The Dynamics of the Komatsu Way

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Abstract: The “way” of various companies have traditionally emphasized on gaining acceptance of the way by organizations and individuals as is and on the strengthening of control. However, in the case of Komatsu Ltd., those who have accepted the way have probably changed it. In this case, Komatsu’s purpose was to develop personnel by entrusting them with the management of overseas sites to improve competitiveness. However, when instilling the Komatsu way overseas, the overseas sites added examples and detailed explanations so that non-production departments could improve their understanding. Thus, localization alone cannot change the way. If a way is considered to be a certain type of organizational routine, this case study suggests the possibility of deployment of the way to other business units or overseas sites causing changes to organizational routines.

Keywords: multinational corporation, localization of management, the Komatsu way, penetration, dynamics of the organizational routines

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1. Introduction

The “way” of a company is a reflection of the company’s basic philosophy and values with regard to corporate activities (Sumihara, Mitsui, & Watanabe, 2008). Many companies have a way of some form that they use to improve quality, productivity, or other shop floor (in Japanese, “gemba”) performance metrics. However, it is difficult to instill a company’s way into foreign sites with heterogeneous languages or cultures. For multinational corporations, it is still important to develop organizational capabilities for businesses in the home country. However, with increasing business being done overseas, it is important for companies to convey the way of the company that has been nurtured over time to overseas sites—even in cases where decades have passed since a company has established an overseas entity—so that the company can entrust the management of the overseas site to the local employees.

This article discusses how Komatsu Ltd.—a manufacturer of construction and mining equipment, utilities, forest machines, and industrial machinery with a long track record of global business development—spread the Komatsu way and the revisions made to the Komatsu way in that process. Herein, we shall examine the spreading and the revision process of the way in overseas expansions—a topic on which there has been little discussion to date.

Komatsu began establishing overseas sites more than forty years ago. A large proportion of the company’s number of production facilities, sales volume, production volumes, and so forth depends on its overseas business. The company revisited how it formulated the way and the process it employed to instill the way in the overseas sites. This article will examine the formulation of the way and the process of instilling it within companies with a high proportion of overseas businesses with long histories.
2. Previous Studies

A company’s business philosophy and instilling its way into overseas sites with heterogeneous languages and cultures have been long discussed in the field of international business management. Within these discussions, some have argued that for multinational corporations to have control of overseas sites, expatriate employees from headquarters must exert cultural control (Edström & Galbraith, 1977). Others have argued for a means of strictly controlling results and behavior through formalized rules (Etzioni, 1980) while some have argued for the instillation of values and principles common to the members of an organization by informal means and then guiding these members by actions in accordance with those values and principles (Peters & Waterman, 1982). As to instilling a company’s way, most discussions have focused on how to get overseas sites to accept a way and follow its principles. As overseas sites became increasingly important, management personnel in these sites were no longer sent from headquarters but were often selected from among locally hired employees. In these cases, the development of employees sent from the home country (Takahashi, 2011), the diffusion of kaizen activities (Oki, 2012), and knowledge transfer (Kim, 2013) acquire new importance. At the same time, how overseas sites will involve themselves in the company’s way becomes an issue. That said, the relationship between overseas sites and a company’s way has been little discussed.
3. Case

3.1. Background

Komatsu formed a local entity in Belgium in 1967, in the US in 1970, in Singapore in 1971, and in Mexico in 1974. In 1975, Komatsu Brasil completed the D50A, a bulldozer that was the company’s first construction equipment produced locally. In the 1980s the company went on to establish production facilities in Europe and the US. Furthermore, production facilities were established in the 1990s in newly developing countries such as China, Thailand, and India. The fundamental principle behind this overseas expansion of local production was that “a mother plant unifying development and production directs a child plant.”

Komatsu currently has 12 domestic production facilities and 29 overseas facilities. Komatsu has 22 domestic subsidiaries and 121 overseas subsidiaries (as of the period ending March 2014). Komatsu sales were 1.9536 trillion yen as of March 2014, 90% of which came from its construction, mining, and utility equipment business. Furthermore, 80% of sales from this business came from overseas markets and 57% from emerging markets outside of Japan, North America, and Europe. However, because production of key components such as engines and transmissions is limited to Japanese facilities, 48% of the monetary value of production comes from Japan, with 52% coming from overseas (as of March 2013). Total employee headcount on a consolidated basis is 47,208, of which 58% are overseas employees. Thus, while Komatsu is able to

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2 Of these sites, those with new product development functions include four domestic sites, one North American site, and four European sites.
3 Komatsu counts China, Southeast Asia, the Middle East, CIS, Central and South America, Africa, and Oceania as “strategic markets.”
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maintain the “mother plant” function of its domestic plants, the proportion of overseas facilities is on the rise, and the company felt the need to create and instill a way that straddled domestic and overseas sites.

3.2. Forming the Komatsu way

In 1988, as a project for business divisions, the company opened up participation in kaizen activities to all employees and not just those in factories. Sakane Masahiro, the president of the company from 2001 to 2007, joined the company in 1963 and participated in the “Maru A Taisaku” project that began in 1961 and the “Maru B Taisaku” project that began in 1972. These projects were initiated to confront the entry of caterpillar into the Japanese market and were company-wide efforts that aimed to improve quality.

However, in the first half of the 1990s, quality control and kaizen activities began to be limited to production divisions. The company began restructuring of its management in 2001 and in 2002 again began TQM (Total Quality Management) and kaizen activities across the entire company. Recognizing once again the strength of the company’s culture, Komatsu in 2005 began discussions, mainly among its corporate officers, on strengthening its monozukuri competitiveness and personnel development by bringing back TQM in an effort to tie the TQM and kaizen activities back to personnel development. The company summarized the various opinions and philosophies on values and mindset resulting from these discussions in its very own “the Komatsu way” with the goal that such values might be passed along.

In January 2006, an organization called the Komatsu Way Promotion Committee was formed led by a project group comprising six individuals from business administration, HR, production, and development divisions. The Komatsu way Promotion Office was then created and subsequently re-organized into the Komatsu way
Training Center, one of the organizations currently conducting CSR activities, which operates the Komatsu way promotion committee.

The Komatsu way promotion committee has referenced the ways of other companies such as Johnson & Johnson, Toyota, and Denso. However, the Komatsu way is based on the monozukuri culture cultivated internally. For example, in the past, the company investigated terms used in each *genba* as part of quality management activities and then chose words to be passed along to employees. In order to do this, the company conducted interviews with leading veterans of these shop floors and selected 41 words from among 350 monozukuri terms. These were then published in the Komatsu way in July 2006. The president at the time, Noro Kunio, later became the head of the Komatsu way Promotion Office and held more than fifty meetings to explain the way at both domestic and overseas sites. The Komatsu way (version 1) comprises two volumes, one on “Enhancing Corporate Governance” (for use by management) and the other on “Monozukuri Competitiveness” (for use by those in monozukuri-related roles). The president began explaining corporate governance and CSR in terms of the management volume in the company’s interim earnings announcements. The monozukuri volume, on the other hand, covers the entire company. Monozukuri has come to encompass not only production but also development, sales, and service; management and other internal divisions; as well as partner companies, agents, and other parts across the entire value chain.

3.3. Revision of the Komatsu way and penetration of non-production divisions

The Komatsu way (version 2) that was created in 2006 included a management volume and a monozukuri volume. Monozukuri is defined as being activities that span the entire company, though those interviewed during the creation of the monozukuri volume were
primarily from the production division. Thus, that volume was distributed with an accompanying booklet to explain its content, though it was still difficult to understand for those in the sales, marketing, and administrative divisions.

Therefore, work to revise the Komatsu way began in 2010. Version 2 published in 2011 added a “brand management” volume that included easy to understand expressions, such as “a complete customer perspective,” “understanding the customer,” and “addressing the customer with the power of integration,” for the marketing division. This volume enabled those in sales and marketing divisions to apply the principles of the Komatsu way into practice, and the three volumes (management, monozukuri, and brand management) of the way have been translated into 49 languages. In November 2011, a meeting for those in managerial positions was held in domestic locations to explain the content of version 2 of the Komatsu way.

This revision modified the wording and phrases. For example, prior to the revision, the way used the phrase “if you cannot do something, say you can’t,” but this was changed to “if something should not be done, say you can’t.” Moreover, this particular item was moved from the monozukuri volume (the section on quality and reliability) to the management volume. In another example, the phrase “the other party determines the quality of a product” was modified to read “the other party determines the quality of a product (or work).” Likewise, the phrase “love your job” became “take an interest in monozukuri, and enjoy your job.”

Further, emotional phrases but with meanings that were difficult to convey outside of the production division were also revised in the monozukuri volume. For example, the monozukuri volume used the expression “sharpen the five senses.” However, this expression was not well understood outside the production division, and the revised version included examples to help others outside of the production
division understand the important nature of the words. For example, the accounting division often used a similar phrase of their own: “learn with your eyes, learn with your ears, learn with your feet (go to the shop floor 100 times).” In accounting, employees needed skills to understand whether ledger figures were correct and to attain the capability to gain insights from the numbers. That is why they used their feet to go to the genba and saw things for themselves by “sharpening the five senses” and by listening to the people in the genba.

3.4. Revision of the Komatsu way and deployment to overseas sites

Version 1 of the Komatsu way was distributed to overseas sites at the time of its release to help develop those personnel entrusted with management of these sites to improve competitiveness. However, version 1 was a simple translation from the Japanese into English and had many sections that were difficult for those in the local entities to understand. As a result, it never really got established.

Work on revising the Komatsu way then proceeded after discussions with local staff about the content. Revisions added more detailed explanations to sections that until that time were difficult to understand. The revision process took between six months and a year.

For example, the word “monozukuri” was simply translated as “manufacturing” in version 1. By doing so, those in the overseas accounting divisions thought that the word applied only to those in the production division and showed no interest in the content. The revised version instead used the word “monozukuri” as is and included an explanation that highlighted the fact the word encompassed all business activities, such as planning, development, production, sales, and service. In other areas, globally well-understood Japanese words were used: kaizen, genba, genbutsu, genjitsu, and so forth. Genba was initially translated as “workplace”
or “job site,” but that caused many to think it referred only to plants. The revised version simply used “genba” and an explanation was added to convey the meaning.

In addition, the way topic in the monozukuri volume of “Ho/Ren/Sou” (“Report, Communication, and Consultation”) was difficult to understand for non-Japanese. The revision included an explanation that borrowed a phrase used in the US: “good news is no news, no news is bad news, bad news is good news.” Japanese well understand that “Ho/Ren/Sou” (a commonly used business phrase, short for “reporting, contacting, and consulting”) means to simplify the solving of problems related to quality or legal compliance by quick reporting. However, the intent of the phrase was not conveyed by a direct translation. Thus, an explanation reflecting the opinions of local staff regarding the phrase was added to the Komatsu way.

In this manner, items that were not easily understood by overseas personnel had more detailed explanations added on the basis of the opinions of the local staff at overseas sites. In addition, translations into English, Chinese, Spanish, and Thai were in place as of the end of March 2013. In addition, the company is working to instill the Komatsu way through briefings and other activities at overseas sites.

Overseas sites were involved in version 2 of the Komatsu way, and local meetings were held to explain the way and to help with understanding of the meaning of various items. While one cannot objectively say that the way has permeated among all employees, these efforts have invigorated kaizen and other activities at overseas sites through the application of the Komatsu way.

4. Conclusion

In many cases, attention has been paid to the control of organizations and to individuals that accept a way. Those accepting a way were thought to simply accept it as is. However, as we can see
from the case of Komatsu, when the purpose of instilling the way is primarily for development of management personnel in other divisions or overseas sites, sometimes those accepting the way make revisions to it. In the case of Komatsu, various divisions added examples, and detailed explanations were included to aid the understanding of the overseas staff. This involvement of the accepting side has helped promote the permeation of the way into overseas sites as well as within non-production divisions, where previously it had not been well established.

The increasing importance of overseas sites brings with it an increased importance of localized management of overseas sites and quality control at the global level. In these circumstances, it is important that the overseas sites accepting a company’s way participate in creating that way. Considering that a way is a certain type of organizational routine (Sato, 2012), this case suggests the potential for rollouts to other divisions or overseas sites to change organizational routines (Feldman & Pentland, 2003; Iwao, 2015).

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References


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