



# Quest for “Excellence in Management”

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## A Dialogue on “Management Philosophy and Entrepreneurship”

Yoshihito Yamada (President and CEO, OMRON Corporation) × Yasunori Nakagami (CEO, Misaki Capital Inc.)



# Foreword for releasing the 12th issue of Quest for “Excellence in Management”

What comes to mind when you hear the term “management philosophy”?

Is it something filled with aspirations of those who created the philosophy, but nothing more than a token symbol like an ornament on the altar, a flowery language that varies little by company, or a beautifully laminated card that is buried deep inside a wallet?

Whatever the answer may be, I suspect that many of you would view management philosophy as one of the least practical tool within the real world. To be quite honest, I was one of such doubters too, until I was invited to observe The OMRON Global Awards (TOGA).

To my pleasant surprise, what I experienced at TOGA was quite inspiring. I saw that OMRON’s management philosophy serves as a powerful engine for developing new products, launching new businesses, and generating significant profits. It was even helping to solve highly complicated social issues at the same time.

Recently, many companies focus on strengthening their “earning power,” which I believe can be realized only through renaissance of entrepreneurship or refueling the animal spirits inside.

At OMRON, the animal spirit is an integral part of its management philosophy. Until now it hadn’t dawned on me that its well-known ROIC-based management and excellent governance served as a safety device so that the animal spirit can fully be demonstrated.

Once upon a time, the venerable Sontoku Ninomiya—an intellectual, agricultural leader and philosopher in the late Edo era—said: “An economy without morality is a crime; whereas morality without an economy is nonsense”. Putting it in OMRON’s framework: “A profit without philosophy is a crime; a philosophy without profit is nonsense”.

What have enabled OMRON to win a streak of awards?

I hope that this interview will give you some hints on achieving excellence in management.

Yasunori Nakagami, CEO  
Misaki Capital Inc.



## “Management Philosophy and Entrepreneurship”

**Yoshihito Yamada** (President and CEO, OMRON Corporation) × **Yasunori Nakagami** (CEO, Misaki Capital Inc.)

※This dialogue was held in June 2018.

### | Management Philosophy as a driving force behind OMRON’s growth

**Nakagami:** I believe OMRON is clearly one of the “well managed companies” in Japan as the winner of many major awards, such as “Corporate Value Improvement Award” from Tokyo Stock Exchange, “Best IR Award” from the Japan Investor Relations Association, and “Award of Excellence” from the Nikkei Annual Report Awards. I had long hoped of being able to cover President Yamada in an issue of our newsletter, and the opportunity arose by being able to participate in The OMRON Global Awards (TOGA).”

OMRON embraces a mission: “To improve lives and contribute to a better society”. I believe that this truly inspiring phrase mirrors the sheer determination of OMRON’s founder Kazuma Tateishi. However many companies in Japan use similar language for their mission statements. I have to admit, when I was first invited to TOGA to spend half a day listening to discussions around management philosophy, shamefully I was wondering what I should do if the event was boring (laughter).

However, to my pleasant surprise, the event was very exciting. OMRON was committed to devoting all its available resources to address social issues in its respective country or region. Its philosophy is directly linked to its new businesses and products. As a matter of fact, I felt like I was attending a “meeting participated by entrepreneurs” with OMRON’s management philosophy deeply embedded.

Today, I would like to ask President Yamada what has made this possible for OMRON.

**Yamada:** When I was appointed President of OMRON in 2011, I proclaimed that I would run the company by putting its management philosophy at the center of its business. I had spent most of my career within the healthcare division but a year before I was appointed President, I was called back to headquarters and was assigned to work on a long-term vision towards 2020.

In this process, I reviewed and reexamined OMRON from a group-wide perspective and felt that the company had actually grown into a “good company” as aspired to in its mission statement, but not yet a truly “exciting company”. In fact, both its growth potential and profitability had become much weaker than before.

Reflecting back, OMRON was founded by Kazuma Tateishi, a kind of genius who had grown the company to its present scale in one generation. He was multi-talented as an engineer, an entrepreneur, a philosopher and a futurologist. He was the binding and driving force for OMRON throughout his life.

Back in 1959 when he defined the original mission statement, OMRON, then called Tateishi Electric Manufacturing Co., was still a small company with annual sales of only 400 million yen and 800 employees. The corporate mission he defined, however, helped clarify “what the company exists for”—its *raison d’etre*—and brought a greater sense of unity to the company. As a result, the firm had grown into what would be considered a large venture institution.

He put his two key beliefs into the mission statement: one was to be “a public entity of society” contributing to a better society through its key practices and another was to be “a pioneer in creating new values”. We cannot create a better society by being passive. The important thing is to take on the challenge ourselves in creating new values.

OMRON had since been managed by the founding family for three generations. A major turning point came about when the third-generation President made a bold decision to shift the centripetal force of its management from the founding family to its management philosophy. Through this process, OMRON has built a management system that was not dependent on the founding family.

When I started working on the long-term vision, the company had already evolved into “a public entity of society”, but its entrepreneurial spirit aspiring to become “a pioneer in creating new values” had substantially faded away.

This is exactly why I declared, at the inaugural press conference as President, my determination to revitalize OMRON’s entrepreneurial spirit by leveraging the management philosophy as the driving force behind OMRON’s growth.

**Nakagami:** It goes without saying that every company has its founder. Each company has a founding philosophy of its own. I believe many of the corporate philosophies are derived from a pure aspiration to excel in their respective fields or deliver values to society, rather than from a mere desire to earn money or become rich.

However over time, many companies turn their founding philosophy into an “epitaph” and get mired in short-term numbers and operating performance.

**Yamada:** I think striking a balance between “fulfilling its *raison d’etre*” and “growing into a highly profitable, strong company” is the most interesting part of managing a company.

Frankly, OMRON had not yet become a strong company in the true sense. A company struggling to earn profits cannot afford to take on new challenges. Only a company making sufficient profits can take on challenges and deliver values to society.



Therefore, OMRON puts an overwhelming emphasis on gross margin because we believe the gross margin is a reflection of what our customers and society expect of us.

Although we are still only half way into the process, I believe that achieving strong profits in line with its management philosophy is the only way for OMRON to grow into a company that lives up to peoples' expectations. I am the one responsible for making this happen.

## | Self-respect and a sense of responsibility built on TOGA

**Nakagami:** While the core principle was to grow into a “strong company”, what was the trigger in launching TOGA ?

**Yamada:** Some time ago, the head of our electronic parts plant in Indonesia received the “Excellent Performance Award” which is the predecessor to TOGA.

OMRON has a group company named “OMRON Taiyo”, which operates a plant offering job opportunities to people with disabilities. He, the award winner, was moved when he saw this plant in his youth and hoped that one day he would be able to create a similar plant in Indonesia. After he was promoted to the plant head, he actually made this long-held dream come true. Furthermore, he not only realized this dream within his plant but also expanded the initiative by promoting to other companies in conjunction with government and industrial organizations.

In his award speech, he said: “OMRON Taiyo has been a long-time role model for me; now I want to be a role model for OMRON”. I was very touched by those words.

Until then, I didn't realize there were such motivated employees in our firm. However, this experience made me believe that there should be more similar stories about employees who have been practicing OMRON's philosophy, and I really wanted to share and praise such stories.

For the Excellent Performance Award, only past accomplishments qualified for nomination. In TOGA, however, we changed the scope of eligible initiatives to include those still ongoing, so that everyone at OMRON can share and learn from these initiatives real time.

When we launched the award in 2012, the number of participants in TOGA were about 20,000, and in 2017 we had 51,000 participants with about 6,212 entries. This means many of the participants are involved in more than one initiative because the total number of our employees is only about 36,000.

**Nakagami:** I now understand TOGA and the Excellent Performance Award look similar but are very different. I would like to take this opportunity to share some of the initiatives for those reading this newsletter.

Firstly, I was very impressed by the story about China. China suffers from severe air pollution, which is caused partly by the slow progress in shift from coal to natural gas within the country. One of the reasons for the slow progress is the weak durability of gas meters. In order to produce sturdier gas meters, certain product standards needed to be upgraded by the government. At the time, OMRON was nothing more than a manufacturer delivering sensors to local gas meter manufacturers. However, OMRON's local employees made efforts to persuade related parties, such as gas companies and the Chinese Metrology Association, through a variety of channels, to successfully urge the government to revise the related standards.

I found the story in South Korea also very inspiring. In South Korea, the percentage of people diagnosed with lifestyle related diseases, such as hypertension, is comparatively high because they prefer spicy meals in general. To lower the percentage, the nation needed to make more efforts for people to take note of their blood pressure. But the people in the country had no culture or habit of measuring blood pressure in their homes. So, a team of OMRON's local employees made efforts to the Korean Society of Hypertension to convince physicians who had opposed of measuring blood pressure at home into supporting this initiative.

**Yamada:** In both cases, I believe it would have been difficult to win people's support if we had approached it as a means of marketing our products such as sensors or blood pressure meters. We were able to engage, involve and motivate many people in these initiatives precisely because our local people had the courage to address social issues, such as air pollution and hypertension. These are good examples that a vision or mission makes a big difference.

**Nakagami:** OMRON is a global company with its overseas business accounting for more than 60% of its overall sales and 70% of its employees working overseas. Is there a difference in how your management philosophy is implemented amongst countries or cultures?

**Yamada:** In the beginning, I was worried whether the concept of TOGA – “Team up for the benefit of society” – will be well-received in countries that valued individualism, but such concern later proved unnecessary. For example, China is one of the countries where TOGA has been gathering the greatest momentum. This is probably because the opportunities to address social issues as a team were quite rare and novel in the country.

I firmly believe that the way a management philosophy resonates with individuals is universal, over and beyond boundaries or nationalities.

**Nakagami:** Human nature is perhaps universal.

**Yamada:** TOGA has placed an emphasis on self-respect and a sense of responsibility. Employees who have self-esteem can believe in themselves. Employees who have a sense of affinity to OMRON can navigate better even if faced with headwinds. Self-respect leads to true strength.

A sense of responsibility encourages people to work “based on moral” not on personal interests. True kindness comes from a sense of responsibility.

What I have just said may sound too glossy, but I firmly believe that all people are born with a desire to be recognized.

## ■ For a management philosophy to not become just a token symbol

**Nakagami:** How have you instilled the management philosophy within the organization? It's probably not practical to articulate management philosophy on a day to day basis, and if we do, we just end up just memorizing the words

without understanding what they really mean.

**Yamada:** We have put in place a variety of gimmicks to encourage our employees to commit to OMRON's management philosophy. For example, I myself visit each business location and spend about 2 hours to discuss the philosophy in small group meetings. The chairman also visits OMRON Group sites around the world to engage in discussions with local managers under the initiative called "OMRON Principles Missionary Dialogue". Also, at TOGA which takes place every year on the morning of May 10th, our founding anniversary, we discuss in every business locations how to put OMRON's philosophy into practice.

Employees in managerial positions first tell their stories to break the ice and prompt others to share their stories. Through this process, they get a clearer picture of how they can put the philosophy into practice. The more they discuss, the deeper the management philosophy embeds.

**Nakagami:** I see. It makes quite sense to me. By the way, how much of your time and energy is devoted to activities related to OMRON's management philosophy?

**Yamada:** This may sound exaggerated, but I think I have devoted nearly 30% of my time and energy in discussing how to practice and instill the management philosophy. But I don't feel I'm doing anything new.

I joined OMRON when the founder was still alive. I joined the company because I related to the management philosophy. We now have many employees who have strong passion to contribute to society like me. I believe a corporate philosophy is something that helps unleash such passion.

**Nakagami:** You allocate as much as 30% of your time to management philosophy related activities and you needed to do so in order to instill the philosophy throughout the organization.

**Yamada:** I know OMRON is well known for its ROIC-based management, but the ROIC-based management is actually one of the gimmicks to be able to put our management philosophy into practice.

The ultimate goal of OMRON's management philosophy is to "contribute to a better society". There are no boundaries in region or business domain in that sense. We do whatever we can do to contribute to society. I believe the challenge to develop new businesses is precious.

However, it is also true that taking on too many challenges will scatter our resources, and as a result, weaken our competitiveness. This is why we need a scheme to carefully select those challenges that we take on.

The process of selecting challenges must be convincing to all parties concerned, which I believe can only be realized through evaluation based on a set of common criteria shared among all business divisions. As a listed company, without producing returns exceeding investors' expectations, OMRON will not be recognized as creating and delivering value. This is why we have set a ROIC target of at least 10%. In case we fail or are convinced that other companies can do it better than OMRON, we just withdraw, so that we can make best use of the experience by allocating those resources for a different challenge.

**Nakagami:** I had assumed that the ROIC-based management was the ultimate measure to pursue the capitalist logic, but now I understand it is also functioning as a driver of entrepreneurship based on these evaluation criteria.

In the industrialized society, while entrepreneurs start new businesses, investors assume the role of ensuring market discipline. Entrepreneurs can push down on the gas pedal in accelerating to pursue their dreams since investors are there to act as a brake. It's a "division of social roles".

In a smaller scale, it appears OMRON has such a division of roles within its organization.

## | OMRON's President is appointed anew each year

**Nakagami:** Another characteristic of note from investors' eyes is OMRON's excellence in governance. OMRON has long had a CEO Nomination Advisory Committee (the Nominating Committee) and you yourself were also appointed by the committee. Can you tell us about the criteria for appointment?

**Yamada:** When I was appointed, then President Sakuta told me: "We have chosen you because you are always upbeat and energetic". That's all he said. (laughter)

However, as I started leading the company, I realized that what was required of this role was an in-depth understanding of and resonance with the management philosophy, as well as the ability to promote it. In the past, our founder was the centripetal force of the company. However, our management philosophy has taken over as the centripetal now, and the management philosophy serves as a driving force behind OMRON's growth today.

**Nakagami:** What you have just mentioned points to the real nature of the problems shared by many Japanese companies. In Japan, the number of startups reached its peak twice: most recently, right after World War II and before that, around the First Sino-Japanese War. As we have counted over 70 years since the end of World War II, the companies founded during the first startup peak period have turned 60 to 70 years of age. Many of these companies are now under pressure to hand over their management from the founders to successors.

It is no wonder that successors today have to be the ones who resonate with the founding philosophy and can reignite the passion similar to the original founders.

**Yamada:** We had spent twenty years to prepare ourselves for such transition. OMRON was a typical top-down company led by its founder. Therefore, as the first step we invited external advisors and moved onto establishing the Personnel Affairs Committee, the Compensation Committee, the Nominating Committee and the Company Governance Committee one by one.

We also have some unique schemes in place. For instance, the President is appointed anew each year. As a matter of fact, every December, the Nominating Committee summons me to a hearing where I'm asked to answer the following three questions: (1) whether I'm willing to continue serving as President, (2) who I have in mind as my successor in case of emergency, and (3) how my succession plan is progressing. I can go on as President for another year only if my answers to these three questions satisfy the committee's criteria in which case my reappointment as President is approved by the board of directors.

To put it the other way around, because of the annual nomination system I am prepared for when I am not re-elected. If the nomination only occurs every three or five years, the process may lead to more disputes if any changes needed to take place in between but by appointing anew each year, the process is much smoother.

And adding to this, under the current appointment system, I am not allowed to choose my successor because I am not a member of the Nominating Committee. This means, I can never exert an absolute power.

**Nakagami:** That is surprising. The authority to appoint the next President is the ultimate power in a corporation. However, you do not have the power to execute that. This is probably why you need to commit to the management philosophy as the centripetal force for OMRON. It is quite convincing.



I know OMRON has put focus on investor relations and dialogues with investors. Are these all part of your company's governance activities?

**Yamada:** We have focused on these activities because we believe being honest and accountable to all stakeholders aligns with our management philosophy. We learn a great deal through dialogues with our investors. We would like to apply what we learn to our corporate management.

To be honest though, I am quite selective about which investor to meet in person. During the first two years as President, I met with all types of investors. However, I soon realized that short term investors were interested only in short term results. They would ask me on the follow up meeting: "Is there any update from our conversation from three months ago?" implicitly asking me for results within a short period of time. The more we try to meet their expectations, the more myopic we tend to be.

Therefore, I have decided to meet only with investors like yourselves who are willing to engage with us to discuss about managing the company and enhancing the corporate value from a long-term perspective. Of course, we are fully aware of the importance of securing new investors, and our IR team is responsible for the task.

**Nakagami:** That is quite a compliment and we recognize the importance of serving this duty as a responsible shareholder.

**Yamada:** We believe disclosure is the important first step for a deeper communication with investors. That is why we always ask ourselves if our information disclosure is sufficient enough for in-depth dialogues with shareholders.

What we have concluded is that, while we will provide detailed explanation of our mid-term business plan and disclose non-financial information in our Integrated Reports, we for example have stopped providing data concerning most-recent orders.



## ■ A stage during a company's lifecycle when management philosophy needs to be revisited

**Nakagami:** Recalling my thoughts from participating in TOGA, my impression of OMRON is "upbeat, strong and sincere".

First of all, presenters were all very upbeat. I can feel their joy in presenting at the event. The audiences were also enjoying themselves and applauded with ceaseless smiles. Each story was full of adversities and I was impressed by the strength with which those presenters overcame each difficulties. Mere desire for money would never have enabled them to get past these headwinds.

To have identified the origin of the company's philosophy as "contributing to a better society" has righteously brought forth the strong will power and the confidence from each of the presenters.

**Yamada:** I think I am fortunate to have such an established management philosophy which I can fall back on when making decisions as President. When I am faced with a management issue and I have 80% confidence in my decision, solving the problem is relatively easy. But in case I have only 51% confidence in my decision, I may sway. In such situation, the management philosophy guides me to the right decision.

**Nakagami:** I don't mean to tout myself, but Misaki also has a business philosophy: "the three values". Firstly, we are committed to fulfilling our fiduciary duty as an asset manager, meaning that we are responsible for generating and delivering returns to our investors, but the way to generate and deliver returns can be diverse.

Misaki's approach is to work very hard in helping to improve the business of our portfolio companies. If the business fundamentals change for the better, the share prices will follow and as a result, provide returns for our investors.

Thirdly, we commit ourselves to creating "value for society". It may sound rather pretentious for a small entity like us to say this, but, being a small entity, Misaki needs to retain its sincerity, so that we can earn the support from people in various fields. This is the way for us to survive.

As a company, I believe the largest contribution to society is to create jobs. Being a small firm, unfortunately Misaki can contribute little in this respect. Instead, we try to add by accepting interns and trainees and also play a role in allocating quality capital to quality companies.

These are what we aim to achieve based on our philosophy. However, we are still struggling to survive and I'm afraid we have yet to deliver on our three values.

**Yamada:** I think our founder Kazuma Tateishi had also gone through the same struggles that you mention.

In fact, after he founded the company in 1933, he did not create the firm mission until 1959. This explains how long and hard he struggled to survive. Moreover, it took him three years before fully articulating his management philosophy.

A company is formed by its founder and people who resonated with the founder's ideas. Those people cannot live forever, but the company is destined to continue operating as a going concern so there needs to be a scheme to pass on the original vision.

**Nakagami:** I like the expression: "Jungle, gravel road, and highway" to describe the evolution of a company.

For some time after its foundation, a company is in a state of jungle where you have to comb through to make a visible path. There is no choice but to move forward, entrusting the founding members. Even when you come out of the dark jungle, you still find yourself on a beaten path. Only upon managing to go beyond the unpaved road, can you finally run on a highway.

Your story today made me wonder when is the right time for a company to set its management philosophy, and while in a jungle phase, no one has enough bandwidth; but once on a gravel road, there is some level of relief which is probably the most important stage to work on the management philosophy to put ourselves back in perspective. Once we move onto a highway, it's such a comfortable drive that we become less motivated and tend to forget what we once aimed for; this is when we need a scheme to reflect back to its core, and reignite.

Thank you very much for sharing such an intriguing story. Through this newsletter, I hope we have been able to help articulate and spread the philosophy behind what makes OMRON so fascinating.

June 2018  
At Shinagawa

\* No part of the reference to the company featured in this newsletter is intended to suggest our past investment performance or current investment policy.

### Interviewee Profile



President and CEO,  
OMRON Corporation

**Yoshihito Yamada**

Mr. Yamada started his career at Tateishi Electric Manufacturing Co., Ltd. (current OMRON Corporation) in 1984 after learning about the management philosophy of Kazuma Tateishi, the founder. Since then he was involved in the company's healthcare division, responsible for managing subsidiaries in the United States and Europe, before being appointed as President of OMRON Healthcare Co., Ltd. in 2008. After fulfilling his role as a head of the healthcare business in 2010, he took on an assignment of formulating OMRON's long-term vision as Senior General Manager, within Corporate Strategic Planning HQ. He has been serving as President of OMRON Corporation since 2011.

Born in Osaka in 1961, Mr. Yamada received his B.A. in Economics from Doshisha University in 1984. During college, he devoted his extracurricular time to play handball as the captain of the University's Handball Club.

### Misaki's Voice



Engagement Associate

**Yutaka Sugiura**

I am currently an Engagement Associate responsible for strategic analysis and engagement research of existing and potential portfolio companies. Before joining Misaki, I had spent my time researching more than 300 corporate history under the supervision of Professor Kazuhiro Mishina, Kobe University Graduate School of Business Administration.

My goal is to achieve success in the business world to leave a mark in corporate management history myself.

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## Editor's Note

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Upon building the relationship with OMRON Corporation, I have come to read several books written by the founder, Kazuma Tateishi. "The Eternal Venture Spirit: An Executive's Practical Philosophy" was among them and I was deeply impressed with an analogy of honeybees found in the chapter titled "What does profit mean to a company?".

It goes on to say that, taking companies for honeybees and society for flowers, we see honeybees are instinctively going from one flower to the other in order to make honey, but if we view things from the flowers' point of view, honeybees are a source to carry pollens in exchange. Likewise, a company can justify its pursuit for profits, since they return the profits they earn to society in the end, thus fulfilling its role as a "public entity".

I myself have recognized a similarity between our function as an engagement fund and that of honeybees as pollinators. Because, taking investors for honeybees and companies for flowers, we as investors learn about "excellence in management" from companies, and we leverage that knowledge to implant similar thought process to different businesses, which if it results in enhancing corporate values and ultimately drive up share prices, it is a win-win scenario. Such investors' action overlaps with that of honeybees carrying pollens.

The above two analogies are quite similar in their process; the important thing is for companies and investors to end up contributing to society or driving up share prices as a result of their persistent efforts to earn profits or learn excellence in management. If the order reverses, they can be myopic and assertive, and thus, may not be able to sustain their engagement with society or investors for a long time. This is why OMRON aims at higher gross margin and Misaki emphasizes on having dialogues with companies who continues to aim for excellence in management.

Historically, I have tended to associate "excellence in management" with management skillsets that are universal across countries and/or sectors, such as business portfolio management, cash-flow management and governance. However, this interview with President Yamada has helped renew my perception about excellence in management; now I am convinced that management philosophy should be placed at the very core of the excellence in management. I now understand that OMRON is viewed as an excellent company not simply because they have adopted ROIC based management but because of its "unique management approach" to utilize ROIC as a tool for realizing their management philosophy.

In the same book, Mr. Kazuma Tateishi also noted: "management without philosophy is like sailing without a nautical chart." It reminded me of the origin of our company name, Misaki Capital Inc., reflecting our vision: "Like a lighthouse on the promontory that helps captains navigate rough seas, we hope to guide businesses and investors to the point at the horizon where all of our values and goals should converge."

Like honeybees, we wish to be a "constructive shareholder" who helps to infuse not only "excellence in management" but also "excellence in philosophy" from one company to another.



Nao Makino  
Investment Officer



\* Cover photo: Amanohashidate

The picturesque scenery of sand bar lined by white sand and green pine trees, situated where waters travel out to join the Pacific Oceans, the Sea of Japan and Seto Inland Sea, has inspired many Japanese poets to produce their works of Haiku and Waka (traditional court poetry).

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