



*People. At the heart of our DNA*

*The 90-Year Story of Daikin Industries*

*by Nobuo Ishida*

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The Japanese character “tsugu” depicted on the cover of this book means “to succeed, or to inherit.” It symbolizes the resolve at each Daikin Group company to transcend epochs and country differences to pass on the special qualities of corporate culture, strength, and DNA that Daikin has cultivated over its long history and to preserve those qualities for the future. The character was drawn by master calligrapher Hakko Ishitobi.

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# The 90-Year Story of Daikin Industries

by Nobuo Ishida

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## Introduction



Founded in Namba, Osaka, in 1924, Daikin Industries began as a town factory with no more than 15 employees, including the president. Thirty-five years later in the late 1950s just after I joined the company, Daikin had grown to become a manufacturer employing 3,000 people and handling both air conditioners and refrigerants. By the time the company welcomed the 90th anniversary of its founding in 2014, Daikin had transformed into a global company operating in 145 countries and employing over 60,000 people. Capital had expanded at 85 billion yen, and the company had become the global No. 1 in sales of air conditioning equipment.

The driving force of Daikin growth has been strategic planning that stays a half-step or a step ahead of the times through management with foresight followed by employee initiative in

which employees fearlessly take action at the workplace. Especially in the past 10 to 20 years, Daikin has grown and developed by making bold decisions from new perspectives that cast aside past successes; by establishing innovative strategies such as global expansion and open technology; and by having these strategies implemented through the concerted efforts of employees.

Since its founding, Daikin has always been a company that has not only valued people but has made people its focus. Founder Akira Yamada strongly encouraged conciliation and cooperation inside the company saying “a company is like a ship,” and Minoru Yamada, the third Daikin president, said, “A company is made up of people eating from the same pot and sharing the same fate.” With the approach of our founder and his son as my touchstone, I pressed management forward with deep appreciation for the dynamism and boldness generated by providing opportunities to people with passion and desire to challenge themselves and by giving these people room to grow. Work was entrusted to them based on a management philosophy that believes in the inherent goodness of people and their infinite potential. Policies were implemented to allow a culture recognizing diversity to take root in the organization while enabling employees to fully demonstrate their capabilities and have employee efforts linked to results.

This type of corporate culture that Daikin has cultivated over its many years of corporate activities could be said to be, in a manner of speaking, Daikin’s DNA, but conveying the true significance of that culture in one word is indeed difficult.

In this book *People. At the heart of our DNA*, we have collected

a series of narratives centered on practical examples that describe the footprints of the grueling struggle of countless senior colleagues beginning with our founder, the difficult management decisions such as M&A, partnerships, and alliances during the past 20 years, the cooperation engineers demonstrated to clear the difficult issues for new product development, and the progress made to expand in overseas markets with little understanding of the local language. Within that, we can see just how Daikin employees demonstrated the full extent of their capabilities.

To our employees of the Daikin Group, I hope you gain from these testimonials an understanding of the essence of the Daikin Group DNA: namely, management with foresight and People-Centered Management. With a firm understanding of this, I ask that you continuously impart that same spirit to those following in your footsteps. To all shareholders, business partners, and distributors, I hope this book provides useful insight into our corporate culture.



Noriyuki Inoue  
Chairman of the Board and  
Chief Global Group Officer

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*Prologue*



# Global Daikin



*Celebration of Daikin's 90th anniversary (2014)*



## ◆ Technology and People Driving Foresight

In May 2014, Daikin, a global company with No. 1 sales in the global air conditioning industry, held a ceremony and reception in Osaka to commemorate the 90th anniversary of its founding. A stirring *taiko* drum performance kicked off the reception, and 41 guests attending as representatives of Daikin companies from around the world took center stage. The representatives entered the venue in alphabetical order from Australia to Vietnam with placards and large flags leading them. The scene reminded many of the opening ceremony at the Olympic Games and reinforced the global nature of the Daikin Group.

Daikin Industries, Ltd., which started as a small factory with 15 people, including the president, has transformed into the world's leading air conditioner and fluorochemicals manufacturer with operations in 145 countries and 82 manufacturing sites. Leveraging this growth, the company has achieved annual net sales of ¥1.915 trillion and employs 60,013 people worldwide on a consolidated basis (fiscal 2014). Of these sales, 74%, or ¥1.416 trillion, is generated overseas, and non-Japanese employees comprise 80%, or 48,115 people, of its workforce. Daikin has become a truly global company.

Over its 90 years of history, Daikin has achieved its most impressive growth in the last 20 years after the current chairman, Noriyuki Inoue, first assumed the presidency. In particular, the last 10 years have seen the company aggressively execute its strategy of global expansion. President Masanori Togawa reflected upon this during the anniversary ceremony: "Growth of the Daikin Group has been the result of Chairman Inoue's visionary management in which decisions are swiftly made by quickly detecting changes, continually taking on challenges, and repeatedly taking action." He continued, "Furthermore, our growth has been supported by the capabili-

ties we possess as seen in our foundation of creating unique technologies as well as in our People-Centered Management that draws out motivation and acceptance from employees and establishes an environment in which potential is maximized."

As an impartial outside observer of Daikin, I am intrigued: What is the true nature of this visionary management in which Daikin takes pride? What lies beneath this People-Centered Management which forms its basis? These management methodologies and philosophy can be called Daikin's DNA, but how have they been transferred to overseas Group companies and what has Daikin Industries done in Japan to pass down its DNA to the next generation? Let us try to unlock the secret behind Daikin's rapid growth by listening to employees from the Daikin Group companies describe their work and experiences during the breakneck expansion seen in these past 10 years of global M&A.

## ◆ Anxieties and Surprises of the Acquired Company

How is Daikin's management style, which values the trust and culture of its overseas Group companies and practices People-Centered Management, seen in other countries and what are the views of people who work in its Group companies?

Daikin Airconditioning Central Europe GmbH (DACE), which is a sales company located in Austria, ranked fourth in the country in April 2013 on the Best Workplace list (in the category of companies with 50 to 250 employees). This is a ranking conducted by the Great Place to Work Institute headquartered in the United States and is active in over 40 countries throughout world. The ranking is based on questionnaires to employees and an investigation of company profiles, culture, and human resources systems.

DACE won high acclaim as being a workplace "where teamwork

and camaraderie can be felt, managers trust and delegate work to employees, all members feel a sense of participation regardless of title, and employees have confidence in the company's products and services." Karin Scasny, senior manager of DACE's HR and General Affairs Department, observes, "We realized that the People-Centered Management we practice has been vindicated by the high praise received from external organizations. This has made us very happy. Employees, more than anyone else, are proud of this honor."

What underlies Daikin's working environment and pleasant working atmosphere at Group companies is the mindset of People-Centered Management, as described by the senior manager of HR and General Affairs at DACE. Having an international organization honor activities carried out by Daikin and its Group companies can be said to be proof of global recognition of People-Centered Management.

Nonetheless, employees of the acquired companies must have had initial reservations about Daikin, particularly concerning People-Centered Management, and they must have had some anxieties toward a Japanese multinational company exhibiting such sudden



*Award ceremony for the Great Place to Work (2013)*

and rapid growth. Martin Krutz, who was president at the time DACE was ranked in the list of Best Workplace, knows this from experience. His former company was acquired by Daikin. Klimex, a medium-sized HVAC company in Austria, was purchased by Daikin in 1999 when he was a sales manager.

Klimex had been a Daikin distributor, so Krutz was familiar with People-Centered Management. When his company was actually acquired, however, certain anxieties crossed his mind. "Employees of the acquired company have many questions. I was anxious about what would happen in my future. I don't want to hear bad news, but if I know what is happening tomorrow, I can overcome the nail-biting somehow. We become nervous and worried when treated only to uncertainty."

However, once Daikin acquired his company, he experienced the exact opposite of his reservations. Senior managers from Daikin Europe came to Klimex and made a point of clearly stating Daikin's intention, "We want all of you to continue working for the company. We hope this is acceptable with all of you. You will stay, won't you?" The company became a Daikin subsidiary and was renamed DACE. Krutz, who became senior manager in charge of sales, realized that working for a global company brings about a feeling of security from the perspective of having stable employment.

Seven years later in 2006, McQuay Italy, the company where Claudio Capozio served as COO in charge of Europe and the Middle East, became a Daikin Group company after its parent company, O.Y.L. Industries Bhd., was acquired by Daikin. Capozio respected and regarded Daikin's HVAC technology as the best in the world and had wished someday to become a member of Daikin as an engineer. When his dream came true, one would think he was overjoyed, but this was not the case.

“When my company was acquired, I harbored conflicting feelings—a positive feeling of relief along with anxiety over whether everything would work out or not. On one hand, I was happy knowing that I would be able to learn Daikin’s technologies, which I respected, and on the other, I knew nothing about Japanese companies, not to mention Daikin. American companies tend to get rid of people after an acquisition, and so we were all concerned that Daikin would be the same.”

But Capozio’s anxieties were also swept away. “Daikin is different. We discovered that Daikin’s behavioral pattern is absolutely different from those of American companies.” What was unexpected when his company became a Daikin subsidiary was its ability to become a part of the Daikin family in such an exceptionally short period of time. “This was possible because of the people at Daikin, but we also had a strong desire to work hard as a member of the Daikin Group.” Not only Capozio, but all the employees at McQuay Italy were happy. “Daikin is a well-known company and lives up to its management philosophy of valuing its employees and its business strategies. Now none of us can imagine working at any other place than a company under the Daikin umbrella.”

Capozio started working for McQuay Italy in 1980. Its parent company, U.S. McQuay was acquired by Snider General in the United States. Capozio left the company detesting Snider’s investor-driven culture and worked for a small Italian HVAC company. Later on, because OYL bought McQuay, he returned to McQuay Italy, which had then been acquired by Daikin. Therefore, he worked under several bosses of different nationalities, including German, French, American, English, Malaysian, and Chinese bosses. His last boss was Japanese. He reflected on his experiences in saying, “I learned from each one of my bosses. The Americans are quick in making

decision, very open, fair and impartial or, another way to put it, value transparency. On the other hand, Europe, Italy, and Japan have long histories and established ways of doing things, so it is not that easy to move forward.

“Each country has its differences and above all, I still believe that Japan’s culture is completely foreign to us.”

“For a European coming from outside to understand Japanese culture is at first difficult. But once understood, the integrity and strength of Japanese culture is compelling. Japanese people have a predisposition to insist on what you might call sophistication or preciseness in things. Of all cultures that I have known, I believe Japan has the most sophisticated, although it is absolutely different from any other. Japan has earned the respect of the entire world and is fully worthy of that respect. Working in a Japanese company is an ideal way to wrap up my career for me.”

To the eyes of Capozio, who has seen many top leaders from various countries, what surprises him greatly is the fact that elderly leaders take command at the frontlines.

“Young managers typically become the driving force of substantial reforms at other companies but at Daikin, the top leaders, such as Chairman Inoue and Mr. Yamada (Senior Executive Officer), are not young. Their management style, however, is extremely young, almost as young as a 35-year-old American manager. Managers, as they grow older, cannot help but become adverse to risk and conservative. Meanwhile, Daikin’s top management is more forward-minded than any other I have ever experienced. This is a noteworthy feature of Daikin.”

#### ◆ Practice of People-Centered Management in China

The success of Chinese employees at Daikin is striking. They

have responded to the trust Daikin has placed in them and are practicing People-Centered Management at bases throughout China. The most prominent example of this is Fang Yuan, who plays an active role as director and vice president of Daikin (China) Investment and associate officer of Daikin Industries in Japan.

Fang joined the Shanghai Office when it opened in May 1994 and has been a member of Daikin since the start of the China business. In 2001, Ken Tayano, president of Shanghai Daikin at the time, asked Fang to be the general manager of the Guangzhou Branch. Fang's heart jumped, because even though it was a branch office, it was an unexpected opportunity for a Chinese national to become a leader at a Japanese company. On the other hand, he also felt pressure from the weighty responsibility of being the first local general manager. Tayano smiled and reassured him, "The Guangzhou Branch continues to post a deficit every year." To which he added, "It can't get any worse, so just go and don't worry about pressure."

Fang went to Guangzhou in high spirits but was taken aback when he got there. Facing a mountain of red ink and inventory, the employees had lost their motivation. In Shanghai, he had been a senior sales executive, but he had no experience in business management. "Chairman Inoue taught me about management," says Fang, and he came to rely on People-Centered Management.

To increase employees' sense of belonging, he told them that each of them was a leading player and that the company was a family. He thought, "Top management shouldn't be the only ones awake at night worrying. Everyone should lose sleep thinking about getting results and having work delegated to them. This becomes the power to achieve growth." Then he promoted employees who had good sales performance and encouraged unmotivated employees to quit. He did this to make employees understand that

employees could grow with the company and people who worked hard would be rewarded, while people who did not would be weeded out. To enhance employee awareness of participating in management, he held management committee meetings once a month with the general managers of each division. He drafted the annual policy after holding discussions and having salespersons present targets for it. In addition, he adopted his own HR policy of reviewing appointments each year to create a sense of urgency among senior managers.

These measures based on People-Centered Management started lifting employees morale, and the 2 million RMB deficit that he had inherited when he assumed the position turned into a 5 million RMB profit by the end of the year. Inventory was cleared away in three months. Looking back, Fang comments, "It's not that they didn't have the capacity, but rather they were not able to demonstrate their potential."

People-Centered Management, the ability to implement it in earnest, putting trust in employees, and knowing the importance of having a sense of belonging... all of these things were part of the transformation. The Daikin Chinese employees, especially the leaders, unanimously say the same thing. Their superiors trusted them, delegated important work to them, and gave them credit for the results of their hard work. Because they have experienced People-Centered Management firsthand, understand and accept it, they are believers.

#### ◆ Practicing People-Centered Management in the United States

Daikin made efforts to infiltrate People-Centered Management also in Group companies in the United States. While respecting different culture of places where it develops business, the concept underlying

People-Centered Management, which is Daikin's fundamental philosophy, needs to be understood by all Group companies. Among the companies in the O.Y.L. Group which Daikin acquired, some are American companies. Of all the companies, American Air Filter International (AAF), based in Louisville, Kentucky, was the company that was the most enthusiastic about introducing People-Centered Management.

Darren Allsop, COO of the company reflects on that time, "When we became a member of the Daikin Group, we were, at first, not able to understand how People-Centered Management differed from past management approaches. The Power & Industry (P & I) business unit to which I belonged is a group of engineers and is an organization that places people at the center, evaluates individual expertise, competency, and experience. So what we heard our employees say on People-Centered Management was: This is something we are already practicing." (*Daikin Times*, Spring 2012)

After discussions were repeatedly held and employees responded to questionnaires on concrete items concerning the Daikin's management philosophy, however, results showed that several items, including communication, development of human resources, and a sense of belonging, fell short of expectations.

Recognizing the difficulties in practicing People-Centered Management (PCM), AAF initiated activities aptly named PCM. With both Daikin Industries in Japan and O.Y.L. fully supporting this initiative as a test case of the Group, a project team comprising 10 people from various departments in AAF began organizational reform through PCM activities. The focal point of the activities was "a relationship based on mutual selection, in which the company and the individuals are equals." To be a company that is selected, AAF made efforts to improve its work environment and enhance communica-

tion, and it provided opportunities to ensure that employees could see their contributions to company development. As for HR development, AAF improved its conventional training program that employees had had little interest and changed it to reflect the opinions of its employees. As a result, increasingly more people participated in training programs and set their own stretch goals. Subsequently, the ratio of people participating in the training also improved.

Because of these activities, AAF received the Investors in People Silver Award, an accreditation for being an excellent company in developing people, in November 2010 from the Institute of Personnel and Development in the United Kingdom and the Gold Award in April the following year. Furthermore, in July 2011, Daikin Industries was bestowed the "Best Employers for Workers over 50 Award" by the U.S. based American Association of Retired Persons (AARP), the world's largest support organization for people over 50 years of age. This is an award in recognition of achievements that include: "development and deployment according to specialty and individual attributes," "provision of flexible work conditions such as shorter working hours and three-day workweeks for those 60 years of age



Award ceremony for Best Employers for Workers Over 50 (2011) (DIL Senior Executive Officer Yoshiyuki Uemura pictured holding trophy)

and older,” and a “rehiring rate for retired employees aged up to 65 years old and wishing to work that exceeds 80 percent.” AARP selects 50 companies annually from the United States, and 15 companies and organizations from around the world to present this award. Daikin was the first Japanese company to receive it.

“By meeting individual expectations on HR development and work environment, companies will be able to elicit loyalty from and grow together with each employee. When the direction of the company and people are aligned and they commit to each other, a driving force for growth and development is generated to take the lead over other companies,” says Allsop, whose confidence has further increased in PCM.

There is also a person who joined the Daikin Group because he identified with People-Centered Management from the outset. He is Cliff Adams, currently a colleague emeritus of Daikin Industries and advisor of Daikin America, Inc (DAI). The company Adams worked for in the past became a target for acquisition and was visited by both an Italian company and Daikin. Adams still remembers today the first thing that Yutaka Kometani, a Daikin board member, said at the time: “Daikin is a company that truly values people.” His former company was ultimately acquired by the Italian company and Adams, who disagreed with a management philosophy that was at the other extreme of Daikin’s, left the company in 1991 to join DAI as general manager of the Decatur Plant.

Soon after joining the company Adams came to Japan as a member of the KAF Preparation Office which was established for Daikin to start up a chemical plant in the United States. He worked at the Yodogawa Plant for approximately seven months. For Adams, the work approach at the plant was a new experience. Adams was strongly individualistic and was not thrilled to work in a team. In

the KAF Preparation Office, he expressed his response to a problem with confidence but other members, one after another, voiced opinions that were equally as good, if not better. Counter arguments ensued. After intense discussions, one solution gradually became identified as the best. Adams reflects on that experience, “I felt the importance of working in a team, rather than working alone. I was able to reach a higher level exceeding my previous bests because of my experience with Daikin, for which I am grateful.”



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*Chapter I*



# Daikin DNA



*Celebration of Daikin's 70th anniversary (1994)*

## ◆ People-Centered Management

Beginning with founder and company president Akira Yamada and extending to current president and chief executive officer (CEO) Masanori Togawa, only seven people have held the reins as company president of Daikin Industries during the first 90 years of its history. Of those people, founder Akira Yamada served approximately 40 years, and his son and third company president Minoru Yamada served over 20 years. Combined, founder and son crafted two-thirds of Daikin history. In the 20-year period following the collapse of the bubble economy, four career Daikin employees succeeded them as president beginning in 1994: Noriyuki Inoue, Hiroyuki Kitai, Yukiyooshi Okano, and Masanori Togawa. During that period, however, Chairman Inoue simultaneously held the position of CEO and representative director, and it was he who, acting as the company's leader, was responsible for guiding Daikin to its remarkable growth. Therefore it would be entirely appropriate to say that Akira Yamada, Minoru Yamada, and Noriyuki Inoue led Daikin for the greater part of its 90-year history.

In fact, those three men were responsible for enacting the corporate principles and management philosophy that established the Daikin management approach and corporate code of conduct. First, in 1958, President Akira Yamada took the opportunity of the 35th year of Daikin's founding to promote the three key corporate principles of "Absolute Credibility," "Enterprising Management," and "Harmonious Personal Relations" in *Our Core Values*, and President Minoru Yamada established *Management Philosophy* (see Appendices) in 1990. In 2002, two months after Chairman Inoue was appointed chairman and CEO, the company drafted *Our Group Philosophy* (Ibid).

As globalization rapidly advanced while he was president,

Chairman Inoue revised *Management Philosophy*, which had been established under President Minoru Yamada. That revision became known as *Our Group Philosophy*, a code of conduct to be observed by all employees of the Daikin Group, including those in overseas companies. Consequently, there are only two absolute conduct guidelines at Daikin: *Our Core Values* and *Our Group Philosophy*. These guidelines act as clearly stated standards that all of the approximately 60,000 employees of the global Daikin Group must observe. Daikin currently continues to perform daily operations, research and development, production, and sales activities in conformity to these two standards of conduct on a worldwide basis.

Colleague Emeritus Yoshikuni Inoue, a person who together with current Chairman Inoue formulated the draft for *Management Philosophy* when Minoru Yamada was president, had this to say: "*Management Philosophy* was a policy that did not clearly state what an employee must and must not do. It was more like 'think on your own and act independently within this range but don't deviate from the framework.'" He further added, "Daikin has seen times when the branch offices and affiliated companies wouldn't think on their own and would just follow the directions of the Head Office. That was no help. We delegated authority and created a system for them to act on their own because they were closest to the market. Still, they hesitated to act without explicitly knowing what management was thinking. *Management Philosophy* was something that provided direction and gave the people at the frontlines a hint. Ideally, it should be something as natural as air."

With authority being transferred to actual worksites, a management philosophy was necessary as a code of behavior to guide managers in making decisions and taking action on their own. Incidentally, the subject most often talked about by Daikin employees, both



in Japan and overseas, was not *Our Core Values* or *Our Group Philosophy* but rather People-Centered Management, and interest in People-Centered Management was not limited to Daikin. Media publicity of it began increasing and its prominence began spreading globally, making it synonymous with the global Daikin Group.

One of the driving forces of Daikin's growth in its 90-year history, especially during its rapid growth in the last 10 to 20 years, has been its management foresight to stay a half-step or a step ahead of other companies. However, what unites Daikin as a Group and enables timely and precise implementation of strategy and decisions by top management is nothing less than the instilling of the People-Centered Management to every corner of the organization. However, unlike *Our Core Values* and *Our Group Philosophy*, People-Centered Management has never been clearly defined, leading many to wonder of its true nature. Chairman Inoue explained the definition of People-Center Management to this author on a visit to his office:

“With belief in the ‘infinite potential of people’ and based on the conviction that ‘the source of a company’s competitiveness is its people’ and that ‘the cumulative growth of each individual is the foundation of a company’s growth,’ People-Centered Management is a line of thinking which draws out the enthusiasm and understanding of the people who work in an organization to strengthen and raise the capabilities of the organization as a whole by having all members further refine their own individuality, demonstrate their full potential, and achieve growth.” Having thus defined it in this way, Inoue elaborated on the mindset that forms the basis of People-Centered Management.

“The source of a company’s competitiveness is not money or goods but the capabilities of the people who work there. Capabili-

ties in technology, planning, sales, and production; capabilities at the workplace and in achieving growth—all of these are the capabilities of the people engaged in these activities. Consequently, one of the most important roles of management is to establish a workplace in which employees who were drawn together in joining Daikin can experience fulfillment and work with a sense of purpose. This environment may not be their sole motivation in their lives but it should provide them with a considerable sense of purpose and enthusiasm for work. Workers should feel a sense of challenge, be able to demonstrate their maximum potential, and achieve growth.”

In other words, corporate development depends on the people who work there: specifically the capabilities of the employees. Daikin takes the approach that it has a responsibility to provide all employees with an environment where they can work enthusiastically.

“People have a non-logical existence with feelings and emotions irrespective of nationality, race, or gender that transcends differences in culture, customs, and history. Even if we ignore this part of human nature and try to persuade others with only logic, people will remain indifferent to our reasoning and instead only pretend to accept it while secretly feeling defiant. Human awareness and feelings are not always stable, and there will be times when they become passive and negative. An organization is a structure of human sensibilities. Understanding those sensibilities and building truly trustworthy relationships that may be simultaneously harsh and humane fully draws out motivation and understanding from each individual, and this vitalizes an organization to ultimately become the driving force for growth and development of a company.”

To wit, humans are living creatures abound in emotions, and one cannot hope to invigorate an organization when employees are

not treated with this understanding. In addition to this definition and its explanation, Inoue offered this observation:

“People-Centered Management is tacit knowledge, or corporate culture, nurtured over the history of Daikin’s business activities since its foundation...” “[It] is the tacit knowledge that our Group has nurtured since our founding and the efforts made for it (namely, how to enhance the enthusiasm and understanding of people who work in the company).”

Tacit knowledge is the intuitive, physical, and acquired knowledge that one finds difficulty in adequately expressing in words. In short, although People-Centered Management defies expression, if one were to try to find words for it, then the preceding explanation would probably be its definition.

The tacit knowledge of People-Centered Management enriches the clearly stated *Our Core Values* and *Our Group Philosophy*. Chairman Inoue explained concerning the relationship of the three in this way:

- *Our Core Values*

“This is the statement for customers, shareholders, and employees, who are all Daikin stakeholders, and serves as the foundation of management.”

- *Our Group Philosophy*

“This is the basic policy of behavior for performing daily work and outlines the philosophy of Daikin. It is for all employees to thoroughly understand and acts as a constitution that all those belonging to the Daikin Group must observe.”

- *People-Centered Management*

“This is the tacit knowledge nurtured continuously in the Daikin corporate culture through its traditions and customs over

the many years since its founding and has an extremely wide reach. It underlies all Daikin philosophy, even *Our Core Values* and *Management Philosophy*.”

If we were to amplify the interpretation for *Management Philosophy* to that of a constitution, then *Our Core Values* would be the preamble defining the spirit of the constitution, and *Management Philosophy* would be its provisions, namely the content itself. Conversely, could People-Centered Management be the approach and thoughts that formulate the basis of that explicitly stated constitution? Although it is conceivable that a constitution could be revised according to changes in the times, environment, or awareness, the underlying beliefs and culture for People-Centered Management have been present at Daikin since the founding of the company, and that foundation lasts as long as Daikin exists. Rather than being a concept augmenting *Our Core Values* and *Management Philosophy*, People-Centered Management is the backbone of Daikin, serving in the background to give definition to the DNA that is continually being passed down to employees. For this reason, it is something that is impossible to sufficiently render into words and is conveyed as tacit knowledge.

#### ◆ **Management Philosophy That Experience Engendered**

The expression People-Centered Management first appeared in comments by Chairman Inoue in the July 2001 edition of the in-house publication *Daikin Times*, a year prior to the company enacting *Our Group Philosophy*. The comments were made in a speech at the ceremony for payment of the summer bonus and included the following:

“Wisdom, corporate culture, tacit knowledge—people are the bearers of all of these. While a company may have capabilities for engineering, sales, and production, these are also the capabilities of people. Until now, Daikin has been a company that has thoroughly performed management valuing people. In the future as well, I would like to further refine our people-centered management based on the approach that people are the source of a company’s competitiveness and change is improbable without the involvement of people who are the bearers of that change.”

The expression of the People-Centered Management concept was also seen in the previous year in statements outside the company, and the phrases of “management that values people” and “management with a focus on people” stand out. In the statement published in *Daikin Times*, Inoue said that Daikin had thoroughly performed “management that values people,” and then rephrased the expression in saying, “In the future as well, I would like to further refine our people-centered management.” Consequently, we learn that Inoue began using the expression “People-Centered Management” around the year 2000.

People-Centered Management is said to be tacit knowledge that has developed Daikin tradition since the founding of the company and is not an original idea of Inoue. “Be a company that grows with individuals” was a key point stated in *Management Philosophy* enacted at the time of Inoue’s predecessor President Minoru Yamada. This was explained to mean that “a company is an organization of human beings having various individual personalities brought together by fate, and the first principle of our company is to respect

the individuality of employees and provide stable employment.” That principle laid the foundation leading to People-Centered Management.

Management valuing people has been a part of Daikin DNA since the company’s founding. However, it took a person like Noriyuki Inoue to stand at the helm of Daikin and exhibit that DNA through practical application in various ways as People-Centered Management and have it widely acknowledged as practical managerial thinking that differs from “management that values people,” which is more commonly heard in business. Inoue himself says, “I did not coin the expression *people-centered*,” and one theory suggests that the media created and publicized it. Regardless of the origins of the name, People-Centered Management was enthusiastically adopted by Inoue, and this became the impetus for Daikin to take a great leap forward.

Various keywords for how to put People-Centered Management into specific practice are expressed in each provision and commentary of *Our Group Philosophy* and lectures of Chairman Inoue. Some of those keywords include “Fast & Flat Management,” “vigorous discussions,” “leadership decision upon group discussion,” “core persons and supporters,” “accepting the nail that sticks out,” “second-rate strategy with first-rate execution,” “the 60/40 principle,” “the *genba* (frontlines) principle,” “the inherent goodness of people.” Many of these may be expressions unique to Daikin, but many executives express the substance of their meaning, and the management style being practiced does not differ so greatly.

However, after the collapse of the bubble economy in Japan when companies that had professed “valuing people” were forced to undergo restructuring and to adjust their management, executives were driven into a corner to change. How was it that Daikin contin-

ued to increase revenue and profits, and how was the company able to sprint to the position of global No. 1 air conditioner manufacturer? Undeniably, it was because of top management's insightful analysis and action-taking capabilities. Nevertheless the underlying management philosophy of People-Centered Management was backed by the formative experience of Inoue himself, and it reflected his strong, unwavering conviction.

Inoue replied in this way to a request for background information for the featured autobiographical series "My Resume" that was published in the arts and culture section of the *Nihon Keizai Shim-bun* in February 2007.

"If I had to describe my style, I would probably say that I am the type of executive who acts out of conviction from practical application. I read books to a certain extent but I don't have much faith in knowledge that is being readily promoted in the world. The books of scholars are useful for acquiring knowledge, but I don't believe in them when making management decisions. I have an adventurous streak that makes me want to try something at least once, and I am especially careful to place importance on practical experience."

People-Centered Management is neither a simple slogan nor a mere reorganization of DNA that Daikin has handed down but is rather a compelling management philosophy that Inoue derived from practical experience. It should be noted that he faced numerous difficulties, and the practical experience of overcoming them is reflected in his approach to People-Centered Management.

For example, during the Second World War when Inoue was a child, his father was a university professor who had returned from the United States. Consequently, Inoue suffered cruel bullying by such taunts as being called a spy. Those taunts continued until Inoue stopped one day during a walk with his dog at the house of the ringleader of the group bullying him. They talked about nothing particularly important, but he discovered a difference in the attitude of the ringleader at home with his family and his attitude at school. He returned home with the impression that the ringleader was an ordinary child. "What a surprise," he thought with great relief, "There was nothing about him to be scared of." In the days following their talk, the ringleader did nothing at school to cause him trouble. Inoue reflects, "I was a mere elementary student but I realized that people are likely to show a different side when their position or viewpoint changes."

Upon entering Daikin, Inoue was assigned to the General Affairs Section at the Yodogawa Plant in charge of the Miscellaneous Affairs Subsection despite wanting to join the Sales Department of the Chemicals Division, the more glamorous department at that time. When he was at last assigned to work at the Head Office nearly 20 years later, he was appointed general manager of the Human Resources Department, the department he had the least desire to enter. Company employees in Japan are often tossed around in transfers against their will, and Inoue was no exception. Early in his career as a young employee with little more than a year's experience, Inoue became absent from work for ten days without authorization. He had been placed in charge of the Miscellaneous Affairs Subsection at the Yodogawa Plant and felt dissatisfied with his work situation. After a work colleague and fellow Doshisha alumnus came to visit him, Inoue decided to return to work despite having the expectation that

he would be fired. Instead, the deputy section manager, who did not normally talk to him, assigned him work by saying, “Have this done in one week,” without chastising Inoue for missing work. Even his section manager reassured him by saying, “This sort of thing happens.” Inoue says on his return to work, “It was as if the oppressive atmosphere (before the unauthorized leave) had instantly evaporated and everything took on a magical air of freshness. This was a major turning point, perhaps the biggest in my life.”

Because it stems from a conviction generated from his own experience, Inoue has not only become an advocate of People-Centered Management, but he has also thoroughly practiced it and constantly encouraged employees to execute it. The People-Centered Management of Daikin vastly differs from “valuing people” to which many other companies allude. What is even more critical than the difference in its content is the level of commitment practiced by Daikin. Senior Executive Officer Yasushi Yamada, who as managing director, senior managing director, vice president, and senior executive officer worked closely with Inoue to promote the company’s growth for 20 years, says, “Chairman Inoue and I have completely different personalities, and at times he has gotten angry with me. I think it is natural to exclude someone you don’t get along with. My wife often says, ‘The two of you are incompatible. But Mr. Inoue is an amazing person to have kept someone like you at his side.’ I agree. I feel extremely grateful for the opportunities I’ve been given. He truly is an amazing person.”

Just what is Daikin’s level of commitment? Beginning with Inoue, senior managers actively visit the worksites to ascertain the situation. If there is a problem, the managers discuss it with worksite members and then give instructions to resolve the issue. That is the practical application of the *genba* principle in People-Centered Man-

agement, and it is true of Senior Executive Officer Yamada. Whenever time permits, he visits the factory to assess the situation regarding potential problems. On one occasion, he saw a female employee of small stature standing on her tiptoes to perform a task. When he asked her, “Isn’t that difficult to do?” she replied, “It’s because I am short,” implying the fault was her own. Yamada immediately rebuked her supervisor, “Haven’t you noticed she has a problem?” He gave instructions for improvement and said, “Having her stretch like that without being able to see what she is reaching for leads to quality and safety issues.”

Also, the execution of People-Centered Management is encouraged through discussions such as at the Group Management Meeting or at manager meetings. On these occasions, vigorous discussions are held, and the final word of Inoue is ultimately expressed as the “leadership decision upon group discussion.” Training programs such as those for new employees and leadership development aim to have the people-centered approach spread throughout the company. The key to understanding People-Centered Management lies in providing employees first-hand experience in such concepts



Group Management Meeting held at Daikin Ales Aoya (2014)

as vigorous discussions, Fast & Flat management, and core persons & supporters by mobilizing employees in the hosting of company events such as the Bon Dance Festival, the Daikin Orchid Ladies Golf Tournament, Daikin concerts, and dealer appreciation reception parties.

Moreover, it does not end with the meetings, training sessions, and opportunities for real-world experience. Review meetings are held soon after the events with participants preparing reports on key points and submitting ideas for improvement. Inoue and his staff examine the information, highlight insufficiencies, and repeatedly investigate new methods. Such activities are thoroughly implemented in a comprehensive system that provides opportunities for employees to broaden their abilities, eschews blame for failures made when taking on challenging tasks, raises self-awareness by verifying inefficiencies, and strives for an ever-increasing level of improvement.

It is solely because of this detailed undertaking that the People-Centered Management approach has permeated the entire company. For example, a member of the Advisory Council observed in an evaluation that “sufficient time is given to enable extensive discussions, and senior executive officers and others can openly express their views to top management at Daikin’s Board meetings. It is an organization without a bureaucracy.” Daikin is an organization where individuals and the company are on an equal footing and have a relationship in which they mutually select each other. Interviews in the early stages of the hiring process are called “dialogues” at Daikin. Applicants sit at a table with officers and state their individual abilities and ambitions, whereas the officers explain the company’s management philosophy and policies. Hiring occurs when each is convinced of the other’s suitability. That system may be the

reason students hoping to enter Daikin express a favorable impression of the company. One recent recruit had this to say, “Many key points in the Daikin management philosophy focus on ‘people,’ and Daikin appears to be a company that values people. I think companies operating with a clear policy regarding their employees have great appeal.”

If one were to propose another reason for the results produced by Daikin’s People-Centered Management it would be this: the implementation of People-Centered Management unites the Daikin Group into producing remarkable results, and the company rewards employees in the form of benefits and compensation. One might wonder if it is a case of which came first, the results or the rewards. It is a fact that Daikin employees work hard, as evidenced by the steady sales of the company, and business results are improving.

People-Centered Management is an invaluable management philosophy generated from the actual experience of top management, and Daikin’s success can be linked to the instilling of that philosophy throughout the Group companies. It is also due to the courageous implementation of decisions that were made after vigorous discussions and were based on the foresight of top management. In the next section we will review Chairman Inoue’s experience during his time at the Yodogawa Plant and examples of the gutsy decisions he made when faced with various problems immediately after he became president. Those experiences could be called the source of People-Centered Management.

#### ◆ **Changed Culture of Yodogawa**

One wonders if the source of People-Centered Management, which is based on a “belief in the potential of people,” is, unexpectedly, a reflection of Inoue’s affable personality and his love of people. In-



oue's father was a professor on the Faculty of Agriculture of Kyoto University, and he would often invite assistants and students to his home where they would sit in a circle and boisterously talk about studies or the future. Those circles were called "rondo," which in Italian means a musical form repeatedly played several times as a refrain. Inoue liked that type of atmosphere and from the time he was an elementary student he would quietly sit at the rondo's edge looking on. "It was here that I developed an affinity for people, a readiness to thoroughly discuss an issue until nothing was left unsaid, and a willingness to listen and understand what others were saying," Inoue writes in "My Resume."

Inoue, who liked to be in a circle of people, even volunteered to be a camp recreation leader for the religion club at his high school, and he racked his brain to plan something completely new in the desire to see everyone absorbed in activities at the campfire. Inoue says, "If you observe the condition and psyche of others and then perform the unexpected, people will naturally be drawn to you. Having a precise understanding of the situation at hand and incorporating different elements are fundamental in planning. I don't like copying others and enjoy being different, as I did then." This approach is evident in the painstaking efforts made in providing hospitality at the Bon Dance Festival and the Orchid Ladies Golf Tournament.

Together with being a person who likes people, Inoue is a person with strong sensitivity and modesty, as exhibited in the episode with the leader of a group of bullies. He is adept at getting along with various types of people, and his ability to continually overcome severe adversities is thought to be a part of his character. His approach of placing trust in people and undertaking difficult tasks has grown firmer by the accumulation of experience since entering Dai-

kin. The three major reforms Inoue implemented during his time at the Yodogawa Plant were elimination of time cards, solving problems with the labor union through conscientious dialogue, and hosting the Bon Dance Festival, a special Daikin event known worldwide. These reforms all emanated from a warm heart and trust toward people.

Inoue entered Daikin immediately after graduating from the Faculty of Economics at Doshisha University in 1957. His first assignment was at the Yodogawa Plant. Over the 18 years since then, he successively held positions as the person in charge of the Miscellaneous Affairs Subsection in the General Affairs Section, Planning Department, section manager of General Affairs and Labor Affairs, and general manager of the General Affairs Department. He was the one who set his hand to abolishing time cards in 1963 during his stint in the Planning Department. Work at the Yodogawa Plant started at eight o'clock in the morning, and employee work hours were managed using timecards. However, even if a person arrived on time at the factory gate, it took time to change clothes and walk to the worksite. This caused factory operations to begin about 20 minutes later. Naturally, the company wanted employees to start working at the designated work time, and the labor union was opposed to any increase to work hours. Inoue insisted that eliminating timecards would eliminate the need to check them.

Although the company opposed eliminating timecards, Inoue argued that the company "should believe in the honesty of people," and subsequently a three-month trial period suspending timecards was permitted. During that time, employees arrived at work earlier, and operation of the factory line also began earlier. This led to timecards being entirely abolished from the company five years later. Senior Executive Officer Guntarou Kawamura, who was Inoue's subor-

dinate at the Yodogawa Plant, reflected on the situation: “It’s a matter of whether you think people are fundamentally good or fundamentally bad. Ninety-five percent of the workers come early, diligently do their jobs, and return home. It is unnecessary to micromanage those people. Both Inoue and his predecessor President Minoru Yamada had a fundamental belief in the goodness of people.” This was the first example validating Inoue’s belief in the goodness of people, which probably could be called a prerequisite for People-Centered Management.

During the 1950s, the labor movement became a potent force in Japan, and there were many militants in the labor union at the Yodogawa Plant. When Inoue became a section manager in the General Affairs Department, all six of the labor union executives under the chairman held radical views. The company blacklisted them and rejected all their demands, which naturally complicated any discussions with the union and resulted in negotiations often going well into the night. However, after making a thorough inquire of the wishes of each individual employee, Inoue carefully listened to the union leaders and found several grievances to be reasonable. Although he worked to convince the company to agree to the reasonable demands of the union leaders, he refused to compromise on those that were absurd and political in nature.

“Even if we had opposing views and negotiations came to a standstill, I would not take the easy way out. I formed a habit of seeking another way, a ‘third way’ that was acceptable to both sides. Do not lie, keep your promises, and do not make promises you cannot keep. It was during this time I developed my fundamental beliefs regarding people.”

Iwao Takeuchi was chairman of the labor union at the Yodogawa Plant, and he often engaged in heated negotiations with Inoue.

He described those times, “It was just after the first oil shock, the company had run a deficit, and a 10% pay cut had been decided for the managers. Although it would have been customary to just remain quiet and go along with the pay cut, Inoue was the type of person who would not stay quiet at such times. ‘This is what was decided,’ he said, ‘but what does everyone think about it?’ Even if we knew the situation was hopeless, we would gain some satisfaction if we could speak our minds. From new employees who just graduated from junior high school, to young female employees, to veteran section and department managers, Inoue always carefully listened to everyone.” Saburou Shimomura, a former deputy general manager of the Yodogawa Plant and subordinate under Inoue in the Labor Affairs Section agreed, “I think he had a base that developed by gaining unfettered understanding and acceptance. If I had initiated a work process lacking that kind of consideration, I would have been reprimanded. Having been developed under Inoue in this way, I think it is astute.”

The methodology that searches for a third way to resolve issues based on listening carefully to the concerned parties and gaining their understanding and acceptance is Inoue’s basic stance, and it is the approach of People-Centered Management that is also sought in middle management. This tactic of Inoue was even seen when he was a deputy section manager.

In 1963, about 100 farmers living in the area around the Yodogawa Plant showed up and claimed a loss in their business due to a factory gas leak. Ordered by the department manager to meet the farmers, Inoue listened to their complaints for five to six hours. The farmers said their vegetables were wilting, and although the cause for the wilting could not be proved scientifically, their complaints were made in earnest. Inoue listened carefully to what they had to



say and then courteously explained the things the company could and could not do. From then, Inoue became the designated local resident negotiator, and he built a relationship of trust with the local residents by holding factory tours and establishing a *kendo dojo* for the local elementary school children.

Looking to establish closer contact with the community, Inoue had an idea. That idea became the Bon Dance Festival held in August 1971. About 6,000 people visited the festival, including employees, their families, and local residents. Inoue remembers, "I felt that was the day when the factory and the community came together as one." At the time, Inoue had adopted an executive committee method. The committee was formed of employees from not only the General Affairs Department but also from among employees that enjoy Bon dances and those experienced in managing events. The chairman of the executive committee was entrusted with complete authority. There was a core person and supporter system in which the chairman was the core person and everyone from the general manager of the Yodogawa Plant on down and the General Affairs Department lent their cooperation as supporters in the planning and execution of

the Bon Dance Festival.

"It was a workplace where that type of activity was common," explained Senior Executive Officer Guntarou Kawamura. "Leading roles were assigned for a variety of needs with no regard to education, position, or age. 'In safety, you play the lead role at this workplace' or 'In skill training, you take the lead.' Inoue was good at deciding roles. People gathered together and were used to engaging in an extremely flat manner to the extent that you would have the chairman of the labor union sit with members of the company's wage board. By having the assembled members work freely with an understanding of the goals, I think we created a climate where everyone could confidently work with no hesitation. At the Yodogawa Plant, anyone could speak freely and say 'that's strange' to something said by the plant general manager. Jiro Mitani, the plant general manager, now deceased, and Inoue, the manager of Labor Affairs, created that kind of climate."

When Inoue was the general manager of the General Affairs Department in 1972, he began a training camp lasting five nights and six days for employees who had graduated from junior and senior high schools. The purpose was to teach them the basic approach toward work. Trainees stayed overnight at the Active Biwako Center with senior colleague leaders such as factory supervisors, and they absorbed the curriculum formulated by Inoue. Centered on classroom study (work attitude), behavioral training (discipline and practical application of classroom study), and discussions, there were also outside activities and recreation after dinner, and employees would gradually master the proper attitude for working at Daikin in a serious but friendly atmosphere.

The training camp that Inoue started later also welcomed new employees from other factories and branch offices. That same camp



*Bon Dance Festival at the Yodogawa Plant (2014)*

developed into the training camp that now serves all of Daikin, including university graduates, and is the place where new employees learn People-Centered Management. Furthermore, the Bon Dance Festival that had begun the previous year continued on the grounds of the Yodogawa Plant as a Head Office event and has become a local summer tradition in which nearly 25,000 people participate every year.

Inoue thinks Daikin's strengths are, "an atmosphere of freedom and frankness, the boldness to stand up squarely to take action, and the teamwork to band together and strive to achieve ambitious goals as well as sincerity, warmth, and hospitality." While the changes were not owing to the sole capabilities of one person, Inoue did change the corporate climate of the factory, and he created a foundation for that change by promoting various reforms during his tenure at the Yodogawa Plant.

#### ◆ Company That Shuns Restructuring

Since beginning work at the Yodogawa Plant, Inoue had trodden the path of General Affairs for 18 years before he was unexpectedly sent to the Head Office as general manager of the Human Resources Department in September 1975. Inoue would later write in "My Resume," "The Human Resources Department was known for wielding a bunch of theories and had an extremely bad reputation on the factory floor." Although Inoue asked to be excused from becoming general manager of the Human Resources Department, President Yamada, who had been inaugurated president three years before, was aiming to reform the Human Resources Department with drastic measures that included immediate reassignment of the general manager and three section managers in the Human Resources Department. He ordered Inoue to "make Human Resources a depart-

ment that sallies forth from the castle." In becoming the general manager of the General Affairs Department at the Yodogawa Plant, Inoue's opportunities to come into contact with President Yamada increased, and he gained respect for the Yamada management style that valued people. Taken under Yamada's tutelage, Inoue was able to learn President Yamada's style while he worked to refine People-Centered Management.

Inoue became general manager of the Human Resources Department in 1975. Daikin ran a deficit that year, its first in a quarter of a century, due to the first oil shock occurring the year before. It was a critical juncture where nearly 1,000 of the 6,200 employees became excess personnel. Nevertheless, President Yamada set forth the "Declaration of Policy for Avoiding Employee Layoffs" and announced it to all company employees in the year's Annual Policy. To avoid dismissals, a large number of employees were reassigned from the manufacturing division to the sales division, and in the same year 333 employees were seconded to affiliated sales companies for a fixed period of three years.

However, it would take time to resolve the situation of having excess employees, and returning seconded personnel to Daikin Industries proved to be difficult. In 1976, Inoue, who had become general manager of the Human Resources Department, thought it was necessary that "the seconded employees settle in and unite with the career employees with efforts that showed their true spirit," and he proposed "secondment with an indefinite deadline." The labor union was opposed but accepted the conditions such as establishment of a career counseling system, and 108 people were newly seconded to sales companies. The seconding at that time is said to have become the foundation later for the number one sales network system in Japan.

The “Declaration of Policy for Avoiding Employee Layoffs” of President Yamada became an emergency measure that included seconding personnel for unlimited durations. The conviction of Yamada to avoid laying off employees originated in the “futility” he experienced when he was in charge of personnel, and employee layoffs had been unavoidable on three occasions after Japan’s defeat in the war. Underlying the policy was a very Japanese style of human relations. Even in *Management Philosophy* that was enacted later, Inoue viewed Daikin as an “organization of human beings having individual personalities brought together by fate,” and the “stabilizing of employee employment is considered most important.”

However, the thinking of Inoue, who stood at the helm at Daikin during the advancement of globalization and intense international competition, carries a nuance that slightly differs from that of President Yamada. In *Our Group Philosophy* set forth by Inoue, the approach becomes the “company and the individuals who work there are drawn together by mutual preference.” A give-and-take relationship was established in which the company gives opportunities to employees to demonstrate their abilities while demanding employee loyalty. In such a situation, the company “strives to provide stable employment for those employees who contribute to the company’s growth and development and wish to continue working for the company.”

Compared to the “compassion” of Yamada that believed that “fate” binds the relationship between the company and employees and fundamentally denied termination for company-related circumstances, Inoue’s approach was dispassionate, and there was also a direction that seemed hardhearted. To this he responded to employees at a round-table discussion published in the February 2003 issue of *Daikin Times*:

“Because we are facing such difficult times as these, I would sincerely like to value employees even more than ever. However, I want you to understand that the ‘manner in which people are valued’ changes.... Now is not the time to be indulgent. The word ‘fate’ was intentionally not used to express the meaning that you will not be rescued simply because you are a member of Daikin regardless of whether you work hard or not.”

Furthermore, responding to the question of whether the policy that protects employment has also changed, he replied:

“Within ‘management based on the mandates of capitalist philosophy,’ I will not deny as an executive that the company may resort to such means as employee layoffs because that is the most effective method to revive results when management is facing difficult times. However, I would like Daikin to continue being a company that can survive without taking such measures as employee layoffs.... The Daikin Group aims to continue being a company that does not need restructuring because our people demonstrate their capabilities to the fullest.”

In fact, after becoming the top executive at Daikin, Inoue faced many extremely grim circumstances but he never ordered employee layoffs.

Inoue climbed the corporate ladder mainly in the fields of Human Resources and General Affairs. He became a director in 1979,

managing director in 1985, and senior managing director in 1989. In December 1988, however, when he was managing director, President Yamada assigned him to be in charge of the chemicals business at a time of crisis and when the existence of the Chemicals Division hung in the balance. Heading the Chemicals Division had been his wish at the time of entering the company, but the new task seemed overwhelming for what he called “a pen pusher.” He told President Yamada, “The only chemical formula I know is H<sub>2</sub>O,” to which Yamada retorted, “Don’t worry about not knowing about chemicals. After being at Yodogawa, you know people’s faces and names in the Chemicals Division. That’s all you need to know.”

In September of 1987, the Chemicals Division had recognized that chlorofluorocarbons (CFCs), its flagship products, were specified as substances that destroy the ozone layer and Daikin was obliged to reduce CFC production because of the adoption of the Montreal Protocol on Substances that Deplete the Ozone Layer. Two months later, DuPont sued Daikin for dumping fluororesins, whose exports to the United States were expanding, and in August 1988, the final verdict was reached: Daikin exports to the United States were forcibly halted. In addition to that setback, Daikin was suspected in December 1988 of violating the Coordinating Committee for Multilateral Export Controls (COCOM) rules with the export to the Soviet Union (currently Russia) of a fire extinguishing agent containing Halon that was used for fishing vessels. The Osaka Prefectural Police searched the Daikin Head Office in regards to that suspicion.

Because the vice-president in charge of the chemicals business resigned to take responsibility for the incident, the task of managing the situation fell to Inoue. The incident related to a violation of the COCOM rules and involved the purity of Halon, which had to be lowered before exporting to Communist Bloc countries. A careless

mistake in manufacturing and inspection resulted in the product being exported at a high degree of purity, and two section managers were arrested. Charges were filed against Daikin and one of the managers, ending in guilty decision. Although the incident was settled, the problem Daikin faced was rebuilding the Chemicals Division whose spirit had been broken because of the “Three Ordeals” of CFC regulations, dumping charges, and the COCOM violation. Since entering the company in 1957, it was the first time for Inoue to be placed in charge of the Chemicals Division. Without a firm understanding of the manufacturing process or sales approach, he listened to those in charge describe their circumstances and made an effort for three months to fully ascertain the situation.

The picture that emerged showed inherent complacency on the part of the Chemicals Division. Inoue admitted with a wry smile, “The Japanese sales department never talked of market share, and when asked they would say things like ‘Daikin was behind DuPont and had the top share in Japan.’ In fact, Asahi Glass actually held a larger market share than Daikin. We had assembled the best and brightest employees, and our research in surfactants led all other companies, but we were slow to commercialize products and before we knew it Asahi Glass was beating us to the market. We had been flattering ourselves into thinking we were the leading fluorochemical manufacturer and became content merely to license technology to Asahi Glass.”

Promoted to managing director in June 1989, Inoue thought the Chemicals Division needed a challenge to awaken it from its stagnation and melancholy. “I told the sales team I did not want to see them at the office. I said I was turning off the lights in the sales department so they had better leave,” he said, urging employees to get out of the office and sell. “I commanded the research team to fill up their pass-

ports with stamps while meeting directly with end-users overseas to find out the needs for application development.”

Saburo Shimomura, who became manager of the Manufacturing Planning Department in the Chemicals Division from the Yodogawa Plant at that time and who was working toward reorganization, had this to say: “(In the Chemicals Division) there had been a practice of holding discussions without reaching a decision. Inoue personally opposed this practice of ‘consulting without deciding,’ and made everyone engage openly in heated discussions. When he became the officer in charge, there was a tense atmosphere in the division. However, I think everyone felt that the situation had reached its limit and something had to be done.”

At that time, the largest market for the fluorochemicals business was the United States, but Daikin could not export its products there because of the dumping case. This led Inoue to transfer production operations directly to the United States. Daikin purchased land adjacent to a 3M plant in Decatur, Alabama, in 1990. Decisions were then made to build a monomer (raw material) factory in a joint venture with 3M and to operate a fluororesin factory wholly-owned by Daikin.

The investment of approximately 20 billion yen was a decision gambling the fate of the company, but it received the support of President Yamada and ignited a passion for the first time in the Chemicals Division with a major workplace project. Up to 100 people were sent from Japan for factory construction and equipment trial runs. Manufacturing floor foremen and veterans were in charge of the trial runs of equipment as well as for training and tutoring the locally hired operating staff.

Current Senior Executive Officer Guntarou Kawamura, who was called up by Inoue and transferred from the Yodogawa Plant to the

Human Resources Division at the Head Office, explains, “The special characteristic of Inoue is that he doesn’t cast people out for failing. In the Chemicals Division at that time, there were four deputy general managers and a department manager under the general manager. Inoue assigned all of them important roles such as U.S. office manager, factory manager, and construction manager, and had given them tasks with more responsibility in higher positions. Here was another case of Inoue not casting people out. With the great results produced by this inclusive approach, the Chemicals Division became the most outstanding division in the company and the engine for the company’s growth, even covering the shortfalls of the Japanese AC Sales Department when it fell into deficit.”

Inoue was knocked about in dealing with problems of excess personnel during an operating loss and the Three Ordeals of the Chemicals Division, but his conviction in the value of People-Centered Management only deepened.

#### ◆ Sharing a Dream

Shikanosuke Yamanaka was a true warrior who was said to have prayed, “Spare others and give me the hardships to bear.” In the case of Inoue, rather than wanting to endure adversity, his capabilities as an executive were constantly being tested in confronting difficulties occurring in the period of globalization after the collapse of the bubble economy. Inoue and Daikin employees faced these difficulties head on and overcame them.

When asked about the results, Inoue flashed a grin and said, “Luck plays a large role in the success of business decisions. It could be as much as 80 percent.” Masaharu Ikuta, Inoue’s friend and the former chairman of Mitsui O.S.K. Lines, Ltd., offers his own assessment of Inoue, “He makes decisions for extremely problematic situ-

ations with a firm conviction at a time when decisions must be made.” That observation quite likely hits the mark. In fact, Inoue made various key management decisions over the past 20 years as president and chairman. He gathered information by personally visiting the business frontlines, had the pros and cons thoroughly discussed, and then made unambiguous decisions. Most of his decisions turned out to be successful because he was keenly observant, had an animalistic instinct that quickly recognized the signs of change at the actual worksites, and maintained firm belief as top management.

In June 1994, Inoue replaced President Minoru Yamada to become the fourth president in Daikin history. When he became general manager of the Human Resources Department at the Daikin Head Office, the company was in the midst of a deficit for the first time in a quarter of a century. Ironically, when he became president, recessionary pressures reverberated this time in the main force of the air conditioning business, and the company fell into the red for the first time in 17 years. That wasn’t all of it.

“The officers had drifted apart. President Yamada had gone too far in delegating authority, and the officers of each department and division acted as lords of personal manors.... The company as a whole had become disjointed.” (“My Resume”)

Nothing was more urgent than straightening out the air conditioning business. However, Inoue had never been responsible for air conditioning. He was named incoming president four months prior to inauguration and his first act as president began with a meeting to determine the facts, as he had done much earlier in the Chemicals

Division. He gathered the concerned managers, told them to speak their minds, and had them stay overnight together for discussions lasting late into the night to gauge their impressions of the situation. He always asked two or three people questions concerning the same theme to avoid getting biased information.

At the time, Daikin attached great importance to its specialty of commercial-use air conditioning then gave second and third priority to room air conditioning (residential-use) and central air conditioning (factories and buildings), which had continued to run deficits. The prevailing opinion within the company was divided between those believing that efforts must be made in commercial-use products where profits were increasing, and those pressing to generate growth in room air conditioners by developing mass retailers. However, the weight had to shift to replacement demand since the Japanese air conditioning market was already mature and factory and building construction had ground to a halt because of the collapse of the bubble economy. In overseas markets, on the other hand, sales of air conditioners for residential-use and factories and buildings were expanding more than for commercial-use equipment. There were also expectations to increase profits through peripheral businesses such as repairs, maintenance, and after sales servicing for central and commercial-use. On top of that, only the U.S. manufacturer Carrier and Daikin had product lineups extending from central and commercial-use to residential use.

Although Daikin management had been skeptical of advancing overseas due to the substantial risk, overseas markets appeared to have greater growth potential than the mature Japanese market. When thinking of growth, advancing overseas, despite the risk, offered the only viable option. If the capabilities of the three divisions of commercial use, factory and building use, and residential use



were concentrated, then Daikin could aim for the world's top position. With this in mind, Inoue decided on the AC Three Pillar Plan. A separate viewpoint of advancing to overseas markets was added to the argument which had been initially premised on the assumption of sales only in the Japanese domestic market, and, in short, an unexpected policy called the Three Pillar Strategy of Air Conditioning was born.

When a decision is made, all measures necessary for realization of the plan must be taken, and there is a process of "taking continuous action." When sales slumped for residential-use air conditioners, Inoue made frequent trips to the Shiga Factory where the room air conditioners were manufactured to discuss the problem areas and give instructions. This led to a significant reduction in costs through global parts procurement and a streamlining of the manufacturing process, resulting in development of the hit product "Ururu Sarara." Equipped with a humidifying function without need of a water supply, "Ururu Sarara" was the first air conditioning product of its kind in the world. The strong interest and support shown by the company officers had encouraged the people in the Shiga Factory, and they responded by enabling Daikin to achieve the top share in the Japanese market for residential-use air conditioners in 2003.

Inoue later reflected, "Under pressure, people exhibit amazing capabilities. From this experience, I realized the boldness and potential underlying Daikin and could affirm the wisdom of believing in the potential of people and valuing the core of Daikin."

#### ◆ Overseas Development

In order to generate results of the AC Three Pillar Plan, Inoue was pressed into making important decisions in rapid succession for the overseas business: advance into the Chinese market, which had been

delayed from fear of risks, the expansion strategy for the air conditioning business in Europe, and an M&A strategy aiming to make Daikin global No. 1 in its industry.

In 1995, Daikin advanced into China. Advancing into China at that time, however, carried substantial risks and many in Daikin opposed the idea. No matter the discussion on how great the merits, a definitive conclusion proved elusive until Inoue decided to advance into China based on the 60/40 principle. It is seldom possible to embark on a course that prepares for all contingencies at the time of deciding a strategy or when trying to utilize human resources in the exercise of leadership. Even when 60% agree to initiating a certain action, 40% will stand in opposition, and in the time needed to persuade the 40% to achieve near perfect agreement, the window of opportunity can be lost. The 60/40 principle expresses the approach that evaluates the circumstances and has the leader make a decision at the 60% stage.

This principle, however, does not mean going completely with the opinion of the 60% and disregarding the objections of the 40%. Although a decision was rendered to advance into China, Inoue was firmly opposed to the view of the actual worksites that insisted on concentrating on selling low-end room air conditioners in China. The local Chinese manufacturers copied the products of Japanese manufacturers and engaged competitors in brutal price wars. Running a deficit in such an environment was a foregone conclusion. Inoue's instructions were to limit the sale of room air conditioners to the high-end market for the mid- to large-size models and to compete with commercial-use air conditioners for the bulk of the business. In his mind, he clearly recognized the risks that those representing the 40% feared, and he acted with extreme caution in initiating business operations. In the end, Daikin's entry into the

Chinese market succeeded brilliantly.

Following its advance into China, Daikin established the Global Operations Division in 1996 and started a path of expansion from 1998 for air conditioning in Europe. There Daikin acquired local sole agent companies in countries including Germany, Italy, Poland, and Spain, and those companies were made Daikin subsidiaries.

The interest in Europe was due to the business landscape Inoue saw during a trip he made to Madrid soon after he became president. Although Madrid is hot in the summertime, he could see only a few outdoor air conditioning units dotting the condominiums there. The trade exhibitions for air conditioners were filled with visitors, and he felt that Europe was nearing a “dawn of air conditioning.” He wanted to develop sales promotion activities for air conditioners right away, but Daikin had sole agent distributors (exclusive distributorship agreements) in each European country to which it entrusted sales, and the sole agents seemed satisfied with a certain level of sales and had no desire to make a greater effort. Although little had been expected of the European market in terms of future development, Daikin acquired distributors in each country in quick succession.

“Management must get out to the field and the factory floor where changes are first felt, accurately read the signs and make decisions that are consistently a half step ahead of competitors. The leaders need to get down in the trenches and share information in order to make quick decisions in response to changes and then execute them.” (“My Resume”)

Here we encounter the practical application of the *genba* princi-

ple that Inoue often speaks of as well as “second-rate strategy and first-rate execution” in making decisions. Managers who cannot decide for themselves lose the timing of their decisions by always finding fault with the resource materials that subordinates create. In ambiguous and vague circumstances where the future is uncertain, more than taking time to build a first-rate strategy, it is necessary for top management to decide on the direction and have the capability to execute flexibly to change strategy while moving forward in accordance with the existing conditions.

For this reason, a mechanism is necessary to allow top management to visit actual worksites to scoop out the “muddy water” as it is and get a feeling for the actual worksite and not receive “fresh water” that has had information filtered out as it gets passed on. Concerning the *genba* principle, Inoue says, “Management today does not perform effectively either top-down, bottom-up, or middle-up from the manager level. The chief executive must integrate himself or herself into the frontlines in times of great transition, drastic changes, and reforms.”

Inoue, who became Daikin chairman and CEO in June 2002, for-



Employees at O.Y.L. Manufacturing posing with PICHONKUN



mulated *Our Group Philosophy* and thrashed out a strategy that was ultimately aimed to make Daikin global No. 1. The most difficult decision made for achieving that goal was the acquisition of the Malaysian company O.Y.L. Industries Bhd. O.Y.L. was the parent company of McQuay International, a major company in the United States for large-size air conditioning equipment.

The price of 246 billion yen for O.Y.L. represented Daikin's first large-scale acquisition and was an important first step in the strategy to capture the world's largest air conditioning market and to pursue Carrier, the world's top manufacturer, in the United States. Naturally, within the company there were various opinions, and the names of many candidate companies were offered before narrowing down the focus to O.Y.L. Inoue fully investigated those opinions and information based on the *genba* principle and effectively used the "60/40 principle" and "second-rate strategy, first-rate execution." Then, after having those involved engage in "vigorous discussions," he utilized "decision upon group discussion" and finally issued the "go" signal.

The O.Y.L. acquisition aimed for Daikin to assume the world's top position in air conditioning. What occupied Inoue's mind more than that was the desire to disperse the stagnant air building up within the company. Twelve years had passed since he became president: global development of the air conditioning business was a success, and increased profits had continued up to March 2006 for the 12th consecutive term. Nevertheless, Inoue noticed that the company was beginning to drift into an impasse, perhaps a consequence of its rapid growth. Setting high targets had led to sustained growth, but issues were surfacing endlessly and even if one hurdle was cleared there was still no sense of a clear overall goal. Employees felt tired after achieving increased revenue and profits. To improve mo-

rale, a new task leading to an ambitious dream was needed. That task was the large-scale project for acquiring O.Y.L.

In the year following Daikin's acquisition of O.Y.L., Inoue wrote about that ambitious dream in declaring that Daikin would become global No. 1 in the comprehensive air conditioning and refrigeration business in the mid-2010s.

"I would like to continue to passionately convey my dreams and ambitions. I think it is the responsibility of management to create an environment in which each employee shares a dream, works with a sense of purpose, and is able to grow and fully demonstrate the capabilities that he or she possesses." (My Resume)

In only three years after that declaration, Daikin realized a long-held dream when it became the world's No. 1 air conditioning company in 2010.

#### ◆ Anchor in Diversity

In an economic environment that could easily have been called "the lost two decades," Daikin utilized management foresight and People-Centered Management that supports management foresight to achieve a great leap forward that exceeded the imagination. As he was providing a definition for People-Centered Management, it was readily apparent to this author that there was more beneath the surface that Chairman Inoue had trouble putting into words.

In fact, Inoue had even indicated a certain level of anxiety for People-Centered Management by saying such things as "People-Centered is terrifying... the risks are enormous." Later he con-

fided, “I can’t put it down in writing because it is more like a thought process ... How should I put it? Everything I say only makes it more confusing.” He stopped suddenly and smiled with an expression of slight irritation at being at a loss for words. In making the statement “something more like a thought process,” what had Inoue actually wanted to say? Gathering clues on what Inoue said, let us try to unlock a part of what was left unsaid.

“Making People-Centered Management well known might be good but before you know it the idea becomes commonplace and there is concern that people will get tired of it or just simply go through the motions.”

“A decline in results can put you in a tight spot. Employees become disheartened. Maybe a company practicing People-Centered Management goes down the road to ruin even faster than a company that does not. For me, understanding such a fine line came only after many years in the human resources field.”

“Before the Lehman Shock, a serious recession had developed and there was minus growth, particularly in Greece, Italy, and Spain. In such a situation, motivation can deteriorate and have a devastating effect on everything, even People-Centered Management.”

“Daikin’s Chinese employees are extremely passionate, and therein lies the problem. How long will their passion last? What happens when it ends? Companies face many ups-and-downs in a 10- or 20-year period. For this reason, I think a company like Daikin should hold great concern from possible backlash of that passion.”

“In Japan as well, even if we say people-centered by everyone having a desire to work, in the end it all comes down to reward. Without providing sufficient reward for efforts, you can say that you ‘place value on people,’ and you are ‘people-centered,’ but it really just becomes empty talk.”

“I feel you face an extremely great risk unless you can allow people the experience of success, have them be rewarded for their efforts, and be able to bask in a feeling of having accomplished something with People-Centered Management in mind. From that perspective, becoming an executive is no simple matter.”

Daikin formulated the management plan Fusion 05 in April 2001. In that plan, Inoue asked employees to thoroughly implement and promote “ratio management,” which seeks growth in both profits and scale. Evaluating the company on the basis of share price meant careful attention on capitalization and maximization of corporate value since they lead to greater options in the future and company development. Four years preceding that, the air conditioning giant Carrier Corporation asked Daikin to form a capital alliance. Inoue, who did not want Carrier to dominate the management of Daikin with their immense capital resources, declined this proposal. That was his reasoning for using ratio management as an indicator of financial performance.

It was not a rush to a “profits-above-all” philosophy that singularly aims to increase profit. Not only does ratio management develop the company, but it also supports improvements in the lifestyle and stability of employees and bolsters their desire to work and their sense of belonging, which Inoue believed was the foundation of People-Centered Management.

Inoue began using the expression *people-centered management* a year before the formulation of *Our Group Philosophy*. However, even from the outset of announcing People-Centered Management, he fully understood that without achieving corresponding results in development of the company there would be no acceptance for People-Centered Management or the concept of using it for corporate development.

Trust in people is the basis for People-Centered Management. That was the tradition that father and son, Akira and Minoru Yamada, sustained for more than 60 years of Daikin history, and it represents the conviction of the affable Inoue himself. However, many aspects of human existence are beyond our control. No matter how people may feel predisposed to the concept of People-Centered Management, at some point they may begin to profess belief superficially while harboring doubts, and there may emerge a feeling of ill will if efforts are made without a corresponding reward. That must have been the insight of Inoue who has interacted with multitudes of people and seen their various faces during his many years in charge of General Affairs and Human Resources. Precisely for that reason, he has continuously taken action in response to circumstances, including those for the Three Pillar Strategy for Air Conditioning and global development. He lifted employee spirits with a dream focused on company development. Ultimately, Daikin did reach the pinnacle and ascended to the global No. 1 company in air conditioning, but in reflecting again on the broad spectrum of possibilities, the anxiety inherent in People-Centered Management must have passed through Inoue's mind.

However, Inoue is not one to worry about the future of Daikin nor is he likely to lose faith in people or become resigned in their management. After candidly expressing the contradictions of People-Centered Management, Inoue had this to say:

“To look at it in a different way, even when there are disappointing financial results, People-Centered Management gives a company the capability to unleash a truly great force for the first time when people act with understanding and acceptance and have desire.”

“So, you could also say that People-Centered Management is practiced as a means to be prepared for the worst.”

In making the opening remarks at Daikin's 90th Commemorative Anniversary Ceremony, Inoue talked about the unique strengths of Daikin, its global business platform, its extensive product lineup, its advanced technological capabilities, and its innovative spirit to stay a half-step ahead of other companies. He also praised the firm establishment of People-Centered Management. As key to People-Centered Management, he expressly selected three aspects and added an explanation: 1) Management based on a belief in the fundamental goodness of people; 2) Acceptance of the nail that sticks out and not blaming people for failures; and 3) Management that values gaining individual employee's acceptance and understanding to draw out motivation.

In “belief in the fundamental goodness of people,” what affects employees performance is not ability but passion, and importance is placed on increasing motivation so that each individual becomes absorbed in reaching higher to demonstrate his or her true capabilities. Concerning the “nail that sticks out,” Inoue said that people who do not take on challenges do not fail; failure is the price for nurturing talent, and an organization that is intolerant of failure deteriorates. He also touched on “understanding and acceptance.” As the aggregate of human resources having a different set of values continues to change through global development, he believes that management focused on understanding and acceptance to rally employees becomes the single most complex issue in this period of diversity.

Furthermore, even concerning the next ten years for Daikin, Inoue notes, “In today's era, there is no ‘right answer’ to surviving based on past precedents. Organizations that cannot adjust will be weeded out. But transformation needs to have an anchor. That anchor is the organization's philosophical values and principles of conduct.” He goes on to vigorously state, “We must always keep in mind

what is universal across generations. For Daikin, this universal element is our basic philosophy of People-Centered Management.”

In demonstrating its intrinsic value as the anchor for today’s era of diversity, People-Centered Management may actually be ushering in the future.

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*Chapter II*



# Tracing the Origins of Daikin



*Founder Akira Yamada*

### ◆ A Small Nail That Sticks Out

“I tend to be rash, loud, and stand out with animated gestures. When I started working at the company, I gave people the impression that I was extremely assertive, which either put them on the defensive or made them think I was a jerk” (*Daikin Times*, Summer 2007). These are the words Chairman Inoue used to describe himself. In fact, during his days working as a fledgling employee in the Planning Department of Yodogawa Plant, he valiantly made a proposal to eliminate timecards. Fortunately for him, the idea proved a success. Next came the idea to place a suggestion box in the plant to improve workplace relations. The box opened a floodgate to workplace annoyances and employee frustrations before being roundly criticized by senior managers as the root of all evil and unceremoniously removed. *Assertive* may be the right word to describe a low-level employee who assuredly states his or her opinions and takes action. Some may have even thought, “What an impertinent brat!”

At the 90th anniversary ceremony, Inoue explained that acceptance of the nail that sticks out is the crux of People-Centered Management, and no one embodies that quality of sticking out more than Inoue who made proposals and took action based on his convictions. He certainly did not fear the possibility of being rebuked. Nevertheless, had he been in an environment in which the nail that sticks out was ignored, hammered down, or demoted, he might have become disheartened and quit. Instead the Daikin corporate culture unflinchingly accepted a youngster such as Inoue and had even demonstrated a penchant for nonconformists predating Inoue.

Approximately a half century before Inoue joined Daikin, Akira Yamada, who founded Osaka Kinzoku Kogyosho Limited Partnership (hereafter referred to as “OKKLP”), the forerunner of Daikin, may have been even more of a nonconformist. After graduating

from the Mechanical Engineering Department of Fukuoka Prefectural Kokura Technical School (currently Fukuoka Prefectural Technical High School), Yamada joined the Osaka Artillery Arsenal, a government-run munitions factory, in 1909. The factory manufactured and repaired weaponry, ammunition, and tools for the Army. Although assigned to the mess equipment factory in a steel materials plant, his work amounted to only observing the plant every day. Bored and with nothing to do, he asked for more work, to which the plant manager replied, “You don’t want to show too much enthusiasm for work when you’re in a government office under the military system. A nail that sticks out will get hammered down. It’s best just to do enough to get by.” (Akira Yamada Biography Committee, *A Biography of Akira Yamada*)

“The nail that sticks out gets hammered down” is a saying that can mean either a person who stands out for excellence is apt to be hated by others or a person who is too forward will get punished. Doing just enough was an alien concept that had never occurred to Yamada, a 25-year-old engineer full of enterprising spirit. He went around the plant reviewing each operational step and coming up with numerous original and ingenious improvements, including a method to reduce the several steps required to process mess equipment parts to one step.

Suddenly, an opportunity to do something important presented itself to Yamada. Around that time, the Analysis Department was tasked with the challenge of developing a non-toxic brown paint. During the Russo–Japanese War, the Army found black-colored field equipment to be disadvantageous in combat on flat land because the color sharply contrasted with surroundings. Consequently, the mess equipment was subsequently changed from black to brown. Later discovering that the brown paint contained a toxic substance, the

Army ordered the Osaka Artillery Arsenal to develop a non-toxic brown paint. However, the highly bureaucratic Analysis Department, which was assigned to this task, could not resolve the problem even after two years.

This situation ignited Yamada's spirit of challenge. Although outside Yamada's specialty of mechanical engineering and not part of his assignment, solving the problem would serve the country and the reputation of the Osaka Artillery Arsenal. Being a novice chemist, he began his investigation with the basic properties of paint, visited pharmaceutical wholesalers in Doshomachi, Osaka, and collected about 20 samples of brown paint with which he began a series of experiments. With cooperation from pharmaceutical wholesalers, he at last succeeded in developing a non-toxic brown paint. Looking back on this experience, Yamada recalled:

"Though a mere machinist, I was able to score my first victory in the field of chemistry, which was completely outside my expertise. This experience later gave me confidence to eagerly step into fields I thought necessary, even when those fields were outside my specialty. This thinking also holds true in my current position in business management." (Akira Yamada Biography Committee, *A Biography of Akira Yamada*)

Development of the paint for mess equipment is merely one of many cases where Yamada was a nonconformist. Later on, when Yamada was transferred to the Cartridge Tool Factory, he changed the way of determining unit price of a product from a decision made at the production site to one based on a scientific approach of measuring and quantifying the man-hours required for producing the

product. Many people criticized Yamada's assertiveness, saying things like, "What can a young upstart like that do?" and, "He never confides in anyone his real intent." Eventually, however, even the senior managers at the Osaka Artillery Arsenal were telling the newly hired university-educated engineers, "If you want to find out something about the Cartridge Case Factory, go and ask Yamada."

Masao Mukai, a colleague from the Osaka Artillery Arsenal who later joined OKKLP, said, "Yamada often harshly criticized the system at the Osaka Artillery Arsenal that asked for absolute obedience to superiors without questioning the merits of a situation. From an early age, he demonstrated the personality trait of not being easily swayed from his view."

Just as a single water droplet seeping from rocks high in the mountains may serve as the source of a mighty river, the origin of the global company Daikin began with a small challenge undertaken by nonconformist Akira Yamada. Today innovative technology and People-Centered Management are deeply-rooted concepts in the foundations of Daikin, but a glimpse within the eventful lives of Akira and Minoru Yamada, who together led Daikin for 70 years after Daikin's founding, reveals the origins of these concepts.

#### ◆ Eating Out of the Same Pot

In the late 1950s when Inoue was a new employee, he would see Akira Yamada, who was then in his 70s and working as president, at the factory. Every Wednesday, Yamada visited the Yodogawa Plant, where he would look fondly at the machines. Now and then when Inoue accompanied him, Yamada would explain to him in a slow, quiet voice, "This is how we would use this machine in the past."

That Yamada was a great lover of machines is touched upon in *A Biography of Akira Yamada*, published after his death. "Akira pre-

ferred being near machines. In a sense, he liked machines more than anything else. He probably thought machines more appealing than socializing with people.” Yamada’s affection for machines and engineers pervaded every aspect of the company.

“Akira’s in-depth understanding of engineers and the level of trust that engineers put in Akira cannot be overlooked. Akira’s inner engineer spirit slowly permeated the engineers around him through a sort of tacit communication. This is why all employees at OKKLP came to have special feelings toward machines from the early days of the company. Most of the machines and pieces of equipment in the factory were made in-house, designed and fabricated by its engineers. Attachment to machines was an emotion shared by all employees, including President Yamada, and the machines were always well maintained and polished to a shine.” (Ibid.)

This attachment to machines was fortified by trust in technology, and this translated into trust in engineers, who possessed reliable technology and were full of creativity and ingenuity. With confidence in technology and a spirit of challenge, Yamada achieved many technological innovations and expanded his circle of engineering colleagues who admired his abilities and character. Before long, a major turning point came for Yamada.

Despite being the first civilian to become a general manager of the Cartridge Case Factory at the Osaka Artillery Arsenal, Yamada grew tired of the military-style bureaucracy and resigned from the company after working there 10 years, partly upon the recommendation of Tsunesaburo Matsui. Matsui had been Yamada’s boss and

a former army artillery major who worked as the general manager of the Steel Materials Plant and at the same time was director of Osaka Artillery Arsenal where Matsui served as a board member (after he had resigned from Osaka Artillery Arsenal). After a stint at Kobe Steel, Yamada joined Toyo Yasuri Shindo in September 1922. Yamada was appointed plant manager six months later in April of the following year. Two months later, he quickly encountered another crossroads—a business inquiry from Nakajima Aircraft Company about radiator tubes for Nieuport-type airplanes.

Management hesitated accepting the order from Nakajima. Toyo Yasuri Shindo’s business was suffering at the time, and failure to produce the aircraft components, an area where it did not have experience and had to pass stringent inspections, could have irreparably harmed the company. Yamada was adamant that the company would not be able to escape the business impasse if it took a passive stance toward sales due to its poor business performance and urged the company to accept the order. Yamada said he would personally take full responsibility, and management, fearing the repercussions if efforts failed, approved the order on the condition that work be done on an outsourced basis. Yamada immediately leased a shuttered vacuum flask factory in Namba, Osaka, and set up a crank-type drawing machine he had personally designed among other equipment. He welcomed Asagoro Nagata, who had retired from the Osaka Army Arsenal (renamed from Osaka Artillery Arsenal), as the general manager of the plant. He then hired technicians with experience in manufacturing pencil caps, as there were similarities with the radiator tube production process.

Although Yamada declared proudly that he could accomplish the work, the factory produced a string of defective products since this project was the first of its kind, and only poor-quality materials



could be procured by a private factory. He had no choice but to manufacture large quantities of the tubes to ensure that a sufficient number passed inspection and he could deliver the order of 300,000 tubes. Costs doubled as a result, and he suffered large losses. A second order came from Nakajima Aircraft the following year. Yamada had personally covered the initial loss, but if he incurred another loss it would not be possible to cover using his company salary. Moreover, Matsui, whom Yamada trusted, had left the company and moved to Manchuria to establish a military arsenal at Mukden (Shenyang). Yamada cooperated by procuring machines and equipment for the arsenal and by providing the people to install them. For this, Yamada was looked upon with disapproval by senior managers of Toyo Yasuri Shindo, which made it difficult for him to continue working at the company.

With his back against the wall, Yamada left Toyo Yasuri Shindo after only two years to establish Osaka Kinzoku Kogyosho Limited Partnership (OKKLP) in October 1924. This marks the foundation of Daikin Industries.

The site of foundation was a vacuum flask factory at 3-Chome Shinkawa, Namba, in Osaka. It was a small factory of only 330 square meters, located to the east of the Namba Yasaka Shrine and to the south of Osaka Prefectural Gymnasium. Yamada, who was shy of his 40th birthday, had two daughters and one son. His son Minoru, who would become the third president of Daikin, was only three years old.

The company started out with 15 people including President Yamada. The engineering team consisted of engineers who joined the company from Toyo Yasuri Shindo after learning that Yamada had gone independent and others from Osaka Army Arsenal. They were all acquainted with Yamada from his time at the arsenal. For bullets,

and cartridge cases in particular, they had gathered the best possible machinery and engineers available in Osaka at the time. As business expanded, Yamada recruited outstanding engineers from other companies. The engineers who were recruited then brought over their colleagues to the company. According to *A Biography of Akira Yamada* and other sources, the engineers who joined OKKLP in the 10-odd years after its establishment were divided into five groups:

- 1) Engineers originally from Osaka Artillery Arsenal or Toyo Yasuri Shindo;
- 2) Engineers from Kisha Seizo Kaisha;
- 3) Engineers from Hanshin Diesel Works, Ltd.;
- 4) Engineers who majored in chemistry: Kazuo Okamura (later Vice President), Toru Iwaki, and Masato Hirai; and
- 5) Other engineers.

The group from Osaka Artillery Arsenal and Toyo Yasuri Shindo, who first joined Yamada, were specialists in the manufacture of weapons, whereas the group with a background from Kisha Seizo Kaisha comprised experts in locomotive components and contributed to the manufacture of refrigerators. The members of the group from Hanshin Diesel Works were professionals in diesel engines. All of the engineers, including those who majored in chemistry and the group of other engineers, were the best and the brightest.

Ten years later, the total number of employees exceeded 100. The office, however, only had one woman receptionist, and all of the other employees worked at the worksite. All the employees, including the sales staff, were engineers, and Yamada, with sweat on his brow, toiled alongside them. Tatsunori Yamada, who joined the company in 1940, recalled, "The very first thing I saw when I joined the company was a person wearing a straw boater hat using acid cleaner. Acid cleaning is the finishing process in the manufacture of cartridge cas-



es, and it was the company president who was doing it.” President Yamada could also be seen at work installing large equipment.

Daikin Industries thus started as a group of individuals having expertise in their own respective fields. Yamada, who loved machines and believed in technology, trusted his employees, who were all professionals, including those who worked in the office, and he worked and perspired with them for growth and development of the company. This environment of “eating out of the same pot” fostered a sense of camaraderie and a company culture that felt like a family. The origins of Daikin’s technology focus lay in Yamada and his love of machines, and the origins of People-Centered Management were the trust he put in his engineers.

#### ◆ Development of Fluorocarbon Gas for the Good of the Country

In its seventh year, sales of OKKLP (renamed to Osaka Kinzoku Kogyo Co., Ltd. in 1934) consisted of 74.5% munitions and 25.5% civilian goods during the one-year period from November 1932. OKKLP grew mainly through manufacturing munitions before and during World War II, but this was not necessarily the intention of President Akira Yamada. The business description provided in the articles of incorporation at the time of the company’s foundation were: manufacture and sale of aircraft components, mainly radiators and radiator tubes; pressing and drawing of common metals; electroplating; and machine finishing of various types of precision metal parts and components. The manufacture of weapons was not the purpose of launching a company.

But the times were what they were. The Great Kanto Earthquake struck in September 1923, a year before the company was founded, devastating the capital of Tokyo. The company started up amid economic chaos. In 1927, three years after OKKLP was founded, a finan-

cial crisis erupted resulting in a spate of bank failures. Then two years later in 1929, the stock market crash in the United States, triggering the Great Depression. With no time to draw breath, Japan became embroiled in prolonged wars, which broke out with the Manchurian Incident in 1931. This was followed by the Second Sino-Japanese War in 1937 and the Pacific War starting in 1941.

Against this gloomy backdrop, what saved a small factory just starting in the backstreets of Namba, Osaka, was support of Tsunesaburo Matsui, Yamada’s former boss, in the form of an order from Mukden No. 2 Arsenal for quick-igniting fuses for artillery and other shells. Another order came for cartridge cases from Osaka Army Arsenal, Yamada’s former company. Based on its proven track record, OKKLP became a designated factory of the Ministry of the Navy in 1931 and the Ministry of the Army in 1933. For better or worse, Yamada and his engineers had no other choice but to manufacture for the military in line with requests from the armed forces.

Despite such circumstances, the engineers’ passion to develop new products did not wane and until the war situation intensified, they produced new products almost every year based on their new inventions and ingenuity.

- 1926: Start of manufacturing honeycomb-structured instantaneous gas water heaters and solid-ring type bobbins for spinning machines
- 1927: Start of manufacturing carbon tetrachloride fire extinguishers
- 1929: Start of manufacturing Rational lubricators (adopted by the Navy)
- 1930: Start of manufacturing carbon dioxide fire extinguishers (adopted by the Navy) and pumps and bobbins for spinning synthetic silk

1931: Start of manufacturing parts for diesel engines

1933: Start of manufacturing electric hand dryers

Yamada insisted on a high level of quality for the fuses and cartridge cases ordered by the military as well as for the other products. He did not relax his stance in the slightest in the early days of the company despite difficult times due to limited work orders. Tomematsu Iijima, who joined OKKLP from Toyo Yasuri Shindo after managing a plating factory, recalled, "President Yamada's product inspections were extremely rigorous. He applied standards one level more rigorous than those imposed by our customers. Yamada would reject a product whereas an ordinary person might overlook the problem. Yamada firmly refused to change his policy even if it resulted in a loss" (Akira Yamada Biography Committee, *A Biography of Akira Yamada*).

When a defective product was found, Yamada would remain silent but the look of great disappointment spoke volumes. Yamada had a habit of saying, "We are not merchants in a street market selling goods at a discount. Credibility is of first importance for a company as well as for people." He never allowed products that did not meet his standards to leave the plant, not even one. "Absolute Credibility" is the first of Daikin's later-defined corporate values. Yamada, an engineer born in the Meiji Period, held this unwavering conviction from his small factory days.

Noteworthy among the new product development during this period is the start of research and development activities for new chlorofluorocarbon refrigerants in 1933, the second year of being a Navy-designated factory. A chlorofluorocarbon was developed as a new refrigerant for household refrigerators by General Motors (GM) in the United States and produced under the trade name Freon by a joint-venture company established with DuPont in 1930. Chlorofluo-

rocarbon gas is non-toxic to human beings, colorless, and odorless. It has no risk of ignition or explosion, and was therefore hailed at the time as a dream chemical overcoming the limitations of carbon dioxide, ammonia, and methyl chloride, all of which were conventionally used as refrigerants for refrigeration equipment.

Tomio Oota, a retired rear admiral and a technical advisor at OKKLP, took notice of an article about Freon being adopted for submarines by the U.S. Navy. He told Yamada that Freon would be necessary for future submarines, prompting OKKLP's research and development activities. In November 1933, Yamada quickly organized a research group headed by Kazuo Okamura, who had majored in chemistry. Thinking that appliances such as refrigerators and air conditioners would develop into an industry second only to the automobile industry in the United States, Okamura set up a testing room on the second floor of an old building in the factory, which had been moved to Imamiya, Nishinari Ward, Osaka, to conduct a series of experiments.

Without any substantial reference literature, however, he repeated testing by trial and error without getting the desired results. Shizuka Iwaki, head of the No. 2 Factory at the Imamiya Plant, offered cooperation of his nephew working in chemistry at Shionogi Pharmaceutical Company. Jumping at the offer, OKKLP obtained the support of Tohru Iwaki from Shionogi and successfully conducted experiments to synthesize a chlorofluorocarbon from hydrofluoric acid. They succeeded in producing Japan's first chlorofluorocarbon gas at the end of 1935. Providing his support while continuing to work full-time at Shionogi caused the younger Iwaki to be hospitalized for exhaustion. Afterwards, Masato Hirata, who also worked for Shionogi, was hired as an analyst and made a series of improvements. The company subsequently provided samples to the Japanese

Ministry of the Navy in April 1937 and successfully conducted tests in 1939 to install a chlorofluorocarbon freezer to a submarine for adoption by the Navy.

Refrigeration equipment using chemically and thermally stable chlorofluorocarbons was indispensable for air conditioning the crew's quarters, refrigerating food storage rooms, and cooling munitions magazines. Officers from the Navy, including the chief engineers of submarines, frequently visited the Imamiya Factory where development was being conducted. Whenever asked why a metal company set about developing chlorofluorocarbons, Yamada would reply, "I wanted to be of service to my country, and so I embarked on this risky venture despite being a novice."

In 1941, a chemical plant under the jurisdiction of the Navy was built in one section of the Yodogawa Plant, and full-fledged production of chlorofluorocarbon gas began in 1942. Although it was difficult to produce the gas in large quantities with the technology available at the time, annual production of 30 tons was finally achieved in the fall of 1943, satisfying the minimum demand of the Navy.

The main objective of developing chlorofluorocarbons was to fulfill military demand for submarines and other military applications. Yamada, however, also thought of using chlorofluorocarbons for cooling and refrigeration in the private-sector and simultaneously proceeded with development of refrigerators using refrigerant. Engineers at the company brought in American-made refrigeration units that used methyl chloride as refrigerant, disassembled the units, and built new ones by copying the structure of those samples. A prototype was completed in November 1934. Commercialized under the trade name *Mifujirator*, which combined the name *Mifuji* with refrigerator, the refrigerating units were sold as refrigerators for the Shimonoseki-Pusan ferryboats and as cooling units for de-

partment stores and theaters. In 1936, the units were adopted by Nankai Railway (currently Nankai Electric Railway Co., Ltd.) as Japan's first cooling unit for trains. After the start of the Second Sino-Japanese War, however, refrigeration units were considered a luxury under the severe economic sanctions, and therefore subsequent production centered on supply to the Navy.

Development of Japan's first chlorofluorocarbon and manufacture of refrigeration equipment using this compound represent the start of Daikin, whose two pillars are the air conditioning and fluorochemicals businesses. But in the era in which the entire country was rapidly heading to war, these valuable technologies would only be used by the military until the conclusion of hostilities.

#### ◆ Anguish of Laying Off Employees

Noon, August 15, 1945—Akira Yamada was standing with Shigeyoshi Aketa, senior managing director, in front of a radio at the president's office of the former Fugetsudo Building near Yodoyabashi. That was the location of the Head Office at the time. At precisely noon, the Imperial Rescript of Surrender was broadcast on the radio.

For 21 years since Yamada's founding of OKKLP in 1924, he had worked hard together with talented engineers in the spirit of absolute credibility at the little factory. After forming a tie-up with Sumitomo Copper and Steel Piping (later Sumitomo Metal Industries, Ltd., currently Nippon Steel and Sumitomo Metal Corporation), OKKLP became Osaka Kinzoku Kogyo Co., Ltd. (Osaka Metal Industries, Co., Ltd.) (OKKC) in 1934 and had increasingly gained social credibility. As a designated factory for the Army and Navy ministries, OKKC had done its utmost for the country. As the war intensified, OKKC could not go against orders from the military, and even built a new factory knowing that it was not feasible and scrambled to

find workers and increase production. All of these efforts came to nothing with defeat in the war.

The following morning, before all the company executives summoned on short notice, Yamada said:

“I will reach my *kanreki* [a special celebration upon reaching 60 years of age] this year, which means that I will be starting my life over again from zero. On this occasion, business downsizing will be my policy to the greatest extent possible in order to draw out energy for making a fresh start.” (Akira Yamada Biography Committee, *A Biography of Akira Yamada*).

To expand aircraft and other production in accordance with military policy, OKKC had expanded its facilities, and built plants at Yodogawa, Kanzakigawa, and Yamatogawa in addition to the Sakai Plant. The company had 16,000 employees and capital of 60 million yen in 1945. Although there were temporary technicians who had been commandeered and mobilized students among the employees, there were 10,000 regular employees and other people involved in the company. Because all manufacturing activities were stopped at the time of surrender, all but 245 employees were told that they were dismissed in late August and were asked to leave with one month's pay in lieu of severance pay.

The company started out as a backstreet factory with 15 people including the president and capital of 15,000 yen. It had grown into a large company with 16,000 employees and capital of 60 million yen, and then suddenly shrank to a small company with 245 employees. Daikin once again had to start from scratch. Seventy years later, Daikin has grown into a global company with 60,000 employees and

capital of 85.0 billion yen today—but it went through a series of ups and downs along the way to grow into such a large company.

As for the factory expansions done to meet military demand for goods such as fighter planes, the Yamatogawa Factory was entirely shut down, the Kanzakigawa and Yodogawa factories were partially shut down, and only the Sakai Factory was reorganized so that production could be restarted at any time. However, when the U.S. occupation forces came to Osaka in late September, both the factories and the Head Office were requisitioned. Japan was occupied by forces under the command of the General Headquarters of the Allied Powers (GHQ) led by General MacArthur, which replaced the military forces during the war. Under such circumstances, Yamada's first son, Minoru, who was in the Naval Air Arsenal in Nagasaki during the war as a lieutenant junior grade engineer, was discharged and joined OKKC in January 1946. He had studied aeronautical engineering at the Faculty of Engineering of the Imperial University of Tokyo and worked at the Nagoya Aircraft Manufacturing Plant of Mitsubishi Heavy Industries for less than a year before joining the Naval Air Arsenal.

In February after Minoru joined the company, the Sakai Plant was permitted to convert its production for private-sector demand. In March, OKKC received an order from GHQ for fluorocarbon gas and then received an order for electric refrigerators for families of the occupied forces. These orders secured the promise of company rebuilding, and Akira Yamada once again recruited employees for the production of fluorocarbon and refrigerators. In hindsight, however, this was a hasty move. OKKC had no experience in producing household refrigerators. In addition, because machines and equipment had been designated for war reparations payments, machines and tools were in short supply. Furthermore, most of the experi-

enced engineers had left the company with the end of the war, and many employees therefore lacked experience. There were no presses to form sheet metal and workers had to form the sheet metal by hand using mallets. Many of the finished refrigerators had refrigerant leaks and breakdowns, and orders were subsequently terminated two years later.

This was the beginning of a series of stumbles. In November 1948, the number of employees had grown to 1,147, and there was no other choice but to let employees go in a company reorganization. Of them, 187 employees were laid off. Then in June 1949, a contract for fluorocarbon delivery to the occupation forces was also suddenly terminated. OKKC decided to lay off 267 people in a second reorganization.

To make matters worse, in 1950 the so-called Dodge Line, the rapid financial and monetary contraction policy drafted by American banker Joseph Dodge, caused a severe shortage of funds among Japanese companies, and many OKKC employees also gave up on their company and changed jobs. Yamada decided on a third reorganization in March of the same year and dismissed 250 people. As a result of laying off employees three times and dismissing more than 60% of his staff in just 16 months, only 438 people were left at the company.

The five to six years after the war are characterized by phrases such as charred ruins and black markets. This was the most difficult time for Daikin as well as for the entire country. Looking back on this period, President Yamada wrote:

“Delayed payments of wages continued from just after the war to about the middle of 1952. In the worst case, I paid monthly wages to employees in eight installments.

I managed by selling off personal assets or covering the payments for the day with small loans from Osaka Bank” (Akira Yamada, *Memories of Seventy Years*).

Masami Okada, former honorary officer and general manager of the Accounting Division, interviewed 230 former Daikin employees over five years and nine months, from 1986 to 1991. Records of these interviews were compiled in the eight-volume essay “Testimonies from Forerunners—From Foundation to the Latter Half of the 1970s,” in December 2012. In the essay, Okada describes an episode from that time. “When a Daikin employee got in a taxi in Sakai and told the driver to go to Osaka Kinzoku, the driver told him, ‘Osaka Kinzoku isn’t bankrupt yet? It’s rumored to go bankrupt any day. I wouldn’t do business with that company.’”

In the same essay, Katsuzo Iida, who was a member of the board and general manager of the General Affairs Department in 1948, gave an account confirming Yamada’s recollection of delayed wage payments. With a bill of one million yen coming due in one week’s time, Iida went to the bank to borrow money and was told, “Mr. Iida, we’ve given condolence money for Osaka Kinzoku’s funeral three times already,” and was refused any additional loans. Out of necessity, he asked President Yamada to negotiate with the bank, to which the president replied, “Do I have to go the bank...?” and would not budge. Finally Iida visited for a third time a *geisha* who OKKC had hired in the past for business entertainment and asked her for money. He managed to borrow 600,000 yen to tide over the company.

The difficulty of raising funds and the three layoffs were extremely painful for the company. Tatsunori Yamada, former vice president, was the general manager of the Sakai Plant at the time of the first reorganization:

“That was painful and hard. Everyone had to find some way to survive, and their livelihood depended on us. And yet I had to tell them to leave. It was very hard to tell them such a thing. But I told all of them. I had them come in one by one. However, when I told those who we wanted to keep to come back the next day, they folded their hands as if in prayer thanking me for helping them” (“Testimonies from Forerunners”).

Moreover, as the labor movement intensified with post-war democratization, a labor union was formed at OKKC in February 1946. The Chemicals Branch at the Yodogawa Plant was especially influenced by the All Japan Chemical Workers Union, which was affiliated with the Japanese Congress of Industrial Organizations, the industry union at the core of the post-war labor movement. Confrontations between the union and management intensified for a while, and at one point a dispute over year-end allowances led to the union going on strike and management fighting back with a lockout. Tatsunori Yamada says he was sometimes subjected to unfair harassment. “When I explained about a delayed wage payment during lunch, workers would say they were so hungry that they could not move. Even when the time came to start work for the afternoon, they refused to move. Sometimes I didn’t know what to do.”

In the midst of all this, Minoru Yamada, who had just joined the company, was transferred from the Sakai Plant to the Head Office in November 1948 and was engaged in collective bargaining as the person responsible for labor affairs. The second reorganization plan implemented in 1949 was drafted mainly by Minoru Yamada and resulted in a dispute over the layoffs. Under these circumstances, OKKC was placed under the control of Osaka Bank (later Sumitomo

Bank, currently Sumitomo Mitsui Banking Corporation) and received dedicated personnel sent from the bank for guidance and supervision. In March 1950, Minoru was appointed general manager of the Accounting Department. He convinced his father, President Yamada, to offer his house in Ashiya as collateral and raise funds by selling off pieces of the Sakai Plant premises to other companies. The company was in such a state that on payday the General Affairs Department would announce that, “Acting for the president, the general manager of the Accounting Department went to the bank to negotiate, so please wait,” with all the employees waiting impatiently for their pay after work.

Minoru Yamada, who experienced the frontlines of labor-management negotiations and made layoff decisions while still in his late 20s, later recalled:

“More than once or twice I became the subject of unfair accusations by the labor union. For example, I became annoyed when I saw workers hanging around without doing any work and so I would caution them. Then they would make this an issue at the union. In hindsight, I can see that it’s our job to give them work, and therefore my complaints were unjust. I believe the employees were unhappy about being cautioned by a youngster like myself.” (*Business Manager News*, August 1980)

“In the beginning, I was intently focused on fighting back and not losing to the labor union. But after releasing employees for the second and then the third time, I could not help feeling a sense of futility, and was not completely reconciled about letting so many people go. Is it right for a company to repeatedly hire people



when business is good and lay off people when business is bad? The experience gave me the conviction to turn OKKC into a company that would never again lay off employees.” (Minoru Yamada Reminiscences Committee, *Reminiscences of Minoru Yamada*)

#### ◆ Departure from Family Management

Before daybreak on June 25, 1950, North Korean forces opened fire, crossed the 38th north parallel, and rolled into South Korea, triggering the Korean War. Three years later in July 1953, a truce was signed. Meanwhile, during the Korean War in September 1951, the Treaty of Peace with Japan was signed in San Francisco and went into effect the following year in April 1952. The seven-year occupation ended and Japan was, once again, able to take part in the international community.

During this period, OKKC somehow overcame the risk of management collapse from three rounds of layoffs and special demand for fluorocarbon gas. With the two Yamadas, Akira and Minoru, taking the lead, the company made efforts to rebuild and completed development of Japan’s first “Mifujirator” packaged air conditioner in May 1951. Under such circumstances, President Akira Yamada heard some good news in August 1951. The U.S. military had decided to procure consumable supplies in Japan and were going to order artillery shells.

Yamada made moves to receive orders thinking that there would never be another chance to break through the situation if he missed out on this opportunity. Many senior managers strongly advocated prudence but Yamada gave the instruction to win the orders for special procurement of ammunition at any cost.

In May 1952, OKKC, bidding among 15 companies, survived as

a candidate for a 2.2-billion-yen order of ammunition. The condition of the order was no up-front payment from the U.S. military, which meant that the equipment and working capital, estimated at approximately 300 million yen, had to be independently raised one way or another. The company asked Osaka Bank for a loan and obtained approval for an additional 50-million-yen loan, which was far from sufficient. With no choice, OKKC asked the U.S. Procurement Department for approval to deliver only half of the order. Splitting the order with Komatsu Ltd., OKKC was approved for the order in June, the following month. With this, OKKC needed only 150 million yen in capital; however, it was still short 100 million yen.

Boosting its current capital of 45 million yen three-fold to procure 90 million yen was considered, but no one was willing to increase the capital of a company that was not paying dividends and was under the control of a bank. Then there was a proposal to revive the capital alliance with Sumitomo Metal Industries. During WWII, OKKC had formed a capital tie-up with Sumitomo Metal Industries to incorporate, but with the end of the war, Sumitomo offloaded OKKC’s shares, and the two companies cut ties. Shigeyoshi Aketa, a former senior managing director who was sent to OKKC from Sumitomo, made a proposal to restore the capital tie-up.

Yamada, however, was rather reluctant to accept this proposal. While scaling down to a mid-sized company with the war defeat, OKKC had stood firm as an independent company for nearly 30 years since its foundation. He thought that if a capital tie-up were formed, the company would fall completely under the control of Sumitomo and lose its independence. Minoru Yamada, however, advocated strongly for the capital alliance. The young Minoru recognized the limits of the owner-managed enterprise of OKKC. Many people in senior management were family members, and key executives



tended to be engineers. Minoru appreciated the tie-up with Sumitomo as an excellent opportunity to break out of the shell of a family-owned enterprise and transform into a modern company. Minoru thought, “If the tie-up with Sumitomo leads to making the company better and we don’t have to lay off employees, I don’t mind at all if someone comes from another company.”

In the meantime, many members of the board at Sumitomo Metal Industries regarded Yamada’s management methods as autocratic, and the tie-up scheme was tabled at one point. With the efforts of Housai Hyuga, senior managing director, who was inspired by the enthusiasm of Minoru Yamada and participated in the negotiations, the tie-up was approved. Hiromu Kasuga, former president of Sumitomo, and Yoshio Tsuchiya, director, were sent to OKKC as chairman and senior managing director, respectively.

With the backing of Sumitomo, OKKC successfully boosted its capital three-fold and filled the full order to deliver artillery shells to the U.S. military. By July 1956, it had also filled an additional order for 1.68 million rounds of ammunition to the U.S. military. In 1953, OKKC was released from bank control and could breathe a huge

sigh of relief. During this period, Tsuchiya, who was sent to OKKC as senior managing director, made strenuous efforts to rebuild OKKC as a member of its management, visiting his former employer virtually every day to procure financing and successfully borrowed 200 million yen.

Tomisaburo Yoshimura, who was sent from Sumitomo to OKKC together with Tsuchiya and served as general manager of the Purchasing Department, recalls being told by Tsuchiya, “I came here with the hope and objective of ensuring Minoru Yamada becoming president. Don’t even dream of making me president. I don’t have any desire to be president.”

Later on in 1965, Tsuchiya did assume the presidency of Daikin Industries for seven years and then handed the reins to Minoru when he became chairman just one year before the death of Akira Yamada. Minoru later touched on the background to these events:

“I was not pre-ordained to be president. Rather, I assumed the position by chance as a result of discussions between Mr. Tsuchiya who came from Sumitomo and



*Akira Yamada and Yoshio Tsuchiya*



*Minoru Yamada*

served as president, and Sumitomo, the major shareholder. I have sons but I have never thought of my sons as my successors for this reason. My thoughts naturally got through to my wife and sons." (*Industry*, November 1982)

#### ◆ *San-Kiri and Ni-Kyu*

In October 1963, OKKC changed its company name to Daikin Industries Co., Ltd. Just before changing the name, Akira Yamada published his autobiography *Memories of Seventy Years*. He summarized a portion of the book about his *business approach* in a booklet, *Business Approach*, and distributed it inside the company. In the booklet, he cites the keys to Yamada School Tactics's strategy style as: *san-kiri* for his managerial strategy, *ni-kyu* for his business strategy, and *chikuseki* for his business capacity—first is *chikuseki*, second is *ni-kyu*, and third is *san-kiri*.

The three words ending in *kiri* are *fumi-kiri* (making a bold start), *wari-kiri* (being pragmatic), and *omoi-kiri* (acting resolutely). *Fumi-kiri* is the decision to start a business. Yamada explained, "One has to make decisions after doing a comprehensive review, taking into consideration the context, the trends of the times, and everything else. Decisions must be made quickly, yet carefully, making sure not to resort to hasty methods. You also have to be prepared with backup measures in case of the unexpected." He also said, "For a few years after the start of the business, nothing went according to plan and we had one failure after another. But you cannot allow yourself to get discouraged. Rather, you must be realistic (*wari-kiri*), look at the early failures as laying the groundwork for future growth, and resolve situations with perseverance and effort." The last *omoi-kiri* is advice to act resolutely without regret when, after repeat-

ed failure, growth cannot be objectively expected and there is the risk of adversely affecting other business divisions.

Following the explanation of *san-kiri*, Yamada continued, "It's only natural that everyone places more importance on being forward-looking when making a bold start (*fumi-kiri*) but more importance on being passive when it comes to acting resolutely (*omoi-kiri*). When you're in charge of something, it's advisable to be more cautious when taking resolute action (*omoi-kiri*) rather than when starting something (*fumi-kiri*). Courage is necessary when weak rather than strong in spirit."

Yamada said that *san-kiri* has served as one of his principles as he developed Osaka Kinzoku. But *san-kiri* reflects a cautious management stance, for example by changing the general meaning to *omoi-kiri* (acting resolutely) to emphasize the importance of making the decision to withdraw from business. President Yamada's management style matured after he experienced the dramatic changes in the business environment over the course of 10 years between the postwar reconstruction and high-growth periods.

As for *ni-kyu*, the two words ending in *kyu* are *ken-kyu* (research) and *fu-kyu* (widespread use). The degree of dedication that President Yamada, who was an engineer, had for research is illustrated by the example of the development of brown paint for mess equipment. Yamada had this to say about research:

"If you think that research is something conducted in a laboratory, you're making a grave mistake. Humans will not succeed at anything without ingenuity. A little ingenuity is precious and a valuable part of research" (Akira Yamada, *Memories of Seventy Years*). He also said, "Business is ongoing research in all fields, from worksites to

the frontlines of sales,” and seemed to regard research as the basis for all of Daikin’s business.

The second *kyu*, *fu-kyu* (widespread use), is an issue related to selling products, including advertising and publicity. President Yamada explained, “Widespread use is the lifeline of business.” He added, “As they say ‘Sales activities begin when you’ve been rejected,’ and ‘Put in legwork to earn profit.’ Sales is nothing but demonstrating sincerity and passion as well as effort. Only people who have all these will win in the end.” There is also, however, an evaluation of his sales ability in *A Biography of Akira Yamada*, edited by the Akira Yamada Biography Committee:

“Yamada was terrible and not adept at selling or *fu-kyu*. Some bluntly remarked that there is no way you can call Yamada’s face that of a salesperson. It looks best next to a machine.”

In the days of Osaka Artillery Arsenal, Yamada did not need to worry about sales because the government paid the bills. Once he started working in the private sector, he left the sales activities to others and focused on technical research. As business expanded and the competition became more intense, he certainly must have felt the importance of sales. This is why he emphasized the importance of widespread use (*fu-kyu*) along with research (*ken-kyu*) as if to remind himself to keep its importance in mind.

The last word, accumulation (*chikuseki*), is the potential of a company including its land, buildings, equipment, materials, and funds, which must be economized and accumulated. As is often said, “A business is its people.” There is a need to recruit and thor-

oughly train excellent human resources to develop them into competent employees. He also refers to accumulation of intangible assets, emphasizing the importance of credibility. “In doing business, people must bear in mind to keep their commitments, ensure that their words and deeds are consistent, and always act so as not to betray the trust of others by rectifying trouble when it happens.”

Along with the management strategies of *san-kiri* and *ni-kyu*, President Yamada also set forth the management philosophy of “private and public interests are one.” He said that his management principles consisted of the spirit of “benefit for self and others” with the addition of *san-kiri*. The two are integrated and *san-kiri* is a manifestation of the spirit of benefit for self and others and vice versa. The words “benefit for self and others” were most likely taken from Sumitomo’s business spirit of “Maintaining harmony between its interests and those of the public.” It is the line of thinking that business brings profit to companies and at the same time, should bring benefits to the country and society. It is a concept that precedes Corporate Social Responsibility (CSR), which has become widely accepted in recent years.

In the booklet *Business Approach*, Yamada describes his resignation from Osaka Artillery Arsenal after working there for 10 years as an example of “acting resolutely” (*omoi-kiri*), receiving the order for radiator tubes at Toyo Yasuri Shindo and subsequently establishing his own company as examples of “being pragmatic” (*wari-kiri*), and forming the tie-up with Sumitomo Metal Industries during WWII and receiving the order for special procurement of ammunition from the U.S. military after WWII as examples of “making a bold start” (*fumi-kiri*). Yamada developed his management philosophy of *san-kiri* based completely on his own experiences, which is also how current Chairman Inoue developed his philosophy of Peo-

ple-Centered Management. Minoru Yamada remarked, “My current way of seeing things and my disposition were formed almost completely from what I encountered in my work at the company.” (*Daikin Times*, June 1972) Whether it is a Yamada, father or son, or Inoue, the approach of drawing out the best possible solution from their practice and experience based on the principle of focusing on what happens at actual sites (*genba*) appears to be a tradition and strength of Daikin.

### ◆ Putting the Corporate Philosophy into Writing

In June 1957, the year Chairman Inoue joined Daikin, Osaka Kinzoku Kogyo was listed on the Tokyo Stock Exchange. In September of the following year, Osaka Kinzoku Kogyo held a commemorative ceremony celebrating its 35th anniversary and established its corporate values. These corporate values, entitled Our Core Values, are simple and straightforward: Absolute Credibility, Enterprising Management, and Harmonious Personal Relations. President Yamada added the following explanations to each value:

- **Absolute Credibility:** Credibility is hard to earn yet easy to lose and determines the fortunes of a company. Constantly being aware that you are an employee of our company, taking actions based on this awareness, constantly striving to improve your skills, and positively cultivating your character will build credibility step by step. Even if the pace of establishing credibility is slow, we must design an ever-lasting future by handing it down to the next generation. We must strive to earn the highest level of credibility in business, technology, and our character.
- **Enterprising Management:** We must quickly respond to the developments of the times, always nurture an enterprising

spirit, deepen research, and never allow passivity to take hold. On top of this, enterprising management must also be sound and steady management. Unnecessarily pursuing something novel and ignoring one’s footing is equivalent to constructing a building without a foundation. The true significance of enterprising management is the readiness to be able to stand up any time an opportunity comes instead of merely wishing to leap forward.

- **Harmonious Personal Relations:** A company is like a ship. There must never be a crewmember who does not cooperate. We must always bear in mind that we are members of a company that acts within an organizational structure and cooperation is a most powerful strength. A spirit of conciliation and cooperation should be the guiding principle for relations between colleagues as well as with people outside the company. Always engage in business with a spirit of mutual compromise and never create problems for the future.

Seven years later in January 1965, Akira Yamada appointed Yoshio Tsuchiya, who had been sent from Sumitomo Metal Industries, president, and Yamada became chairman. Tsuchiya served as president for seven years and in 1972, handed over the position to Minoru Yamada, then vice president. Akira Yamada, who was overjoyed from his sick bed by his son’s appointment to president, passed away the following February at the age of 88.

Minoru Yamada, who joined Osaka Kinzoku Kogyo at the age of 25 in the year after the end of World War II, learned about business mainly from being in charge of human resources and labor affairs under his own father, Akira Yamada, president and chairman. He also demonstrated a forward-looking attitude, such as by con-

vincing his hesitant father to renew the tie-up with Sumitomo Metal Industries and depart from family management. There were dramatic turning points in his 22 years as president, ranging from the oil crises to the bursting of the bubble economy. During this time, he steadily developed Daikin Industries based on the mutual trust between labor and management nurtured during the labor-management negotiations of his younger days.

At the ceremony commemorating Daikin's 70th anniversary held in October 1994, President Minoru Yamada cited episodes that left a particular impression in his memory during his five decades spent at Daikin. They were the following four events: the renewal of the tie-up with Sumitomo Metal Industries; the declaration to avoid personnel layoffs after the oil crisis; the integration of machinery, chemicals, and electronics businesses; and defining in writing Daikin's corporate philosophy.

The first oil crisis occurred in the fall of 1973, a year after Minoru assumed the presidency and the year of Akira Yamada's death. While the company and society were going through an upheaval from the ending of the high-growth period against the backdrop of a slowdown in consumer spending, soaring prices, and the first negative growth since the end of WWII, in his 1975 Annual Policy Statement, President Minoru Yamada called upon employees: "Although our company is facing a crisis, I will absolutely not lay off employees. In return, I ask that you fully cooperate to execute the measures set forth by the company." This was based on his determination to never again lay off employees after having to dismiss personnel three times immediately after the end of World War II. As previously mentioned in Chapter 1, this situation during the oil crisis was overcome by reassigning a large number of employees from production to sales.

The declaration to establish Daikin as a company with integrated machinery, chemicals, and electronics businesses started because Daikin excelled in machinery but lagged in electronics. Daikin therefore made efforts to integrate machinery, chemicals, and electronics instead of having its core businesses in only machinery and chemicals. Daikin recruited Mitsuzo Fushimi from the Electrotechnical Laboratory of the Ministry of International Trade and Industry and appointed him general manager of a laboratory to promote the electronics equipment business. The normal practice in developing a business is to expand the company's core business. Instead, Minoru Yamada developed the electronics business in response to the rapid advancement of electronics technology after the oil crises, without hardly any electronics engineers at the company. This is attributed to Minoru Yamada's foresight.

Daikin's corporate philosophy was put in writing in May 1990. It included 10 conduct guidelines including "Be a company trusted by society," "Be a company that grows with individuals," and "Be a flexible organization with fair human resources management." At first, Yamada was not convinced that defining the philosophy in writing could convey his true intentions. But in an era in which economic and social conditions were changing dramatically with diversifying values, he approved of documenting the philosophy based on the thinking that the three corporate principles were not sufficient as the conduct guidelines. In spelling out the corporate philosophy, Yamada expected it to be respected and thoroughly instilled. He stated the following:

"The foremost requirement for a corporation's success is the enthusiasm and energy of its employees. One way to instill this is to delegate as much authority as possible,

allowing employees to use their own judgment and ingenuity. This creates an environment in which they can experience the joy of attaining their goals.

In workplaces where the management philosophy is widely and thoroughly instilled, employees are able to deal effectively with everyday problems as they occur. They have the confidence to make judgments and act by themselves without having to guess the intentions of top management and their superiors. It is not an overstatement to say that the vitality of a company stands or falls by the degree to which its management philosophy is internalized" (Minoru Yamada Reminiscences Committee, *Reminiscence of Minoru Yamada*).

In June 1994 when Minoru Yamada handed over the presidency to Inoue, he said, "While I haven't passed on anything specific to Inoue, I want him to uphold the corporate philosophy and I am confident that he will." Yamada, who worked for the company for over half a century and spent nearly half of that period leading it, served as chairman for less than a year before passing away at the age of 73 in May 1995.

At the end of *Reminiscences of Minoru Yamada*, compiled before the second anniversary of his death, is the "Collections of Sayings by Minoru Yamada," which contains many of Yamada's management principles that were reflected in the corporate philosophy.

"I want Daikin Industries to be a company of abundant opportunity for the well-being of every employee as well as for the development of business. Consequently, I want employees' time at the company, which is where

they spend the majority of their life, to be somewhere, if not the only place, where they can feel the most fulfilled."

"Daikin is a company for people who are attracted to it. Being attracted to the company can be compared to a romantic relationship and is on the same emotional plane. No one can force anyone to be attracted to them. What we as top management can do is to create Daikin's atmosphere in addition to its appearance and attitude to make it easier to attract many people."

"My basic mindset toward management is that a company is a group of people drawn together who eat out of the same pot. I have managed the company with the intention of never dismissing an employee against his or her will."

"Disparities in growth between companies equal disparities in the capabilities of the human resources between the companies. The total sum of the growth of individuals leads to the growth and development of the company. The growth of individual is a step-by-step process based on multiplying the quality by the frequency of challenges."

"Showing initiative creates opportunities for friendly competition. I will not assign any blame for forward-looking mistakes. For a company, there is no smaller or most effective price to pay in return for achieving growth. Hesitating and not doing what should be done or not taking on challenges leads to greater losses for the company in the end."

"An organization defines how to work and the divi-



sion of duties, and therefore is a structure of work, but an organization begins to function only when each position is given the name of an individual person. And people have emotions—we must not forget that an organization is a structure of human sensibilities.”

“I believe that the corporate philosophy is something that is recognized by employees through concrete decisions made in daily work by top management, most of all the president.”

Current Chairman Inoue has served three generations of presidents—Akira Yamada, Yoshio Tsuchiya, and Minoru Yamada. During Minoru Yamada’s presidency, over the approximately 20 years from his appointment to general manager of the Human Resources Department to succeeding him as president, Inoue worked at Minoru’s side. Because of this, he says what he inherited from President Minoru is evident in many phrases including “people drawn together who eat out of the same pot,” “Immediately correct mistakes in employee evaluations when you find them,” “Always keep your commitments, and never commit to anything that you cannot do.” He says he learned a lot from him. Much of what is quoted here from the “Collections of Sayings by Minoru Yamada” is no different from what Inoue tells people today, even the wording.

The “Collections of Sayings by Minoru Yamada,” the thinking of founder Akira Yamada described in the explanation of Daikin’s corporate values at the beginning of this chapter, and the management spirit of benefit for self and others certainly share a common thread. In addition to the corporate values and *san-kiri*, Akira Yamada explained the essence of business management in familiar language:

“Business is not simply a means to earn a living; it is something that contributes to society in one way or another and is done by a company of minimal yet reasonable scale.”

“A company must develop and grow continuously. As long as it is a commercial enterprise, it is associated with desires, and those desires must be sound and legitimate. In order to develop a company, one must have rightful greed.”

This mindset and the management strategy of *san-kiri* have something in common with Chairman Inoue’s management policy and approach, including making decisions upon group discussion and the 60/40 principle. Akira Yamada, Minoru Yamada, and Inoue share a common approach. As Minoru learned from his father, Akira, Inoue learned from Minoru. Moreover, these three leaders’ management style of learning from actual worksites has also unexpectedly led to their similar approaches and philosophy. The basis of their philosophy is trust in people, which is an attitude that has been passed down from trusting fellow engineers and people eating out of the same pot and has evolved into People-Centered Management.



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*Chapter III*



Actual Site for  
People-Centered  
Management



*Commemorative photo celebrating the completion of "Urusara 7"*

#### ◆ Comfortable Environment Leads to Low Employee Turnover

Daikin DNA has been passed down from founder Akira Yamada and his son Minoru to Chairman Inoue, the company's current leader. In extending the vertical axis of time, that DNA has remained the constant throughout Daikin's 90-year history. A problem arises, however, in the horizontal axis of space for how to instill the company's DNA throughout the organization and have it be the driving force at actual business sites. As Minoru Yamada said, a company's management philosophy cannot be truly understood by its mere expression. Even after Daikin published *Our Group Philosophy* in a booklet and distributed it to company employees, one supposes that the employees who had actually glanced at its contents have now since tucked it away in their desks.

Nevertheless, even without distribution of the booklet, People-Centered Management has succeeded. Corporate principles were enacted more than half a century ago, and the company's *Management Philosophy* was formulated a quarter of a century later. Even the current *Our Group Philosophy* was set forth 13 years ago. Top management of various eras visited worksites and genuinely practiced the Daikin philosophy. Employees saw them leading by example and gained a sense of top management's commitment to the company's philosophy. People-Centered Management blended naturally into the daily worksite routine as the Daikin approach to work or, more aptly, the Daikin Way.

Actual worksites may sometimes see managers make unreasonable demands on employees, and employees may sometimes neglect assignments. Loud shouting may also be heard. But the worksite is an environment where even a young employee observing a strange practice can speak up and identify the practice as being strange. The Daikin Way recognizes the wisdom of a sensible line of reasoning,

which may be one reason for Daikin's low employee turnover rate, including retirees, of 3.22% (fiscal year 2013). This figure is substantially lower than the overall industry average of 14.8% (Japanese Ministry of Health, Labour and Welfare, *2012 Survey on Employment Trends*). That alone would suggest that Daikin is a comfortable place to work.

How do people at the various Daikin worksites understand the importance of "inherent goodness of people" and "understanding and acceptance" made renowned by People-Centered Management? How do employees implement the work practices stated in *Our Group Philosophy*, such as Fast & Flat Management and core persons and supporters? Let's listen to the people at Daikin worksites answer these questions in their own words.

#### ◆ Fast & Flat Management: Development of "Ururara 7"

The Daikin Shiga Plant is located in Okamoto-cho, Kusatsu-shi, Shiga Prefecture, on the southern tip of Lake Biwa. Five years ago in 2010, many of its workers welcomed the new year with fearful looks on their faces and whispered conversations: "Is it really okay like it is?" and "If something isn't done, we won't have a job anymore."

Eleven years earlier, in 1999, spirits soared at the plant with the hit product "Ururu Sarara," the world's first air conditioner to offer humidification without a water supply. Daikin jumped to the top share in Japan for residential-use air conditioners. That success, however, proved fleeting, and Daikin once again regressed to the No. 2 position in the industry. Moreover, the year 2009 saw partial production of small-size inverter-type air conditioners transferred to China through a comprehensive alliance with Gree Electric Appliances. Workers at the Shiga Plant, whose main business was the production of residential-use air conditioners, felt their position as

the global mother factory threatened, causing a sense of impending doom to hover over the plant.

At that same Shiga Plant, a full model change for “Ururu Sarara,” the first-generation “Urusara,” was proposed at a manager’s meeting at the beginning of 2009. The aim was to reach an energy-efficiency index of 7.0 for the product’s annual performance factor (APF). With environmental problems such as global warming becoming increasingly important, all manufacturers were competing to improve the APF of their products. None, however, had ever achieved more than a 0.1 - 0.2 improvement in one year. While Daikin had reached APF 6.4, the degree of improvement had been narrowing each year, making achievement of APF 7.0 seem more like a dream. When people gathered to hear the “Urusara” proposal, they were told that “a simple model change would not overcome Panasonic, which had the market’s top share.” The question was then asked, “What other product could we gamble our survival and expect to win?” The answer was obvious: “Ururu Sarara” with an APF of 7.0. Upon hearing the objective, members of the Air Conditioning Manufacturing Division burst out, “Let’s do it,” and their voices were loudly met in a call to arms by the resounding sound of voices in other divisions.

Talk of a full model change at the Shiga Plant for “Ururu Sarara” had first been mentioned the previous fall. General Manager Shinya Okada (currently a senior executive officer) appointed Atsushi Koizumi, a senior engineer in the Small-sized RA Group of the AC Manufacturing Division, as the overall project director for development. Koizumi, a mid-career recruit, expressed his doubts directly to General Manager Okada, “I’m not really sure I’m up to it.” Okada smiled and replied, “You’ll do fine. Look, even if you think that you can’t, the people around you will support you.” Koizumi asked Takahiro

Okamoto, an expert in structural design of outdoor units, to be the project leader having direct responsibility for the long-awaited ‘big project.’ Okamoto agreed on two conditions: that the period of advanced development would be two years and that the development team would be comprised of the company’s top engineers. Residential-use air conditioners undergo numerous model changes during their life cycle, making development speed a crucial factor. Advanced development generally spans one year with the following year occupied by mass production development for a total development period of two years. However, there were difficult issues requiring high-level technology, and this project was for the resuscitation of both Shiga and Daikin. Koizumi exercised his authority as project director and accepted Okamoto’s conditions.

Joining Group Leader Koizumi and Project Leader Okamoto was Tomoyuki Haikawa, an expert on performance and refrigerants, Masanao Yasutomi, an airflow specialist, and an elite engineering team of the Shiga Plant. With the selection of leading players, the major project “Urusara 7,” named for combining “Ururu Sarara” and APF 7.0, took off. People gathered from each division within the



*Development meeting for “Urusara 7”*

plant, and the challenge began. But questions abounded: How could they utilize heat exchanger performance to improve energy savings? What could be done to minimize an increase in size when building the humidification unit into the outdoor unit? Each parts specialist advocated something different. “If one person in charge of an area could not achieve his or her target value, then there would be dissent from all those who had achieved theirs,” observed Okamoto.

Upon seeing this situation developing, General Manager Okada called in all those involved in the project and people in charge of related departments and divisions for a pep rally to once again declare the kick-off for development. General Manager Okada, the person responsible for development of the first-generation “Urusara,” addressed the large number of plant employees gathered in a corner of one of the factories:

“The Shiga Plant has been developing and manufacturing room air conditioners for 40 years. I am personally grateful for the role the plant has played in my own development. Even as the actual site for *monozukuri* continues to shift overseas, we all must do something to assure that “Ururu Sarara,” with its origins at the Shiga Plant, is created by our own hands. There are many hurdles to overcome in realizing “Urusara 7” but there is no mistaking its direction. I humbly ask for the cooperation of all divisions and departments in the Shiga Plant.”

With the “Kick-Off Declaration” of General Manager Okada as the starting point, the Shiga Plant tackled development by sharing recognition of the necessity and importance of “Urusara 7” with all plant employees and lowering the barriers separating departments and divisions. In his speech, Okada had lit the fire once again to the ‘spirit of Shiga’ that had not been seen in a long time. In looking back, he says, “The Shiga Plant had a flat organization with low bar-

riers between departments. Our predecessors worked hard to build a plant with the character of a local town factory and a culture in which people would lend a helping hand to their colleagues and unite to ‘get things done.’ Whenever trouble occurred, the managers of production, planning, quality, and design would quickly assemble in the control room, hold open, animated discussions, and rapidly make decisions.”

The large size of the heat exchanger was a major and unavoidable issue in “Urusara 7” for APF improvement. The width of the indoor unit housing the heat exchanger could not be increased further because of installation restrictions, and height was also limited. The only choice was to extend depth, causing the indoor unit to protrude 370 millimeters from the wall, seven centimeters longer than conventional models. Someone raised a concern about whether such a product could be sold in a market where the “slimming” of indoor units was a major sales point, but Yasutomi, who performed the structural design, didn’t budge. Koichiro Seki, the person in charge of design, rounded the design of the front and underside of the indoor unit, and this improvement, when seen with the unit mounted on a wall, dispelled any pessimism.

Meanwhile, Yasutomi improved the heat exchange efficiency by employing a double intake structure that not only drew in air from the top but also from the bottom. Haikawa developed a five-layer, high density heat exchanger. The “new Sarara dehumidification” feature prevented overcooling by mixing air cooled through partial operation of the heat exchanger with uncooled air, but it was the double intake structure, which effectively used the back of the heat exchanger, that played the crucial role.

Because humidification for the first-generation “Ururu Sarara” was performed by collecting moisture in the air for humidification

without a water supply, the humidification unit was installed above the outdoor unit. Consequently, the height of the outdoor unit casing increased and could not be installed in narrow places, such as under a bay window. Here, Akiko Takeda, a third-year employee, was given responsibility for developing a small-size humidification unit that could be built into the outdoor unit. In entrusting all to Takeda, whose study had begun from the humidifier structure, Okamoto requested a support team of humidification and outdoor unit specialists, thus putting in place the core persons and supporters system.

Efforts in performing simulation of airflow and capacity, accumulating actual test data, and listening to the opinions of supporters ultimately led to combining the functions of the humidification fan, which sends air to the humidification element, and the outdoor unit propeller fan, and miniaturization was achieved through elimination of one fan. “One might have expected to hear criticism of the plan, even if just a little, from the fan team hoping to boost APF by improving fan function. However, because miniaturization was a shared theme, there was no resistance. Quite the opposite, the search for a method to effectively direct air to the humidification element was a team effort,” says Takeda, who appreciated those supporting her.

While the “Urusara 7” development team centered on engineering professionals from various specialized fields, some product functions were not conceived by professional engineers but were the ideas and dynamism of people outside the engineering field, particularly female employees.

Sanae Kagawa was the person in charge of product planning who brought together the product concept of “Urusara 7.” She felt that “something was still missing” from the product to convey a dramatic conceptual change from first-generation “Ururu Sarara.” Then

she remembered a suggestion in data received from the Environmental Technology Laboratory: the Coanda Effect. The Coanda Effect is a phenomenon in which airflow near a curved surface bends along a curved surface, and she thought this could be used to circulate air to every corner of a room.

Kagawa conveyed the idea to the development team but the team had already begun the step for deciding the design of the indoor unit. With time running out to stage an actual trial, she hounded Okamoto and Yasutomi and urged them to visit a luxury hotel to physically experience the effectiveness of circulation airflow. Her persistence convinced them to utilize the Coanda Effect to distribute airflow toward the ceiling for circulation airflow that cools a room faster than conventional air conditioners.

Yuka Murai, in charge of the product concept, said she thought that “it would be great if Daikin could increase choices because her experience in handling products celebrated for comfortable airflow had taught her that users have various preferences for airflow.” When she heard of circulation flaps at the product meeting, her first thought was of natural wind like a soft breeze. *What about a natural breeze, what would we have to do to create the experience of a natural breeze?* Murai knew that if you don’t know the answer to a question, the best remedy is to ask an expert. Murai promptly sought out a researcher proficient in natural breeze comfort and unsteadiness assessment.

Amazed at her unrelenting determination, Okamoto praised Murai, “She did her research on people at universities and made an appointment with a specialist. So we traveled to Kumamoto University...That enthusiasm is unbelievable. Without that energy of Murai and Kagawa, I don’t think we would have dared as much.” Pushed increasingly forward by their tenacity, product development more

fully incorporated the user's perspective and leveraged the concept of circulation flaps to instantly add another new feature: airflow with the comfort of a natural breeze.

General Manager Okada had witnessed the impact of Murai and Kagawa within the first few days of developing the first-generation "Ururu Sarara." In discussing humidification, some senior managers from the sales department questioned whether or not an air conditioner with a humidifying function would sell. To test their theory, Murai and Kagawa conducted a survey of the wives of 100 employees in a division not directly related to development. "Many housewives were frustrated with winter dryness and numerous unfiltered comments came back to us. These women certainly provided evidence that humidification could drive sales," said Okada.

Miki Yoshida of the AC Sales Division, who participated in a cross-departmental factory tour and experienced the effect of humidification, named the humidifying function *Ururu* and the dehumidifying function *Sarara* for a new model of room air conditioner called "Ururu Sarara." She also provided the name for PICHONKUN, an animated character shaped like a water drop that was used to promote the product. Yoshida is credited for being the person most responsible for making "Ururu Sarara" a major hit product.

In spring 2012, Daikin committed to becoming the first company in the world to adopt the next-generation refrigerant HFC32 for use in its room air conditioners. Refrigerant is what carries the heat circulating between the indoor and outdoor units. However, conventional refrigerants were linked to the depletion of the ozone layer and global warming and subsequently became regulated under the Montreal Protocol and the Kyoto Protocol. For this reason, advanced countries switched to alternative refrigerants, such as HFC410a, that do not deplete the ozone layer. Nevertheless, the large impact that

refrigerants have on global warming remains an issue. As the only manufacturer of both air conditioning equipment and refrigerants, Daikin took the initiative in adopting HFC32, which has approximately one-third the global warming potential (GWP) compared to HFC410a and excels in energy efficiency.

With the adoption of HFC32, "Urusara 7" almost immediately came close to achieving APF 7.0 but in moving from the advanced development stage to fiscal year development there were numerous issues that emerged on the finer points of development, including cost reduction and higher capacity. The sales start for "Urusara 7" was set for November 2012, and the development team tackled resolution of the final issues by working even during summer vacation. Surrounding sections making other products also sensed the intense pressure that the "Urusara 7" product team felt in having its back against the wall. People from other teams did their best to help. By working all the way through to the end of August, the development team completed "Urusara 7." The new model even had seven special features: 1) adoption of the new refrigerant HFC32; 2) a double intake structure to improve energy-saving performance; 3) circulation airflow; 4) new Sarara dehumidification that reduced power consumption by half; 5) the world's only Ururu humidification; 6) comfort for even long periods of operation with natural breeze airflow; and 7) Flash Streamer technology that decomposes and removes particles including mites, mold, and pollen within the room and in the air conditioner.

Mass production of "Urusara 7" started at the Shiga Plant on October 11, three weeks after the air conditioner went on sale. General Manager Okada and the members of the development team under him gathered by the indoor unit production line, and a group photograph commemorating the start of mass production was tak-



en. Yuka Murai had this to say, “This development was extremely important to everyone but after overcoming so many hardships all the members shared that same sense of joy in a job well done.”

◆ **Believe in Possibilities: Disabled Employees Play Major Role**

Japan is reported to have approximately 7.87 million people with disabilities (fiscal year 2014) but the number of those employed and working is said to account for under 430,000 people. Among those, there are 110 disabled employees at Daikin Sunrise, a special subsidiary of Daikin in Higashi-Befu, Settsu City, under the leadership of company president Eisaku Shibuya.

As of 2013, the disabled employment rate for the entire Daikin Group was 2.34%, which clears the 2% statutory employment rate for disabled employees as required of private companies in Japan. Moreover, Sunrise Settsu is a company where disabled employees play the leading role and account for over 80 percent of company employees with only 18 non-disabled employees, including the president, the plant manager, and supporting staff members. The basic policy of Daikin Settsu is to “aim for economic self-sufficiency from the em-

ployees’ own efforts and mutual cooperation.” The policy reflects the basic tenets of People-Centered Management and the belief in infinite possibilities in striving to provide and compensate work befitting the individual abilities of each disabled employee.

Sunrise Settsu employs people with a variety of disabilities, including the physically disabled, the hearing and visually impaired, people with learning disabilities, and the mentally disabled. These employees with disabilities cooperate with each other to assemble air conditioner parts, process and assemble machine parts, and manufacture fluorochemical products as ordered by Daikin Industries and its group companies. Through their efforts, Sunrise Settsu has become an excellent company that has increased sales approximately tenfold in its 20 years of operations. The governor of Osaka Prefecture attended the ceremony for a new factory in 2009 and praised the Sunrise Settsu for its “ideal pattern of employment for the disabled.” Although the company is small, Sunrise Settsu is a company of people with disabilities that is representative of Japan.

Sunrise Settsu was established in May 1993. At the beginning of the previous year, Kaoru Morikawa, the Settsu City mayor at the time, came to Daikin with a request, “Would you consider participating in a cooperative venture with Osaka Prefecture and Settsu City for a special subsidiary company for the severely disabled?” Daikin President Minoru Yamada carefully investigated this proposal. More than just establishing a company, there would be both a social and moral responsibility for the sake of the people working there to ensure that the company would not stop operations or go bankrupt. Management would also be significantly different from ordinary companies from the perspective of providing a work system that lowers the hurdles faced by disabled employees while stimulating their desire to work and enabling them to create a profit



*Inside the Daikin Sunrise Settsu Factory*



through their own efforts.

Upon conclusion of the detailed investigation, Daikin agreed to establish a special subsidiary company for the third sector by a joint venture with Osaka Prefecture and Settsu City. There was a mechanism by which the disabled employees of the subsidiary would be consolidated into the total number of employees of the parent company when certain conditions were met: a subsidiary having more than five people with disabilities comprising more than 20% of the workforce in a system to promote employment of people with disabilities. Because Daikin had an employment rate of 1.34% of disabled employees for the statutory employment rate of 1.6%, creating a special subsidiary company enabled Daikin to clear the employment rate and was an added benefit to the company.

Daikin Sunrise Settsu (DSS) was established as a business employing a large number of severely disabled people, and it began operations in June 1994 with the employment of 16 physically-disabled people. In the beginning, work began with processing and assembling of small parts for oil hydraulic equipment. That was during the recession after the bursting of the bubble economy, and Sunrise Settsu ran a deficit in its first year. In its second year, however, it made an amazing turnabout to profitability by seeking out work throughout Daikin Industries and its group companies. The company assembled intake grills for air conditioner panels and parts for air purifiers while also receiving orders from the Oil Hydraulics and Defense Systems divisions.

Factory Manager Kanamaru Goto (now an advisor) in 1995 and President Yoshiyuki Ohtake (now an advisor) in the following year left their respective posts in Daikin Industries to join Sunrise Settsu, and they led the company together until recently. A new Daikin employee had this to say upon visiting Sunrise Settsu, "I had an image

of people with disabilities being protected because of their weaknesses but here efforts are made to devise ways for them to perform difficult work." This is in keeping with the basic Sunrise policy of "do not spoil" and "extend a helping hand to people who have a desire to work." There is a relationship of mutual selection for the company and the employee, and the role of management is to create an environment in which employees have purpose in their work and experience growth. This policy itself is based on the thinking of People-Centered Management.

Sunrise Settsu imposes three conditions for personal conduct of employees: "don't lie," "be strict concerning work," and "create a positive work environment." New employees promise to observe these three conditions. Although the approach to compensation is the same results-oriented tenet as able-bodied employees, personalities are different, and salaries reflect an evaluation of work results and initiative relative to the various strengths and weaknesses of the individuals and in accordance to the type and extent of their disabilities. Employees are evaluated on the basis of whether they have increased the amount of work they do, manufactured products without defects, and regularly come up with work-related ideas on their own.

Compensation is on par with other Osaka companies employing the disabled: compensation with a starting monthly salary of 140,000 yen and average monthly salary of 160,000 yen. However, when salary amount is compared to other Daikin factories, it is roughly half. According to Advisor Ohtake, more than an outcome of the workers being disabled, wages become lower in the Japanese industrial hierarchy as one moves down the manufacturing ladder of prime contractor, subcontractor, and sub-subcontractor. When someone at Sunrise Settsu once remarked to Chairman Inoue that

wages were lower compared with Daikin, even though they were working as hard as they could, Chairman Inoue reportedly said, “Raising wages is your job.” To compete against general outsourcing companies employing low-waged part-time workers, Sunrise Settsu must receive orders with high added value and sell by developing products on its own.

Employees seem to have gained an understanding of that aspect as expressed in the words of Junji Matsumoto, department manager of the Production Department and one of the employees who uses a wheelchair, “Even if we say raise our salaries, the company cannot raise salaries if the company is unprofitable. All of us must first work hard or we won’t get raises or be able to receive bonuses.”

Under that condition, the work of the president and factory manager of Sunrise Settsu becomes centered on two factors: receiving a greater volume of high value-added work from Daikin Group companies and increasing skills so that people with disabilities can manage a higher level of tasks while feeling at ease in both mind and body. With its contribution to the employment of people with disabilities, Daikin received the Asahi Corporate Citizen Award in 2004. There was an episode in which Yukiyoishi Okano, Daikin president at the time, said, “We have to hand over this prize money to Sunrise Settsu,” and President Ohtake refused by saying, “Don’t bother with that. Give us work.” The true meaning was receiving work worth billions of yen was more desirable than the prize money of 1 million yen.

Initially, work was intended only for the physically disabled in wheelchairs but as the types of work increased so did the level of difficulty, and employees in wheelchairs were faced with receipt of goods, product shipments, and work requiring an employee to stand. From April 1998, employment of hearing-impaired people be-

gan. Conveyor work and the manufacture of chemicals became possible, and in addition to manufacturing work, such as assembly of air conditioner parts, refrigeration collection, and disassembly, Daikin Industries contracted Sunrise Settsu for design work such as creation of drawings using computer-aided design (CAD).

To compensate for insufficient communication between the hearing-impaired employees who newly entered the company and other employees, a daily sign language class was held during the morning assembly, and many employees mastered simple sign language. Although sign language was also used and promoted during meetings, Advisor Ohtake would say, “No matter your level of sign language, it is important to somehow express yourself.” There were also people who understood lip reading when words were spoken slowly with a slight exaggeration of the mouth. Having people write ideas on paper was another method for conveying feelings. Department Manager Matsumoto added, “Communication during work is not such a difficult thing.”

When the Act for Promotion of Employment of Persons with Disabilities was later revised to include the employment rate of people with learning disabilities, the statutory employment rate increased from 1.6% to 1.8%, and Sunrise Settsu began accepting employees with learning disabilities from April 2000. When the inclusion of mentally-disabled people in the disabled employment rate began in 2006, the company started employing mentally-disabled personnel. As a result of receiving a consignment in 2010 from the Ministry of Health, Labor and Welfare for a business model in the promotion of employment of mentally-disabled people, the employment number significantly increased, and currently Sunrise Settsu employs 31 physically-disabled people, 30 hearing-impaired people, 20 people with learning disabilities, one visually-impaired person, and 25

mentally-disabled people.

Miwa Kaneko, a mentally-disabled person employed as a regular employee in 2006, suffers from auditory hallucinations and was first hospitalized in her first year of junior high school. She also narrowly escaped death and suffered only compound fractures after jumping from the fifth floor of an apartment complex. Not able to continue working for a long time at fast food restaurants and drug stores by hiding her illness, she wanted to be open with her employers about her illness and began training at Sunrise Settsu. At Sunrise Settsu, full-time work is required from the stage of practical training even for the mentally-disabled. Many workplaces gradually expand the work time for the mentally-disabled from part-time hours, but there appears to be many cases in which the employee has trouble fitting in and suddenly gives up. After Factory Manager Goto told her that “it is okay to leave work early if you get tired,” Kaneko worked hard in her two weeks of practical training without being late or leaving early, and later completed two months of adaptive training and three months of trial employment before entering the company as a regular employee.

Suffering from auditory hallucinations made work difficult for her, and there were times when she just couldn’t do the work and thought it might be better to quit, but because the factory manager as well as her colleagues gave her positive encouragement she was able to freely consult with them. Upon payment of the end-of-the-year bonus in her first year, Kaneko sent an email to President Ohtake, “For my parents’ wedding anniversary, I treated them to a *yakiniku* dinner, and my father was deeply moved. Since I am the one with the biggest medical problems, he was extremely happy to see this type of change. Everyone was happy when I entered the company, and I was overjoyed with being able to feel safe and enjoy working.”

After that, Kaneko began living on her own, and now she is married and settled into working her job.

Before entering the company in 2007, Shinji Kishimoto had been hospitalized with schizophrenia in his university days and dropped out of school. He continued to receive outpatient treatment in the daytime and worked in jobs involving newspaper delivery and at a food company by concealing his illness, but he would eventually quit without explanation. After receiving a recommendation from the Support Center for Employment and Living of Disabled Persons, Kishimoto began practical training at Sunrise Settsu. Prodded by the factory manager asking if he had an interest in CAD, Kishimoto studied at a vocational training school and learned CAD. Although there were still many areas he didn’t understand, when he talked with the factory manager he was told to “start from something simple,” and that was a load off his mind. “In order to continue working while having a mental illness, you must find someone to talk to besides your family. For work I consult with the factory manager, for my illness I consult with the case worker, and for situations in my life I consult with a care worker,” says Kishimoto.

Working until he was 30 years old at a typical company, Hitoshi Matsuda attempted suicide just before he would probably have died from overwork then suffered roughly 10 years from depression before entering Sunrise Settsu in 2009. Although in charge of recycling AC printed circuit boards, Matsuda feels comfortable in his work and attributes it to this reason, “To give a simple example, even if I only take away the boxes I happen to come across, the people in the wheelchairs are happy. So, just when I thought that I was not of any use to anyone, it seems that I am not completely without value after all. To me, Sunrise Settsu has just the right sense of distance. It does not have a ‘gloomy’ atmosphere, even if you are alone. Having said

that, it is not a matter of us being left alone. There are also superiors around who treat people strictly in the job. Even for me, although I've had a 10-year absence from work, I can spend time as I normally would without thinking it's strange."

Because of workplace expansion of disabled employees and the push to raise the work level higher, employees are being encouraged to acquire the necessary qualifications for various work duties, such as forklift operations. A hearing-impaired person receives lectures together with those with normal hearing by having details of the lecture communicated through written materials. This has resulted in five employees receiving gas welding qualifications. The employees obtaining qualifications for refrigerant collection rose to 14, and four of them had learning disabilities.

Two years after the beginning of operations in 1996, a proposal system was implemented and outstanding proposals are recognized. Changes needed to increase workplace accessibility for people with disabilities are discussed, workplace improvements are promoted, and a workplace improvement contest is held every year for people with disabilities with many prizes being awarded. Soon after becoming a supervisor, for example, Junji Matsumoto made a proposal, "I want us to guide visitors on factory tours ourselves. At Sunrise Settsu, we aren't simply ordered to do small tasks; we perform work on our own, have input into how work is done, and are responsible for producing results. For that reason, I would like us to explain the work we do ourselves."

Isao Taniguchi suffers from muscular dystrophy, a disease that gradually weakens muscular functions. Because of the disease, he lost the ability to raise his arms and could no longer work on the production line. As a result, he was redeployed to liaison with business partners and to adjust delivery dates. One idea submitted for

employees like Taniguchi was a cell phone with a microphone and earphone attachment. Taniguchi was thrilled to have a telephone and microphone headset, saying, "I am happy to have this type of support that allows me to continue working."

Emergency evacuation training is performed regularly at the factory. During one training drill, a hearing-impaired person failed to come to the evacuation place. The employee had gone to the toilet and was not aware of the drill. There had been a system in place at the time that flashed a red lamp in the factory for hearing-impaired workers but there were no red lamps in the restrooms. As a result of the drill, flashing lights were later installed. Furthermore, for the visually-impaired, black and white computer screens were changed so that white letters would appear on a black background. To the visually impaired, white on black is said to be easier to see.

Because employment of people with disabilities expanded, a new factory was built in June 2009. At that time, markings were painted on floors in the middle of corridors. Previously, it had been difficult for employees with a narrow field of vision to walk straight with no markings to guide them. Consequently, these employees would always walk close to the passageway walls, and it was thought that they would prefer to walk in the middle of the corridor. As a result, floor markings were established when the new factory was built. It is said that workplaces such as Sunrise Settsu where people of various disabilities work together are rare. Not rare just because they work together, but rare because they compensate for each other's respective handicap, consolidate their knowledge, and come up with proposals totaling about 150 cases a year.

In 1998, a team leader system was established, and exceptional leaders were selected from among the disabled employees and entrusted with the training of younger employees and production

line management. In giving these leaders responsibility, they gained confidence and experience as leaders. Currently, one physically-disabled person has become a department manager (Matsumoto), and three have become section managers. Four people, meanwhile, including a hearing-impaired person, have become supervisors or assistant section managers, and eight have become leaders, including those who are hearing- and visually-impaired. Department Manager Matsumoto, who has worked at Sunrise Settsu for 18 years, said, “Communicating is extremely easy at Sunrise, and that includes communication with the president, factory manager, and department managers. Workers are free to speak their minds; and we have a relaxed atmosphere and a comfortable work environment. While all of us have a handicap, 80 to 90 percent of the employees are upbeat.”

The most challenging aspect of Matsumoto’s work is the sensitivity needed in managing mentally-disabled employees. Because of their difficulty in adapting to environmental changes and their severe mood swings, when Matsumoto feels that someone’s mental health is deteriorating, he informs the department and factory managers and contacts the psychiatric caseworker and the Support Center for Employment and Living of Disabled Persons to receive advice. In addition, the Workplace Commitment Promotion Committee meets once a month. This is a meeting in which management personnel on the level of assistant section managers, supervisors, and above attend along with counselors from the General Affairs Department. There they discuss the proper response for employees having mental health setbacks, plan countermeasures, and share information and expertise.

Not only in Japan, but overseas companies of the Daikin Group also promote employment of the disabled, and in 2006 Daikin



*Daikin Air-conditioning (Shanghai) celebrates 20th anniversary of Daikin Sunrise Settsu*

Air-Conditioning (Shanghai) was certified by the city of Shanghai as an occupational training base for people with disabilities and currently employs 66 people with disabilities. In 2007, cultural exchanges of fellow employees with disabilities began within the Daikin Group. About 60 employees from Sunrise Settsu went to Shanghai for two nights and three days at the time of certification of an occupational training base, and two representatives from Shanghai visited Japan for the 20th anniversary of the founding of Sunrise Settsu. Furthermore, at Daikin Industries (Thailand) Ltd. there are 23 people with disabilities, and at Daikin Compressor Industries Ltd. in Thailand there are similarly 25 people with disabilities who work on the same production line as able-bodied employees.

#### ◆ **Confronting Adversity—Great East Japan Earthquake**

Hideaki Ikari, president of Daikin Air Conditioning Tohoku (currently Daikin HVAC Solution Tohoku Co., Ltd.), was in the middle of a workshop for dealers at a Sendai hotel. The room started shaking, but because the area had experienced an earthquake two or three days earlier with a seismic intensity of upper 5, Ikari remained in his

chair gauging the situation of the participants and said, “Everyone remain calm. Please get under the tables.” Before long, everyone felt a violent shaking, causing intense rocking of the entire building, back and forth, on its very foundations. The ceiling fell, and the room became completely dark. Ikari also hurriedly scrambled under a table, his body trembling and unable to even squat. “I wondered whether this was it and if I was going to die.”

On March 11, 2011, the largest earthquake in recorded history struck at 2:46 in the afternoon with a 9.0 magnitude that centered on the Tohoku Region. The earthquake, named the Great East Japan Earthquake, registered seismic intensity of 7 in the northern part of Miyagi Prefecture and caused 15,889 fatalities, 2,594 people missing, and 6,152 people injured. The majority of those affected was the result of tsunami waves surging to more than 9.3 meters at their highest. Once hitting shore, the tsunami waves reached as high as 40.5 meters when pushed against a mountain slope.

An employee of a cooperative shop was doing repair work in Ishinomaki and barely escaped with his life to the shop’s roof as a wave bore down on him. Nevertheless, the tsunami carried away the service car, and he had to return to the shop on foot. With Ishinomaki totally covered in debris after the earthquake abated, he walked 60 kilometers to Sendai, arriving home three days later.

Tremors registering seismic intensity of upper 5 pounded Kamisu, a city in Ibaraki Prefecture that faces the Sea of Kashima, and thirty minutes later earthquakes and aftershocks hit offshore of Ibaraki in the Sea of Kashima with a seismic intensity of upper 6. Hiroshi Miyauchi, who was meeting on the 2nd floor of a building in the Daikin Kashima Plant, felt his way down pitch-black stairs toward the polymerization reaction vessels for tetrafluoroethylene monomer gas. Although the reaction vessels automatically turn off

in a power outage, it was necessary to close the valves manually to ensure that they were completely shut off. There were 10 reaction vessels and approximately 70 valves. There was also a danger of explosion, and Miyauchi battled time. Ichiro Noguchi subsequently rushed to the scene, and the two men quickly went around closing valves. “We feared an explosion and worked frantically as the ground shook,” said Miyauchi. After 30 minutes from the first jolt of the earthquake, the two completed the process of shutting down the plant.

Recently the concept of *shuraba* is often heard in Japan in regards to People-Centered Management. Chairman Inoue was also quoted on February 17 in the *Mainichi Shimbun* using the word *shuraba*, “We are continually having employees experience *shuraba* by challenging them with difficult assignments. People demonstrate unbelievable capabilities when you believe in their abilities and unreservedly assign people tasks.” In Buddhism, the place where Ashura and Taishakuten fight is called *shuraba*. The word means “pandemonium” and denotes a place of battle and fierce fighting. Part of the reason for Daikin top management putting employees through *shuraba* is the concern that regular HR training might not keep up with the recent rapid growth of Daikin. The typical pattern of *shuraba* is performed by having young employees be responsible for developing emerging markets and asking employees to further increase high sales results in a short time, but the opportunity to experience *shuraba* may also unexpectedly appear as a result of a great fluctuation in the market or a natural disaster. The Great East Japan Earthquake occurring four years earlier threw the better part of Daikin into a situation of *shuraba* from top management to employees at actual worksites.

President Ikari, who leads the sales team for the six prefectures



in the Tohoku region, said, “I have no recollections for about a week after the earthquake.” Even in confirming the safety of dealers, he had to copy telephone numbers from his cellphone because computer contact addresses could not be accessed due to the blackout and systematically called each person. “At that time it took about a week to confirm whether people were still alive or had died. There were people at sales companies who had died, people whose mother or father had died, and houses that had been swept away...” A sketchy memory of the first week is understandable for Ikari who spent his time absorbed in what needed to be done.

Among the After Sales Service Division, the Kashima Plant, the current companies of HVAC Tohoku and HVAC Tokyo, Daikin Applied Systems, Daikin Hydraulic Engineering, and Nippon Muki, approximately 500 Daikin Group employees were in the six prefectures of Tohoku and in Ibaraki Prefecture on the day the earthquake occurred. However, Chairman Inoue and the senior managers at the Head Office, along with top management from the overseas Group companies, were at Daikin Ales Aoya, the Daikin training facility in Tottori Prefecture, in the midst of opening the Group Management Meeting. The Emergency Response Headquarters for the Great East Japan Earthquake, headed by Chairman Inoue as headquarters chief, was established and began its work by confirming the safety of company employees. All employees were accounted for as safe. A similar process was performed for members of the Daikin Retired Employees Association (OB Kai) and for all employees of the 2011 fiscal year’s regular recruitment class living in the affected areas. Everyone was confirmed safe.

A local emergency response headquarters was established at the Yamagata sales office and the Tokyo Office to support the affected areas, and company members frequently visited the local areas.

Working in cooperation with the Emergency Response Headquarters at the Head Office and Daikin Fukushi Service, essential items including water, food, cassette gas stoves, toilet paper, and batteries were repeatedly transported to the affected areas.

Daikin AC Tohoku in the affected area operated by staying in communication with the local emergency response headquarters headed by President Ikari who went around performing such activities as confirming the damage situation of sales offices and authorized Daikin service providers within his jurisdiction and assessing necessary relief supplies. Ikari wrote all necessary items such as relief supplies from the response headquarters with a felt-tip marker on the back of a poster and posted it to a wall. Senior managers gathered at 8 o’clock every morning and decided such things as who would go to Niigata to buy gas and who would deliver supply items, and that information was shared by being posted to a wall. In the open space on the back of the poster, there was a message which read, “In this crisis situation, think hard about what you must do,” “People needing to perform clean-up for their own homes may return home.” From the period of being totally absorbed in the situa-



*HVAC Tohoku members*



tion, the situation began settling down in late March. The messages to and from people in the affected areas even started to sound more hopeful, “People who make efforts have a great opportunity, and their hopes will come true.”

*Shuraba* was not only in Tohoku which was near the epicenter; it also spread to Daikin bases in every region. At the Soka Distribution Station in Saitama Prefecture, a strong earthquake with an intensity of upper 5 caused a crack in the wall of the storage warehouse, stoppage of the freight elevator, and closure of the passageway on the fourth and fifth floors due to a shift in the load of stacked products. After ensuring the safety of approximately 100 people, including employees and drivers, the imperative became increasing recovery speed in product shipments, even if only by one day. Capabilities were demonstrated in response to the unexpected major earthquake, and lessons learned during the Great Hanshin Earthquake in January 1995 were applied. The Logistics Division assembled a manual of 17 items of earthquake countermeasures such as “maintain balance when stacking outdoor units by reciprocally stacking the compressor positions” and “attach two bands, not just one, to tighten down.” This manual was even posted to a wall of the Soka Distribution Center and followed daily. Consequently, stacks shifted but because they were tightened down by two belts they did not fall. Manager Kazumi Murakami of the Distribution Division Tokyo Logistics Operation Department explains, “Even though damage by falling was 40% for other companies in the city of Soka, our inventory had a fall rate of 6.5%.” Whereas distribution of a rival manufacturer inside the Soka city limits stopped for one week, the Soka Distribution Center reopened on March 14, three days after the earthquake.

In Western Japan, a Daikin stronghold far from Tohoku, related people could hardly believe their eyes by the unexpected situation

related to the continuation of business. As early as the day after the earthquake, Saturday, March 12, members of the Global Procurement Division gathered at the Kanaoka Factory in Sakai. Daikin procures parts from many suppliers in the Tohoku area, and production is impossible if parts fail to arrive. First, the damage situation had to be confirmed. Makio Takeuchi, the department manager of the Procurement Strategy Department, told the employees, “Draw me a map of all suppliers in Tohoku.” Seeing the large number of suppliers at locations scattered on the map startled him. “Who would have known there were so many suppliers in Tohoku...,” someone was heard saying.

What amazed them even more was the extent of damage to Renesas Electronics, a major semiconductor manufacturer in the area. Beginning with the Naka Factory (located in Hitachinaka, Ibaraki), the main base of microcontrollers, eight factories were forced to shut down. All of Daikin’s inverters at the time used microcontrollers made at the Naka Factory, and any stoppage in supply meant all Daikin factories around the world would be affected. The Global Procurement Division organized a “sympathy team” that traveled throughout the area with backpacks stuffed with provisions, flashlights, masks, and other needed supplies. “Factories had been destroyed by the tsunami wave, roads were torn to pieces, and so many people who had lost family members. It was not a time for work. Under those circumstances, even after giving relief supplies, we were not able to say, ‘Please give us parts because we are in a fix,’” reflected Section Manager Mamoru Wada of the Procurement Strategy Department.

Undoubtedly, the most serious problem was the microcontrollers of the Naka Factory. Until then, Daikin had used low-priced mask ROM controllers that had original software programs written

to the chip at the time of manufacture. The only solution was for Daikin to switch to flash memory microcontrollers to which Daikin could write the software and have Renesas Electronics manufacture them at an undamaged factory. For that, Daikin had to perform substitution development for using new microcontrollers and determine whether they could be used in production. The number of affected models was in the thousands, including overseas models, and unit costs would also rise with changing of the microcontroller, resulting in a significant cost increase. Even then the only choice in the decision for the actual site was to switch to flash memory. Jirou Tomita, the general manager of the AC Manufacturing Division, decided right away. At the end of March, he issued an order, “The production line will not stop. We will proceed with substitution development by an all-out effort.”

About 220 device engineers were concerned with substitution development at the Shiga Plant. They included engineers from the Air Conditioning Manufacturing Division, the Environmental Technology Laboratory, and Daikin Rexxam Electronics Co. Ltd. The trial equipment operated at full speed from 6:00 in the morning until 12 midnight, and substitution development, which been predicted to take three to four months, was revised with the possibility of being front-loaded to one and a half months. The receipt of new orders from distributors and mass retailers was stopped on April 4 before being resumed on April 19. At the end of April, hopes were rekindled for air conditioner production at all global bases.

That was how Daikin employees overcame this crisis. Through this difficult experience, each employee thought about his or her approach to life and work and began taking steps toward a new life. Daikin recovered from being hit hard by the earthquake, and prospects for recovery of the air conditioning market in Japan were es-

tablished a year later in March 2012. Four years have passed since the Great East Japan Earthquake. More than 2,500 people remain unaccounted for in the disaster-stricken area, and approximately 284,000 people were forced to evacuate the area.

#### ◆ **Genba Principle—the Frontlines of Sales**

At Daikin, frontline employees are directly involved in sales. Executive Officer Toshitaka Tsubouchi, general manager of the Air Conditioning Sales Division spoke about sales in his opening remarks in May 2013 at the “Mighty Warrior Training Camp” for newly-hired employees responsible for sales.

“When we think of sales, we think of selling. Sales are, in fact, about business performance. The responsibilities of the sales division extend to all business activities in a company. Beginning from product development, our responsibilities extend to production and logistics, to selling and installation, to servicing, and we have to see that customer needs are being met. Sales encompass all of these responsibilities. It’s not just about selling.”

He further emphasized, that the company must create the best service and best product value for the customer and the company must be remembered by the customer as the No. 1 manufacturer. This might have been difficult for young employees just entering the company to understand but those who had worked at the frontlines for many years were thoroughly persuaded.

Since entering the start-up company Daikin Kita Osaka Air-conditioning Co., Ltd. (currently Daikin HVAC Solution Kinki Co., Ltd.), in 1974, Katsunori Hato worked for 40 years in the air conditioning business and is currently the president of Daikin Consumer Marketing Co., Ltd. (DCM). In April 2011, 10 of DCM’s 20 sales companies were reorganized throughout Japan to strengthen the company’s

sales and proposal capabilities for air conditioning equipment. At the same time, in order to become the top manufacturer in the field of consumer products such as room air conditioners, Ecocute, and air purifiers, DCM was established near Kameido, Tokyo, as a subsidiary specializing in volume retailers by consolidating the sectional responsibilities of sales subsidiaries and focusing on the needs of consumer electronics stores in order to expand sales.

With the 37 sales bases that had belonged to the 20 sales subsidiaries coming under control of the newly created DCM, Hato took great pains in deciding how to bolster the cohesive forces holding the organization together. “Obviously,” he said, “*Our Group Philosophy* would be at the core of the cohesive forces.” He said that when he opened a training session, and since then he has executed training sessions twice a year. Because it is difficult to specifically express management’s philosophy at sales activities for mass retailers, he prepared the Six Principles to Practice at DCM.

- 1) Let’s always market the ‘Next New Product’ and create new and innovative products;
- 2) Let’s aim to be the ‘No. 1 company’ with the sales depart-



*Sales promotion at a consumer electronics store*

- ment accepting nothing less than being No. 1;
- 3) Let’s increase the speed of achieving targets by continuously moving to implement our action plan;
- 4) Let’s build a company with a stable profit structure in Ratio Management terms ranging around ‘0.1%’;
- 5) Let’s create a vigorous and positive company by thoroughly safeguarding our corporate ethics and legal compliance;
- 6) Let’s continuously perform education and training for company employees and strengthen our proposal and contribution capabilities toward ‘customers and stores’ by improving employee skills and motivation.

A specific index was expressed in Six Principles to Practice, and Hato had each employee submit an action plan. Along with a target amount to raise sales for each mass retailer, the employees would write down the sales activities to be implemented and their results.

In the span of only one year, Hato visited 37 bases extending from Hokkaido to Okinawa. Action plan review meetings were held at each base and all the directors attended, from president on down. Reviews would take around 30 minutes for each sales employee. Moreover, he would go around to the approximately 810 mass retailers, accompanied by a sales employee for the day, and give the mass retailers specific instructions. Around 100 sales employees accompanied him on those sales calls.

In moving forward with improving the awareness of the sales department team, mass retailers were invited on factory tours and shown the actual sites where products were manufactured. Educating retailers on Daikin products was part of a strategy to create Daikin enthusiasts. Repeatedly executing this type of all-out effort led to an understanding of the Daikin sales policy based on the People-Centered Management approach and a gradual shift in the

thinking of these mass retailers as well.

Besides the 170 employees, there are 45 temporary staff members called 'rounders' at DCM. Mass retailers are also open on Saturdays, and because they hold events and have special sales days, the president would visit the stores to encourage and observe their activities. "Our existence originates at the sites of actual sales. That is where the stores recommend products to customers, and is where the exchange of money begins. That's where lifelong customer relationships originate, and if you get cut off there then that's probably the end of it."

There are about 1,500 mass retail stores nationwide engaged in business with Daikin. One-third of them have approximately 500 temporary staff employees working in the summer and winter. They wear PICHONKUN jackets and work primarily at large stores as helpers. Twice a year at DCM, about 40-50 helpers are taken on a factory tour to introduce them to Daikin's latest technology and to express the company's appreciation. Furthermore, because the number of temporary employees does not decrease during downward trends in the economy, many outstanding people among them continue working over the years as long-term helpers.

Due to activities at mass retailers performed collectively by sales employees, rounders, and helpers, their market share increased for several models, including room air conditioners, and DCM was able to raise profits largely as planned in three years after the company's establishment.

"The fundamental approach of People-Centered Management of placing importance on people has permeated to every corner of the worksite. In particular, it is not a matter of the sales department having a model that enjoys good sales, having special know-how, or producing flashy television commercials. Because our employees

make excellent products for us, it really comes down to people. The difference is nothing more than raising the quality of workers, their abilities, and their desire to perform. I think motivation and desire fully come out for mass sales because there is direct contact with the end-user through the stores."

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*Chapter IV*



# Centrifugal and Cohesive Forces



*Fostering "bridge persons," people who link the Head Office  
with local workplaces*

## ◆ Global Corporate Culture

“A company, whether it is acquiring or being acquired by another company, has its own history, tacit knowledge, and unique corporate practices, all of which contribute to the company’s corporate culture. To succeed in an acquisition, having mutual respect for the corporate culture and not destroying it are critical. Furthermore, realizing cultural fusion in a natural way by transferring what the other party wants for growth and complementing each other’s strengths and weaknesses are central to a successful acquisition.”

These words came from Chairman Inoue when he first addressed a group of 200 managers in mid-November 2012 at the Goodman Global Group, Inc. headquarters in Houston, Texas, soon after Daikin acquired the U.S. company.

Beginning in 1966 with Daikin Air Conditioning Co., Ltd. in the Mediterranean country of Malta, Daikin established overseas bases in Europe, the United States, Asia, and Oceania. These bases included a sales and marketing company for air conditioning equipment in Australia, an assembly plant for air conditioning in Belgium, an air conditioning manufacturing and sales company in Thailand, and a manufacturing and sales company for fluorochemical products in the United States. Global expansion, however, went into full swing from 1994 after Inoue assumed the Daikin presidency. Inoue set forth the management strategy of global development of the Daikin air conditioning business, acquired distributors and placed them under direct control in Europe, and made full-fledged inroads into China. Furthermore, in 2006, Daikin acquired Malaysian company O.Y.L. Industries Bhd. and formed a business alliance with Chinese rival Gree Electric Appliances, Inc. of Zhuhai. As a result, Daikin became No. 1 in sales of air conditioning equipment in 2010, overtaking Carrier Corporation, a U.S. manufacturer of HVAC equipment in

the United States. In 2012, Daikin acquired Goodman Global Group, Inc.

The Daikin Group today has a presence in over 145 countries and manufacturing bases in 82 locations worldwide. In a ranking of the globalization of Japanese companies announced by Waseda University and Accenture Plc in March 2014, Nissan Motors ranked first with Daikin ranking seventh. This survey evaluated the top 200 companies listed on the First Section of the Tokyo Stock Exchange in terms of turnover based on four indicators: overseas sales ratio, overseas asset ratio and direct overseas investment, hiring overseas human talent, and total turnover growth. With the majority of the high-ranking companies being automotive and automotive parts companies, such as Nissan, Toyota (No. 3), and Honda (No. 5), Daikin has demonstrated an impressively strong presence in the rankings as a comprehensive air conditioning company.

Rapid globalization was made possible by alliances, partnerships, and M&A. With the speed of change increasingly accelerating, mainly in emerging markets, a company cannot keep pace with changes if it tries to obtain on its own the technologies and knowledge needed for growth. Chairman Inoue understood alliances and M&A to be a means to accelerate acquisition of the technologies and human resources that Daikin lacked. However, managing a foreign company that employs people with incongruous lifestyles, languages, values, and cultures and aggressively pursuing a policy of foreign acquisitions could also provoke a strong backlash. Here is where “mutual respect of the corporate culture,” a principle that Inoue has always valued, comes into play.

In managing the rapidly growing overseas companies of the Group, Daikin recognizes the culture of local companies and actively delegates authority to local management to develop business in

close proximity to the local region. As such, the number of local personnel who serve as board members have increased: five out of eight at Daikin Europe N.V. (DENV), four out of 10 at Daikin (China) Investment Co., Ltd. nine out of 13 at Goodman in the United States, three out of 10 at Daikin Industries (Thailand), Ltd. (DIT), and four out of seven at O.Y.L. Manufacturing in Malaysia. The ratios of local board members and presidents at overseas bases now stand as high as 45% and 40%, respectively.

To accelerate business development in overseas markets, Daikin strengthened centrifugal forces through localization, but once it delegating authority to local managers the Daikin Group risked fragmentation. Consequently, Daikin has aggressively worked to share strategy and information throughout the Group to reinforce its cohesive forces and ensure that local companies fully understand the direction of the Group. Daikin's top management frequently flies to China, Europe, Southeast Asia, and other places to hold manager meetings for each region and hosts the Group Management Meeting for senior managers worldwide to attend and discuss critical issues.

In this context, what serves as the key to cohesive forces is People-Centered Management. Daikin's *Our Group Philosophy* was translated into English and Chinese for distribution in each country. Each Group company tries to instill People-Centered Management among its employees through training and a wide-range of events and occasions.

Having the Daikin work style permeate globally is no easy task. Along with differences in political, social, and economic systems, non-Japanese employees also differ from their Japanese counterparts in life experiences and work approach. Nevertheless, though countries may differ, all people belong collectively to the human race and company operations are carried out by people. Underlying the

basic foundation of People-Centered Management is the belief in the infinite potential of people and a dedication to enhancing individual capabilities while respecting diverse personalities. When correctly understood, such a global management philosophy is bound to gain worldwide acceptance.

#### ◆ Expanding Room for Development

Five or six years after it entered China, Daikin devised its "Great China Strategy" and started full-scale business development throughout China. On this occasion, Daikin's in-house magazine *Daikin Times* featured an article in its December 2003 edition titled, "Dynamic China: Tracking Its Strategy and Implementation Team." A member of the editorial staff conducted field research by traveling to Beijing, Shanghai, Guangzhou, and other locations and interviewing 85 people over the course of four days. The feature article began with the following observation:

"What we felt was the exuberant energy of Daikin China. Above all, we were overwhelmed by the intensity of local employees. 'I like this company,' 'I want to produce results to make this company bigger,' and 'I want to grow much more in this company' were some of the comments we heard. Witnessing these people who expressed themselves with a gleam in their eyes, we could see that it was the people at the frontlines who were leading Daikin's dramatic leap in China."

Local staff growing to the extent that they are driving Daikin China forward is the result of Daikin developing both culture and people. Specifically, just how did Daikin develop people in China?



Let's take a look at Daikin's approach in China by examining a few key words.

#### ◆ Localization

Katsuyasu Nakatsukasa, general manager of the AC Sales Division for Daikin (CHINA) Investment Co., Ltd. at the time, was quoted in a *Daikin Times* feature article on China as saying:

There is definitely a limit to what Japanese people can do to achieve dramatic growth in China. Japanese ideas reflect only those ideas Japanese people think are good. Chinese people growing up in Chinese culture can fully understand Chinese sensibilities, and they are the only ones who have the potential to break through the limits of the Japanese.

Ever since setting foot in China, Daikin has encouraged the development of local staff and upheld a policy of localization that largely entrusts responsibility to them. This was also the conviction borne out of the experience of President Tayano who cultivated the Chinese business.

"Our competitors are not foreign companies but major Chinese local manufacturers. They are continuing to expand and expand using their speed and power. To compete with them, we must localize and transfer authority. Japanese-led management inevitably reaches a limit," says Mr. Tayano.

The sales division is now entirely localized, more than half of the senior management is Chinese, and the workplaces are supported by Chinese staff. Li Chaojing, senior manager at the R&D Center, says with pride, "Now we have about 230 employees at our Center

and 10 percent, or about 20 of them, are Japanese. The others are all Chinese." She adds, "Daikin trusts Chinese employees, gives us responsibility, and allows us to grow with the company. Young people believe they can develop themselves at Daikin and therefore very few people quit."

Mr. Tayano says he is merely a supporter and Chairman Inoue credits the growth in China as follows, "In Europe we grew because of our M&A, but in China we grew because of our people."

#### ◆ Dreams—Room for Growth

In China, approximately 1.3 billion people live across a vast territory extending over approximately 9.6 million square kilometers (about 26 times the size of Japan). Culture and customs differ by region, and each ethnic group has its own values. To advance localization, the personalities of people with diverse values must be mobilized to develop people, and these people must fill posts and ultimately have managerial responsibilities delegated to them. To this end, something is needed that can be understood and accepted by all and serve to motivate people in their work. What could motivate all Chinese people? Mr. Tayano's answer is simple: dreams.

"The Chinese take action according to their hearts. Nobody will follow a leader without dreams."

Fang Yuan agrees. "In a nutshell, Daikin is a dream-inspiring company for local employees. It gives us the freedom to do what we want to do. If we perform well, the company gives us the credit. It's a company in which my own dreams and my work are fused into one." He continues, "Daikin is one family, one big family. If you have a family then you have dreams, and if you have dreams, you have a future. The Chinese economy is problematic right now and it's difficult for us to change the macroeconomic trends, but we would like



*Fang Yuan (front row, third from left) and his team at Daikin China*

to create our world through hard work.”

For Chinese people, Daikin is an organization that gives them challenging targets, gives them the freedom to do what they want to do, is full of opportunities, and is a company with which they can grow together. In other words, Daikin offers room for growth to employees and allows them to realize their dreams.

Compared with Japanese people, Chinese people are ambitious. When presented with a clear goal for what is needed and convinced of its importance, they will take the initiative and strive to overcome all obstacles. The success of localization in China is the result of fully understanding the Chinese character and capitalizing on it to the fullest extent. To accomplish this, it was essential for Daikin to instill its work style and philosophy of People-Centered Management that provide various opportunities to young employees.

#### ◆ Sharing Dreams in Oahu

One August day in 2006, about 100 senior managers disembarked from airplanes one after another at Honolulu International Airport on the island of Oahu in Hawaii. Managers from both O.Y.L. Indus-

tries Bhd. in Malaysia and Daikin Industries, Ltd. in Japan came to Oahu, nicknamed the “Gathering Place,” for a joint meeting among managers from both companies. It was the first gathering since Daikin’s acquisition of O.Y.L. in May that year.

While Daikin’s Head Office is located in Osaka, O.Y.L.’s headquarters is in Kuala Lumpur in Malaysia. Inoue says, “If the meeting were held in Malaysia, it would have seemed like our company was marching into their territory. On the other hand, if the meeting were held in Japan, it would have been regarded as if we were summoning them to our place. This is why we proposed to have the meeting in a neutral location, Hawaii.” This was proposed out of consideration of the other party as a means to demonstrate the approach of taking the first step on equal footing.

At the start of the meeting, Inoue made an appeal, “I want to share with all of you the dream of becoming global No. 1 in the air conditioning business.” The message was clear—let Daikin and O.Y.L. recognize each other’s differences and respect each other’s strengths to take a great leap forward. In the meeting, managers from both companies frankly discussed the current situation, issues,



*Joint meeting of Daikin and O.Y.L. held in Honolulu, Hawaii*

and expectations for the other. On the last day of the three-day meeting, managers from both companies were seen talking to each other with smiles emanating naturally on their faces. The meeting held in Honolulu was an important first step to enable strangers to lower their guard and take on the challenge of a new business as equals.

The acquisition of O.Y.L. was aimed at negating and bolstering Daikin's weakness in applied systems (large commercial HVAC systems) and low-priced room air conditioners as well as forging business in North America. Through the acquisition, a business was obtained that could immediately buttress a Daikin weakness and facilitate the Daikin aim of becoming global No. 1 in the air conditioning business.

“The fact that O.Y.L. has strength in areas we are weak signifies a corporate culture quite different from ours. Because of that difference, O.Y.L. can demonstrate strengths we lack. Conversely, forcing Daikin's way on them and depriving them of their uniqueness would have been the worst strategy of all. A delicate sense of balance between what should be fused and not fused becomes necessary. While thoroughly sharing a management philosophy, delegating the core of business that is the other party's strength and respecting its culture is necessary.” (Noriyuki Inoue, *Globalization with Belief in Capabilities of People*)

When maximizing synergy that can be gained from an acquisition, the best way for people at the site to understand the issues is to have them learn areas of specialty and proprietary know-how from each other and then figure out where and how each party should

cooperate. Inoue established working groups at the Head Office in Osaka in January 2007 with the aim of generating synergies. The best and brightest employees from the frontlines of each functional department such as engineering, manufacturing, and sales from Europe, China, and the Americas were convened for these working groups, totaling 290 participants, including 70 dedicated members. Together with participants from O.Y.L., intensive discussions were repeated for each theme in a working-group style.

What surfaced in these discussions was reinforcement of the applied systems business. One of O.Y.L.'s subsidiaries was the world's fourth largest air conditioning equipment manufacturing company, McQuay International, Inc. In the conservative U.S. market, there had been no technological development spurring new product development. Consequently, fusion between Daikin's strength in green technology, such as inverter technology, and McQuay's know-how in the applied system business was expected to trigger a new awareness in the market.

Discussions resulted in establishing the Daikin McQuay Applied Development Center in Minneapolis, Minnesota, in the United States, where the McQuay headquarters was located, in May 2009. An elite-class of engineers from the United States, Japan, Europe, and Asia were assembled to promote research and development. This represented the first time for Daikin to establish an air conditioning R&D Center outside of Japan and was aimed at launching strategic products from the United States, the core market for applied systems, with an eye on leading the industry in the global market. Engineers leveraged their collective knowledge and experience as seen in the development of centrifugal chillers utilizing McQuay's proprietary technology in magnetic bearings. New products generated by fusing technology enabled Daikin to make a full-fledged en-

try into the North American market.

The applied system business is a typical example of synergies resulting from M&A, but enthusiasm generated from the unprecedented size of the acquisition also brought about failures. A subsidiary in the O.Y.L. Group is O.Y.L. Manufacturing (OYLM), which produces low-priced residential air conditioners for Asia. Because OYLM wanted to introduce inverter technology, engineers from Daikin were seconded in large numbers to provide technical guidance. However, Daikin's technology development process began with a tedious, but necessary, focus on zero-defect manufacturing, which meticulously reviewed existing processes. Mistaking this exhaustive review as a lack of trust, about 40 engineers left OYLM. This caused Daikin to reevaluate how it introduces technology transfer at overseas companies. The engineers who remained at OYLM and the ones who were newly hired now have a better understanding of Daikin manufacturing and are fully involved in all areas of development.

#### ◆ Trust between Top Leaders

Immediately after the Great East Japan Earthquake of March 2011, Chairman Inoue sent for Takeshi Ebisu, senior executive officer (current president of Goodman Manufacturing Company). With the company pressing to cope with the unprecedented earthquake, Inoue told Ebisu, "Negotiations must be terminated." The negotiations he meant were those for acquiring Goodman Global Group, Inc., which held the top share of the residential air conditioning market in North America.

Following the acquisition of O.Y.L., Daikin moved ahead from 2010 in negotiations with the private equity investment firm that owned a majority stake in Goodman, and Ebisu was leading negoti-

ations with the other party, negotiations that were in their final stages. The dates had been set for meeting with the investment firm leader and concluding the acquisition agreement at the end of March. Suddenly, an order came from Inoue to terminate the negotiations.

Inoue cautioned Ebisu, who was stunned by the news: "This is not a postponement." With uncertain economic prospects after the earthquake, an acquisition of this scale would be a huge business risk. As expected of someone experienced in the difficulties of making a decision to withdraw, Inoue stated emphatically that grit is even more necessary when pulling away and that there was no place in management for regrets.

Notwithstanding the wisdom in Inoue's decision, Ebisu must have felt an extreme sense of disappointment in having to terminate the tough negotiations just before they were to bear fruit. In the following year, however, Goodman requested resumption of the negotiations, and Ebisu was standing once again at the head of negotiations. Although termination of the negotiations had been because of unforeseen circumstances, reconstructing a relationship of trust is difficult once broken and allowed to cool. Just as the acquisition price was being discussed during the final stages, another bidder had appeared, forcing Daikin to be pitted against a new competitor. Ebisu clinched the deal with a Daikin promise, "We will take in each and every Goodman employee—not one employee will be asked to leave." In August 2012, a final agreement was reached with an acquisition value of approximately ¥296 billion (\$37.6 billion), exceeding the amount for the O.Y.L. acquisition of ¥243.8 billion. Ebisu recalls, "It was tough work."

While having once abandoned negotiations, Inoue stood firm in his commitment to acquire Goodman and become the undisputed global No. 1 comprehensive air conditioning equipment

manufacturer by leaping into North America, the birthplace and main battlefield of air conditioning equipment. Daikin had made advances twice before to North America, in 1981 and 1998, but it was unable to compete and had to withdraw within a few years. With the acquisition of O.Y.L. as a foothold, Daikin became global No. 1 in sales of air conditioning equipment, overtaking Carrier in the United States in 2010. Its presence in the North American market, however, was still minimal.

That weak presence was in part due to the difference in the air conditioning systems: the mainstay system in the United States was the duct type system in which temperature-controlled air is sent through ducts installed in a building to either cool or heat the entire building, whereas in Japan the mainstay system is the ductless type system which uses indoor and outdoor units for each room. The advance of Japanese manufacturers in the U.S. market faced the added obstacle of households with duct-type systems already installed and unfamiliarity with sales methods. Acquiring Goodman with its 60,000 dealers and 900 sales bases would quickly enhance Daikin's presence in North America, where full entry had been previously denied.

Not only did his business acumen drive the Goodman acquisition, but Inoue also trusted the Goodman leader and held the company's corporate constitution in high esteem. Having captured the major air conditioning markets in the regions of Europe, the United States, China, and Asia to become the global No.1 comprehensive air conditioning equipment manufacturer, Daikin earned worldwide respect for both its unique corporate culture and its thorough implementation of People-Centered Management. Inoue says, "Companies with a corporate culture that runs counter to our own cannot be trusted, and therefore you need to have a clear under-

standing of the other party if you want to do business together. Whether it is an acquisition or an alliance, naturally you have to calmly assess whether the other party can contribute to your company's growth and development. Moreover, without a relationship of trust between the top leaders of the company, an acquisition or alliance can never succeed."

In acquiring O.Y.L., Inoue met YBhg Tan Sri Quek Leng Chan, the owner of the Hong Leong Group to which O.Y.L. had been affiliated, in Hong Kong. Inoue describes his impression of the occasion: "Being an overseas Chinese *zaibatsu*, he is thrifty with his money, but he is a very calm man of integrity. He does not criticize others and gives candid opinions on business. In a plane returning back to Japan, he is said to have told Senior Executive Officer Ebisu, "That man can be trusted."

Following the acquisition of O.Y.L., Daikin concluded a business alliance with Gree Electric Appliances, Inc. of Zhuhai in March 2008. Inoue recalls, "Ultimately, the determining factor of this alliance was trust between the top leaders of the two companies. From the very beginning, Chairman Zhu Jianghon of Zhuhai was a forthright person who expressed his honest thoughts." Seeing that the chairman was a person of sincerity with foresight and excellent insight, Inoue felt an even stronger desire to work with him.

"After all, without a rapport and trust between people and, in particular, between top leaders, things will not work out even if you discuss details. You feel that you want to prioritize the profits of your business partner over your own and then increase your own profit through synergy because you sense a kindred spirit in the managerial stance of the partner or respect for the



conviction of its leader.” (Noriyuki Inoue, *Globalization with Belief in Capabilities of People*)

David Swift, CEO of Goodman, Daikin’s largest acquired company (current Daikin non-resident board member), was a man worthy of trust. Moreover, Goodman’s corporate constitution bore a striking resemblance to Daikin’s People-Centered Management.

Harold Goodman, the founder of the company, was a contractor who had sold and installed air conditioning products. He entered the manufacturing business when he became frustrated with the inadequate services being provided by air conditioning manufacturers. From the time of its establishment, the company Goodman was dedicated to a “dealer first” policy that provided high-quality products to dealers in a timely manner at low prices. Offering high-quality products at low prices required low-cost production, which is why Goodman maintained a strong awareness of cost.

Lawrence Blackburn, CFO of Goodman, had this to say, “Mr. Goodman was always saying ‘We are going to provide cheap cold air.’” The philosophy of maximizing profit by curtailing costs was

Goodman’s culture, passed down to every employee and to production and development sites. Blackburn also said, “Because our company specializes in heating, ventilation, and air conditioning (HVAC), we regard dealers as our customers. A dealer-focused concept permeates the entire company. We share that thinking in common with Daikin.”

Senior Vice President Pete Alexander, who started the company together with Harold Goodman, agrees, “We placed priority on and upheld two principles to date—value employees and value customers. If these two are honored, business will be successful. As long as we can present a reason for customers to buy our products, we will be successful.” This line of thinking ties into Daikin’s People-Centered Management and encourages Goodman employees all the more to continue working for the company.

“A company will be successful if it creates an environment in which employees want to go to work when they get up in the morning. Creating that environment is not complicated. Goodman is sensitive to employee needs. We must provide fair wages and benefits to our employees and always work to treat them with respect. People at our plant are the most important for our company. It is not only my responsibility, and the responsibility of other senior managers, but also our joy to ensure that people at the plant continue to work for our company.”

Even in other countries where language and history are different, there are companies that are successful in their area of business by valuing employees, customers, and the people in the community. Based on the trust inspired by the leaders of such companies, Daikin has developed its businesses globally.



Chairman Inoue and David Swift CEO of Goodman

### ◆ Same Daikin Language throughout the World

Out of the twelve board members at the Daikin Group Head Office, there are only two non-Japanese, non-resident directors: Frans Hoorelbeke (chairman of DENV) and David Swift (former president and CEO of Goodman).

Since joining newly established DENV in 1976 as the person responsible for general affairs, Frans Hoorelbeke has been involved in Daikin activities in Europe for nearly 40 years. He recalls, “At the time I joined Daikin, Japanese and local staff members built a wall between each other. Now, I sometimes feel that there is a wall between DENV and its new affiliates just as we had back then.” (*Daikin Times*, Winter 2011)

Time is required for reality to catch up with philosophy. Moreover, instilling corporate philosophy becomes all the more difficult as an organization grows larger. It is no wonder that some members of the Daikin Group, which has spread throughout the world, may not yet fully understand the philosophy of People-Centered Management.

Hoorelbeke says, “As an organization becomes larger, employees will not be able to support it unless they speak the same Daikin language and align directions for taking actions.” This is why Hoorelbeke always carries the Daikin *Our Group Philosophy* handbook with him and uses the expressions found in it when he needs to explain things to employees.

Even with these efforts within the Group companies, problems may sometimes occur, but the entire Daikin Group certainly understands and practices People-Centered Management and *Our Group Philosophy*. Let us take a look at some examples of staff members at overseas Group companies who are talking the same Daikin language and accumulating the same kind of experiences as

Hoorelbeke mentioned.

Bart Van Hauwermeiren, senior manager (honorary officer) of the Strategy Planning Department at Daikin Europe, whose headquarters is in Belgium, joined the company in 1995, and eight years later at the end of 2003 he was unofficially notified of his transfer to Daikin Airconditioning Poland Sp.z.o.o (DAPO) as vice president. In those days, a transfer to another country in Europe was truly rare. As well, Poland was facing many uncertainties prior to its becoming a member of the EU. As one might expect, he hesitated at first but before realizing that the transfer would be an excellent opportunity for him, and he worked hard to adapt to the changes in environment. Hauwermeiren remembers the experience as being responsible for significant growth.

He was then assigned to the position of president of Daikin Airconditioning Portugal Distribuicao Equipamento Termico S.A., and upon learning of the startup of a Daikin base in Brazil, he recommended a local subordinate of his for a challenging position in Brazil at Daikin McQuay Air Condicionado Brazil Ltda. Gaining first-hand knowledge of the growth people experience when having the opportunity to accept challenges in a new environment, he encouraged his subordinate, who was reluctant on stepping out, “Brazil is a country with enormous business possibilities. Your accumulated knowledge and experience will certainly be useful. Don’t be afraid of taking on the challenge. Move onward with confidence.”

After Hauwermeiren left, it was Martin Krutz, director in charge of sales in Daikin Airconditioning Central Europe Handels GmbH (DACE) at the time, who was assigned as president of DAPO. Although he was apprehensive because of his lack of experience as a manager, Krutz nonetheless moved to his new position as president of DAPO from Austria. Unfortunately, the Lehman Brothers



bankruptcy occurred immediately after his transfer, and DAPO's business conditions worsened with a significant drop in sales.

Because this was the first time to assume the presidency of a company, Krutz questioned his own abilities, "Do I have the ability to lead a company in this difficult period? Is it not better for the company to have someone else instead of me?" After agonizing over his situation, he sought the advice of Toshitaka Tsubouchi (current Daikin executive officer) who was vice president of DENV, its parent company. Tsubouchi reassured him by saying, "It will certainly be difficult for you now, but this will be an opportunity for you to learn. If you overcome this situation, one way or another, this experience will be an asset for you in the future, and you will become a stronger manager because of it. Give it a try and do your best. Carry out the job with perseverance. If you believe in yourself, things will surely change for the better." With these words, Krutz regained confidence and three years later, DAPO's performance had recovered, and he was promoted to president of DACE.

Hauwermeiren and Krutz's assignment to DAPO was a type of employee redeployment based on a talent assessment and a typical example of how Daikin develops people: providing employees with opportunities and giving them ambitious goals in which they develop through challenging experiences.

Daikin Airconditioning (Singapore) Pte Ltd. (DSP), the oldest air conditioning equipment sales company in Asia in the Daikin Group, boasts the overwhelming top sales in Singapore. Nonetheless, its president, Ching Khim Huat, is taking on challenges to enter the solutions, applied systems, and marine HVAC businesses as well as expanding its market to include the neighboring countries of Brunei, Myanmar, Cambodia, and Sri Lanka. These efforts are business strategies aimed at not only business expansion but also providing

employees with opportunities to face new challenges.

"These efforts are intended to broaden perspectives, hone skills, and expand opportunities for developing the careers of each employee. Over the past 10 years, DSP has added many employees, and the most important mission I have is creating an environment in which they can continue to accept challenges without getting into a rut."

President Ching's words are based on the mindset of People-Centered Management with its underlying concept that people are the source of corporate competitiveness and the accumulative growth of all employees is the foundation for the development of the company. Examples of providing challenging goals to promote growth and career development for employees at each global base can be observed in the following stories.

Gunther Bamelis, deputy general manager of the Manufacturing Division and senior manager of production at DENV, joined the company in 1990 as the person in charge of quality control. After leaving DENV and serving a short stint as president of another company, he rejoined the company. He says it was the Japanese employees at Daikin who established the foundation of the manufacturing philosophy:

"In the past, there were many Japanese supervisory personnel and they not only taught us daily operations, such as the Production of Daikin System (PDS), but they also hammered into us the mindset behind the method. We were constantly asked to try and overcome difficult issues by reminding us that 'nothing is impossible.' The experience of using our sweat, passion, and teamwork to overcome what had been thought to be impossible forms the basis of my confidence."

"Developing people requires challenging targets that cannot be realized with only little effort," admits Boonthavee Khamhaeng, se-

nior manager of the Manufacturing Division (Honorary Officer) of Daikin Industries (Thailand) Ltd. (DIT), “When you unilaterally set high targets and entrust everything to an employee, you risk devastating that person even if he or she has great potential. I am always aware of the importance of regularly speaking with employees, suggesting other possible solutions to problems, and having them gain confidence in their abilities to work through problems themselves.” These words spoken in full confidence are indicative of his frontline experience of *monozukuri* (the art of manufacturing).

“Anticipating the future needs of customers and creating new value as mentioned in *Our Group Philosophy* is something that only the local people, who are the closest to customers, can fulfill. Calmly observing the business situation, sharing and analyzing information, and then holding intense discussions; determining each employee’s potential capabilities and strengths and then, confidently assigning responsibility to the employee; trusting each other, and moving toward established goals—this is the “Dream Team for Production” that I aim to realize.”

Robert Woodhouse, chairman of Daikin Australia Pty., Ltd. (DAS), which has existed for nearly half a century, and associate officer at Daikin Industries, remarks, “Employees are the driving force of achieving further growth. A company is just a container; the employees are the ones who serve in that container as the heart, brain, and soul of a company.”

This remark is representative of People-Centered Management, but DAS also adhered to the Australian way in its earliest years. Gradually, it started to adopt the positive aspects of the Japanese way to instill Daikin-ism in the company. Since Woodhouse assumed the presidency, DAS has fully integrated its strategies, including research and development efforts, with Japan, and leverag-

ing the strengths of the other has become the custom. He confidently proclaims, “Our factory has no litter, just like the worksites in Japan—we distinguish ourselves from other factories in Australia. It is obvious to visitors that our factory is one run by a group of professionals who value quality, and we take pride in that fact.”

#### ◆ Bridge between Different Cultures

In June 2013, news spread that Saori Kimura, captain of the Japanese national volleyball team, would transfer to “Galatasaray Daikin,” a distinguished team in Turkey. Kimura played for another team in Turkey the previous year, transferred to Galatasaray Daikin, and one year later returned to the Toray Arrows in Japan.

Daikin’s name appears on the shirts of the women’s volleyball team in Turkey for which Kimura played because Daikin concluded a sponsorship agreement with the team in October 2012. Daikin had been developing the HVAC business in Turkey through a distributor since 1975 and acquired Airfel A.S., the second largest air conditioning and heating equipment manufacturer in Turkey, in July 2011 to expand the business from Turkey to the Middle East and Commonwealth of Independent States (CIS; Russian Commonwealth). With this acquisition, Daikin started its business activities as Daikin Turkey A.S. Having low brand recognition, Daikin decided to sponsor a popular volleyball team in Turkey to enhance its brand image.

Since then, Daikin Turkey has been expanding its business through all-out efforts in manufacturing and selling gas heating equipment, which is in high demand in cold regions. Takayuki Kamekawa, who joined Daikin midway through his career, spearheaded business development in Turkey as vice president of the company since the acquisition of Airfel.

After working in a German pharmaceutical company for 10

years in sales, human resources, and general affairs, Kamekawa moved to a new job at Daikin in 2004 because of limited prospects for career advancement and personal growth at his former company. One year after joining Daikin, he was seconded to DENV to examine the possibility of generating synergies as general manager of the Turkey Office Preparation Department and was assigned to Turkey in 2007. Kamekawa was told by visiting Chairman Inoue to submit a proposal for an investment scheme. He proposed the acquisition of Airfel, which successfully materialized in 2011. The newly established Daikin Turkey A.S. made the leader of Airfel its president, and Kamekawa worked together with local employees for two years as vice president to solidify the foundation for business development. “Taking on a challenge in a culture different from your own only increases your maturity as a business professional all the more,” Kamekawa confided enthusiastically. He was later assigned as president of Daikin Airconditioning Italy S.p.A. and is currently enjoying the challenge of a new environment.

Daikin’s top management has long lamented the problem of rapid global business expansion outpacing the ability to reinforce and develop human talent and admits that the tasks of hiring, developing, and deploying talented personnel for overseas assignments are crucial managerial issues to overcome. In the Fusion 15 strategic management plan with fiscal year 2015 set as the target year, “enhancement of HR capabilities based on People-Centered Management” is stated as one of three core pillars together with a new growth strategy and management structural reform. Faster management localization and better communication between Group companies are especially emphasized.

While localization and prioritization on the *genba* principle contributed to enhancing centrifugal forces, cohesive forces needed to

be enhanced by having Daikin’s corporate philosophy and management method fully understood among local employees. To this end, development of a “bridge person” who acts as a link between the Head Office and the local workplace is necessary. The Overseas Practical Training Program targeting young employees was initiated in 1999. Through this program 30 to 40 employees are deployed from Japan to overseas bases for one to two years. To date, 176 employees have been sent to 20 countries worldwide, including Argentina, Brazil, India, Mexico, North America, and Thailand.

Kuniyoshi Minato, who joined Daikin in 2006, was transferred to Dubai, United Arab Emirates, the following year for his overseas base practical training with an aim to develop him as a bridge person. He returned to Japan in 2009 but then was seconded to DENV the following year, learned Daikin’s sales methods outside of Japan, and was transferred again to Daikin-McQuay Middle East FZE in Dubai. In Dubai, as the leader of a sales team specializing in VRV, he led five other employees, who were from such places as India and Lebanon, in developing new markets.

“While localization is important, it can be carried to an extreme. There is no point in sending Japanese employees overseas to the frontlines of overseas sales just to do the same thing that the local employees are doing.” Minato, who was sent to the frontlines of HVAC sales in overseas market within five years of entering the company, understood his role as a bridge person, faithfully practiced People-Centered Management when dealing with his local subordinates and customers, and worked hard to make them all Daikin enthusiasts.

Shinichi Tachikawa, who is a senior colleague of Kamekawa and Minato, majored in Farsi at university, visited Iran and other countries during his school days. In the early 1980s, before the Over-

seas Practical Training system existed, he was transferred to Dubai as a representative in his second year of service to develop that overseas market. Since then, he has worked in Thailand, Germany, the United Kingdom, and once more in Dubai. After returning for an extended assignment in Japan, he received marching orders for his fifth overseas assignment in July 2010 as president of Daikin Airconditioning Philippines, Inc.

Daikin had withdrawn from the Philippines in 2005 after terminating a joint venture with a local company. When Daikin decided to re-enter the market with its 100% owned subsidiary, it chose Tachikawa to lead the local company. It was a tough market in which foreign-affiliated manufacturers—GM and others from Western countries, LG from South Korea, and Panasonic and others from Japan—were competing. Determined for Daikin to succeed in its second entry into the market, he prioritized maintaining control of product quality, installation, and after sales services. Earnestly listening to customer feedback, he succeeded in making the company profitable in its second year of operation.

“Although it may sound easy, providing services at the high Japanese standard is difficult. We have to carry out what is taken for granted in Japan such as listening to what customers say and diligently keeping our promises.” At the same time, he is involved in instilling People-Centered Management among Filipino employees, who are proficient in English and have overseas work experience, providing them necessary training, and developing global human talent.

It is not only the Japanese who serve as bridge persons. Chong Kuokpeng, manager of Sales Planning in the Global Operations Division at the Head Office was originally a lawyer from Malaysia. He was a licensed attorney in the United Kingdom and in Malaysia and

worked as general manager of Legal Affairs for O.Y.L. during negotiations for acquisition by Daikin. He later changed jobs and worked as a fund manager before coming to work for Daikin in 2011.

In the Global Operations Division, he is responsible for formulating strategies in the Asia and Oceania region, investigating potential companies for M&A, supporting acquisitions, and facilitating activities at overseas subsidiaries. Chong says he makes a conscious effort to foster links between the Head Office and people in other countries in the practical aspects of business and management. In the process, he is constantly discovering new ways to help integrate the people and culture of Japan into the local communities Daikin serves. His conscientious practice of People-Centered Management helps facilitate his role of bridge person in establishing bonds between Japan and emerging countries in Asia and beyond.

In aiming for Daikin to be a global and excellent company in both name and fact, there were bridge person employees who left Japan with little luggage in the days when the term *bridge person* did not yet exist, but they did in fact develop overseas markets and serve as a bridge between Japan and different cultures. Toshitaka Tsubouchi, executive officer and general manager of the Air Conditioning Sales Division says, “I hear that some companies have a department that makes preparations for expatriates in starting a new life, but at Daikin, we had to do everything by ourselves, including renting an apartment. We faced many hurdles, some as simple as not even knowing how or when to take out the trash.” (*Toyo Keizai Online*)

Nevertheless, in his days as a DENV vice president, he carried out negotiations with business partners in the Czech Republic, Hungary, and Rumania—negotiations carried out in limited English on both sides. “Rather than talking through an interpreter and thinking I truly understood, I struggled to understand what the other par-

ty was really saying and that is the type of action that directly helps build a relationship of trust. Through intense discussions, our passion is conveyed, which leads to improved human relations.”

Chairman Inoue writes, “Reality is the best teaching material, and experience is essential for development. People who develop from pressure-packed experiences change dramatically.” (*Nikkei Online Edition*) The foundation of Daikin Industries as a global company was ultimately built upon the labor of many people who overcame hardships in confronting challenges.

#### ◆ From General Employee to Vice President

As depicted in the poem “Spring in Jiangnan” by Du Mu, spring is the most beautiful season in Shanghai. At the beginning of spring in March 1996, Shen Jihong was heading to her new job at the factory of Shanghai Daikin Yah Chong Airconditioning, an air conditioner sales and manufacturing company that Daikin had jointly established in November of the previous year with Shanghai Yah Chong Sewing Machine as its first foray into China. Although it was her first day of work, the then 26-year-old mother of a two-year old expected very little. “I knew nothing about Daikin. I didn’t care if I got the job or not.” She did not have a good impression of Japanese companies because the Japanese apparel factory where she had previously worked treated employees like machines, and the Japanese manager had even brandished a bamboo sword.

Shanghai Daikin was located on a tract of land being developed into an industrial park, and the neighborhood consisted of only farmhouses and rice paddies. “The factory is this far out in the country?” she thought. After getting lost and becoming increasingly frustrated, she finally arrived at the factory. She was worried about being late, but the Japanese HR staff who greeted her said, “No problem,”

and invited her in with a smile. Shen vividly remembers the warm welcome she received. This company was evidently different from other Japanese companies, a hunch that would later prove correct by several subsequent incidents.

Along with Shen, 27 Chinese workers were hired as the first group of employees to work at Shanghai Daikin. Shen was assigned to conduct inspections on the air conditioner assembly line and performed various tasks such as running operating tests and affixing nameplates. In May, two months after joining the company, she was unexpectedly given unofficial notice of an assignment to go to Japan for training. It was difficult for anyone to go overseas at the time, and her family was overjoyed that their daughter was selected to go to Japan. Her family has been avid believers in Daikin ever since. For three months beginning in August, she received training in Japan on the production system, quality control, and safety management. Soon after returning to Shanghai, she was appointed team leader of an outdoor unit line, the first such promotion among her co-workers hired at the same time.

Looking back, she says, “I was happy, but more than that I was surprised. I had heard that in a Japanese company once a woman got married her career was over, so I hadn’t given any thought to going to Japan or being promoted. Furthermore, 27 employees, more than half of our group, were men, and I assumed that men would be appointed managers. I was impressed with Daikin, which treated people who worked hard the same regardless of whether they were male or female.”

From its start with Shanghai Daikin, Daikin developed bases for its air conditioner and fluorochemicals businesses throughout China. Alongside the growth of the Chinese business, Shen was promoted from team leader to supervisor (deputy manager), manager the

following year, and then deputy general manager two years after that. In 2008, she was appointed line manager (production department manager) of Daikin Air-conditioning (Shanghai) Co., Ltd., established from the merger of four companies, including Shanghai Daikin. In 2011, she became the company's first female vice president and concurrently serves as general manager of the Manufacturing Division. Shen says, "I was lucky because China's economy was rapidly developing and Daikin was continuously expanding." Nevertheless her rise was the result of her hard work and strong spirit.

Becoming vice president after starting out as a factory worker is a rare case, even in Daikin. However, Daikin's People-Centered Management does proactively provide opportunities to people who have the capacity and motivation regardless of nationality or gender, and it allows them to demonstrate their potential to the fullest extent.

Li Chaojing, senior manager of the Research & Development Center, joined Daikin in December 1996, a little more than six months after Shen. She studied quality management at university and had worked for a Japanese consumer electronics manufacturer, but she changed jobs when Daikin set up a new plant. She was assigned to the Quality Control Department and was promoted to section manager five or six years after joining the company. She subsequently went on maternity leave and then returned to work, again in Quality Control. In 2006, a group was formed to evaluate parts for which equipment and parts from local manufacturers could be adopted. Toshikazu Ohno and Li were transferred from the Quality Control Department to join this new group and started working on the new assignment. Ohno had been Li's boss since she joined the company, and she continued to report to him until his retirement. In May 2012, the Parts Evaluation Group was reorganized into the R&D Center,

where Li continues to work as senior manager.

"The atmosphere at my workplace is very good. I have many friends and it's completely different from my previous company. I have been given many opportunities so I raise my hand and take the initiative."

It is true that Vice President Shen and Senior Manager Li opened the doors to expanded possibilities with their persistent efforts. But these Chinese women were also able to demonstrate their capabilities in a Japanese company because Daikin had an established system that recognized and offered support to realize their potential. Before these women joined Daikin, Yingwei Chen was sent from the Daikin Head Office to help launch Shanghai Daikin. She took her child with her. "I told my boss that I absolutely wanted to do this. I think it was the first instance of a woman being stationed overseas and taking her child with her. At the time, women and non-Japanese employees were still treated as special cases in the business world, so maybe Daikin was a progressive company for allowing me to do this."

Chen graduated from graduate school in Japan and was working in the International Sales Division (currently the Global Operations Division) at the Daikin Head Office. She married a Japanese man and, after taking a year off for maternity leave, volunteered to go to Shanghai Daikin when she heard about the launch of the company. She went to Shanghai with her child, leaving her husband in Japan. She was in charge of general affairs and started out by searching for office space and served as an interpreter. The year she spent in Shanghai represented a major turning point for her, and the quality of her work improved dramatically.

She says what changed her life were the people at Daikin, including Guntaro Kawamura, then the general manager of the Global



Operations Division and the person who approved her unprecedented assignment overseas (current senior executive officer), Ken Tayanono, president of Shanghai Daikin (current senior executive officer of Daikin Industries), who is the so-called father of the Daikin China business and other businesses. She rapidly names 10-12 people whom she worked with in the Shanghai Joint Venture Preparation Office. “Even more than the company, I’m truly glad that I have been able to meet the people at Daikin. I feel like I can work harder because I want to work together with these people.”

After launching Shanghai Daikin, Chen returned to the Daikin Head Office in 1999. She asked to be sent to Shanghai once more and was sent there to work again. She subsequently was engaged in advertising and PR, working to build up the Daikin brand in China, and concentrated her energies on developing the younger Chinese employees.

Chen currently works as the deputy general manager and PR Department manager of Daikin (China) Investment, which manages the China business. She proudly says, “What gives me a sense of purpose at Daikin is the trust that is put in us. I have been given authority without any prejudice about being a woman or a non-Japanese. So I trust the people at Daikin, trust the company, and want to create one miracle after another in China and build the Daikin legend.” Then, she adds, “Developing my subordinates has been my life’s purpose these 10 years.”

#### ◆ Ability to Act at Worksites—From the Pilsen Plant to the Brno Plant in the Czech Republic

It was in Malta that Daikin first entered Europe in 1966. An Englishman, R.C. Higgs, who ran a home electric appliance store in the country, visited the Daikin Head Office to present an earnest and

convincing case for Daikin to enter Europe. This visit resulted in Daikin establishing Daikin Air Conditioning Co., Ltd. (DAC), in November of the same year. Higgs actively developed the European and North African markets from the Mediterranean base and, as a result, the company rapidly grew to earn 510 million yen in sales in its third year of operation in fiscal year 1970. In April of the same year when the Overseas Distributors Meeting was held for the first time in Osaka, there were 21 people from 13 countries including Italy, the Philippines, South Korea, Thailand, and West Germany, in addition to Malta, demonstrating the spread of the Daikin family around the world.

Based on this accomplishment, Daikin constructed a manufacturing plant in Ostend in Belgium in 1971 and established Daikin Europe N.V. (DENV). Ostend is a port city facing the Straits of Dover where ferries depart for and arrive from the United Kingdom. With the EC reinforcing its intention to divide the economy into blocs and the yen increasingly becoming stronger from the U.S. announcement of its suspension of the convertibility of the dollar into gold, it became disadvantageous for Japan to export finished goods from Japan, and the need thus increased to construct an assembly plant. That is how Ostend began its more than 30 years of history as Daikin’s only manufacturing site in Europe.

In early 2003, Daikin acquired land for industrial use in the Pilsen City industrial complex in the Czech Republic. Anticipating growth of the European market and expansion in the central and eastern European region, Daikin sought a new manufacturing base. Pilsen is best known as the birthplace of pilsner beer; in fact when heading for Pilsen from Prague, the capital of the Czech Republic, fields of hops, wheat, and corn stretch as far as the eye can see. At the same time, the city was the home of Škoda Auto, which manufac-



tures small passenger cars serving the people of Eastern Europe and therefore had a long tradition in the machinery industry. With a plan to transfer production of cassette-type indoor units from Belgium and large and mid-sized residential air conditioning units from Thailand, Daikin established Daikin Industries Czech Republic s.r.o. (DICz) in May.

In the summer of the same year, however, Europe was hit by record-breaking hot weather. The severe heat wave caused crop plants to wither, rivers to dry up, and wildfires to spread. In August 2003, Southern Europe experienced uncharacteristically high temperatures with consecutive days of over 40 degrees Celsius. The toll of this silent disaster throughout Europe is said to have been over 52,000 deaths, including many elderly persons. The European air conditioning culture which required only heating until then changed dramatically triggered by the damage resulting from this heat spell, resulting in a rapid increase in the demand for cooling air conditioning equipment. Moreover, in Europe where there are many historical buildings, ductless type air conditioning units were installed just by opening a small hole in the wall of a building, which gave ductless units an overwhelming advantage over duct-type units. During this unprecedentedly hot summer, Daikin was unable to meet demand only with its air conditioners manufacturing capability in the Ostend Plant. Eventually, demand grew so strong that it forced Daikin to air-shipped residential air conditioners from its Thai Plant with no concern regarding profitability.

Daikin had no other choice but to reexamine its plans for the Pilsen Plant. Small residential air conditioners were selected for its mainstay production, production volume was revised upward to 300,000 units per year, and it was decided that compressors would be manufactured in Europe. With all of these changes, a decision

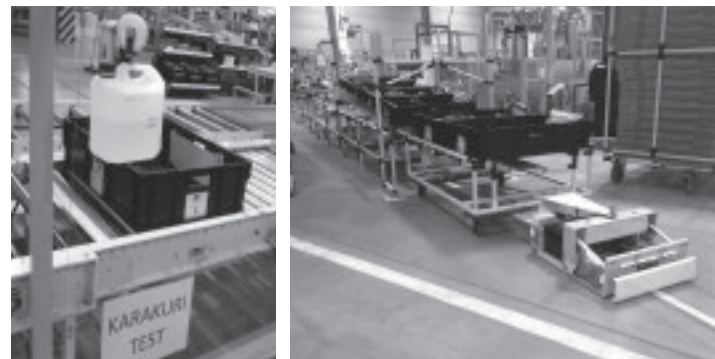
was made to build a plant in Brno in southern Czech Republic, today's Daikin Device Czech Republic s.r.o. (DDC). The DICz Pilsen Plant started production in September 2004 with 1,200 employees while the DDC Brno Plant started operation with approximately 500 employees in February 2006. With both plants repeatedly increasing production, turnover for the air conditioning business in Europe for Daikin recorded 1,925 billion euros in fiscal year 2007. The number of employees grew by 2.3 times compared to the 4,500 employees in 2003.

In 2008, the global economic downturn triggered by the Lehman Brothers bankruptcy in the United States also impacted Europe. This resulted in halving production volume from 615,000 units in 2007 and three-day operations at the Pilsen Plant. Furloughs lasted three months and wages were reduced by 5 to 10%. Yet, employees stayed with the company. Jan Bezdek, manager of the Production Section explained, "Everyone was worried because there were layoffs at the plants in the area. We explained to our employees that there would not be any layoffs. A cutback in production had a large impact but we were able to use the time available to train our employees." Many employees joined Daikin with high expectations toward Daikin, a foreign-affiliated, international company. Furthermore, because the Japanese were an ethnic group adept at detailed work and coming up with ingenious solutions, they felt close to the Japanese-styled *kaizen* activities.

As measures to overcome the aftermath of the Lehman Brothers bankruptcy, the EU established a fund to maintain employment from which generous subsidies were provided, particularly to central European companies. Leveraging such a fund, Daikin Czech established the *Karakuri* (ingenious innovation) *Dojo* in 2010. The company dispatched skilled workers to the Sakai Plant in Japan

for training, and started up a *kaizen* team in 2011 to tackle productivity with improvements that would require no major spending but just minor adjustments using ingenuity. At this time, Daikin had acquired Airfel, an HVAC plant in Turkey, where an air conditioning manufacturing plant was being started up. Employees from Daikin Czech were dispatched to Turkey to provide technical support on parts procurement and logistics streamlining. As a result, employees at the Pilsen Plant nurtured a sense of crisis that production might be transferred to the Turkey Plant unless they achieved outstanding cost-competitiveness. “To continue manufacturing in the Czech Republic, we need to make efforts on cost reduction,” they thought.

*Karakuri* improvements were implemented mainly by line managers, and the effort was gaining momentum. Examples of *Karakuri* improvements included: in-house production of plastic parts, hand-made automated guided vehicles, accelerated speed of the paint line, and pre-picking parts at the external warehouses for placement in parts box which are then sent to the assembly line. For example, when a parts box comes down rollers by gravity, there is an inge-



Screw Dispenser Follow Unit

Automatic guided vehicle at the Pilsen Factory

nious mechanism that turns the box 90 degrees using the weight of the box when it reaches a corner of the parts transfer line. At the corner, there is a seesaw-type device that uses the weight of a plastic bottle filled with water hanging down. When the parts box is sent further down the line, everything returns to its original position.

The results of these *kaizen* efforts were conveyed to suppliers. The Brno Plant, which delivers compressors to the Pilsen Plant, adopted the method of transporting parts with pallets and now there are plastic bottles here and there along the assembly lines. Ales Janicek, manager of the Manufacturing Department says, “As for *Karakuri* improvements, we hold an information-exchange meeting every month with the Pilsen Plant, and we motivate each other because we want to be better than other plants. This activity has trickled down among the operators as well as managers as standard operation.” *Karakuri* improvement activities spilled over to the Ostend Plant in Belgium which manufactures large-sized products. Whether it is Brno or Ostend, Daikin is the only large company in the city. Most people have a positive reason for wanting to work for a large, foreign-affiliated company when applying for a job at Daikin. They are highly motivated toward *kaizen* activities. DICz, DDC, and DENV have a *Kaizen* Meeting once every two months, rotating the venue for progress reports at respective plants and discussing how to proceed with *kaizen*. Daikin’s *monozukuri* DNA has thus been transferred from Pilsen to Brno and further on to Ostend.

Since employees at the Hendek Plant for Daikin Turkey A.S. (DTAS) are predominately Muslims, a bus is prepared on Friday to go to mosques for praying. Nonetheless, products made by DTAS are highly cost-competitive because the plant is supported by employees who are diligent and dexterous with their hands, besides working nine hours a day and having only a few holidays (Ramadan and

Eid al-Adha) throughout the year. With an eye on the central Asia market which was transferred from Daikin Europe to Turkey for territorial control and yet-to-be-developed markets in the Middle East and Africa, DTAS has a production volume target of 150,000 units per annum in 2015, including volume zone products such as O.Y.L. and Suzhou models as well as the GSI standard inverter residential air conditioners for the European volume zone market from 2014.

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*Chapter V*



# Growth through Hospitality



*Opening the tournament-eve reception at Daikin Orchid*

### ◆ Community Bonding through Traditional Dance

There is a booklet entitled *Daikin Keywords* that highlights twelve words frequently used at Daikin and includes “People-Centered Management,” “countless core technologies,” and “comfortable company.” Those words serve to convey the characteristics and appeal of Daikin, but what captures the reader’s attention is the word hospitality. In the section on *hospitality*, the booklet reads:

“Daikin prides itself on its hospitality as exhibited in such annual events as the Daikin Orchid Ladies Golf Tournament and the Bon Dance Festival, whose management rivals that of events professionally managed by event planning companies. The members planning the events are all Daikin employees. There are aspects of both a festival and a work project in which members give considerable thought to how to delight their guests, and this motivates employees to single-mindedly move forward with gusto to the decided objectives!”

The modus operandi described by employees as handcrafted hospitality did not originate with Daikin Orchid. The precedent was established by the Bon Dance Festival, which first began in 1971 at the Yodogawa Plant and preceded Daikin Orchid by 17 years. Chairman Inoue originally proposed the festival when he was working as section manager of the General Affairs Department of the Yodogawa Plant. Inoue had been thinking of an event to open the factory to the public and establish a bond between the local community and employees when the idea of a traditional Japanese Bon dance festival occurred to him. Bon dance festivals are neighborhood events in Japan where people of all ages participate in a night of lively song and

dance. The festivals occur around *Obon*, an annual Buddhist holiday marking the return of ancestral spirits to this world to visit their descendants.

Inoue proceeded swiftly with preparations oblivious to the onslaught of hurdles awaiting him. A local police officer in charge of crowd control who was an acquaintance of Inoue asked him, “Are you planning to have street vendors?” Inoue quickly contacted street vendors, but because Bon dance festivals are held in neighborhoods around the same time, he was met with a curt reply that there was no time to set up food stalls at the Yodogawa Plant. Even when asking a local organizer to intercede, Inoue was refused with the retort that Bon dance festivals are events held in the precincts of the village shrine. Only after profusely bowing and repeatedly beseeching the vendors did he somehow get them to come and set up stalls at the plant. He wanted to have fireworks but he could not get permission in time because the venue was a chemical plant. Also, the volume of the music had to be lowered, decorations subdued, and lights dimmed more than originally planned to avoid disturbing nearby residents.

Held on the grounds of the Yodogawa Plant on August 23, the first Bon Dance Festival was a lively affair made possible by the handcrafted efforts of the employees led by Section Manager Inoue. The Bon dance circle totaled around 6,000 people, including Daikin employees, their families, and the people of the local community. It was the night when the Daikin factory was accepted as a local factory of the Yodogawa neighborhood. Since then the Daikin Head Office has also become involved, and the Bon Dance Festival has subsequently developed into an even more magnificent “big event” that continues today.

The Daikin Bon Dance Festival has become a large-scale affair attended by around 25,000 people, including invited guests such as

the external company directors, top executives of business partners, leaders of the local community, and other Daikin-related people. Even when Bon dance festivals in Japan are dwindling due to an increasingly lower birth rate and greater number of nuclear families, the Daikin Bon Dance Festival has become a social gathering for which the local community eagerly awaits its coming as an established custom of the Yodogawa area. As the scale has grown, so have the preparations and the number of people needed to perform them. Not only do the employees from the Yodogawa Plant participate in these preparations but also employees from the Head Office and other company branches. That experience of managing a major corporate activity—planning the entertainment beginning with the Bon Dance Festival, contacting people inside and outside the company, and training employees in song and dance—has been handed down in the running of Daikin Orchid.

On the night of the big event, lanterns illuminate the way leading from the factory entrance to the festival venue, and stalls managed by employees are lined up to sell drinks and Daikin original goods. An elevated stage stands high in the center of the grounds and supports a large scaffold where singers of Japanese folk songs stand atop singing to the beat of a large drum. A giant screen hangs on the side of the scaffold above the stage to display live video feeds of the jovial revelers. Surrounding the stage and dance area are kiosks selling beer and popular Japanese hot snacks, a grandstand for invited guests, and portable toilets. As twilight nears, groups of local families and young couples begin wandering onto the factory grounds and meander about as fancy takes them. Top executives of other companies that were invited to the event change into borrowed *yukata* robes in nearby changing rooms and are escorted to their grandstand seats at the festival venue. Bustling Daikin staff

employees distribute food and beverages non-stop in providing consummate service to their guests.

Seating is provided in one corner of the festival setting for employees with disabilities working at Daikin Sunrise Settsu. There had initially been concerns about inviting the Sunrise employees because they were unable to dance, but Chairman Inoue insisted, “Convince as many as you can to come,” and all of them came. Inoue goes to their seats every year and shakes everyone’s hand. “At first, there were some downcast expressions but now they all have extremely cheerful, happy smiles. I am delighted that they take part,” says Inoue.

As the sound of the drum rings out in the night air and songs such as the “Kawachi Ondo” loudly flow forth, the members of a local women’s association appear on the scaffold stage and dance while local residents, Daikin employees, and their families dance in a circle around the elevated stage. Daikin employees act as emcees for the merriment while young first-year Daikin members provide entertainment with a long-rehearsed dance performance that earns the enthusiastic applause of the crowd. A drawing is performed, and the first prize is a new air conditioner. Fireworks burst above in the night sky as part of the closing finale.

What type of hospitality is offered to ensure that guests enjoy the annual Bon Dance Festival to their hearts’ content? The members assigned to preparations are constantly making efforts every year, and the fruit of their labors is expressed in the smiles of the local residents. From the locality surrounding the Yodogawa Plant, Akira Itsumi, the chairman of the Settsu City Union of Self-Governing Association, provided his impressions in an interview, “The Daikin Bon Festival is one of the biggest events of the summer, and the whole area greatly looks forward to it every year, from adults right down to

the children. The way they run the event is really something. They manage as many as 20,000 attendees without traffic congestion and keep things moving smoothly. Sometimes someone on the Settsu Festival Promotional Committee even says that we should consult Daikin about our festivals.” (*Daikin Times 80th Anniversary Edition*)

#### ◆ Global Bon Dance Festival

Although the Bon dance festival once played a role in entertainment and the strengthening of social bonds in village communities in Japan, Daikin’s Bon dance festivals have spread worldwide and serve to both entertain guests and establish bonds between employees and the local community. From their roots in Japan’s traditional folk culture, Bon dance festivals help to establish a bond with local communities of different cultures through dances that are fun and easy to learn. Although the Daikin Bon dance festivals began in Yodogawa, their appeal has spread to the United States, China, and Europe, and they are continuing to expand as a Daikin global event.

Occurring for the first time overseas in May 1994, the Daikin Bon dance festival was part of the opening ceremonies for the Decatur Plant of Daikin America and has become known as the Daikin Festival. The plant is located in the southern part of the United States in Decatur, Alabama, and was established as a production base for fluoropolymers. On the last day of the three-day opening ceremony, local employees and Japanese employees dispatched from Daikin prepared their own handcrafted-style festivities including a magic show, a band performance, a contest for pounding *mochi* (rice cakes), presentation of octopus dumplings and *tai yaki* (fish-shaped pancakes filled with bean jam) cuisine, and *origami* classes. Approximately 1,000 invited guests enjoyed the celebration.

Since then, the Daikin Festival has become an annual event to

deepen understanding of Daikin America among local residents and business partners and have them experience Japanese culture and customs. In addition to repeatedly practicing the large Japanese drums and Bon dancing on lunch breaks and after work three months prior to the event, a staff of Japanese and U.S. employees visit local elementary schools and teach the students Bon dancing. From one week before the festival, all sorts of preparations start in earnest, beginning with construction of a large tent and stage in the parking lot where the event takes place. When the lights go up on the day of the event, the dance circle widens with the local residents and elementary students wearing *happi* coats as they dance in time with the beat of Japanese songs including “Tanko Bushi,” “Kawachi Ondo,” and “Sukiyaki.” Later, as excitement reaches a feverish pitch, both adults and children go up on stage and freely improvise dance moves as a buildup to the finale.

The Daikin Festival is accepted as the biggest event in the community and attendance has steadily grown each year. In May 2014 at the 20th anniversary of the event, two former U.S. Air Force pilots parachuted down to the grounds while waving the Daikin flag to the



*Bon Dance Festival at the Decatur Factory*



enthusiastic applause of a record crowd of 25,000 spectators.

Seeing the success of the Bon dance festivals at the Yodogawa Plant and the Decatur Plant in the United States convinced representatives in the regions of China, Thailand, and Europe to come to Japan in 2004 and 2005 to observe the Yodogawa Bon Dance Festival. Advice including the event purpose, organizational structure, planning tips, and PR to local communities was given to these representatives hoping to establish a Bon dance festival in their own country or factory.

The year 2005 marked the 10th anniversary for the start of Daikin's business in China. Local employees wanted to hold a Bon dance festival for the occasion, and a committee was formed centering on seven people who went to the Yodogawa Plant to observe the Bon Dance Festival. Although the committee only had two months to prepare, 400 local employees from the three factories of Shanghai Daikin Air-Conditioning Co., Ltd., Daikin Air Conditioning Systems (Shanghai) Co., Ltd., and Daikin Central Air Conditioning (Shanghai) Co., Ltd. as well as at the companies of the Shanghai Office of Daikin (China) Investment Co., Ltd. and Daikin Air-conditioning Technology (Shanghai) Co., Ltd. lent their support for the amazing task of holding a Bon dance festival in such a short time.

Held the day before the Chinese holiday Mid-Autumn Festival, the Bon dance festival in China was named the Daikin Mid-Autumn Festival. When the day arrived for the festival at Shanghai Daikin Air-Conditioning in Shanghai, it was a hot day with temperatures over 35°C, but more than 4,500 employees and their families enjoyed themselves at the first Bon dance in China. Chinese and Japanese cultures were expertly blended together with Chinese lanterns decorating a scaffold to resemble ones in Japan, local children dancing to Chinese drums, an acrobatic troupe performing amazing feats,

and a team of Japanese children living in Shanghai beating Japanese drums. It was a program planned completely by employees that included a choir of 50 new company employees and a dance performed in sign language by disabled employees working at the factory that expressed their feelings of gratitude. A large turnout boosted sales at food stalls of homemade food prepared by employees and at the game amusements, and all revenue received from beer sales was contributed to local charities. Fundraising activities were also performed on the grounds.

Four people from the Yodogawa Plant and the Kanaoka Factory in Japan were sent to assist the local personnel, and support was given in such areas as leading the dance, energizing the crowds at the grounds, and passionately singing the “Kawachi Ondo” song as Chinese employees watched and imitated. All of these special efforts helped make the first Bon dance a smashing success. An event staff member said: “Although the attendees seemed to warm to the atmosphere of the Japanese festival and joined in the fun, we don't have a festival culture like that in China. It is common for people to enjoy by simply watching stage performances. That's why we incorporated other entertainment for guests to watch such as the acrobatic troupe and the Japanese drums.”

About one year later after the Bon dance festival in China in July 2006, Daikin Europe (DENV) held its Daikin Bon Dance Festival in the company parking lot in Ostend, Belgium. In February of the same year, an executive committee was organized to conceptualize “handcrafted by employees,” “cross-departmental exchanges,” and “enjoyment by everyone, including staff and guests.” The committee was headed by AC Mfg. Division General Manager Jirou Tomita (current Senior Executive Officer and AC Mfg. Division general manager) of Daikin Industries. During the meetings, local staff members



argued in favor of attractions and food that were popular in Europe, whereas the Japanese staff members wanted to strictly adhere to handcrafted hospitality and Japanese style. Only after repeatedly engaging in the type of vigorous discussions in which Daikin excels was the direction decided to reconcile the gap in viewpoints with both sides agreeing to a cultural mix centering on Daikin handcrafted hospitality and Japanese traditions.

In May, employees and their families gathered for a rehearsal for what would most likely be the first Bon dance at a Japanese company in Europe. On July 1st, the curtain rose with an opening parade of a local brass band before a crowd of over 2,200 people that included employees, their families, nearby residents, the Ostend mayor, and local VIPs. Chairman Frans Hoorelbeke declared the festival open, and local VIPs and DENV executives broke open the ceremonial *sake* barrel. The families of the dispatched Japanese employees assisted local employees and VIPs in putting on the *yukata* robes provided for them. Women were particularly thrilled to wear a *yukata* for the first time, and festival *happi* coats, which served as souvenirs, were also popular. Local employees and their families guid-



Bon Dance Festival at the Ostend Factory

ed guests in the manner of Bon dancing, and many guests expressed their delight for the Japanese Bon dance by saying, "Thank you. It was very impressive."

During the festivities, guests were treated to *yakisoba* noodles prepared on a large *teppanyaki* grill made by employees, and 1,500 plates of *yakisoba* were served. There was also a large turnout for mini events for children such as *origami* classes, hand-drawn paper fans, and name writing in Chinese calligraphy using a brush and Indian ink. The contented expressions on the faces of their guests made an impact on the staff of approximately 300 employees involved with running the event. They could understand the delight of having satisfied their guests and feel the gratification of accomplishing it through their own efforts.

#### ◆ Daikin Orchid Ladies Golf Tournament in Okinawa

Spring comes early on Okinawa Island, located in the southern part of the Japanese archipelago. The cherry blossoms bloom there when temperatures drop. Blossoming from mid-January to the middle of February, the flowers of these trees inspire lively cherry blossom festivals in their advance southward from the northern to southern parts of Okinawa and onward to the outlining islands. Scattered cherry blossoms signal the arrival of March and the Birds-of-Paradise flowers come into bloom alongside the flowering plants of the Bougainvillea and Hibiscus, which bloom all year round. This colorful spectacle ushers in the Azalea Festival and its warm temperatures. Unlike the chilly average temperature of 9.4°C for March in Tokyo and Osaka, Okinawa enjoys a comfortable average temperature of 18.9°C as it waits in anticipation of late March when the swimming season begins at the beaches and the sun's warmth can be felt on a clear day.

Against this beautiful backdrop and symbolized by the exquisite orchid, the Daikin Orchid Ladies Golf Tournament is held each year at the beginning of March to open the season for the ladies professional golf tour. Being the season opener attracts the attention of golf fans. In addition to the interest in the three-day main event showcasing the professional female golfers, some people apart from general sports fans look forward to the tournament-eve reception and pro-am tournament.

Sponsored by Daikin Industries and local company Ryukyu Broadcasting Corporation (RBC), the first Daikin Orchid golf tournament began in 1988, and in 2015 the tournament will have been held for 28 consecutive years. The opportunity for Daikin to sponsor the event occurred when RBC President Kunio Oroku (president at the time) consulted with Sohei Nakayama of the Industrial Bank of Japan. Nakayama singled out Daikin Industries President Minoru Yamada, who was serving as vice president of the Kansai Economic Federation. At that time, Daikin was still a mid-sized company showing little inclination to sponsor such events as golf tournaments, and the majority of the company's executives opposed sponsorship. Nevertheless, the enthusiasm in which Nakayama spoke of companies from Japan's main island of Honshu lending a hand to promoting Okinawa development persuaded President Yamada to co-sponsor the tournament.

President Yamada conceived the idea of having business leaders from Okinawa and the main island of Japan attend a tournament-eve reception and pro-am tournament as guests. Accompanying Nakayama was a group of 10 prominent business leaders from Tokyo, including Chairman Jiro Ushio of USHIO INC. and Chairmen Ken Moroi of Chichibu Concrete. They were joined by leading figures in the local Okinawa business world. Invitations were later extended

and accepted by Supreme Advisor Takeo Shiina of Japan IBM, Chairman Kenji Miyahara of Sumitomo Corporation, and Chairman Yoshihiko Miyauchi of ORIX Corporation. With such dignitaries in attendance, Daikin Orchid soon became an extraordinary golf tournament where Japanese business leaders gathered from Tokyo, Nagoya, Osaka, and Okinawa.

Seeking to further utilize the tournament as an opportunity to promote Okinawa, Sohei Nakayama and Jiro Ushio proposed a plan in October 1990 to create the Okinawa Business Leaders' Forum. This became an organization in which business leaders from the main island of Japan and Okinawa regularly gathered and dedicated themselves to the development of Okinawa culture and the local communities. The Okinawa Business Leaders' Forum has since grown to include 81 member companies and plays an active role in promoting Okinawa, including involvement in talks on issues concerning U.S. military bases, support of the Cosmopolitan City Formation Concept proposed by the prefecture, and assistance in the hosting of the Great Okinawa Trade Fair that brings together products from Japan with buyers from Asia.

In 1995, Daikin established the "Orchid Charity" just after the Great Hanshin Earthquake. Moved by the calamity the Kansai area faced, guests of Daikin Orchid began offering donations by saying, "I would like to help shoulder part of the costs since it must be difficult to hold the event so soon after the earthquake." With the idea of wanting to use this goodwill for the benefit of Okinawa, Daikin added a contribution of its own to the donations it received, and a fund was created. After utilizing donations toward the stricken area for the first fiscal year, money collected in succeeding years has been used to recognize and support individuals and organizations active in the promotion of Okinawa arts, culture, sports, and education. As

it stands today, more than 90 individuals and organizations have received donations of a total of 120 million yen.

Once Chairman Ken Moroi of Chichibu Concrete is reported to have said to Chairman Inoue, “This Daikin event has become a national event, so you must never consider abandoning it.” It is not simply a golf tournament; it is also a gathering of leading members of the Japanese business world, and there is no precedent for such a gathering of so many business leaders. On the occasion of undertaking sponsorship of the event, President Yamada said in earnest reflection, “Once we start doing it we can’t stop halfway.” Right now, Daikin Orchid has become an essential venue for promoting interaction between business leaders on Okinawa and the main island of Japan.

#### ◆ Handcrafted Hospitality

While exchanges between Okinawa and the main island of Japan are one reason for prominent people to take time to attend an annual golf tournament in the Okinawa spring, there is another reason. Although they experience first-rate service both inside and outside Japan and are accustomed to being treated to consummate hospitality, these prominent financiers and captains of industry admire the heart-warming, cordial reception that they receive at Daikin Orchid. Surprisingly, the welcome they receive is not one provided by service industry professionals such as seasoned hotel and hospitality staff but rather Daikin company employees whose typical workday may involve the design, manufacture, and sale of air conditioners, or even activities relating to human resources, accounting, and visitor reception desk. Though they may be so-called amateurs in the field of hospitality, the detail to which they care for the comfort of their guests demonstrates their sincere desire to make guests feel at home

and have them spend a comfortable, relaxing few days.

Handcrafted hospitality that forgoes professional services was the brainchild of Managing Director Noriyuki Inoue (current Daikin chairman) who was in charge of the first Daikin Orchid golf tournament as the executive committee chairperson. With only a short period of three months before the big event, Inoue was investigating how other big golf tournaments were held and in his discussions with advertising agencies he realized the ‘know-how’ being offered by the agency leadership followed the same basic script. This led him to believe that if Daikin were to sponsor a golf tournament, the company should do it in a down-to-earth fashion typical of Daikin. He gathered a staff of about 60 people selected not only from the Head Office but also from local business divisions, and he repeatedly said to them, “Daikin is a simple, forthright manufacturer that differs greatly from companies in the service industry. It values an all-out effort, and I would like you to present that image as it is. Your Osaka dialect is just fine for greeting guests. If we can get our guests to think, ‘I’m glad I came,’ by conveying our sincerity in a refreshing, genuine way, then that’s all I want. The president and senior managers will not be present to greet the guests. I prefer you to greet our guests.”

This approach adopted by Inoue continues unchanged to the present. One essential aspect conveyed to staff members dispatched locally to Okinawa is that they should “not try to work toward a polished smoothness but rather strive for a naturalness that discreetly blends in with the surroundings, steps forward unassumingly when needed, is considerate and understanding of guests, and has a mindset that sincerely wishes to meet all expectations. More than having an extremely sophisticated manner, it is better to be natural. Even if you are a little clumsy at times, your actions should always be perceived as an all-out effort.”

When reflecting on the hospitality of Daikin Orchid, it is actually quite meticulous. Going behind the scenes provides an insight into just how guests experience Daikin hospitality.

Daikin employees greet and attend to invited guests at such departure points as Haneda, Itami, and Kansai International airports, while corresponding Daikin staff members welcome the guests at the local Naha Airport and take them to the hotel where they will spend the night. Naturally, the staff frees guests from the burden of handling luggage and other annoying tasks, but what really surprises the guests is the way Daikin employees smile and greet them by name, even when meeting them for the first time. Staff members receive the photographs of all guests and their accompanying spouses and memorize their faces and names. Because basic information is also provided that includes the previous year's results of the pro-am event, private information, hobbies, and preferences, staff members know the right topics to engage guests in friendly conversation and create an atmosphere that puts them at ease.

Because the guests are all important VIPs with whom the staff members would never otherwise have an opportunity to speak, there are also cases when employees, such as young employees chosen for the first time, are so nervous that they forget guests' names and make mistakes in initiating conversations, resulting in awkward silences. Even this can be considered 'an all-out effort,' and there are seldom any cases of guests taken serious offense. Responses to problems are made in accordance to the situation and further improved upon while always being attentive to maintaining a pleasant atmosphere for guests.

Daikin employees are also dispatched to the hotels where the guests will stay. They set high standards and provide hotel employees a copy of Daikin's unique "Foundation of Service" to supplement

the hotel's own operation manual. The strict requirements impart valuable experience to hotel professionals. Individual attention is given to guests based on information from past years, and information is gained from the guest's secretary to ensure such details as the monogramming of the guest's slippers or stocking of the room refrigerator of a beer company president with products from his own company. There are also people who cannot sleep without a buckwheat husk pillow, who are allergic to certain fruits, who do not drink green tea, who like their rooms at 26°C, who like to stay in a different room every year...the list goes on and on.

Because many guests participate every year, there is a fear that the initial delight with the freshness of simple hospitality might soon become tiresome. For that reason alone, original ideas are sought each year at the local site for new twists to complement the individual attention given to guests. From the cakes served with tea in the hotel rooms and commemorative gifts of golf attire and hats selected by guests at the tournament-eve reception and the prizes and gifts presented at the pro-am tournament, Daikin prepares new products by famous manufacturers along with items especially designed for Daikin. Requests are made to overseas offices to order the latest overseas creations that have yet to be marketed in Japan, and great pains are taken to select original products that guests accustomed to seeing the newest, highest quality articles have yet to see.

#### ◆ Surprise of VIPs

After performances at the tournament-eve reception of an Okinawan dance and songs by a children's choir, the pairings for the pro-am (golf foursome of three guests and one professional golfer) are announced, and the business leaders of the main island and Okinawa are able to mingle with one another, the venue shifts to early

morning the next day at the golf course. Prizes such as the ‘one-on’ award are provided here and presented by staff members. Attention is carefully given to all aspects, including the beverages sold in the kiosks. After the pro-am is completed, people gather in the guest-house, and Chairman Inoue acts as host at the awards ceremony. Staff members walking the course relate to him the episodes occurring during the golf round complete with photographs and video for use as material in Inoue’s remarks. His comments concerning these corporate leaders, however, are often drawn from the lighter, more humorous topics such as their missed shots, which are not usually mentioned at public events. An example might be, “I heard the ball really flew off the tee but in the wrong direction.” Because of Chairman Inoue’s quick wit and the relaxed atmosphere, everyone roars in laughter, even the person being talked about.

Once the award ceremony is over, a large number of guests do not remain for the main event the following day but instead leave the golf course for their return trip home. Here, too, staff members courteously attend to their guests until departure from Naha Airport. Great consideration is taken to see that a potted Cattleya orchid and thank you card are delivered to the guests’ homes just as they have returned home, breathed a sigh of relief, and begun to reflect upon the relaxing time they enjoyed on Okinawa.

This cordial hospitality is communicated by word of mouth of the participants, and some top executives also have their company employees go to Daikin Orchid to observe and ‘follow the Daikin example.’ Last year a dealer’s contest management staff of a certain manufacturer went to study the event. “The entire staff, beginning with Chairman Inoue, gave 100% of their efforts to their guests, and I felt the true meaning of individual attention,” and “I truly reflected upon what must be done in order to effectively move an organiza-

tion such as planning the placement of inexperienced staff,” were some of the comments regarding the activities that impressed them.

The tournament-eve reception annually welcomes guests on a scale of approximately 530 people (for the 26th Daikin Orchid) that include the 160 people participating in the pro-am tournament along with the officers of RBC, the 80 spouses of the attending guests, the 108 professional female golfers participating in the tournament, the 140 invitees of the RBC and Daikin HVAC Solution Okinawa, and the 40 tournament officers and related personnel. Without careful preparations and attention to details, the event could not succeed. Every year in July, 40 planning members are selected to make preparations for the following year. In addition to the General Affairs Department acting as the secretariat, there are people in charge of the Daikin Orchid tournament-eve reception, the pro-am tournament, the ladies golf tournament, the commemorative gifts given to guests and their accompanying spouses, and the Daikin sightseeing guide highlighting the unique appeal of Okinawa. For the day of the big event, there are people in charge of guest arrivals and departures on the day of the tournament, people in charge of hotels who organize



*Rehearsal for the tournament-eve reception*

all lodging preparations...to name a few.

From the time the direction of the big event is decided to its start, these staff members spend over half a year until the following March for preparations. They carefully investigate the progress for such aspects as the tournament-eve reception and the pro-am tournament, the selection of commemorative gifts, the compiling and editing of the sightseeing guide, the reception manner at hotels, and the welcoming of guests at airports. Each aspect has a proposed plan almost every month requiring approval by Chairman Inoue, and 70-80 people are selected at the end of the year from each workplace to assist in preparations. Rehearsals are repeatedly performed based on a detailed manual of approximately 200 A4 pages. Beginning with the planning members and their staff and the Head Office, various workplaces of company branches and offices participate in preparations, and while the number of actual people working at the event is limited, it is a large-scale event that essentially takes the involvement of the entire company.

#### ◆ Growth from Tears of Anguish

For a company outside the service industry, making hospitality a “selling point” may be considered, at first glance, gratuitous, but Daikin does not use hospitality to promote its corporate image. Many of these Daikin events form a link with social responsibility and regional contribution activities and serve to actively fulfill Daikin’s social responsibility as a company. At the same time, more than simply meeting corporate obligations, there is an expression of a “sincere desire” by employees to have invited guests, business partners and dealers, community people, and consumers feel genuine delight and satisfaction.

Nevertheless, there is an internal reason apart from outward

hospitality for a system to be organized throughout the company in which top management takes command itself at the worksite for the purpose of handcrafted hospitality. Through preparation and management for ceremonies such as Daikin Orchid and the Bon Dance Festival, employees gain a sensory perception of the work approach for People-Centered Management and are able to achieve personal growth. Handcrafted hospitality becomes a “*dojo*” that forges employees and serves as a venue for so-called practical employee training.

In this 20-year period, Chairman Inoue has led discussions on “People-Centered Management,” and *Our Group Philosophy* has been distributed to Group companies worldwide with the expectation of it being implemented. However, understanding the philosophy of People-Centered Management intellectually and repeatedly reciting its virtues are meaningless if it is not utilized in one’s work. Even if a person believes in the “infinite potential” and the “cumulative growth of all members serves as the foundation of a company’s growth,” the opportunity to actually gain a sense of that within a person’s daily work is limited, and even if the reasoning is understood behind Fast & Flat and core persons & supporters, it is difficult to know how to apply it to an actual situation.

Whether it be the manufacture and sale of air conditioning equipment or the office work relating to planning, general affairs, or human resources at the Head Office, once a job is learned and performed with sufficient proficiency, people tend to neglect making further efforts for their own growth when assigned tasks that continue to be easily cleared. This stands in sharp contrast to the preparations for Daikin Orchid or the Daikin Bon Dance Festival where employees enter a world completely outside their regular duties and one in which the experience of assembling air conditioning equip-



ment and the knowledge of fluorochemicals, defense systems, and oil hydraulics are of little use. Even in that situation, Daikin employees must produce “results” in the sense of having their invited guests feel genuine delight and satisfaction.

Handcrafted hospitality is thoroughly performed and refined at Daikin Orchid. Using it as a case in point, let us take a look from the employees’ perspective on what type of experience and personal growth is acquired.

When just considering the VIPs and their spouses, there are close to 250 guests at Orchid and memorizing their names and faces is arduous enough without having to engage them in conversation and mask your anxiety with a smile. Expressions become stiff from tension, and words do not come out. Even for a golf tournament attended by executives below the level of chairman, it is not uncommon for an employee to lose sleep the night before in fear of making some incredible blunder. Moreover, employees work in cooperation with people from other workplaces with whom they normally have no interaction, and they spend several days being alert to anything and everything before returning straight back to work once the tournament is over. Even considering it is a business trip to Okinawa, Orchid offers no opportunity for them to enjoy themselves, and there is no rest for them to catch their breaths.

An employee who worked as a planning member in charge of the tournament-eve reception relates with tears in her eyes, “There were many unpleasant experiences but I did my best at a breakneck pace. And of all the work I have done at the company, this has been the most demanding.” It is not unusual for an employee teeming with confidence and having extensive business experience in an important section at the Head Office to be confronted with a check by Chairman Inoue demanding a sudden change in the scenario of the

tournament-eve reception. This elicits a domino effect of changes including those to the scheduled proceedings and the lighting order, which must be conveyed onsite to all staff members through the person in charge of the advertising agency, and then be repeatedly confirmed. The employee gets admonished by the boss, frantically hurries to implement, loses his or her smile, and contends with a lingering feeling of ineptitude while being mercilessly pressed for time. Amid the fatigue deriving from lack of sleep, there comes an enormous sense of relief once the anguish finally ends.

Thrust into this type of a pressure-packed situation helps facilitate the total immersion, both body and soul, of employees in the work approach of Daikin’s People-Centered Management and allows them to experience measures that cannot be learned in manuals such as what needs to be done to delight guests, how to cooperate with other staff members, and how to cope with unexpected situations. Young staff members who have just entered the company select items such as souvenirs for which they receive the direct approval of Chairman Inoue. A newly hired employee given responsibility for the prizes learns to entertain guests onsite with a humorous description of the prizes. Even young people who hesitated to say they wanted to come back again to Orchid have developed the ability to laugh and establish a good rapport with guests after only the second or third time of trying.

“During this half-year period, I find that Daikin’s Fast and Flat work approach is truly what people say it is. Chairman Inoue invokes a ‘democratic dictatorship’ for proposals brought forward by members of the actual sites by having everyone involved engage in candid discussions. Once a decision is made all members do their best to implement it. To put it in its simplest terms, I think this is a successful work approach,” says Riko Takano, who has worked for

more than 20 years since entering the Recruitment Group of the Daikin Human Resources Division. Takano is assigned the duties of administrative staff for Daikin Orchid and oversees the arrangements from preparations to the actual tournament. She has also been in charge of emcee activities of the tournament-eve reception since 1999, but in order to master the skills of an emcee, she has taken lessons from a Ryukyu Broadcast announcer. She has also received voice training at an announcer school.

Almost three years after first beginning her role as emcee, she was severely rebuked by Chairman Inoue at a rehearsal for the tournament eve reception, who told her, “I feel no sense of gratitude toward our invited guests for being at this big event. Seriously reflect on this before the actual ceremony.” Evidently, Inoue had sense that her attitude had begun to lose humility as she became more accustomed to her role as an emcee and that her confidence could be mistaken for vanity.

Takano, who is instilled with the concept of not holding fast to successful experiences of the past, reemphasizes that employees must continually maintain a sense of crisis for Daikin Orchid. While recognizing the amount of work involved in simply composing a plan proposal, members must express their objections without fear that it might increase the work of another in order to arrive at a better finished product. This type of experience and opinion of Takano is a product of her involvement in Daikin Orchid, and it stands to reason that staff members in supporting other events have similar experiences and thoughts. Giving employees such experiences enables them to reflect on lessons learned and to apply those lessons to a variety of work situations where they can continue to grow as Daikin employees. In that way, these types of events, beginning with Orchid, serve another major purpose.

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*Chapter VI*



## Passing on Daikin DNA



*Daikin Ales Aoya*

### ◆ Company-Wide Support for Training Programs

Driving west on the coastal *San'in* roads along the Sea of Japan in the western part of Japan's main island from either the Tottori train station or airport takes you to Aoya-cho, Tottori City. The town of Aoya has a population of 6,600 and is renowned for its Japanese *washi* paper, *sake*, and the singing sand on the Idegahama Coast. When you drive still further, the soft curved silhouette of a stylish building facing the Idegahama Coast catches your eye. It is Daikin Ales Aoya, a multi-purpose facility of Daikin Industries, Ltd.

With a total of 165,000 square-meters of floor space, the six-storied (partially eight-storied) facility features a 20-meter wide and 7-meter high lobby with glass walls on three sides, a lecture hall with a capacity of 210 people, an auditorium with simultaneous interpreting booths, the Technical Skills Development Room, and 10 discussion rooms below the lobby floor. Furthermore, there are 46 guest rooms accommodating 213 people, two large Japanese baths, and an authentic Japanese-style room that offers overseas trainees an opportunity to encounter Japanese culture. This multi-purpose facility serves as the center for human resources development in providing a forum for group global conferences, various internal meetings and training sessions for global Daikin companies, and a welfare facility for employees. It is also rented out to the local government and universities.

With the Sea of Japan stretching before it, Daikin Ales Aoya offers an unrestricted view of the horizon. As evening approaches, fish lamps on squid-fishing vessels light up one by one off the coast. On one such Saturday evening in April, a massive campfire roared on a dark sandy beach and over 100 young people danced in a circle around it. Several bonfires burned nearby. The man adding wood to the bonfires was Togawa, president of Daikin Industries. Chairman



*Lighting the way for new employees at Daikin Ales Aoya*

Inoue, who had been observing the sight from atop the sand dunes, felt enticed to join the crowd of youngsters and started dancing alongside them.

After more than two hours around the campfire, Inoue and dozens of other people held flaming torches in their hands to accompany the new employees walking back single-file to Ales Aoya. That signified the climax of the final night of the six-day and five-night training camp for new employees held every year in April. The scene of top management and other employees waving the flaming torches for seemingly forever on the chilly, dark beaches of the Sea of Japan reveals the amount of effort Daikin puts into this training program.

For Daikin, this new-hire training camp is the company's major springtime event. In 2014, for example, a total of 120 people were involved onsite during the training. They included seven Leaders of Leaders such as Katsuyuki Sawai, executive officer in charge of human resources and general affairs, and Masaki Saji, general manager of the Human Resources Division; group leaders who participate in activities with the new employees under the direction of Leaders of Leaders; freelance leaders who prepare programs and provide sug-

gestions to group leaders; senior manager candidates of the future, consisting mainly of managers participating as observers, and the secretariat staff members in charge of various preparatory work.

Due to the recent increase in the number of new employees, the training camp is held over three weeks in April at the beginning, middle, and end of the month. Each camp is held over five nights and six days from Tuesday to Sunday. In 2014, a total of 320 people participated in the training camp with ages ranging from 20 to 51 years old. Of those, 268 people were recent graduates, while 52 people were mid-career hires. Each year trainees undergo a tightly-packed daily training schedule spanning 12 hours that begins at nine o'clock in the morning. Trainees have some time in the evening to enjoy such activities as simple games or songs sung to a guitar accompaniment played by a retired employee, but the training camp itself consists mainly of discussions among trainees. Discussions are always held after listening to lectures by senior managers and experts from outside the company. Group leaders are instructed on how to provide guidance: "Use your own words in responding to the reactions of new employees," and "Continue to convey, without compromising, whatever you need to convey to each employee."

Daikin's training camp for new hires was first held in 1972 for the Yodogawa Plant. Inoue, who was general manager of the General Affairs Department at Yodogawa at the time, initiated a program to enable employees recently graduated from junior and senior high schools to acquire a fundamental approach to work. A six-day and five-night camp was held at the Osaka City Youth Retreat located on the lakeside of Lake Biwa, and they were joined by the foremen from their worksites who acted as their leaders. The program consisted of classroom lectures, behavioral exercises, discussions, and recreational activities that included cooking over a fire. Later on, the

Sakai Plant started participating, and in 1981 the training site was transferred to the Youth Center in Aoya at a facility owned by Ikeda City, Osaka Prefecture. Eventually, new employees for administrative divisions graduating from universities started participating, and from 2004 the training camp became a company-wide event with new employees on a major career path participating in the training camp. Around that time, Ikeda City decided to sell its Youth Center because of the burden of upkeep and the city's own financial problems. Daikin bought the facility to construct the current Ales Aoya on the site. The facility opened as Daikin's training center in 2008.

The objectives of the training camp are to facilitate: (1) understanding within a lively and enjoyable setting of People-Centered Management and the type of employee being sought; (2) contemplating on what one is capable of doing and what is necessary for further development; and (3) identifying goals and what one is determined to do in company life.

What is strongly conveyed at the new employee training camp is this: "You have infinite potential so do your best." People experience success and failure in equal measure with failure sometimes coming at a higher rate. The company wants new employees to believe in their own potential as they take their first steps forward in society. The training is planned based on the concept that people who can have faith in their own potential can also believe in other people's potential.

Inoue, who created this system, has participated in the camp every year since his days at the Yodogawa Plant and always engages new employees in friendly conversations. Inoue regards the training camp as a present from Daikin to the new employees and made the following remarks during one of the camps:

“We cry when we are sad, rejoice when happy, are sometimes lazy despite wanting to do our best, and rouse ourselves over matters of little importance. That is the hopelessness of human nature, and yet, rather than being someone who cannot respect people, I would like to be someone who can respect and like people. People cannot live completely apart from society and alone. So, perhaps they can interact with each other, complement each other’s weaknesses in their own way, or become inspired by others. Based on such an approach, we hold this training camp as a gift to all of you.”

The training camp, which instills the Daikin spirit focused on people to the new employees becoming members of Daikin for the first year, is said to be the starting point of People-Centered Management. No matter his schedule, Inoue has taken part in every training camp for 44 years to date in the belief that employee growth begins here and serves as the basis for Daikin’s human resources development. Having started the training camp at his own initiative, Inoue meticulously oversees the details of the program, including how it is managed and what guidance is provided. As for the mid-career hires participating in the training camp, the Human Resources Division initially only allowed those in their early 30s to attend because of the age gap with new hires fresh out of school. Inoue, however, opposed that in saying, “This training is not worksite training. This program conveys our frame of mind and philosophy, so age is irrelevant.” Today, all mid-career hires, including those in their 40s and 50s, participate and utilize their own life experience in exchanging opinions with younger new employees.

#### ◆ Training Conducted around the World

Employee training programs are not designed and operated only for new Japanese employees. Against the backdrop of rapid globaliza-

tion, Daikin felt the urgent need to develop local leaders in each country. The manufacturing of air conditioning equipment varies seasonally and involves a considerable number of product models. To cope with these issues, Daikin developed the Production of Daikin Systems (PDS), a multiproduct variable quantity production system based on a production system introduced from Toyota that Daikin has intensely promoted. To implement this method, a company needs to train employees at worksites to be multi-skilled and capable of performing work based on several assembling and processing techniques. At the same time, workers must be able to understand the overall production flow process and actively propose concrete suggestions to improve production. To this end, a high degree of education is necessary. At the start, different ways were explored; people capable of assuming the role of key person in the production line were selected from overseas plants to undergo training in production engineering at a plant in Japan.

Overseas staff coming to Japan for training at the time all say it was the cleanliness of Japanese plants, comprehensive employee education, and well-established organization that impressed them. Norliawati Binti Eden from OYLM, for example, studied PDS at the Production Engineering Department at the Shiga Plant for one year and then returned to Malaysia to transfer his knowledge to local employees. He says he hopes to establish an organization together with the Japanese staff at OYLM. What is the optimal way for OYLM to promote *kaizen*? How should the local way of doing things be revised to incorporate the Daikin mindset? While trying to find answers to these questions, OYLM is trying to introduce the Japanese work style.

Jan Bezdek of the Pilsen Plant in Czech also commented that he did not initially understand the meaning of *Karakuri kaizen* but after

completing his training in Japan he realized that only having an assembly line run smoothly is not enough and must incorporate various ingenious modifications. Cemil Yigit of the Hendek Plant also says, “While the plants in Japan are compact and clean, our plant is large. We are also now having difficulties in hiring people.”

The U.S. company SVL was originally a McQuay distributor with more than 80 employees. The most significant changes resulting from becoming part of the Daikin Group were improvements in quality and product development capabilities. This can be confirmed with Craig Vatsaas of the Faribault Factory. Although Vatsaas did not go to Japan for training, the company has been promoting *kaizen* through the support of Daikin in Japan. “Since we were taken over by Daikin, our plant is cleaner and more orderly than before, and productivity has significantly improved. With support from Daikin, we introduced the tools and knowledge of PDS, including the just-in-time system and the one-piece flow manufacturing system. Because investments were made when needed, we were able to expand our factory, redesign the layout of our assembly line, and make a line for new products,” says Vatsaas.

Training for employees working in overseas companies started without a clear direction and gradually developed into the current system. Nonetheless, sending the key person at the worksite to Japan for training was a work incentive for employees in Malaysia, Turkey, and Thailand. Through these people, the Daikin spirit and the Daikin Way, together with production engineering technology such as PDS, are introduced at the worksite to take root and be adapted to each locality.

#### ◆ Developing Top Leaders for the Next-Generation

For Daikin Industries whose fundamentals are People-Centered

Management, human resources development is the main premise of its business activities. Growth does not occur for Daikin as a company without development of the people forming the core. This explains the struggles Daikin has in employee development and is the reason Daikin utilizes every possible opportunity to instill the people-centered spirit and develop human potential.

Human resources development at Daikin is based on on-the-job training (OJT). People are asked to set challenging targets for their daily work and are given challenging situations to confront, struggle against, and take decisive action. Through such a process, talents needed as a person, an employee, a manager, and a senior manager are refined and enhanced. Current senior managers, including Inoue, were developed in this manner. This is why Daikin does not hold training programs that other Japanese companies hold at milestone years such as the fifth or 10th year of employment. Once completing the new employee training program, there is only a management training program for newly appointed managers.

In achieving its rapid growth, Daikin has leveraged the expertise of many mid-career employees, making education through uniformed training programs superfluous. Instead Daikin has developed human resources through OJT and by having Inoue and other senior managers inspect worksites and provide direct guidance. In the past 20 years, however, the landscape surrounding Daikin has changed dramatically. In order to expand its organization mainly outside of Japan and compete in the increasingly intense global competition as a global No. 1 company, the type of human resources being sought are managers who put into practice People-Centered Management and have a global perspective capable of vying fairly and squarely with competitors in overseas markets with diverse values.



To develop such global human resources, Daikin introduced a new training system targeting promising young, mid-level employees for fostering people who will support the next-generation Daikin. It introduced the Overseas Practical Training Program from November 1999, the Bridge Person Training Program from May 2008, and the Fast and Flat *Dojo* Program for managers in June 2006.

Of all of these, the most focused has been the Daikin Leadership Development Program, which began in October 2004. With the aim to develop future senior managers, this program was introduced to instill readiness to shoulder the management of Daikin to specially-selected, exceptional human talent and, at the same time, for top management to ascertain the personality and qualifications among those selected. Spanning a period of one year, the curriculum includes discussion with management, lectures from leaders of other companies, and MBA lectures in sync with such themes as (1) corporate principles and philosophy; (2) wisdom and practice; and (3) knowledge and skills. At the end of the training program, participants serve as leaders for the new employee training camp as part of onsite leadership training.

The training is administered annually to two groups for six months over a two-year period. From the first to the sixth term, a total of 120 people attended the course in three years. The program resumed in 2012 and from this round the program focus was set on selecting and developing next-generation management, including CEO and COO, to succeed the Inoue and Togawa regimes. To develop human resources comparable to the leaders of excellent companies around the world, the main content of the lectures in the program are management with foresight and People-Centered Management.

The ages of trainees being targeted were lowered to include em-

ployees younger than those of previous groups, and the training curriculum is focused on “learning from Daikin’s management.” Important keywords used in lectures to describe management methods and philosophy practiced by Chairman Inoue and others are highlighted. For example, the keywords in the Corporate Philosophy and Organization Management lecture are *People-Centered Management*, *belief in the inherent goodness of people*, *Fast & Flat Management*, and *understanding and acceptance*; and in Management Capabilities, the keywords are *foresight*, *decisiveness*, *ability to implement*, *partial and overall optimization*, and the *genba principle* (actual inspection of the worksite). As for Management of Leadership, the keywords include *animalistic instinct*, *the 60/40 principle*, *insight*, *dreams*, and *ambitions*. Furthermore, onsite training in China is also incorporated in the curriculum through actual examples to study how local leaders expanded business in China and how they practice People-Centered Management.

Furthermore, from 2014, to facilitate understanding of the true reasons and background of Daikin’s growth, as well as conflicts and difficulties in decision-making faced by top management at the time Daikin made critical decisions, lectures based on actual examples of past important management decisions were included in the curriculum. How should leaders make decisions? How did top management make such decisions as the Three Pillars Strategy of Air Conditioning, advance into China, and the O.Y.L. acquisition? Under the title of “Learning strategies—Daikin’s case studies,” case studies of critical decisions actually made by top management are introduced for discussion to enable participants to relive the experiences of top management decisions.

The Daikin Leadership Development Program has seen 155 people complete the course in 10 years. Of those, 117 people have been

assigned to new positions including Masatsugu Minaka, senior executive officer and Takeshi Ebisu, associate officer (former senior executive officer) and 17 other people who were appointed officers. Daikin has entered a phase of generational transition as it approaches its centennial anniversary. The company is, therefore, in urgent need of developing human resources to lead its management.

Realization in recent years of global No. 1 can be attributed to the hardships overcome by Akira Yamada at the time of foundation, the solid, fortified foundation established by Minoru Yamada, and the current system of nurturing talent introduced under Chairman Inoue that has led Daikin to the global No. 1 position. Today, in the era of a paradigm shift, Daikin is approaching the fourth corner of surviving in the arena of intense global competition. Fortunately, talented young people in search of a place to challenge their abilities have recently been attracted to Daikin for its rapid growth in becoming a global company. The Daikin Leadership Development Program functions as a venue for training candidates to become next-generation leaders. Furthermore, a system is undertaken to identify qualified personnel, provide them with opportunities from their second or third year in the company to undertake challenges and experience situations that test their resiliency as a means to rapidly develop them into young leaders and even senior managers. Daikin is providing excellent opportunities to passionate young employees while waiting with high expectations for the emergence of young talent to quickly resolve the concerns of top management.

#### ◆ Overseas Meetings Held 10 Times a Year

As delegation of authority proceeds to overseas bases with the rapid globalization at Daikin, an organizational barrier is apt to form between the Head Office and overseas bases, posing the threat of a di-

minished check function at the Head Office. To alleviate such risks, Inoue has emphasized the need for recruiting and developing global human resources in the following observation:

“Global human resources are those with capabilities in governing overseas bases as part of the headquarter function. They are people capable of managing the overseas local bases. We are expediting the development of global human resources who maintain a balanced perspective of partial optimization at local bases and overall optimization of the Group.

In the past, many Japanese companies embraced monoculture by periodically recruiting Japanese male university graduates, and Daikin was no exception. With monoculture, however, maintaining cohesive forces in an organization that is increasingly becoming multinational is difficult. Instilling the management philosophy and company values to every corner of an organization and continually inspiring an organization with frequent visits made by top management are critical for maintaining cohesive forces.” (February 5, 2014; *Nikkan Kogyo Shimbun*)

Along with developing global human resources, Daikin is carrying out its Managers Meetings at overseas bases to enhance cohesive forces in its multinational organization. Top management, including the chairman, president, and executive officers, directly visit overseas bases to hold discussions with production and sales managers at bases to receive reports on the local situation and issues before giving specific instructions. In 1998, when Daikin acquired

the air conditioner sales division of Kuba Kaltetechnik GmbH, Inoue, who was visiting Germany to attend the opening ceremony, gathered the local managers together for a meeting, which became the first Managers Meeting. In this meeting, free discussions were held on topics ranging from Daikin's *Our Group Philosophy* to detailed issues such as parts disposal to ensure understanding of Daikin's management approach.

The aim of the Managers Meeting is to transfer Daikin DNA and convey the intent of top management through tête-à-tête talks between the Japanese and local management, and it has been held every time a distributor was acquired in Europe. Inoue reflects on that practice, "Encouraging people to work together by announcing that employees will not be laid off but increased after acquisition and having the policies of People-Centered Management understood by the acquired company is one of the reasons that we were able to smoothly manage the sales companies gained by acquisition."

With increased globalization in recent years, Group companies are categorized by region based on regional characteristics and common issues, and the Managers Meeting is held in the main location of each regional group. In the air conditioning business, the five main pillars are Japan, Europe, United States, China, and Asia. In the chemicals business, the pillars are the United States, Europe, and China. Daikin's officers visit these seven overseas pillars once a year. In addition, there is a global edition of the Managers Meeting held for the American Air Filter Group, which brings the number of visits by officers to overseas bases to at least 10 times a year or 100 days on average. Companies whose top management visits overseas worksites at this frequency are rare.

Because one of the objectives is to continually inspire an organization with frequent visits by top management to local worksites,

meetings are held from nine in the morning to seven or eight o'clock in the evening with only a lunch break. Each local manager reports on a particular theme or sales policy, and officers from the Head Office respond to these reports with top management indicating issues and providing policies and direction. This is a practice of People-Centered Management represented by vigorous discussions, leadership decisions, and the Fast & Flat management approach. For issues taken up during the meeting, policies on countermeasures are decided on the spot and instructions are given for execution.

In Europe and China, approximately 100 local people above the position of senior manager participate in meetings where intense exchanges of opinions often unfold between the Daikin Head Office and local bases. Because the meeting objectives focus on knowing the local circumstances, top management may harshly criticize documents and reports conveying insufficient information.

A Managers Meeting was held in July 2011 in Ostend, Belgium, the home of DENV headquarters. After listening to the DENV presentation, Inoue severely criticized the core air conditioning products for cold districts: namely, RA (residential air conditioner), QA (small-sized air conditioners for stores and offices), and VRV (multi-type air-conditioners for buildings): "As market share continues dropping, why aren't your sales subsidiaries reporting this to the Head Office?" and "Reports saying that Spain is in a recession and so we cannot achieve the budget have been submitted for many years. What measures are you executing?" DENV was forced to explain in detail and commit to improving the situation.

There are cases when incisive comments surface from the local people. At the Managers Meeting in Europe, Hendrik Kranenberg, president of Daikin Airconditioning Netherlands, raised a question to the Head Office, "Decisions to launch new products in the

market take too long. Do all decisions require approval from the DIL Head Office?" To this question, Inoue admitted, "I strongly feel the deliberateness of our decision-making process, particularly when compared with Chinese and South Korean companies," adding that he would instruct officers to delegate authority to those in the frontlines.

In the Managers Meeting for North America held in September 2014 in Houston, Texas, a total of 130 people including Mike Schwartz, CEO of Daikin Applied Americas (DAA, former McQuay US) and Takeshi Ebisu, CEO of Goodman, and 54 local managers and observers attended, and discussions were held over two days. Inoue, who made his final remarks at the end of the meeting, said: "We have one goal: outperform Carrier, Trane, and our main competitor, JCI/York. Daikin may be globally No.1 but it ranks fourth in the U.S. market. We are losing in product development capabilities, an area in which we excel. DAA and Goodman must go beyond past measures and innovate to succeed. We should take pride in being globally No.1."

This was mentioned because Daikin has high expectations on financial results for the United States, which is projected to replace China as the revenue locomotive of the global Group. Inoue further continued, "Daikin Industries has a sales target of two trillion yen this year and 35 to 40% of our profit is dependent on China. Although Daikin has made large investments in the past, the days of emerging economies, including China, attracting investment and thereby driving the world economy are over. From now on, it will be the United States. Daikin Group's resources, leading-edge development, human talent, and money will be invested so that we can effectively compete and succeed in the U.S. market. To become the truly No. 1 company in the world, we must become a major player in the United States."

Along with going out to overseas Group companies and spurring them on, the aim of the Managers Meeting is to have officers at the Head Office observe local worksites and reflect upon the global management of Daikin. Compared with the advanced efforts made by local companies, response by the Head Office is sometimes criticized, and this type of exchange is most noticeable at the meetings in China.

At the China Managers Meeting held in Shanghai in November 2011, the top executives of Daikin Industries were all smiles during the reports given by local managers. Inoue spoke very highly of these Chinese managers, "Against the backdrop of Gree and Midea rampaging in the market, leaders of the sales force are seriously thinking, 'We can fight back and sell more if so-and-so products are developed.' In response, our research groups in Japan and R&D team in Shanghai are aggressively making efforts to respond to the instructions of the sales force—this is something I've only just now learned. Today has convinced me to entrust important matters to all of you here." Yamada, Senior Executive Officer, also expressed high admiration in saying, "Today was a truly inspiring day. I felt that Daikin's tradition and DNA are deeply rooted in China."

In May 2012, the Daikin's Board of Directors and Executive Officers meetings were held for the first time outside Japan in China. After local inspection, Inoue raised a question: "At the China Managers Meeting, Chinese managers are always introducing an exceptionally fresh concept every year that is implemented in the following year. In Japan, people say they will do this or that but hardly anything gets done. With a look of disgust, he reflected, "The difference is that in Japan, discussions begin with many excuses without any heart or soul being put in following up on promises. It may be the Japanese who taught People-Centered Management to the Chi-

nese but the Chinese are the ones who are making it work.” He went on to say, “What the officers in Japan should be learning here in China is the execution speed, the decisiveness to take action, and the perseverance to get things done. Officers must see about acquiring some of this Chinese passion before returning to Japan. I seriously encourage it.”

Senior Executive Officer Kawamura also says with admiration, “Each and every Chinese employee holds high aspirations, and they can express those aspirations before others. They speak frankly and without reservation and have built strong ties to each other. I have seen the real thing in China.” Board Member Chiyono Terada put forth a suggestion, “At our company, officers are looking at each other and not putting forth frank opinions, which slows down our speed. No matter how large the Group becomes, when you continue to regard each Group company as a small-sized company, you can increase the speed of implementation.”

#### ◆ Ensuring Common Understanding of Issues

Aside from the Managers Meeting where top management travels overseas to ensure smooth communication with local management at overseas bases, the Group Management Meeting is held in Japan and managers from Group companies are invited there to discuss important issues. This is a forum in which management policies and basic strategies that impact the entire Group are shared and instilled, and, at the same time, the issues of each Group company are identified to promote and support their resolution.

The first such meeting was held in June 2003 with 59 senior managers from major Group companies inside and outside of Japan, including eight overseas companies. With further advancement of globalization set forth in its Fusion 05 strategic management plan

and *Our Group Philosophy* established in the previous year, discussion themes were as follows:

- 1) Recruiting and developing human resources;
- 2) Product development that satisfies the needs of regions and countries;
- 3) Global Supply Chain Management (SCM);
- 4) Financing; and
- 5) Corporate ethics.

The second meeting was held in October of the following year in conjunction with Daikin’s 80th founding anniversary. The meeting had grown in scale to an international conference with 210 participants, including Daikin senior managers, from 96 companies in 23 countries. The Group Management Meeting has been held twice since then. The fifth meeting was held for four days in May 2014 at Daikin Ales Aoya in Tottori after the 90th anniversary ceremony.

That meeting was attended by 163 representatives from 66 Group companies and 88 officers and senior managers from the Daikin Head Office for a total of 251 people. On the first day, Inoue emphasized that the Daikin Group faced three major challenges—fur-



*Fifth Global Management Meeting in 2014*

ther reinforcement of earning power; strengthening and developing human resource capabilities; and enhancement of its organizational system and management—and spelled out each challenge.

On the second and third day, 10 workshops were planned for discussions on different themes from nine o'clock in the morning to the evening. Some of the themes included the following:

- A: Changes in our awareness and action needed to reinforce our sales and marketing capabilities for outperforming the competition;
- B: Developing marketing capabilities and differentiated products by combining the efforts of the production and sales forces to enable us to continue succeeding as the market leader;
- E: Establishing the No. 1 network of air-conditioning development centers in the world and clarifying the roles shared between the mother and local bases;
- G: Expanding business through application development in the Chemicals Division through Group-wide collaboration;
- J: Reinforcing human resources capabilities to continue succeeding in the global market.

Vice-presidents and executive officers from Daikin Industries and the presidents and vice-presidents of overseas Daikin Group companies chaired the workshops. Each workshop consisted from 20 to over 50 members, and each group held thorough discussions for two days. Top Daikin executives, including Chairman Inoue, Senior Executive Officer Yamada, and President Togawa, visited the workshops one by one to listen to discussions, sometimes raising questions, and redirecting arguments to invigorate discussions.

On the fourth day, the final day, everyone gathered in the Main Lecture Hall where the General Session was held. Contents and

conclusions of the two-day discussion of each workshop, from A to J, were reported by each chairperson, followed by a review and summary by President Togawa. Views of the issues expressed by participants during the workshop presentation included this criticism: “Important decisions cannot be made because senior managers are not involved in markets or actual sites,” “We need to establish a system that collects and exploits information,” and “Roles and responsibilities are unclear, leaving matters to bases, and global Group control is not functioning.” Positive proposals were also made including these suggestions: “Hold a Marketing Best Practice Meeting twice a year to share successful cases, failures, and information on competitors, market, laws and regulations” and “We would like to expand globally the Overseas Practical Training Program carried out at DIL.”

In reviewing the entire meeting’s comments, Togawa said this: “We are in the midst of intense global competition. To succeed, we must realize further progress through business innovation. Discussions were mostly spent sharing information, and concrete action plans have yet to be formulated. We lack a viewpoint on the human



*Private Meeting by Global Managers*



resources needed to reform our constitution dramatically and to make a further leap forward. We need to deepen discussions further to clarify our action plans.” At the end, he urged the participants to renew their resolve by saying, “The Group Management Meeting provided us with a good opportunity to learn more about each other. During the workshops, in particular, we were able to obtain a common understanding of issues and challenges. To put it another way, however, this shows us just how inadequate our regular communication is. We must work to share timely and useful information and exercise Group-wide functions to outperform competitors with our comprehensive capabilities.” He closed the meeting with these words: “I ask that all senior managers further demonstrate their leadership skills to ensure that this Group Management Meeting becomes the starting point for our growth and development in the coming 10 years and that it leads to action and produces results.”

#### ◆ *Monozukuri* is Developing People

Daikin started with the unyielding challenge of the founder and its employees to develop innovative technology and skills with an underlying sense of camaraderie nurtured through the idea of ‘eating out of the same pot.’ The sense of camaraderie eventually culminated into People-Centered Management and has been passed down to the current generation. Similarly, the passing down of technology and skills must also continue to escalate. In facing the 21st century, a sense of crisis concerning the transfer of technology and skills spread within Daikin, and a system designed to facilitate the transfer of high-level skills was set forth to overcome concerns for the future.

Daikin’s business performance at the time was steadily growing, and, as a result, more parts were outsourced to contend with

production increases, and production lines became increasingly automated. Under such circumstances, opportunities to obtain skills decreased and questions were raised on the hollowing-out of skills accumulated over many years. Although new plants were established in Thailand and China as part of rapid globalization, there were few skilled workers capable of giving technical guidance on processing and assembling at the local sites. Furthermore, the mass exodus of Japanese baby boomers retiring from the workforce became an issue in 2007, raising the fear of a sudden depletion of skilled workers. Against this backdrop, Yashushi Yamada, currently serving as a senior executive officer, proposed the creation of the Production General Manager Meeting for navigating divisions and discussing such topics as which skills should be maintained in Japan as a part of the mother factory function amidst the increase in overseas manufacturing bases and what type of system is needed to ensure the transfer of skills.

Based on these discussions, the Succession System for Advanced Skills was established for developing highly skilled workers who would transfer their skills and develop successors. First, skills indispensable for *monozukuri* were positioned as strategic skills. Those designated as strategic at the time were: lathing, milling, welding (arc-welding, CO<sub>2</sub> welding, and tungsten inert gas (TIG) welding), brazing, sheet-metal processing, and hand-spray painting. In October of the same year, both Norihide Matsumoto of Manufacturing Department 1 of the Commercial Air-conditioning Manufacturing Division of the Sakai Plant and Ryouichi Wada of the same worksite were certified as Daikin Meisters (the highest level of skill worker) for brazing and sheet-metal processing, respectively. Before this system was initiated, Matsumoto was accredited as the first *meister* under the Meister System implemented at the Sakai Plant, and Wada

was accredited as a Meister for sheet-metal processing.

Brazing is the skill of joining two or more tight-fitting metal parts by heating filler metal above its melting point and making it flow into a joint. Matsumoto says, “Today few workers try to steal skills from their senior colleagues by close observation. I hope they maintain a voracious appetite to acquire skills even if they repeatedly experience failure.” Sheet-metal processing, on the other hand, requires creativity, imagination, and an eye for reading drawings to cut and bend sheet metal based on a product diagram and knowing the proper amount of pressure to apply in accordance with yield strength. Wada says, “The ability to conceive ideas determines success for *monozukuri*. When creating something, you have to conceptualize how to make it. You have to come up with several ideas for a wide-range of processing methods.”

Shigeru Kimura (general manager of the Manufacturing Department at the Shiga Plant at the time), a member of the Skill Succession Committee, the secretariat for the Succession System for Advanced Skills, introduced the first two Daikin Meisters, “These two workers possess hand dexterity and sharp senses. They excel in intuition and have a knack for things. Moreover they have capabilities in forming images, solving problems, creating from their own proposals, and resolving problems on their own when problems occur and something is unknown. They are valuable human resources capable of training and developing their successors.”

This system categorizes skill levels into five grades: namely, skilled worker, experienced worker, proficient skilled worker, highly skilled worker, and excellent skilled worker. An employee is selected by the general manager of the Manufacturing Department from among excellent skilled workers and approved by the Skill Succession Committee. The employee then goes through training for one to

five years and is then certified a Meister. To be a Daikin Meister requires the employee to be: (1) holder of Special-class or Class-1 level in national technical skill tests; (2) capable of providing appropriate guidance to successors; and (3) experienced for roughly over 10 years and be under 55 years of age at the time of certification.

At Daikin, skills in *monozukuri* were not systematically passed down and skilled workers utilized their experience to individually teach subordinates their craft. When technically skilled workers went overseas to transfer skills, they were shocked in not being able to transfer Daikin’s technical know-how. This is why a Meister is required to not only possess high skills but also to have the competence and enthusiasm in transferring skills and be able to write manuals on acquiring skill know-how to facilitate understanding among young local workers.

“In brazing you have to listen to the sounds with your ears and watch the size and color of flames with your eyes to get a feel of the flow of filler metal. You have to actually show your skills and make the local staff say, ‘Wow! This person has skills.’ This is the first step in providing guidance in *monozukuri*,” says Matsumoto. “Generally speaking, criticizing an employee in other countries in front of other people has an adverse effect. This is why it is important to demonstrate awe-inspiring skills. The basic stance of workers is to ‘learn on your own.’ Local staff members that have rarely been taught by others are perplexed at first to Daikin’s painstaking and thorough training.”

Nonetheless, there are many local staff members who respond to such painstaking and thorough teaching. Isao Yamaguchi, a Meister for arc-welding from the Sakai Plant who taught at Daikin Compressor Industries in Thailand has the experience of being overwhelmed by the passion of one of his trainees. The trainee paid a

visit to his hotel room after work to ask him for individual instruction in the area the trainee had trouble understanding. This trainee later won one of the top prizes in the Daikin Global Skills Competition and became a Daikin Trainer.

While regular local training lasts approximately two weeks when starting up new plants, Meisters are assigned for two or three years to the local site to provide guidance from plant startup to engineer development. Yoshitaka Taira, an arc-welding Meister at the Sakai Plant, earnestly taught five or six promising youngsters in India but found they had all gone to work for another company when he revisited on another occasion. Those who had transferred to a competing air conditioning manufacturer were offered a position of supervisor with a fourfold pay raise because of the skills acquired from a Daikin Meister.

“Hearing that they left the company was a great shock to me. I taught with the intent of teaching everything I knew, to try and create an ‘alter ego’ in India,” says Taira. Matsumoto, who added with a wry smile, “You have to convince yourself that Daikin is making significant contributions to society, or otherwise you will



Daikin Global Skills Competition (brazing)

become discouraged.” Matsumoto who is also experienced in providing training at a VRV installation and servicing company in India says his students were surprised when he taught brazing to members who handled products of Daikin’s competitors, ‘Other companies do not teach us such things.’ Even when engineers are dealing with products other than Daikin products, we teach them without prejudice. This is the Daikin Way. This is how we create Daikin enthusiasts.”

Following the Air Conditioning Manufacturing Division, the Chemicals Division also introduced the Succession System for Advanced Skills by setting up the rank of “Expert” in 2006. Furthermore, because transferring skills inside and outside Japan cannot be managed by *meisters* alone Daikin established in April 2010 the Trainer System, in which Meister and Expert candidates are developed. Because manufacturing bases were increasing mainly outside of Japan in emerging countries, the Overseas Skills Trainer Training Program was initiated to expand Daikin’s skills development system to overseas locations.

Promising skill holders are selected from overseas bases and invited to Japan to develop capabilities exceeding those of highly skilled workers before being sent back to provide training at local sites. First they are trained at Ales Aoya for three weeks. Each of them is assessed on his or her capabilities by a Meister trainer, taught skill theory, and undergoes thorough training on basic skills. Afterward, they return home and work on overcoming their weaknesses over seven weeks. They return to Japan for three more weeks to upgrade their skill levels at Ales Aoya or a plant in Japan, reinforce their leadership capabilities, and learn about quality, safety, and problem-solving.

Trainers are graded by their competence into three trainer cate-

gories, Local, Regional, and Global. Local Trainers may be trainers at each local base while Regional Trainers may expand their activities to the entire country in which they work. A Global Trainer can provide guidance outside of his or her country, and thereby work toward becoming a Meister.

In conjunction with these training systems, the company has been hosting the Daikin Global Skills Competition since October 2004. The company-wide skills competition was revived for the first time in 30 years. This led to the sponsoring of a skills competition from the following year in which contenders participated from overseas bases. The competition is held every other year with a pre-competition held in the intervening year.

In the first Daikin Global Skills Competition, representatives from six overseas bases, including Daikin Europe, Daikin Industries Thailand, and Shanghai Daikin, participated in the contest to test their skills in four areas: brazing, welding, lathing, and sheet metal processing. Jin Chun Hua from Shanghai Daikin won first prize in the brazing category, and later became a Regional Trainer to provide guidance throughout China.

The Skills Competition lasts five days. Overseas participants stay for about one week to practice before the competition and learn skills and techniques by visiting plants after the competition. The number of overseas participants has been increasing yearly, and in the fifth competition held in 2012 there were 77 contenders from Japan and 61 from 24 overseas bases for a total of 138 participants. In the arc-welding category, overseas participants dominated the medals with first and third place won by participants from China and second place won by a participant from India. The sixth competition held in 2014 saw a total of 145 participants including 71 from outside Japan. Events in the competition increased to 10, including brazing,

sheet metal processing, lathing, arc welding, die finish, machine maintenance, metal coating, and milling. In the competition held this year, three contenders participated from Goodman Global, the U.S. company that Daikin acquired two years earlier, and four skill coaches.

This is how the Meister, Expert, and Trainer systems and the Global Skill Competition contribute to improving skill levels in *monozukuri* among Group companies.

As of the end of fiscal 2013, there were as many as 32 Meisters and Experts along with 50 Trainers (20 in Japan and 30 overseas). Akira Fujinawa, former general manager of the Sakai Plant who served as the head of the secretariat for the Skill Succession Committee and who supported the Meister System for many years since, reflects, “The basics of *monozukuri* are developing people. You have to like people or you cannot do this type of work training others. The joy of working together with people and the determination or sense of mission to develop an ideal junior employee—these are necessary, of course, but you need more than that.”

The Meisters and Trainers that emerge as a result of the support from these efforts also develop on their own by teaching others. Fujinawa adds that developing another person also helps you develop yourself. In order to train local staff members to a level where they are self-reliant, in addition to teaching specific skills, the teaching side needs to have knowledge. It is said that there are many things Meisters and Trainers learn when they train people outside Japan. What underpins technology-oriented Daikin are the people who embrace the people-centered philosophy. In other words, people who like and value other people, and proactively learn from others to develop themselves.

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*Epilogue*



# Toward a Brighter Future



*Stage at the celebration for the 90th anniversary (2014)*

## ◆ Ten Years of Rapid Growth

In May 2014, Daikin Industries held a ceremony commemorating its 90th anniversary. Several days before this, the company announced that Chairman Inoue, who had stood at the helm of management for 20 years since his appointment to president in 1994, would turn over the position of CEO to President Togawa and remain as Chairman of the Board without representative authority and concurrently serve in the new position of Chief Global Group Officer. Let's take a look at the financial results Daikin released for fiscal year 2013 (ended March 31, 2014) and compare them with the financial results of 10 years earlier.

Over this 10-year period, sales grew 2.8-fold and operating profit grew 3.3-fold, whereas sales outside Japan expanded even more sharply. Consolidated sales exceeded 1 trillion yen in fiscal year 2007. In fiscal year 2010, Daikin became global No. 1 in the air conditioning field on the basis of total sales. In 2013, Daikin was listed for the first time among the top 10 companies in the Nikkei NICES corporate ranking, which assesses 537 publicly traded companies across the five areas of investors, consumers and corporate clients, employees, society, and growth potential. Daikin is forecast to reach a business scale of 2 trillion yen in fiscal year 2015.

The December 2004 issue of *Daikin Times*, a special issue published for Daikin's 80th anniversary, featured an employee questionnaire titled "Daikin Qualities." The feature included a survey on current impressions of Daikin. The top 10 impressions were listed with a comparison of a similar survey conducted 16 years earlier in 1988.

2004:

- |                        |                 |
|------------------------|-----------------|
| 1. Spirit of challenge | 2. Has vitality |
| 3. Top-down            | 4. Earnest      |

- |                |                |
|----------------|----------------|
| 5. Methodical  | 6. Tenacious   |
| 7. Progressive | 8. Family-like |
| 9. Speedy      | 10. Warm       |

1988:

- |                        |                 |
|------------------------|-----------------|
| 1. Spirit of challenge | 2. Family-like  |
| 3. Earnest             | 4. Multifaceted |
| 5. Unadorned           | 6. Has vitality |
| 7. Tenacious           | 8. Optimistic   |
| 9. Careful             | 10. Harmonious  |

In 1988, Minoru Yamada was Daikin's president, and the Head Office was moved the previous year to its present location in the Umeda Center Building in the northern part of Osaka. *Our Group Philosophy* was formulated in 2002, the year the present-day corporate symbol for the Daikin Group was decided, and Daikin was rolling out its global strategy under the leadership of Chairman Inoue and President Hiroyuki Kitai. While "spirit of challenge" continued to rank at the top of the survey, "has vitality" moved from 6th place in 1988 to 2nd place in 2004, and "family-like," which ranked 2nd in 1988, fell to 8th place. The impressions "multifaceted," "unadorned," and "optimistic" did not make the top 10 in 2004 and were replaced by "top-down," "methodical," "progressive," and "speedy." Employees' impressions of Daikin changed quite a bit over the 16 years that contained the decade of the 90s, and their awareness of being members of a growing global company appears to have strengthened.

The 2004 survey also contained descriptions including "Daikin is an unrefined company, but it makes first-rate products" and "Daikin comprises a plain but strong team—unrefined but continuing to move forward with robust tenacity, grit, and teamwork." Daikin in



2004 was in the process of transforming from being Daikin of Japan to being Daikin of the world, but some people may still have seen it as the unrefined, smaller company it once was.

#### ◆ Nurturing a Sense of Crisis

With the company passing another 10 years and marking its 90th anniversary, how do employees view Daikin today?

Comments from employees published in the 90th anniversary special issue of *Daikin Times* include, “My honest and frank opinion is amazement at how remarkable our company has become,” and “Rapid globalization can be somewhat intimidating. This has given me greater drive to change the way I work to raise my efficiency and provide greater leadership or else risk suffering a diminished role in the company.”

Employees dashed unreservedly up the steep slope of growth and expansion, and in 2014 they seemed to have felt a vague sense of unease at discovering that Daikin had reached an unexpectedly high place in the business world.

Chairman Jiro Ushio of Ushio Incorporated, in his congratulatory remarks as one of the guests of honor at Daikin’s 90th anniversary ceremony, referred to the company’s great leap forward as “a successful corporate example rarely seen in these past 10 years.” As a factor contributing to Daikin’s success, Ushio cited the words of French philosopher Alain on his theory of happiness: “Pessimism comes from the temperament, optimism from the will.” Ushio emphasized Daikin’s strength of will, saying, “I think that the Daikin Group is supported by a very strong sense of optimism that is centered on the efforts of Mr. Inoue.” He added, “What’s more amazing, however, is the speed in which the company makes business decisions, develops specific plans, and takes action. The company could

not have succeeded unless all three of these were present.”

In response to Mr. Ushio’s praise, President Togawa looked back over the previous 10 years and gave the following explanation. “Various environmental changes and paradigm shifts have taken over the past decade. The Daikin Group has achieved impressive growth and development amid these changes.

The driver of that growth and development has been the strong leadership of Chairman Inoue under whose command management decisions have been quickly taken once a change is perceived. Going to the frontlines to collect first-hand information and impressions is prioritized in order to always remain a half step or a step ahead of competitors. It is not an overstatement to say that foresight in our management has allowed us to succeed against our competitors. The efforts of all employees to continuously embrace challenges and take action have led to our achievements over the past decade.”

From a small workshop in Namba, Osaka, Daikin has grown into a global company that is No. 1 in the air conditioning and fluorochemicals, with 70% of its sales outside of Japan and 80% of its workforce comprised of non-Japanese employees. The company seems almost invincible today. But there is a risk that current employees, especially the younger generation, will grow comfortable and develop a sense of complacency at Daikin, which expanded through People-Centered Management. Is there a fear that they will not take an objective, rational look at the reasons for Daikin’s rapid growth and that they will lose sight of what they should be doing now?

Chairman Inoue has signaled his apprehension regarding this subject, saying, “People-Centered Management is scary,” and, “When growth stops, what happens to People-Centered Management?” Upon reflection of his own apprehension, he says, “But Daikin did not grow solely because of People-Centered Management. It

was also because of our strategy and foresight.” People-Centered Management is unmistakably part of Daikin’s DNA, but in the present age of paradigm shifts where the value systems themselves are changing, it is not its DNA that enabled Daikin to be successful against its global competition. Daikin executed management foresight to make key strategic decisions in which top management carefully deliberated the issues, examined all potential winning strategies, weighed the competing factors, and fearlessly committed without getting the timing wrong. Today’s success in implementing strategy comes from recognizing people’s potential, putting the right people in the right positions, and matching those people’s actions with strategy. Mr. Inoue says, “People-Centered Management will only receive accolades if it links strategy and action to results.”

At a Group Management Meeting in 2011, the first year of Fusion 15, Mr. Inoue prefaced his remarks by saying, “In this so-called era of paradigm shifts, changes in the business environment outside the company are abrupt and unpredictable. The changes are discontinuous in nature and full of uncertainties. As the fall of the Lehman Brothers symbolizes, it is no exaggeration to say that no one knows what tomorrow will bring to the corporate management environment.” He then cited five qualities he expected senior managers to display during this uncertain future.

The first quality is nurturing a sound awareness toward crises within the organization, illustrated by the parable of the boiled frog. It is said that a frog put in a pot of boiling water will immediately leap out to escape, but a frog put in a pot of tepid water on the stove that is gradually heated will not realize the danger until it is too late and is boiled. “The lesson of the story is to have a sound awareness toward crisis, change swiftly in response to environmental changes, and anticipate these changes in the environment,” explained Mr. In-

oue. He stresses that a company’s growth requires the ability for the company to adapt quickly to changes in the external environment and regenerate itself, and from this he urges senior management to nurture a sound risk consciousness within the organization.

The second quality is maintaining decisiveness and gutsiness when providing solutions to problems without a right answer. Senior management is required to have the gutsiness to endure ambiguous and vague situations. When the future is uncertain, it is the role of senior management to draft a clear vision for the organization and decide the direction in which to move.

The third quality is enhancing abilities to recognize, imagine, and discern conditions at the *genba*—the actual worksite. The signs of change first appear at the *genba*. Mr. Inoue asks senior managers to stay alert for signs of change in the external environment and the trends of changing times and to enhance their abilities to recognize, imagine, and discern conditions at the *genba*.

The fourth quality is demonstrating “vertical leadership” and “horizontal cooperation.” Vertical leadership means providing direction to subordinates in the line of authority and uniting them to take action. Horizontal cooperation means transcending organizational barriers and involving people from other divisions to take action. Many of the problems that arise at the *genba* have their roots in a lack of horizontal cooperation. Mr. Inoue asks management to lower the company’s organizational barriers and create an organizational culture that encourages a high-quality flow of information.

The fifth quality is generating a *tsunami* in the organization with a spirit of challenge that is undaunted by taking risk. In an era of drastic change and uncertainty, the most serious risk is doing nothing. A requirement for succeeding in the era of paradigm shifts is continuously building momentum akin to a tidal wave in

the organization with passionate intentions and aspirations so forceful that they burst out of the organization from all sides. Mr. Inoue wants senior managers to be the driving force to pioneer the times with a flexible mindset that generates ideas, is not afraid of being changed overnight, and can take action.

After achieving significant growth over the last 10 years and aiming to make further leaps forward looking toward the company's 100th anniversary, Daikin needs senior management to fully and effectively demonstrate these five qualities. As in the adage *don't halloo till you are out of the woods*, now is the time for Daikin to brace itself to take a new step forward.

In January 2014, with the company's 90th anniversary approaching, Chairman Inoue concluded his New Year's greeting with this message.

"In classical Chinese literature, there is the phrase, "On a 100-mile road, you only reach the midway point at the 90th mile." This warns us against conceit, reminding us of the need to be humble and bear in mind that the 90th mile only marks halfway for those traveling 100 miles. We at the Daikin Group must never become overconfident in what we have achieved. Instead, we must take stock of our current situation, and steadily move forward step by step toward a brighter future."

#### ◆ Air, Dreams, and People

As Daikin aims to become a truly global and excellent company, we must wonder just what does Mr. Inoue mean when he says "a brighter future." And what does Daikin need to do to attain this future as it looks 10 years from now?

The basis of that future begins now with the current Daikin. At the ceremony commemorating the company's 90th anniversary, Chairman Inoue described Daikin's unique strengths as its 1) global business platform; 2) extensive product lineup; 3) advanced technological capabilities; 4) ability to stay a half step ahead of others; and 5) firm establishment of People-Centered Management. Reinforcing and extending these strengths built up over the last 20 years will undoubtedly create a brighter future.

In listening to what many Daikin people under Chairman Inoue and President Togawa say about what the company needs to realize a brighter future, a few keywords frequently appear: *air*, *dreams*, and *people*.

Looking ahead 10 years into the future, Chairman Inoue emphasizes the importance of carefully considering what the true needs of customers are and revising business domains accordingly. An example he cites is broadening the definition of air conditioning from something that takes place inside buildings to the larger idea of air, which then expands the potential business opportunities to communities, cities, regional infrastructure, and even outer space. When the function of air is considered with research conducted on air environments and the human body that crosses over into the disciplines of biology and psychology, Inoue believes that Daikin will be able to tackle the challenging themes of "air that improves intellectual ability," "air that improves productivity," and "air that enables deeper sleep."

An example of this idea involves research conducted by a team of young employees from China who undertook a project to create not just an air conditioner but a "feeling conditioner." The Fifth Assessment Report released by the United Nations Intergovernmental Panel on Climate Change (IPCC) in November 2014 found that, if

greenhouse gas emissions continue at or above the current rate, it will increase the likelihood of “severe, pervasive, and irreversible impacts for people and ecosystems” at the end of this century. For Daikin, whose business is air, countermeasures to prevent global warming are also a natural target of research and development.

Daikin opens the Technology and Innovation Center (TIC) in 2015 and will be partnering with Kyoto University, Osaka University, Nara Institute of Science and Technology, and venture companies to create a new business model through joint collaboration and innovation initiatives between industry and academia, industry and industry, and industry and government. These initiatives will bring together the latest ideas and frontiers of knowledge and have the potential to produce surprisingly new projects and businesses.

As a social contribution project to commemorate its 90th anniversary, Daikin is working together with the international non-profit Conservation International (CI) and the Shiretoko Nature Foundation to launch the “Forests for the Air” project. Over a 10-year period until May 2024, the project will provide conservation activities for

approximately 11 million hectares of forests in seven locations in Brazil, Cambodia, China, India, Indonesia, Liberia, and Shiretoko, Japan, to halt forest destruction, protect precious primeval forests, and contribute to a reduction of more than 7 million tons of carbon dioxide emissions.

The leap from being an air conditioner manufacturer to being a company that nurtures air is a dream-inspiring idea. Indeed, Daikin’s second keyword to shape its brighter future is *dreams*. Going back to the words of Senior Executive Officer Ken Tayano used in Chapter 4 concerning China with its many ethnic groups and vast land area, he said, “The only common facet that will motivate all the Chinese people in their work is dreams.”

Daikin’s employees have kept working over the past 10 years to become the global No. 1 company in the air conditioning field, and they will need some type of motivation to continue working toward even greater accomplishments. Dreams can serve as a common motivating factor that transcends national and cultural differences. In September 2012, Chairman Inoue was asked in a magazine interview how he was able to make the series of decisions from the Three Pillar Strategy of Air Conditioning to the acquisition of Goodman. This was his response:

“To put it very simply, everything derives from dreams and ambitions. Those are the things that motivate me and give me the courage to take a step forward, and those are the things that have led me to making the decisions that I have made.”

People breathe the air, they dirty it, and then they try to clean it. Maybe humans are not the only creatures who dream, but we are the



Chairman Inoue and President Matsumoto of Kyoto University at the signing ceremony for a collaborative partnership

ones putting all our efforts into turning dreams into reality. What supports the two keywords of *air* and *dreams* is the third keyword of *people*. As we have learned in hearing the narratives expressed in this book, developing people is indeed the most pressing need Daikin faces today.

When referring to the dramatic growth Daikin has achieved in recent years, President Togawa will undoubtedly bring up the leadership of Chairman Inoue as the driving force. Daikin today is built on the period of 20 years when Mr. Inoue was CEO, especially during the last 10 years of its outstanding growth. With Mr. Inoue stepping down as CEO and celebrating his 80th birthday this year, he will not be able to demonstrate his dynamic leadership forever. It will be up to the next generation, the current leadership under Chairman Inoue, to lead Daikin to its 100th anniversary.

Mr. Inoue also stresses that, "Searching for and developing future human resources is my principal work. Because Daikin DNA is unique and differs from that of ordinary companies, selecting a CEO from within our career management team becomes a corporate advantage, and this is now my most important work."

While Mr. Inoue modestly describes Daikin by saying, "Daikin does not have such impressive brand strength, nor do we have great numbers of elite employees," he also asserts, "But we do have employees filled with vitality and passion who are firmly resolved to keep working until they accomplish their tasks, and I am proud to say that this is one area where we outperform our competitors." Chairman Inoue also had this to say. "I think it is extremely important to make certain that Daikin's valued corporate culture and organizational DNA are passed down. There are both good and bad aspects in our culture and DNA. We must distinguish between the aspects that should change with the times and those that should not.

We must leave only quality DNA for the next generation. We need to constantly remain aware of what aspects should not change over the generations. For Daikin, this is our basic philosophy of People-Centered Management."

Choosing his words carefully, he concludes by saying, "I think that it would be all right if it changes. But we should carry on the aspects that form its base and the aspects that everyone agrees are good. I will work to expand the understanding and acceptance of this thinking as much as I can while I serve the company. After that, I must leave matters to those who come after me."

## Management Philosophy Enacted in 1990

### 1) **Be a company trusted by society**

Aim for the trust of customers, shareholders, and local communities as a manufacturer that provides highly-reliable products that meet customer expectations

### 2) **Offer employees many opportunities**

Aim not only for unlimited opportunities in the growth and development of the company but also for the growth and prosperity of individual employees

### 3) **Aim to continuously promote growth and development**

- Development by composite technology
- Engine for growth to ensure profits

### 4) **Be a company that grows with individuals**

- Organization of people who have been drawn together
- Tolerance for forward-looking mistakes

### 5) **Promote harmonious personal relations as management foundation**

Harmonious personal relations are the basis to smoothly advance in business, and we aim for formation of a group of close-knit human resources that lend help to colleagues facing difficulties and can take delight in the achievement of targets.

### 6) **Maintain a management principle for harmonious labor relations**

The existence of harmonious labor relations is a basic management principle for Daikin, and we aim to enrich daily communication and establish relationships exhibiting even greater trust between labor and management.

### 7) **Be a flexible organization with fair human resources management**

- Employee performance evaluations receiving high understanding and acceptance
- The organization as a structure of human sensibilities for organization

### 8) **Maintain the requirements for senior managers**

- Sensitivity and courage
- Creative leadership

### 9) **Develop as a group**

- Co-existence and prosperity with each related company
- Respect for autonomous management

### 10) **Be active as good corporate citizen**

- Action based on corporate ethics
- Formation of human network



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## Our Group Philosophy Enacted in 2002

- 1) **Create New Value by Anticipating the Future Needs of Customers**
- 2) **Contribute to Society with World-Leading Technologies**
- 3) **Realize Future Dreams by Maximizing Corporate Value**
- 4) **Think and Act Globally**
- 5) **Be a Flexible and Dynamic Group**
  - Flexible Group Harmony
  - Build Friendly yet Competitive Relations with Our Business Partners to Achieve Mutual Benefit
- 6) **Be a Company that Leads in Applying Environmentally Friendly Practices**
- 7) **With Our Relationship with Society in Mind, Take Action and Earn Society's Trust**
  - Be Open, Fair, and Known to Society
  - Make Contributions that Are Unique to Daikin to Local Communities
- 8) **The Pride and Enthusiasm of Each Employee Are the Driving Forces of Our Group**
  - The Cumulative Growth of All Group Members Serves as the Foundation for the Group's Development
  - Pride and Loyalty
  - Passion and Perseverance
- 9) **Be Recognized Worldwide by Optimally Managing the Organization and its Human Resources, under Our Fast & Flat Management System**
  - Participate, Understand, and Act
  - Offer Increased Opportunities to Those who Take on Challenges
  - Demonstrate Our Strength as a Team Composed of Diverse Professionals
- 10) **An Atmosphere of Freedom, Boldness, and "Best Practice, Our Way"**