

# Globalization, Compliance and the Pursuit of “Quality First”

*Kanji Tanimoto, Professor of Hitotsubashi University discusses these key issues from the viewpoint of corporate social responsibility with Tetsuro Toyoda, President.*

## Contribute to Society through Our Honest Work in Business, Keeping in Mind Our Responsibilities

**Tanimoto** I would like to start by asking your views on CSR, or corporate social responsibility.

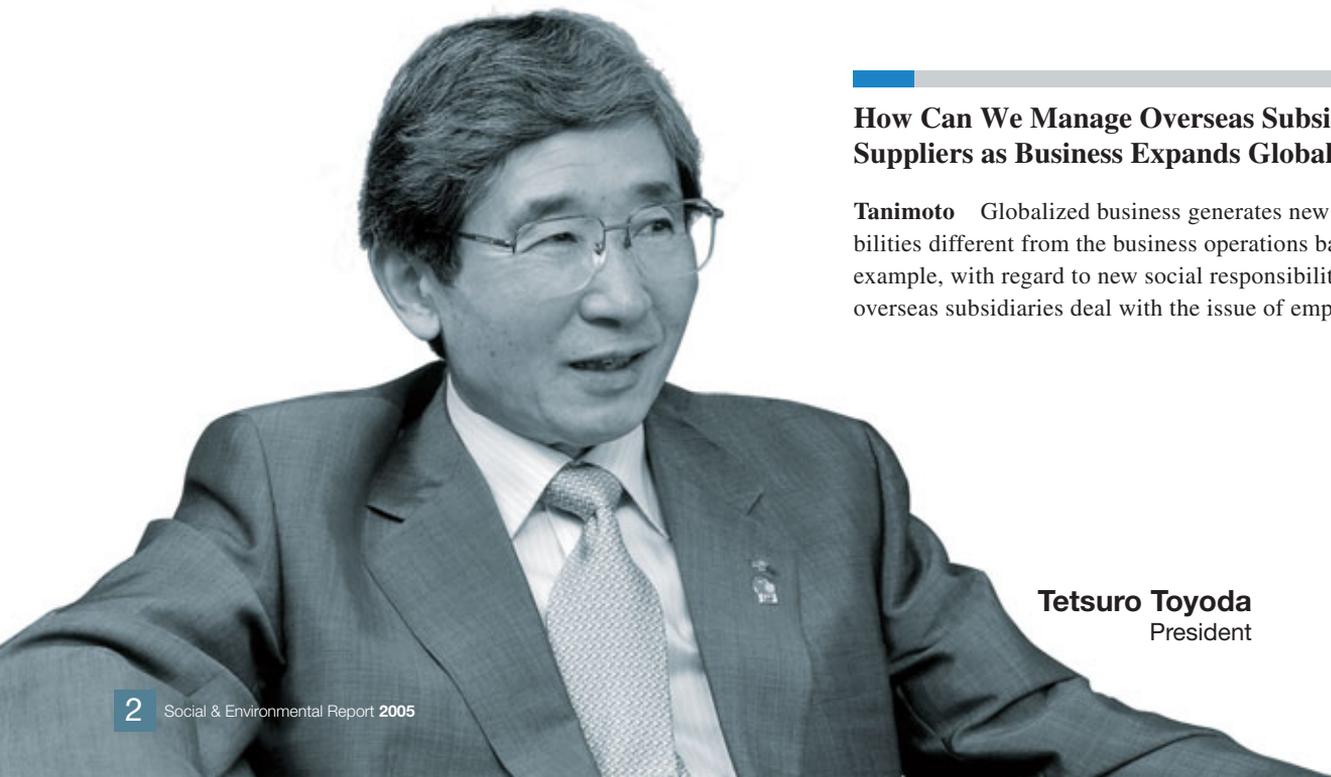
**Toyoda** Our basic thinking is that we should contribute to society through our honest work in business. Corporate activities inevitably affect the world around us in various ways, and corporate responsibilities differ according to how we affect the world. Therefore, it is vital that we keep in mind our responsibilities as we go about our work. Supplying high quality products and services while steadfastly fulfilling these responsibilities is our basic philosophy. By ensuring we achieve this, we can generate profits that enable us to enhance dividends to shareholders, increase customer satisfaction, and provide benefits to employees while giving due consideration to the environment and society. I believe we must keep developing this kind of virtuous circle.

**Tanimoto** That’s the point isn’t it. Today’s debate over CSR not only covers issues such as shareholder dividends, compensation system and retained earnings, but also extends to consideration of the impact that business activities has on the environment and society. Ultimately stakeholders for corporate activities are not simply limited to customers, shareholders and employees, but also include potential shareholders, students as possible newcomers in the future and local communities. It is vitally important to conduct business honestly, keeping the existence and interests of these various stakeholders in mind. However, most Japanese companies that rapidly expanded their business globally are facing issues regarding how they can control their business activities and the impact of overseas subsidiaries and suppliers on local societies and environments.

**Toyoda** Exactly. One of our core businesses, our materials handling equipment business has expanded rapidly on a global scale since 2000 when we acquired BT Industries of Sweden, the leading warehouse equipment supplier. Today, overseas sales account for 43% of our group sales, and approximately half of our approximately 30,000 employees do not speak Japanese. We can no longer operate on the basis of the Japanese commonality as before.

## How Can We Manage Overseas Subsidiaries and Suppliers as Business Expands Globally?

**Tanimoto** Globalized business generates new social responsibilities different from the business operations based in Japan. For example, with regard to new social responsibilities, how do your overseas subsidiaries deal with the issue of employing members



**Tetsuro Toyoda**  
President



of minority groups and women? Also, how do you control your suppliers overseas? If a problem arises, it is no good arguing that a problem is the subsidiaries' alone and of no concern to the parent company in Japan. The parent company will also face charges of complicity for not fulfilling its management control responsibility over the subsidiary.

**Toyoda** Regardless of the country in which we operate, we will continue to be an equal opportunity employer. Most of our plants overseas are located in rural areas, thereby expanding job opportunities for local residents, in an effort to be a good corporate citizen. In the area of environmental conservation, we ensure that our plants in Japan and abroad acquire ISO14001 certification. We obtain information and confirmation from suppliers in advance to eliminate the risk that prohibited substances like hexavalent chrome may be contained in components. Ideally speaking, the parent company should identify the impact on society caused by its affiliates and suppliers. Among our suppliers, we have direct transactions with Tier-I suppliers. We should perhaps work harder to identify their social impacts but we have tended to delegate this to overseas affiliates, except in the area of environmental conservation. We will, however, improve our control over overseas operations.

**Tanimoto** It's not easy to marriage philosophies and directions with overseas companies. Even when Japanese companies merge, it takes considerable time until they come to understand each other.

**Toyoda** I agree. It is not wise to rush things. We must be prepared to spend a certain amount of time to ensure a mutual

understanding because of differences in culture and language. In our case, we acquired BT Industries in 2000. It took five years before we developed a new structure, the Toyota Material Handling Group (TMHG), which combines our materials handling equipment businesses. In order to deepen our mutual understanding and further promote consolidation in moving forward, we drew up a document entitled, TMHG Values and Principles. Its basic thinking comes from our Basic Philosophy, Quality First, Customer Oriented, Innovation, Teamwork. We also added develop international leadership and management. In my first speech as president this year, I announced to all our employees that we would follow these values and principles. The materials handling equipment business accounts for one-third of our group's employees and is our most globalized business. After establishing a global business structure in this business, we intend to extend it to other divisions and eventually across the entire group.

## Respect the Cultures and Customs of the World

**Tanimoto** As business becomes global, impacts on the environment and society will spread. Which particular issues should be urgently addressed and greater attention paid to?

**Toyoda** Compliance, for one. The term "compliance" is most often used in reference to obeying laws and ordinances. Obeying the law is a company's minimum obligation. We must respect local cultures and customs as well, and in a manner that is in tune with the changing times.

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**Tanimoto** Compliance as you have just described comprises the foundations of CSR. We must naturally observe laws and ordinances, while also identifying changes in social norms quickly, and ensure that we respond to them accurately. The essence of CSR is to acquire society's support by pursuing fair corporate activities while complying with the norms of the times.

### The Pursuit of Quality First is Fundamental to Fulfilling Our Social Responsibilities

**Tanimoto** So far, we have discussed vital issues for social responsibility, such as tasks in globalized business and compliance. What is your basis for fulfilling social responsibility?

**Toyoda** I believe it is the pursuit of quality first, as enshrined in our basic philosophy. Quality refers not only to quality of hardware (the products we provide), but also soft skills (including the services we provide) and human resources. By regarding the enhancement of quality in all these areas as fundamental, we can reliably deliver profits and contribute to our stakeholders as I have already mentioned. In addition, we have been facing a situation in recent years where increased production volumes at our plants in Japan have resulted in an increase in the number of temporary workers engaged in the production process. This situation presents us with the challenge of how to improve the quality of such workers, who often have not received the training or possess the experience that our regular employees have. It is also vital from a safety perspective that all our employees, but especially our temporary workers, strictly adhere to our procedure manuals and instructions. Ignoring



In front of Toyoda Automatic Loom Type G

these basics can lead to accidents and injuries, while also affecting the quality of the products that we produce. That is why training and education plays a significant role in ensuring the quality of our products, as well as the safety of our employees.

**Tanimoto** How do you ensure quality at your overseas plants?

**Toyoda** We send Japanese instructors to provide guidance. We also invite trainees to Japan. We expect people overseas to follow similar procedures to those used in Japan, but we also take into consideration differences in customs and languages. To ensure that we achieve a system that suits local conditions, we ask overseas employees to draw up their own procedure manuals and instructions, by themselves, and ask them to comply with them of their own accord. I believe it is important to create a corporate culture and structure that ensures all personnel comply with and improve the rules that have been agreed to and determined by those most affected by them.

**Tanimoto** Knowledge regarding most technologies can be transmitted via written manuals, but some know-how is hard to convey in a written format. How is such know-how transferred?

**Toyoda** In the past, veterans' know-how was neither written nor disclosed. Workers watched the performance of veterans and adopted the same procedures. However, this process takes too long to train employees in this way, and does not keep up with the frantic speed of today's business environment. We must change our training methods to match the changing times. First, our instructors allow employees to complete a job without intervening. They do, however, watch and support them when they are in serious trouble and face a problem that cannot be solved by themselves. After they manage to complete their task, instructors then offer any praise or advice they might have. We utilize this method with all employees, both here in Japan and abroad.

**Tanimoto** Thank you very much for having such a frank discussion with me today. I truly do have the impression that you are acutely aware of CSR at Toyota Industries, distinguishing what is managed well today with future tasks to be resolved.

**Toyoda** Quality can be restated, "Do the right things the first time." We are obliged to make every effort to meet our responsibilities.



#### Interviewer

Professor Kanji Tanimoto of the Graduate School of Commerce and Management, Hitotsubashi University

#### Afterword

Toyota Industries is honestly and honorably engaged in business activities that pursue the achievement of higher quality and development of technologies. As it evolves and develops its impact on the environment and society also increases, while globalization also increases the complexity and scope of the roles and responsibilities it is expected to fulfill. CSR embodies the processes by which the company fulfills its economic responsibilities, and is premised on conducting business activities that take into consideration social justice and ethics, the environment and human rights. In order to contribute to the sustainable development of the global society, companies are expected to continue satisfying these requirements. Looking ahead, I hope that the concepts of CSR will be incorporated into the existing Toyota Precepts and Toyota Industries' Basic Philosophy so that they clearly show how our responsibilities towards stakeholders should be fulfilled in such a way that Toyota Industries wins even greater trust as a global enterprise.

#### Profile of Professor Kanji Tanimoto

1979 Graduated from the School of Business, Osaka City University  
 1984 Completed doctorate at the Graduate School of Business Administration, Kobe University  
 1989 Doctor of Business Administration (Kobe University), Professor of the School of Commerce, Hitotsubashi University from 1997.  
 2000 Professor of the Graduate School of Commerce and Management, Hitotsubashi University.  
 2005 Established Social Innovation Japan, an NPO corporation, and assumed the title of Representative Director.

Research themes include corporate systems, "Corporations and Society." He has researched and spoken out on a wide range of themes associated with the interface between companies and society.

Recent publications include "CSR Keiei" (CSR Management) (author and editor), Chuokeizai-Sha, Inc., 2004; "SRI Shakai-teki Sekinin Toushi Nyumon" (SRI Introduction to Socially Responsible Investment) (author and editor), Nihon Keizai Shimbun, Inc., 2003; and "Kigyo Shakai no Reconstruction" (Reconstruction of Corporate Society), Chikura Publishing Company, 2002.