

KAO CORPORATION –
TRANSFORMATION OF A COMPANY TO
A UNIVERSITY

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Case Title : Kao Corporation - The transformation of a Company to a University

ABSTRACT : Kao Corporation has thrown open the organization and its people to the invigorating force of continuous learning. It recognizes the need to view the company as an educational institution and recognize that competitive advantage flows from people's ability to constantly enhance their knowledge and skills. Formal classroom education is only a part of the continuing learning process although an important one. The more difficult part of redesigning a company as a learning centre is to reshape its work methods, information flows and management processes to create self development opportunities for people within their daily routines.

The case further deliberates that for maximizing short term static efficiency, most companies have been designed to extract as much value as possible from all their assets including people. In this way they have sacrificed the long-term dynamic efficiencies that come from continuously enhancing and upgrading the capabilities of individuals so as to enable them to create new value. What set of attributes does Kao Corporation possess that differentiates itself from other companies. Basically Kao Corporation is a learning organization which not only "learned" but "learnt how to learn". The following attributes exhibited defines the characteristic of a learning organization as exemplified by Kao Corporation- continuing education ,creating a sense of stretch ,organizational fit and disequilibrium ,strategic alignment and challenge, creation of dynamic processes, democratization of information, managing sweet and sour.

The case highlights the transformation of Kao Corporation from a company to a virtual University .

Synopsis : The case focuses on the learning capabilities of Kao Corporation and how it went about reinventing itself to exhibit characteristic features of a learning organization in terms of corporate originality, creativity & innovation. The case attempts to study the attributes of a learning organization and how the concept of continuous learning could transform Kao from a Company to a virtual University

Teaching Objectives & Target Audience : The case is intended to initiate students to the characteristics of a learning organization and how this attributes can contribute in building

a virtual University . The case enables the students to understand the dynamics of creating such institutions and the role of leadership in such cases.

The case is structured to enable students to-

- Understand the learning abilities of people in organizations
- Attributes exhibited by a learning organization.
- What sets apart a truly learning organization from other organizations.
- What it takes to build learning organizations.

The case is intended for MBA/ PGDBM level students as a part of their strategic HR / Business Strategy curriculum.

INTRODUCTION - *CASTING A SPELL OF CORPORATE ORIGINALITY* :

Under the direction of Dr. Yoshio Maruta, the then president of Kao Corporation, Kao became one of the most admired companies in Japan regularly rated by Nikkei Business ahead of well known companies like Canon and Toyota in terms of corporate originality, innovativeness and creativity.

Many of the company's innovativeness in the field of super concentrated detergents and shaped diapers were benchmarks in its field, when compared to its much mightier rivals like P&G and Unilever. It consistently came up with new products ahead of its local competitors such as Lion to emerge as the largest branded and packaged goods company in Japan and second largest in the cosmetics category.

It received the renowned "Nikkei Monozukuri Award" in November 2006 for promoting product development and manufacturing capabilities. The award is given to outstanding companies for research centers and systems in Japan and overseas.

Women's wear daily – a fashion magazine awarded it the breakthrough product of the year 2006 in USA for its Luminous Color glaze sold under the John Frieda brand in the United States.

THE KAO WAY – BUILDING THE FOUNDATION

The Kao Way serves as the core index of its business to pursue the mission, “to strive for the wholehearted satisfaction and enrichment of the lives of people globally.”

In line with its mission the company strives to work with passion in the core domains of cleanliness, beauty, health and chemicals to provide products and brands of excellent value created from the customer’s perspective.

The company is driven by the values of innovation and integrity and the principles of customer friendly, respect & team work and global perspective.

BACKGROUND NOTE

Founded in 1887, for its first fifty years, Kao had been a family run soap manufacturer. The company was built on the basis of a simple strategy ; produce soaps equal in quality to imported brands but at more affordable prices. It started off by opening of the Nagase Store in Tokyo by Kao founder Mr. Tomiro Nagase. In 1923, the Azuma factory in Tokyo began producing soap and in 1940 the Nihon Yuki company was established. For over half a century the company since its inception grew , improving its products and building its distribution. In the 1940’s both the Sakata plant and Wakayama plant commenced operations.

The management and employees of Kao soap company believed strongly in the rather grand motto they developed for their tiny company, “ *Cleanliness is the foundation of a prosperous society*” In the immediate post war era, following an explicit policy of imitating and adopting foreign technology and marketing approaches , Kao launched the first Japanese laundry detergent , and the company was renamed Kao Soap Company

In 1963, Kawasaki plant began operations near Tokyo. 1964 , was a watershed year for Kao, as it marked its business expansion into Asia starting with Thailand and Taiwan. In the same year it established the Industrial Science Research Laboratories in Wakayama. In following years the company expanded into dishwashing detergents and household cleaners , establishing itself as one of the three major Japanese companies that dominated the domestic household cleaning market.

In 1978, the Ehime Sanitary Products commenced operations in Western Japan and the Kao lifestyle Research Institute established a consumer response information system, Kao Echo system.

It was not until the late 1970s that Kao began to pull ahead of its competitors and inflict some humiliating market defeats on the newly arrived foreign players Unilever and Procter and Gamble. By 1981, Kao had set up plants at Kashima and Toyohashi. Subsequently in 1985, Kao soap company was renamed Kao Corporation. It was in this era under the two decade leadership of Dr. Yoshiro Maruta that Kao developed a management philosophy and organizational capability that wove continuous renewal into the fabric of the company's ongoing activities.

During the period 1986-1989 , Kao expanded businesses in North America and Europe. The decade from 1990-1999 saw Kao consolidating and expanding its operations globally.

1990 marked the 100th anniversary of the introduction of Kao Soap. In 1995, the Kao Management Principles was issued and in 1997, the corporate Ethics of Kao Corporation introduced . In 2002, Kao acquired the US premium hair care marketer John Frieda Professional Hair Care.

In 2003 , “ Kao Business Conduct guidelines” was established. 2004 saw Kao establishing the presence in China, and gave a thrust for reinforcing Corporate Social Responsibility Activities.

2005 saw Kao acquiring Molton Brown , a Modern Luxury Goods Company , based in United Kingdom. For Kao group's Principal Subsidiaries and Affiliates please refer Anneure-1

In 2006, Kao acquired the Kanebo Cosmetics Inc and completed a new R& D centre in China , as also established a plant in Philippines. Because of its relentless pursuit of creativity , innovativeness and product development capabilities , it received the prestigious “ Nikkei Monozukuri Award” , which is considered a very prestigious award in Japan .

INNOVATION EFFORTS : FROM ADAPTATION TO CREATIVITY :

When Dr Maruta assumed the presidency of Kao in 1971, he brought with him a management approach that reflected his deep involvement in Buddhist philosophy. His beliefs were based on the principles of human equality that was expressed as a profound respect for the individual. The

philosophy manifests itself in a commitment not only to give employees their own voice but to help them achieve their full potential. Hence the management approach was in creating a Supportive Learning Environment at all stages.

Starting from this philosophy the management at Kao introduced a radical concept. The managers were asked to view Kao not as a soap and detergent company but as an educational institution. The management convinced them that the most basic responsibility of every member of the organization was to teach and to learn simultaneously. In line with the same Kao developed one of the rare highly sophisticated information systems that allowed managers to capture and process vast amounts of data, adding value and transforming it into usable knowledge, “This led to the development of the Kao Echo System in 1978.

For example one internal network linked the company directly with thousand of retail stores, allowing marketing managers not only to monitor market activity and trends in a direct way, but also to give those retailers analyses of store level data. Kao also developed an artificial intelligence – based market research system that processed huge volumes of market, product , and segment data to generate clues about market needs, media effectiveness and various other marketing questions,

The traditional focus of Kao was shifted from adaptation to creativity and innovation. Maruta also insisted that knowledge building and the learning focus on the future rather than reflect on the past. In order to avoid complacency , he discouraged his managers from talking about past achievements.

Specific Initiatives for improving corporate originality :

a) Supporting Learning Environment : All employees were encouraged to pursue their ideas and seek support for their proposals. Hence openness to new ideas was encouraged.

b) Concrete Learning Processes and Practices : Combining traditional method of product usage in a panel of households with an ongoing analysis of calls to customer service , managers used the integrated output to define new product characteristics and fine tune existing offerings. As such information collection, analysis ,experimentation , and information Transfer was encouraged.

In launching the company's new Sofina cosmetics, the new –product team members used these and other data resources and intelligence systems to define a product- market strategy that defied the industry's conventional wisdom. They developed a uniquely formulated product line based on technical data and scientific research rather than on new combinations of traditional ingredients; they positioned it as a skin care product, rather than on the more traditional image platform; they sold it through mass retail channels rather than through specialty outlets; and they priced it as a product for daily use rather than as a luxury item.

c) Leadership that Reinforces Learning : Opening of “ *decision spaces*” which were open conference areas where any idea can be debated upon. This is a very visible manifestation of the company's commitment to the sharing of knowledge and expertise . From the tenth floor corporate executive offices down, important issues were discussed in the decision spaces, and anyone interested, even a passerby, could join the debate. Likewise, R& D priorities were developed in weekly open meetings, and projects were shaped by laboratories hosting monthly conferences to which researchers could invite any one from any part of the company. As such Psychological safety was practiced in a big way.

d) Introduction of “ *tataki-dai*” an operating principle that required individuals to present their ideas to their colleagues at 80 % completion so that they could be critiqued and developed by others before being locked in as decisions. This enabled Appreciation of Differences and a Time for Reflection to many new projects in the pipeline.

e) introduction of the highly sophisticated information system - The latest findings from each of Kao's research laboratories were available for all to see, as were the details of the previous day's production and inventory of every Kao plant. By virtue of the terminals installed throughout the company anyone could retrieve data on sales records of any product for any of the company's numerous outlets.

Instead of designing it to support top management's need for control ,as most systems were, Maruta had spent more than twenty years ensuring that its primary purpose was to stimulate operating- level creativity and innovation.

The Building Blocks of Creating a Learning Organization :

- In the early 1980's the management at Kao tried to bring in challenges to the organization by creating a sense of stretch not through budget objectives but through renewed encouragement and empowerment . At Kao the bigger challenge was to encourage those at the middle levels and in the frontline operations to see themselves and the organization not through the lens of past achievements or current constraints but in terms of future possibilities. Management at Kao reiterated the following "Past wisdom must not be a constraint, but something to be challenged". One approach that Maruta adopted to prevent his management team from too readily accepting deeply ingrained knowledge as conventional wisdom was his practice of discouraging managers from referring to historical achievements or established practices in their discussion of future plans. " As one senior manager reported," if we talk about the past, the top management immediately becomes unpleasant"

In this period during late 1970's to 1980's Kao continued its efforts in creating corporate originality by continuing research and development in line with its mission " to strive for the wholehearted satisfaction and enrichment of the lives of people globally". It pursued the concept of Yoki- Monozukuri, or providing products and brands of excellent value for consumer satisfaction.

- The management at Kao understood that shared responsibility and team building was paramount to its success if it has to defeat competition from the newly arrived multinational companies in the early eighties. It wanted every employee to understand that Kao was obliged to develop its technologies and apply them in innovative ways. Within Kao the creation of useful new products became the driving engine of all activities. The commitment to organizational collaboration, particularly as a way to transfer knowledge and leverage expertise was aimed at achieving what management at Kao described as " the power of collective accumulation of individual wisdom" . Kao's open and mutually supportive learning environment, framed by Maruta's concept of the company as an educational institution created just such a collective commitment to the company's technology and new product development ambitions.

The above philosophy paid rich dividends in making Kao expand its wings to different countries all around the world and trying to build a Global corporation.

THE TRANSFORMATION – EXHIBITS OF A LEARNING ORGANIZATION.

- The basic management philosophy at Kao of challenging the past so that continuous corporate renewal is achieved was visibly manifested by launching Kao into a technology development and business expansion program that grew the company's product line well beyond its traditional soap and detergent roots. In the first half of the 1980's the company expanded into disposable diapers, cosmetics and even floppy discs, a product that leveraged the company's expertise in surface science, polymer chemicals, and micro fine powder technologies. By the end of the 1980's Kao was the number one or two competitor in each of these market segments.

Unlike most companies, Kao has been able to avoid the learning trap- the widespread mind set, reinforced by the TQM movement of continually improve their products and processes, and hence driving their organizations down a learning curve. What Kao's experience shows us is that true renewal is built not only by ensuring continuous refinement- moving down the learning curve- but also by creating a sense of regeneration- the ability to jump to new learning curves.

- Creating purposeful ambition in the entire company was another building block. This can be explained by the fact that within Kao, the creation of useful new products became the driving engine of activity and the touchstone for evaluating projects and making decisions. The management at Kao believed that the company's remarkable record of diversification and growth was due not to some clear-sighted product- market analysis or insightful competitive strategy, but to this untiring sense of ambition to harness technology to improve people's lives. "As a company, we do not spend our time chasing after our rivals/" Dr Maruta said. " Rather by mastering our knowledge, wisdom and ingenuity to understand how to supply the consumer with surprise products, we free ourselves of the need to care about the moves of our competitors"
- It was during this time that that Kao developed the principle of "*Genba-ism*" which stresses observing things " on-site", in their actual location or environment. It constantly

explored new avenues in science and technology, then integrate diverse elements in unique, groundbreaking ways to provide high-value added products to consumers. But he did not allow this redefined mission statement to float around in the rarefied atmosphere that inevitably suffocates lofty visions; he continued challenging his organization to live up to its new expectations. At the operating level, Maruta became an active cheerleader for an initiative that began exploring how Kao could employ its knowledge base in oil science, surface technology, and liquid emulsification processes that could be applied to the development of a cosmetics line. As a result Kao's cosmetics were the first to be developed and marketed based on the basis of functionality rather than image. In a span of six years they became Japan's second best cosmetics company.

- At Kao the importance of organization structure was downplayed. Here the organization is designed to run as a flowing system where ideas, abilities and resources flowed freely through the organization. "If anything should go wrong in one department, others should sense the problem and help without having to be asked". Thus At Kao an environment was created that was highly receptive to more flexible cross-unit initiatives. After years of personal involvement and active encouragement, the management found that the organization spontaneously began to find ways to redeploy resources. When an internal plant-efficiency initiative caused a group of workers to become redundant, the surplus workers assembled into a special task force from which flying squads were dispatched to help the company's foreign plants adapt more quickly to the machinery and production techniques being transferred from Japan. Building on this image he employed a variety of other analogies and metaphors to focus manager's attention away from the structural images and towards more process based conceptions of the organization. Through such evocative metaphors and through the clearly communicated philosophy on which they were based Maruta created an environment that was highly receptive to more flexible cross-unit initiatives. This concept became highly successful in the company.
- In the late 1980's Kao developed an image of being a widely acclaimed innovative organization and break through products were introduced thereby reinforcing its credentials in corporate originality. It then developed a sense of democratization of

information in the entire company which was another important characteristic of a learning organization. However at Kao the challenge of democratizing information was not one of installing an IT infrastructure but a matter of changing the corporate culture. An environment of trust and support paved the way for creating willingness and ability to share information freely. At Kao, learning was described as a frame of mind in which truth had to be sought through discussions, by testing and investigating concrete business ideas until something was learned often without the learner realizing it. The primary raw material for this learning process is information. However a vital requirement for information to be used in this way is its democratization. In order to make it effective to discuss subjects freely it is necessary to share all information. The latest findings from each of Kao's research laboratories were available for all to see, as were the details of the previous day's production & sales of every Kao plant. By virtue of the terminals installed throughout the company anyone could retrieve data on almost anything that one needed.

In the early 1990's the market segment in Japan remained flat amid changes in consumer values, attitudes towards beauty, and retail channel structures. The Kao group worked to strengthen its product and sales capabilities in response to these changes, with the aim of raising brand value. At Kanebo Cosmetics Inc., the new premium prestige skin care brand- Impress, Kanebo Blanchir Whitening Conclusion medicated whitening Serum ,and Kate make Up performed well. Kao Sofina worked to stimulate the market with the launches of Hada-Ka, a new skin care brand, and Phytomax, a new brand sold exclusively through drug stores. Molton Brown sales increased substantially with the addition of new products and the expansion of sales regions.

- A distinguishing feature at Kao was that rationalization was seen as a continuous activity and not as a one-time cleanup job. At Kao The rationalization process focused on resource productivity and through a process of continuous refinement of ongoing activities, it ensured that current assets and resources are used effectively. The complementary part of the self renewing companies is revitalization which aims at the overall growth of the company. Dr Maruta's willingness to back Kao's risky move into cosmetics, a field the company that had no prior experience but which represented a huge (and ultimately fruitful) new opportunity .

- **THE INNOVATION PAY OFF: WHICH WAY TO DRIVE FROM HERE :**

The instincts demonstrated by Kao Corporation can be rightly acknowledged as one of the perfect “ exhibits of a learning organization” .

In terms of the payoff’s Kao is regarded as one of the most innovative companies in Japan , and this has all resulted just because of the learnability of its employees.

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Annexure-1

Principal Subsidiaries and Affiliates

Consumer Products/Professional Business and Chemical Products

Country/Area	Company	
Japan	Kao Customer Marketing Co., Ltd.	●
	Kanebo Cosmetics Inc.	●
	Kanebo Cosmetics Sales Inc.	●
	Nivea-Kao Company Ltd.	●
	Kao Professional Services Co., Ltd.	●
	Kao-Quaker Company, Ltd.	●
China	Kao Corporation Shanghai	●
	Kao Commercial (Shanghai) Co., Ltd.	●
	Kao Chemical Corporation Shanghai	●
	Zhongshan Kao Chemicals Ltd.	●
	Kao (Hong Kong) Ltd.	●
	Kao Chemicals (Hong Kong) Ltd.	●
Indonesia	P.T. Kao Indonesia	●
	P.T. Kao Indonesia Chemicals	●
Malaysia	Kao (Malaysia) Sdn. Bhd.	●
	Fatty Chemical (Malaysia) Sdn. Bhd.	●
	Kao Soap (Malaysia) Sdn. Bhd.	●
	Kao Oleochemical (Malaysia) Sdn. Bhd.	●
	Kao Plasticizer (Malaysia) Sdn. Bhd.	●
Philippines	Pilipinas Kao, Inc.	●
Singapore	Kao (Singapore) Private Ltd.	●
Taiwan	Kao (Taiwan) Corporation	●
Thailand	Kao Consumer Products (Southeast Asia) Co., Ltd.	●
	Kao Commercial (Thailand) Co., Ltd.	●
	Kao Industrial (Thailand) Co., Ltd.	●
Vietnam	Kao Vietnam Co., Ltd.	●
Australia	Kao (Australia) Marketing Pty. Ltd.	●
Mexico	Quimi-Kao, S.A. de C.V.	●
United States	Kao Brands Company	●
	Kao Specialties Americas LLC	●
	ADM Kao LLC	●
Germany	KPSS – Kao Professional Salon Services GmbH	●
	Kao Chemicals GmbH	●
Spain	Kao Corporation S.A.	●
	Kao Chemicals Europe, S.L.	●
United Kingdom	Molton Brown Ltd.	●

● Consumer Products/Professional Business
● Chemical Products

Principal Officers of Major Subsidiaries

Country/Area	Company
Japan	Kao Customer Marketing Co., Ltd. Tatsuo Takahashi, President and CEO
	Kanebo Cosmetics Inc. Toshio Takayama, Chairman Kenji Chishiki, President
China	Kao Corporation Shanghai Shinichiro Hiramine, President and CEO
Malaysia	Fatty Chemical (Malaysia) Sdn. Bhd. Osamu Tabata, Managing Director
Philippines	Pilipinas Kao, Inc. Yoshinari Umehara, President and CEO
Taiwan	Kao (Taiwan) Corporation Kozo Saito, President and CEO
Thailand	Kao Consumer Products (Southeast Asia) Co., Ltd. Norihiko Takagi, President and CEO
	Kao Industrial (Thailand) Co., Ltd. Shigeru Ueyama, President and CEO
United States	Kao Brands Company William J. Gentner, President and CEO
	Kao Specialties Americas LLC Kazuhiro Nakamura, President and CEO
Germany	KPSS – Kao Professional Salon Services GmbH Thomas Dieckhoff, President and CEO
Spain	Kao Chemicals Europe, S.L. Takatoshi Kobayashi, President and CEO

Teaching Plan:

Guide Questions :

1. Do you regard Kao Corp. as a truly learning organization? Explain your views on how Kao matches up to the attributes that are exhibited by a learning organization?
2. Kao Corporation has often been described as a wonderful exhibition of “Transformation of a Company to a University” . What are the key characteristics that Kao possesses , which makes it a innovative organization when compared to the likes of Unilever and P& G.
3. Compare and contrast the globalization efforts of Kao compared to the likes of Unilever & P& G.

Discussion Points :-

Broadly the moderator should or can introduce the students to the following issues-

- What type of strategies does one need to reinforce to build a innovative organization.
- How does the development of human potential & leadership play a role in creating a company which is regarded highly for corporate originality.
- What sets of characteristics are typical of a learning organization.
- How can companies create a sense of stretch, setup dynamic processes & manage democratization of information.

Learning Outcomes :

- What constitutes principle building blocks of a leaning organization.
- What set of attributes does an organization need to posses to categorize it into a learning organization.
- Role of management in fostering entrepreneurial spirit & supporting Learning Environment in the organization.
- Which organizations exhibit these characteristics and why ?

