. Since we have not been innovating for a long time, it could be difficult to make progress, and therefore social innovation plays an important role.

Q&A

Question: Is it a big challenge for you to integrate social innovation and business innovation in your country?

Presenter: Yes, but this is the value-adding or value creation aspect of the social innovation of a business. This can help improve business and also be part of the business model innovation.

Group B: Service Sector

1) The most impressive aspects/findings of the presentations

Most of us agreed that MOL's presentation and ideas impressed us the most, particularly with the "can do" meetings and the company's empowering human resources program, recruiting from all over the world and integrating them as one culture.

2) Present status of and issues in global management and Asian dynamism in your country

We had a very good example of a global company named HTC in the Republic of China which manufactures mobile phones for the global market. An Indonesian company started as a very small company making bottled tea and now exports to world markets. Samsung is a good example representing success in the Republic of Korea. It does not consider itself Korean, but is now a global company. Nepal does not have an industrialized status, but it is certainly globalized in tourism. It is now focusing on this and moving toward industrialized globalization. With textiles and tea, Sri Lanka is also moving toward globalization.

3) Methods and ideas you hope to apply to your working environment

Many members agreed that the "can do" meetings are good practices that we can carry out. Open debate is good in our working environment to become more global or open-minded. We learned good methodologies to remind us of globalization principles. Increasing innovation should be one of the key targets for the globalization movement in our workplace.

4) Obstacles you envisage in applying the methods/ideas in 3) above

We agreed that the potential obstacles in trying to use our knowledge can be divided into two sides: human and regulatory. Due to cultural and social factors, people might be hesitant to accept new

methodology like the “can do” meetings or open debate, so that could be our biggest obstacle. The second big obstacle is government policies and regulations. We agree that we could all move toward globalization or more dynamic economic or government activities.

Q&A

Question: You mentioned that there were many opinions among your group members. As a leader, how do you manage this diversity?

Presenter: Actually, I was not the leader. We were all leaders, so it was very easy and fun to write down the ideas. To be a good leader, it helps to meet other good leaders.

Group C: Government Organizations & Academia

1) The most impressive aspects/findings of the presentations

The most impressive aspect was globalization. We know that companies in Japan studied small businesses, and in some cases they were importing their technology and distributing it locally. Then they began expanding and reaching out to the world. There was particular emphasis on innovation. They diversified their products and quickly adapted to the various market requirements. The next is growth. By remaining consistent, they reached a level where they could compete with other companies worldwide. Some excellent management strategies were presented: the “can do” meetings, effective communication, and different models employed. The last is synergy, the combined efforts with local and other companies for growth.

2) Present status of and issues in global management and Asian dynamism in your country

All our countries are making some kind of effort for global management and dynamism. We are now in the process of forming different regional blocs, like ECO, SAARC, ASEAN, and EGFAR. We feel that these blocs will open doors and help us to reach the modern world. FTAs are another step toward globalization. We are also accessing European and US markets by signing different types of FTAs. One issue is that we are mostly from developing countries and face competition from multinational companies with large structures, better technology, and good human resources. Therefore when we have to compete, we need to find ways to be competitive. Governments need to have a consistent trade policy that can help developing countries to achieve their objectives. We need to learn from the developed countries with good trade policies.

3) Methods and ideas you hope to apply to your working environment

We should create a conducive business environment and a level playing field for all those who are interested in doing business or investing in our countries. There is fear among companies of investing in countries that do not have legal protection. We must respect everyone’s laws, and offer some type of sovereign guarantee. We need to facilitate our semiconductor sector. We should encourage joint ventures and form consortiums that can compete internationally and develop joint ventures with foreign companies that can invest in our companies. We can learn from their experience and technology.

4) Obstacles you envisage in applying the methods/ideas in 3) above

Some of our countries have conflicts or instability, and foreign companies are fearful of coming to our part of the world. One country faces sanctions that adversely affect the growth of the economy,

and it does not allow its citizens to interact with other countries. The business environments could be improved. The people who are doing business either do not have the experience or the business acumen of their international counterparts and need a better understanding of global business. There is also a lack of infrastructure and IT, and a shortage of skills and technical human resources. Some of our countries have the problem of illiteracy, and skills and technical human resources cannot be organized effectively. We need to carry out research to meet the expectations of the modern world.

Q&A

Question: Regarding the excess of control that exists in the foreign business environment, do you all agree on decontrol?

Presenter: We should have trade policies that are acceptable to others, which are not one-sided. The government's exercise of control should be limited, and our countries should open up. Governments need to provide legal frameworks, but they should provide a level playing field to everyone, giving them access and letting them compete on merit. The true professionals with the good core business values will survive. Therefore we agree that we need to open up.

Question: What do you think about the methods to overcome institutional voids?

Presenter: The geopolitical situation in our country is beyond our control, and that is probably one of the major factors in our lack of direct foreign investment. However, we can probably reorganize our local businesses, like joint ventures and consortiums, because our companies are not big enough to go global. If someone is not coming to invest, we should reach out to them.

Group D: Chamber of Commerce & NPOs

1) The most impressive aspects/findings of the presentations

We thought that addressing challenges with technology, talent, and tolerance was quite diversified and that these elements were cross-sectional for all our member countries. The different CEOs made very effective presentations. There was a lot of passion, which we appreciated. Of the four categories of innovation, social innovation was our most recent type of innovation.

2) Present status of and issues in global management and Asian dynamism in your country

We emphasize the importance of putting innovative management systems in place, and that knowledge transfer from more advanced to less developed countries is the transfer of human resources and expertise.

3) Methods and ideas you hope to apply to your working environment

There must be a culture of innovation and sustainability of company policy and principles. There was a good example of a food chain that a Japanese company built around the world. The standards, quality, and hygiene are maintained, no matter which part of the world you are in. When companies expand, these need to be maintained at all levels. Effective multilayer and multilateral communication is very important. It needs to be strengthened in all our companies. The "can do" meetings were very interesting, the meeting of top managers and line employees. Employee engagement is very important, but the question is how to engage them.

4) Obstacles you envisage in applying the methods/ideas in 3) above

The different backgrounds and cultures in our countries sometimes become a hindrance in implementing such ideas. The structural framework for macro and micro issues needs to be correct.

Q&A

Prof. Yoneyama: You all selected important key words: diversity; social innovation; and human resources management. However, building partnerships among Asian countries is also important. Partnering with companies in other regions may be beneficial, but we are now emphasizing partnerships with companies in Asia.

II

Appendixes

Top Management Forum on Asian Dynamism and Global Management
(14–16 February 2011, Kyoto, Japan)

List of Participants and Speakers

Participants

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Speakers (in order of presentations)

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Graduate School of Commerce, Waseda University

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Ministry of Economy, Trade and Industry of Japan

Mr. In-Sang Hwang
Director of FTA Policy and Planning Division
Ministry of Foreign Affairs and Trade
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Mr. Tetsuro Higashi
Chairman
Tokyo Electron Limited

Mr. Kazushi Nomura
President
Nambu Company Limited

Mr. Akimitsu Ashida
Representative Director & Chairman of the Board
Mitsui O.S.K. Lines, Limited

Mr. Hisami Mitsumori
President
Ootoya Company Limited

Prof. Shigemi Yoneyama
Professor, National Graduate Institute of Policy Studies
Director of Research, National Institute of Science and Technology Policy

Top Management Forum on Asian Dynamism and Global Management
(14–16 February 2011, Kyoto, Japan)

Program and Itinerary

Monday, 14 February

- 09:00-09:30 Opening Ceremony
- 10:00-11:15 Session I: “*Asian Diversity and Dynamism of Innovation Management*”
by Prof. Yoshiya Teramoto, Professor, Institute of Management Studies,
Waseda Business School, Graduate School of Commerce, Waseda University
- 11:25-12:10 Session II: “*Japan’s EPAs/FTAs and Regional Economic Integration Policy*”
by Mr. Kazutoshi Shimura, Deputy Director, Economic Partnership Division,
Trade Policy Bureau, Ministry of Economy, Trade and Industry of Japan
- 12:15-13:00 Session III: “*Policy for Promoting Economic Partnership*”
by Mr. In-Sang Hwang, Director of FTA Policy and Planning Division,
Ministry of Foreign Affairs and Trade, Republic of Korea
- 14:30-15:45 Session IV: “*Global Management of Tokyo Electron*”
by Mr. Tetsuro Higashi, Chairman, Tokyo Electron Limited
- 16:00-17:15 Session V: “*Global Strategy and Manufacturing of Nambu*”
by Mr. Kazushi Nomura, President, Nambu Company Limited

Tuesday, 15 February

- 09:30-10:45 Session VI: “*MOL’s Global Management*”
by Mr. Akimitsu Ashida, Representative Director & Chairman of the Board,
Mitsui O.S.K. Lines, Limited
- 11:00-12:15 Session VII: “*Japanese Food Culture for the World—Ootoya’s Global Strategy*”
by Mr. Hisami Mitsumori, President, Ootoya Company Limited
- 13:45-15:00 Session VIII: “*Evolution of Corporate Management through Global Dynamism*”
by Prof. Shigemi Yoneyama, Professor, National Graduate Institute of Policy Studies,
Director of Research, National Institute of Science and Technology Policy
- 15:15- 17:30 Session IX: Group Discussion and Presentation
“*Mutual discussion of global management and Asian dynamism among participants*”
Coordinated by Prof. Shigemi Yoneyama

Wednesday, 16 February

- 09:30 -11:30 Company Visit: OMRON KYOTO TAIYO Co., Ltd.
- 12:30- 13:30 Closing Ceremony & Farewell Luncheon



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