

Omron Chairman Hisao Sakuta and External Director Kazuhiko Toyama Reveal the Story Behind the Appointment of a New President



Kazuhiko Toyama,
External Director

Kazuhiko Toyama has previously held positions at The Boston Consulting Group K.K. He also helped found and later served as President and Representative Director of Corporate Directions, Inc., Japan's first independent management strategy consultancy, which successfully turned around 41 domestic companies. In 2003, Mr. Toyama was appointed Executive Managing Director and COO of the Industrial Revitalization Corporation of Japan at its inception. In April 2007, he founded Industrial Growth Platform, Inc., which provides management support services focused on realizing long-term sustainable business operations and elevating corporate value, and assumed the role of CEO and Representative Director.

An Unspoken Understanding in My Case

— **Mr. Sakuta, you were appointed president of Omron in fiscal 2003, the first president not related to the Company's founding family. How did your selection come about?**

Sakuta: In 2002 when the IT bubble burst, Omron was thrust into a crisis. The Company undertook painful structural reforms in which it called for employees to take early retirement. After the annual general meeting of shareholders held that June, then president Yoshio Tateisi announced that he would take responsibility and step down. I suppose that, as head of the Company, he felt

responsible for what had happened. To take responsibility is to put a company back on the path to profitability. The subsequent structural reforms led to a sudden upturn in performance from fiscal 2003.

My name was one of those mentioned in the media as a candidate for Omron's next president. President Tateisi first raised the issue with me at the end of August 2002. He said to me, "Don't run away if I shoulder tap you as the president." I replied, "In that case, I won't go anywhere," but I didn't really understand the implications. After that, we had a number of similar conversations, and on December 8, President Tateisi said to me, "I've made my decision, I'll leave the rest to you." In fact, I think that at the time there was some sort of unspoken understanding between President Tateisi and me.

An Open Process is Important

— Why did you establish the President & CEO Selection Advisory Committee after you had taken up the position of president?

Sakuta: One year had passed since I became president in June 2003, and with things a little calmer, I thought I should start thinking about who would eventually take over from me. I believed that a fair and open selection process, one that was highly visible, was required for a president who was not related to the founding family to shepherd all of Omron’s employees. Attempting to choose someone through internal conversations alone is not a fair process, as there are many unspoken assumptions and things are better left unsaid. Accordingly, with the agreement of the other executives, in December 2006, we established the President & CEO Selection Advisory Committee with an outside director as the chairman. However, because it would be irresponsible to entrust the selection of candidates for the position of president solely to a person outside the Company, my expectation was that the committee would make sure that there were no untoward methods of selection.



— Mr. Toyama, what was your role as chairman of the President & CEO Selection Advisory Committee?

Toyama: President Sakuta gave me his own profiling on the shortlisted candidates. Then, I theorized about the attributes of a leader suitable for each of Omron’s phases, and offered my opinions.

[Special Feature 3] Dialogue: Corporate Governance

Corporate Governance Initiatives

	1999	2003	2011
President	1987– President Yoshio Tateisi (member of founding family)	2003– President Hisao Sakuta (not member of founding family)	2011– President Yoshihito Yamada (not member of founding family)
Chairman of the Board of Directors/CEO	President serves as Board of Directors’ Chairman and CEO	Chairman serves as Board of Directors’ Chairman/President serves as CEO	
Separation of management oversight and business execution	30 directors	1999– Number of directors reduced to seven (including external directors) 1999– Introduction of executive officer system	
Advisory board	1999 Advisory Board		
External directors		2001 One member	2003– Two members (seven directors)
External corporate auditors	1998 One member	1999– Two members	2003– Three members (four auditors) 2011– Two members (four auditors)
Advisory committees	1996– Management Personnel Advisory Committee	2000– Personnel Advisory Committee	2003– Compensation Advisory Committee 2006– President & CEO Selection Advisory Committee 2008– Corporate Governance Committee
Corporate philosophy	Omron Principles formulated in 1990	Revised in 1998	Revised in 2006

Corporate motto formulated in 1959

The unifying force of Omron shifted from being the founding family to the Omron principles.



Getting the mechanism of the President & CEO Selection Advisory Committee to function properly is no easy matter. If you defer to form, you end up rubber-stamping the arbitrary selection of a president. Since contact between an outside director and candidates is extremely limited, you first have to establish an environment in which those inside the company can make fair personal assessments. Then, it is I, with my own evaluation barometer backed up by management experience, who must clearly say “no” if a candidate isn’t right without being unduly influenced by the opinions of those around the table. Of course, this is where corporate culture comes into play.

During my time as chief operating officer of the Industrial Revitalization Corporation of Japan, I was involved in the selection of many company presidents, and I can say with assurance that the process used to select Omron’s new president worked exceedingly well.

— About when was Mr. Yamada’s name put forward as a successor to the president?

Sakuta: About two years ago. Since the President & CEO Selection Advisory Committee has an “advisory” role, it is the president who provides the committee with information for reaching a decision. But because the committee must not make an unfair or wrong decision based on my personal bias and set of beliefs, I threw out feelers to Yoshio Tateisi, who was chairman at the time, and the directors. I said to them, “I have drawn up a list of potential successors based on this sort of perspective. What are your thoughts on this?” In other words, I cast around asking them to let me know if they were aware of a better candidate. After this exercise, in December 2010, I said to Mr. Toyama, the committee chairman, that an announcement on the new president would be made the following month (January), and that I’d like him and the committee to reach a decision. Accordingly, I submitted the names of several candidates.

We Needed a Leader with Excellent Team Management Skills

— What type of leader does Omron most need today?

Sakuta: Deciding who is the right person to be president is not unequivocal, but varies depending on the situation. A crisis, like after the collapse of Lehman Brothers, when there was no time to lose, requires a person who can find a way out of the crisis with laser-like focus. I get the feeling that many would choose a charismatic business manager. However, having overcome that crisis, today, things are back to normal. Even when looking ahead five years, I thought that someone adept at team management who also kept a watchful eye on the whole Group was the right person.

With the rapid globalization and diversification in Omron’s business domains and personnel, we’re well past the time when charismatic management would fit the bill. In short, we need a leader who is capable of establishing a global “Team Omron.” This calls for a leader who is highly flexible and accepting of diversity, and young enough to travel around the world. But when I say “leader,” I don’t mean the type of person who likes being the center of attention.

There is one problem, however. To establish a competitive edge in the world market, it is essential to have global management that makes good use of worldwide resources. But management hasn’t yet caught up with the globalization of the “hardware” side of the business, that is, sales and production sites. Unless we also recruit global personnel to management positions, it will be too late. We are a company in which two-thirds of our employees are of nationalities other than Japanese. Therefore, it’s only natural that the Group’s management be made up of people from a variety of countries. Local personnel are the ones with the best knowledge about local situations.

When Mr. Yamada was a university student, he was the captain of a handball team who led his team on to victory in the Western Japan Championships. Through his experiences working in a variety of countries, moreover, he has also learnt to be open-minded and accepting of diversity. He is a person who is able to get on with people regardless of their nationality, and has an excellent ability to put together a team in a business setting.

The Age of “Full Globalization”

— Mr. Toyama, which direction is the globalization of Japanese companies taking?

Toyama: When viewed from economic rationality alone, it wouldn’t surprise me if there were more hollowing-out of industry in Japan. It is the “home bias” of Japanese companies that will stop this from happening. At a time when

the interruption of supply chains stemming from the recent earthquake and tsunami as well as a rapidly appreciating yen are having a significant impact on global expansion, the mood has changed completely. From now on, a company will try to survive the global competition by creating value with diverse cultures, values, and languages positioned on a single corporate platform. It has a different dimension from past globalization. However, people brought up in Japan are not used to diversity and neither are they good at dealing with it. I think we will see more companies switching from the globalization of their internal management to recruitment on a global scale out of necessity.

Even though one might call this “full globalization,” however, we must not make the mistake of thinking it means a company will have no nationality. As a company that has developed and grown in Kyoto, Japan, Omron must have a well-organized structure supported by a common thread that consists of the firm principles and corporate motto that have been passed down since its founding. In other words, by weaving Omron’s DNA and principles that make up the vertical threads, together with the horizontal thread of diversity, we will compete on the world stage. This is the challenge that awaits Mr. Yamada.

Team Omron Also Requires a Minority Viewpoint

— **President Yamada is 49, does not come from one of Omron’s core businesses, and is not a member of the Tateisi family, Omron’s founding family. Don’t you feel some unease about what lies ahead for Omron?**

Sakuta: I wouldn’t say that I feel no unease whatsoever, but I thought that I would like a young successor to advance Omron’s globalization and diversification. However, a young president would find it difficult if he were the only young one among top management. For this reason, I spent around three years increasing the number of young executive officers. When making replacements, I sought a balance of around one person over 50 years of age for every two under 50. As a result, among the 25 current executive officers there are actually 10 who are under 50. Mr. Yamada is by no means the only young one.

At the point when I thought Mr. Yamada may be a good candidate, I gave him some experience as the manager of the Group Strategy HQ. This enabled me to monitor his management skills from a Group-wide perspective. The other candidates had already had comparable experience. Of course, Mr. Yamada didn’t know that he was in the running. Some might think that I had decided on him a full three years ago, but that was not the case.

Mr. Yamada comes from the Healthcare Business. It’s not a nice way to put it, but if you view Omron’s core businesses as belonging to the majority and all other businesses to the minority, you will find that those in the minority have a fairly strong sense of inferiority toward the majority. Even if the Healthcare Business is a minority busi-



ness in terms of size, however, it is helping to enhance the social value of Omron as a whole. I look forward to the surge in motivation that Mr. Yamada’s appointment as president will give to executives in the minority, as well as to his viewpoints, which derive from his past experience in a minority business.

“One’s Natural Personality,” an Important Quality

— **What kind of person is Mr. Yamada?**

Sakuta: I first became aware of Mr. Yamada in 2005 when I gave a policy briefing to a gathering of senior executives in Europe. I greeted him by name. Afterward, he came to my table and said, “I didn’t think you would know my name. That means a lot to me.” Actually, I had gotten everyone’s names from my secretary beforehand (He chuckles). Back then, I thought that he was a very positive and energetic man.

In 2008, I made Mr. Yamada president of OMRON Healthcare Co., Ltd. For some reason or other, for two years I also assumed the role of director of that company, and would give him feedback and pep talks. At this juncture, I thought it would be interesting if Mr. Yamada were to become the president of Omron. When it comes down to it, he has a cheerful disposition. And, he’s a good listener. He’s like a big brother. He didn’t appear to be the sort who is totally dedicated to his work, but his personality was very appealing.

Toyama: I think humanity counts for a lot in a president. Unlike skills, humanity is something that you can’t supplement. That’s why selecting a president is difficult. For skills, all you need is to assess them against a benchmark, but assessing humanity is not so straightforward.

Sakuta: Everyone finds this to be true, that there is a limit to how much you can do on your own. Not much can be accomplished unless the subordinates think that they would like to follow that person and are willing to give their support. So why would they give their support? I think it’s because they empathize with that person’s values. There’s no denying the economic aspect, but who will seriously



go along with a superior whose sense of justice, morality, and ethics you question?

Going Through a Life-Changing Experience Builds Courage

— **Is there a presidential quality that you emphasized?**

Sakuta: Mr. Yamada has been through a life-changing experience. After I spoke to him in Europe the first time, he came down with an illness of the cervical spine and faced surgery, which he knew, if unsuccessful, would end in partial paralysis. Because he's someone who had been captain of his university's handball team, he must have never had cause to worry about his health. But one day, he felt a numbness in the tips of his fingers and his neck didn't feel right. When he sought medical help and they looked into what was wrong, he was told that he had a degenerative cervical spine disease. Moreover, the success rate for this surgery is not very high. He was faced with the dilemma of what he should do, whether or not he should have the surgery. It was one of those unimaginable challenges that are part of life. But he pulled through. The surgery was successful, there was no permanent damage, and he regained full health. In my estimation, this experience gave him the indomitable spirit he has today.

Toyama: For me as well, Mr. Yamada's harrowing experience was one factor I took into consideration. In the world of business, one's raw humanity comes out when confronted with an extremely precarious situation, and I have witnessed many businessmen cease to function when up against such an ordeal. The president is in the position of making final decisions, and can run into problems that he can't solve solely with rationality. If the president lacks inner strength at times like these, he will sidestep the issue and no longer be able to make decisions at crucial moments. The situation then goes from bad to worse.

It is the President Who Makes Unpopular Decisions

— **Can you say something to Mr. Yamada about the type of mindset a company president should have?**

Sakuta: There is one thing. If a president is unwilling to make hard decisions that are criticized by those around him, he won't get anywhere. Examples include a decision to close down a business, or the painful task of restructuring personnel. A favorable decision can be left to a president's subordinates to make because it is usually welcomed. However, Mr. Yamada needs to be mindful that it is the president alone who can make important, as well as hard and unpalatable, decisions. The reason is that when under an all-out attack, the president is the only one whose position allows him to withstand such an assault.

Toyama: Typically, a company will make decisions that add to it and, in some cases, make decisions to subtract a similar amount, and through this accumulation of adding and subtracting, it enlarges its pie. To put it the other way, a company won't grow unless a decision is made to subtract when the situation so dictates. This is a cross that the person at the top must bear. People will start criticizing you by saying, "Well, that's the logical choice, but...." Conflict will arise between logic and emotions. Ultimately, the most important thing is to get people to accept your integrity and values. Even though Mr. Yamada is young, we selected him as president because we recognized him as capable of handling such situations.